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Value and Momentum

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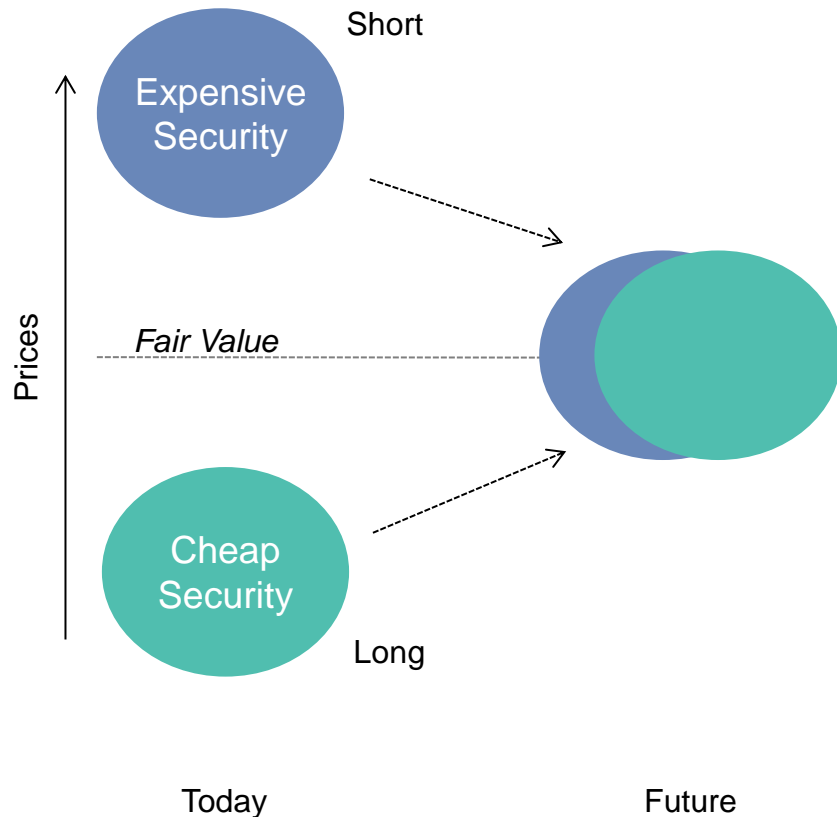
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Outline

- + What are Value and Momentum strategies?
- + Key considerations in building Value and Momentum portfolios
- + Characteristics of Value and Momentum styles across asset classes
- + Benefits of combining Value and Momentum
- + Adjusting to changing risk environments
- + Identifying attractive or fragile factors

Value Style: Harvesting Distress Premium



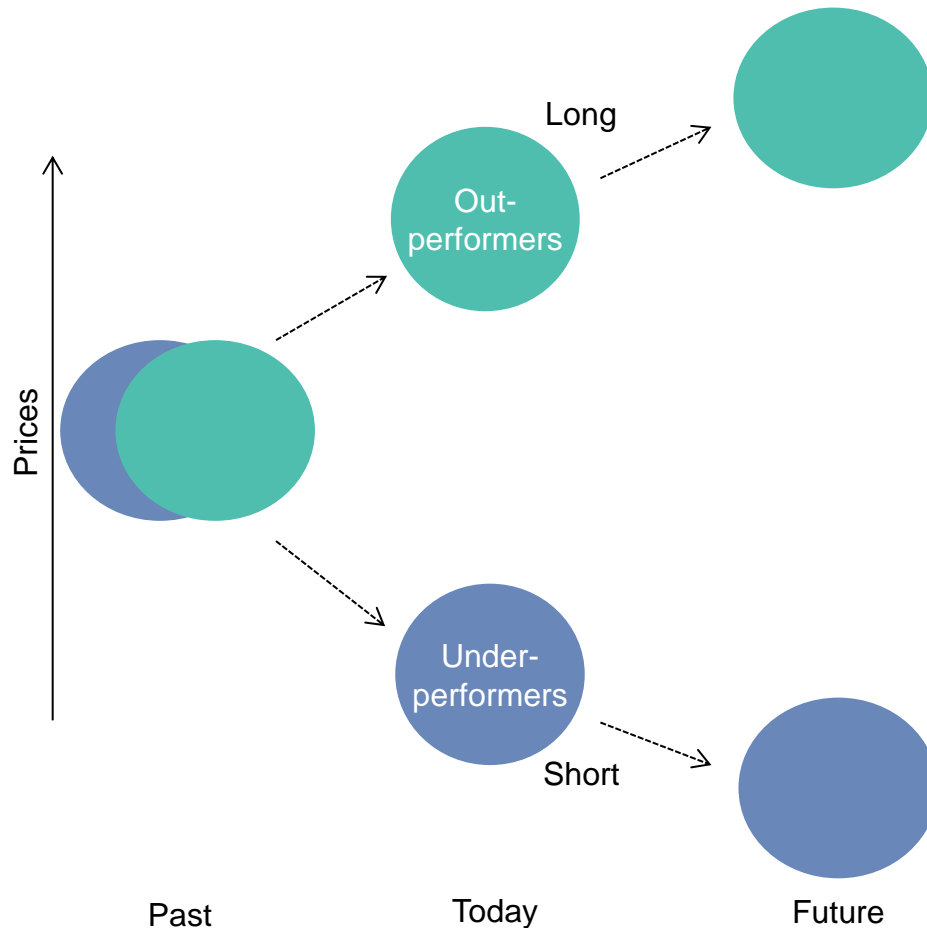
+ Strategy Description:

- + Long securities that are “cheap” and short securities that are “expensive”
- + Cheapness/Expensiveness can be determined by:
 - + Fundamental valuation Asset specific examples:
 - BP & EP for equities
 - Yield & Slope for FI
 - PPP/FX for currencies
 - Cost Yield for commodities
 - + Trailing long-run returns
~ 3 or more year

+ Why does the risk premium exist:

- + Often means buying assets with negative trailing returns and fundamental concerns
- + Investors undervalue distressed / controversial investments

Momentum Style: Trend Following Premium



+ Strategy Description:

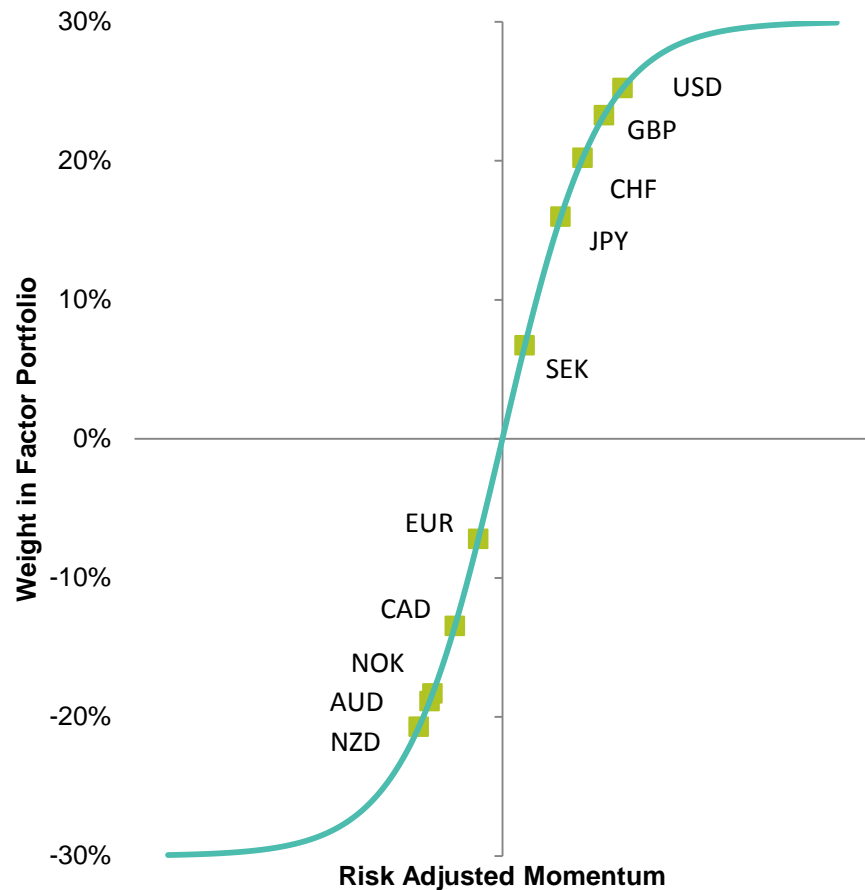
- + Long securities that have outperformed and short securities that have underperformed
- + Out/Under-performance based on
 - + Trailing Returns
 - 6 - 12 months
 - (ex near term reversal)
 - + Fundamental Metrics
 - EPS in equities

+ Why does the risk premium exist:

- + Behavioral Biases
- + Investor under-reaction to good/bad news
- + Tendency to extrapolate past performance

Constructing Allocation to Value and Momentum

Example: G10 FX Momentum



Selecting Factors:

- Identify what risk is being compensated or behavioral bias is being exploited
- Investigate robustness, secular tailwinds, or trends in AUM exploiting

Constructing Factor Portfolios:

- Rank securities based on their exposure to factor
- Scale weighting based on factor exposure and asset risk while reducing impact of outliers

Resulting Exposure:

- Diversified portfolio providing pure exposure to underlying factor
- Minimize unintended exposures



Value and Momentum in Multi-Asset Context

Robust Risk Premia Exist Across a Diverse Range of Asset Classes

	Value	Momentum	Carry	Defensive
Equity (Individual Stocks)	✓	✓	✓	✓
Equity Indices (Countries/ Sectors)	✓	✓	✓	✓
Fixed Income (Sovereigns)	✓	✓	✓	✓
Developed Currencies	✓	✓	✓	✓
Emerging Currencies	✓	✓	✓	✓
Commodity Sectors	✓	✓	✓	
Individual Commodities	✓	✓	✓	

Value and Momentum in Multi-Asset Context

Value Across Asset Classes

- + Extremely High Level of Diversification Across Asset Classes
- + Meaningful benefit to multi-asset implementation

Correlation of Value Styles

	Single Stock	Equity Index	Fixed Income	G10 Currency	EM Currency	Commodities
Single Stock	1.00	0.24	(0.26)	0.07	0.11	(0.05)
Equity Index		1.00	(0.16)	0.01	0.25	(0.09)
Fixed Income			1.00	(0.07)	0.18	0.07
G10 Currency				1.00	0.08	(0.11)
EM Currency					1.00	0.04
Commodities						1.00

Momentum Across Asset Classes

- + Diversifying Across Asset Classes
- + Potential for elevated correlation necessitates integrated risk management

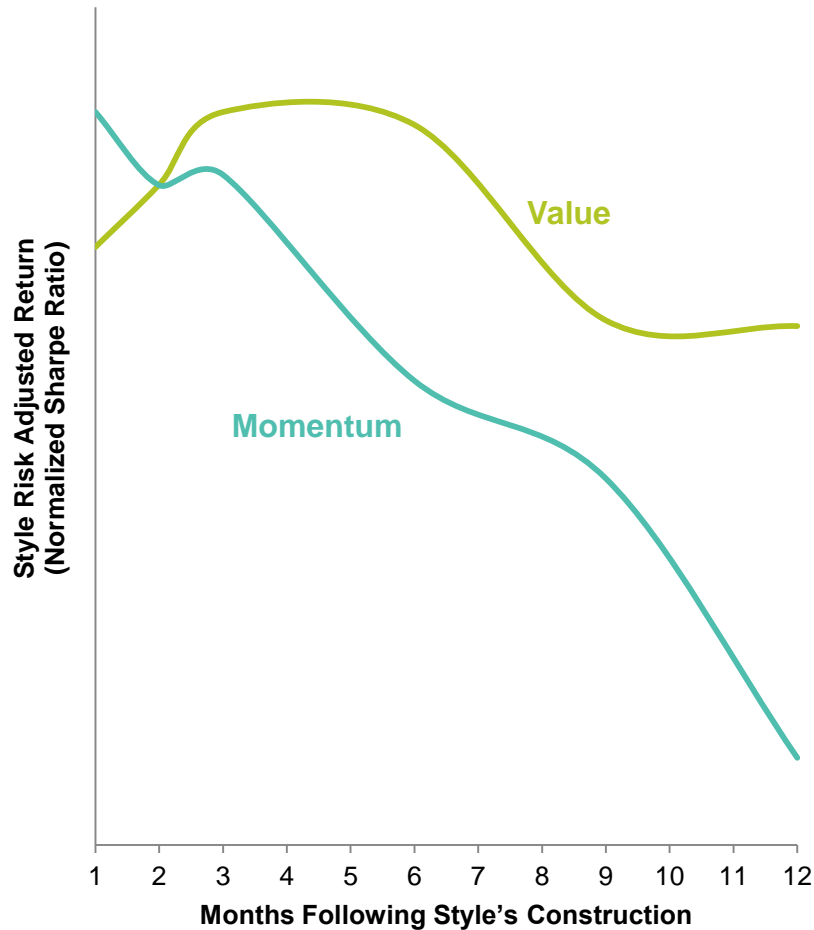
Correlation of Momentum Styles

	Single Stock	Equity Index	Fixed Income	G10 Currency	EM Currency	Commodities
Single Stock	1.00	0.38	0.44	0.10	0.43	0.51
Equity Index		1.00	0.26	0.23	0.17	0.14
Fixed Income			1.00	0.12	0.35	0.32
G10 Currency				1.00	0.31	0.23
EM Currency					1.00	0.34
Commodities						1.00

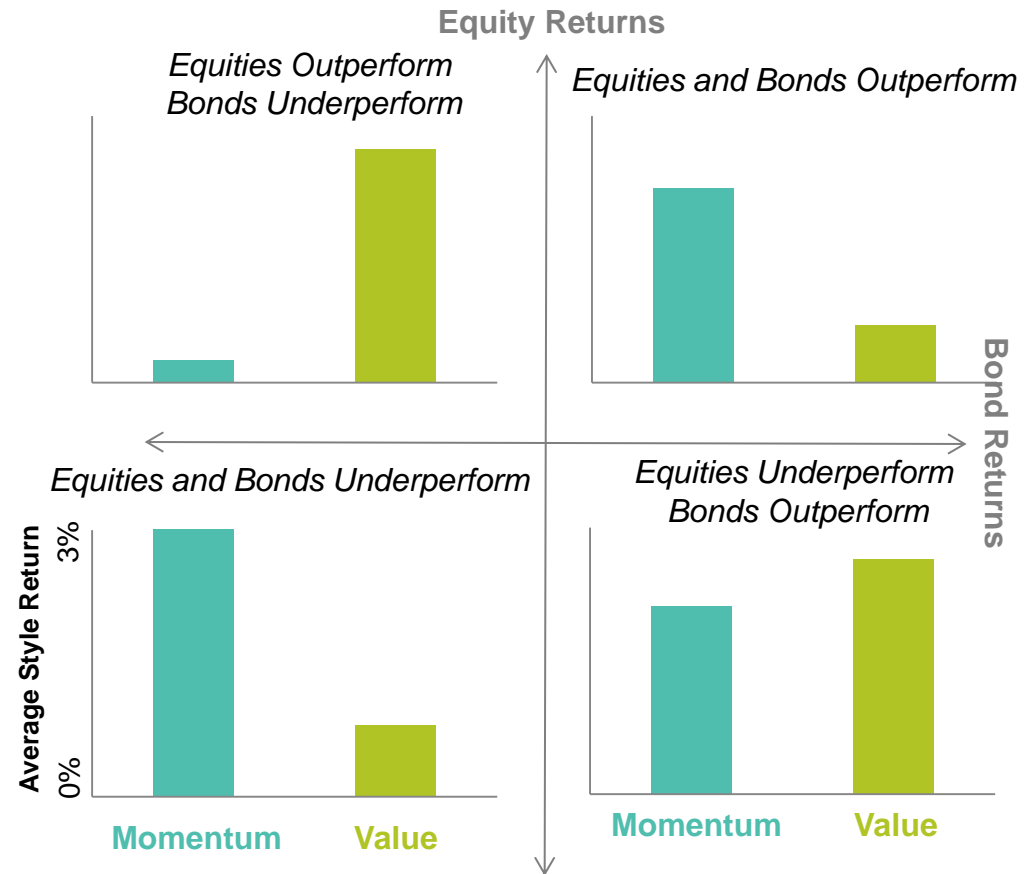


Value and Momentum Styles Offer Meaningful Diversification

Time Horizon Diversification



Diversification Across Macro-Environment



Styles returns based on equal risk weighted styles (Value and Momentum) across single equities, equity countries, fixed income, currency, and commodities with long term volatility of 5%. Sharpe ratios are normalized based on sharpe ratio of strategy at optimal horizon.

Data from Aug 2004 – Sept 2015.

Source: AB



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Benefits of Diversification: Multiple Styles and Multiple Asset Classes

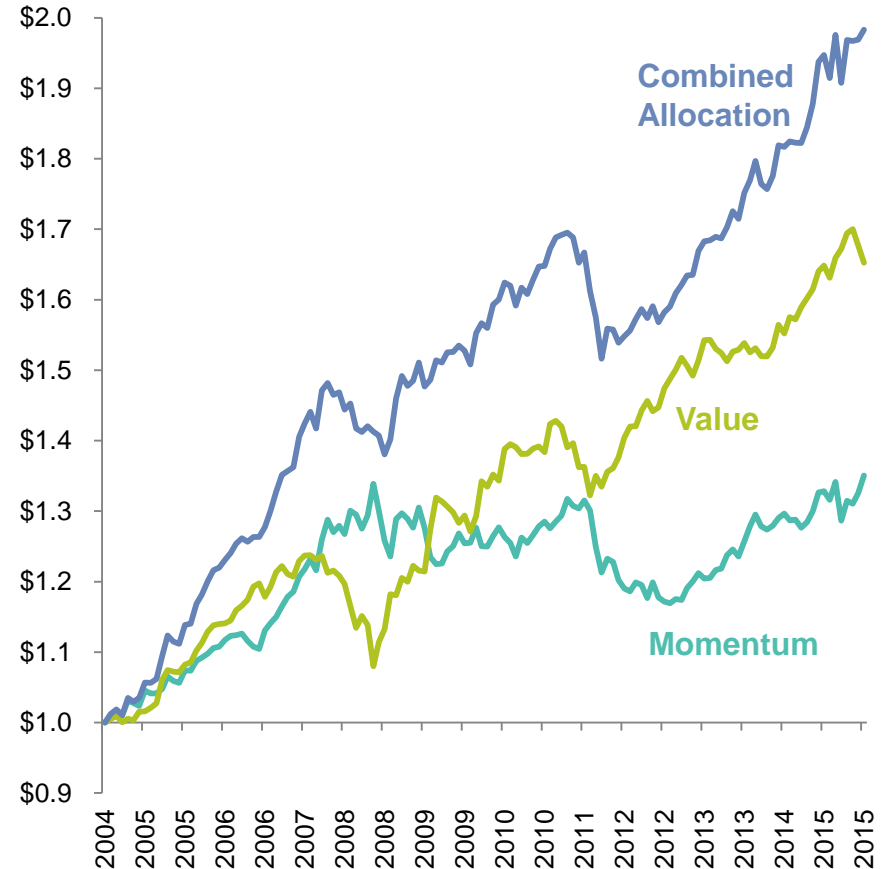
+ Style Diversification

- + Improves long-run returns
- + Increases consistency

Style Correlation

	Equity Market	Bond Market	Multi-Asset Value	Multi-Asset Momentum
Equity Market	1	(0.31)	(0.11)	0.04
Bond Market		1	(0.07)	(0.02)
Multi-Asset Value			1	(0.35)
Multi-Asset Momentum				1

Combining Value and Momentum Styles



Styles returns based on equal risk weighted styles (Value and Momentum) across single equities, equity countries, fixed income, currency, and commodities with long term volatility of 5%. Combined allocation based on 50/50 weighting of multi-asset Value and Momentum with long term volatility of 5%. Data from Aug 2004 – Sept 2015. Source: AB

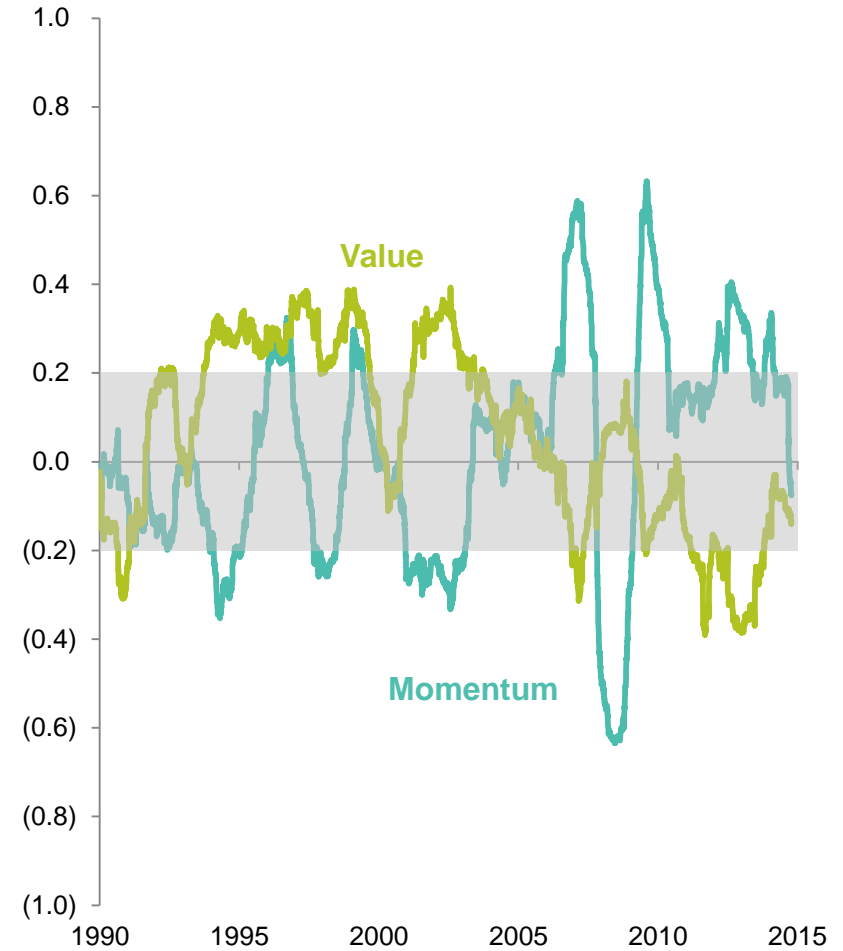
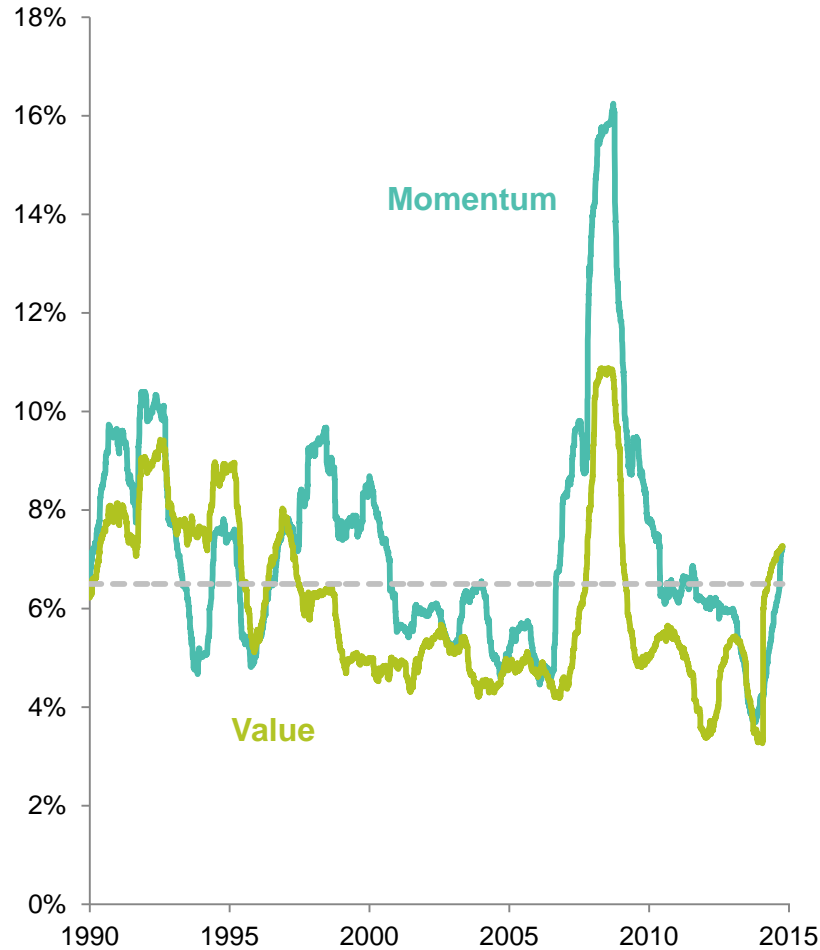


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Adjusting to Changing Market Risk Environments

Risk of individual factors changes...

...As does their diversification potential



Based on rolling annual volatility and correlations of G10 FX Value and Momentum portfolios and Global Equity Index. Global Equity is defined as MSCI World Index.
Data from 1990 – Sept 2015.
Source: AB and MSCI

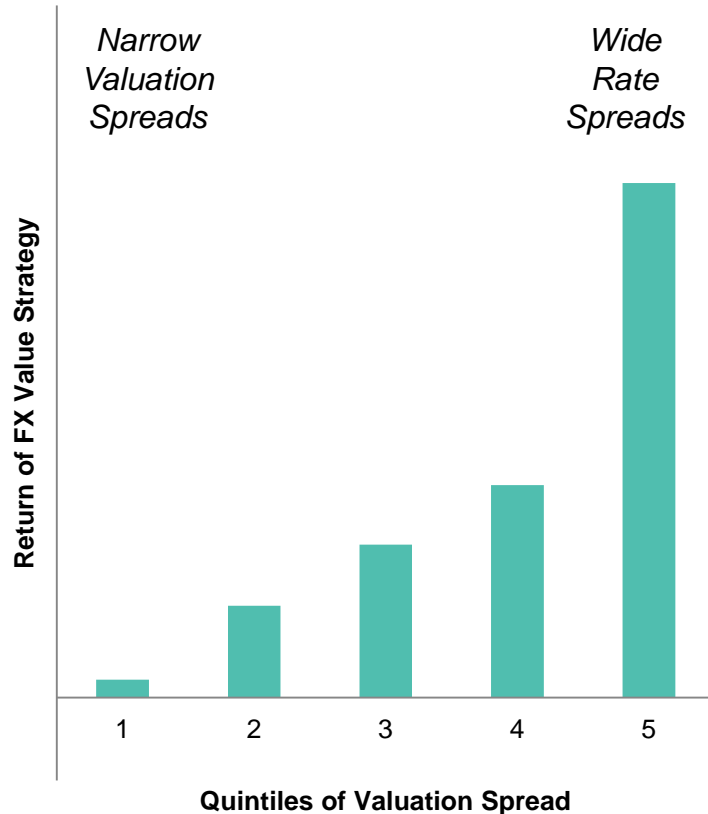


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Identifying Increased Opportunity and Fragile Factors

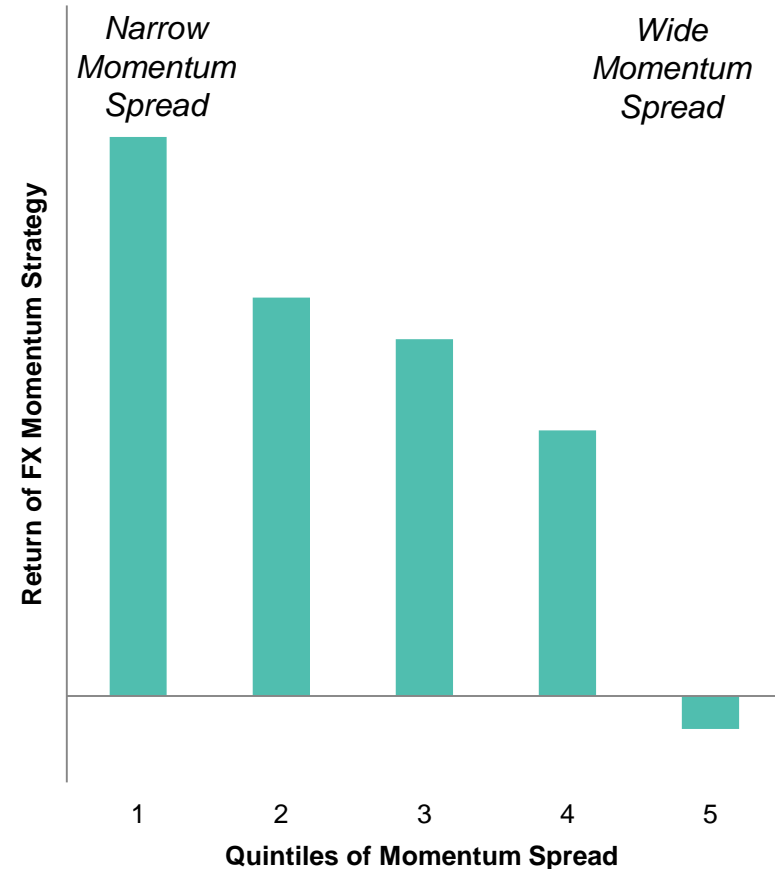
Factor Spreads Can Predict Future Returns

Example: G10 FX Value Performs Best When Valuation Spreads are Wide



And Signal Increased Drawdown Risks

Example: G10 FX Momentum Performs Worst When Momentum is High



Based on sorted monthly returns of G10 FX Value and Momentum portfolios ranked on portfolios trailing valuation or momentum spreads..

Data from 1990 – Sept 2015.

Source: AB



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Conclusions

- + Value and Momentum styles deliver meaningful risk premium across a diverse range of asset classes
- + Thoughtful construction of factor portfolios can improve risk profile
 - + Look for pure exposures to factors and limited unintended exposure
- + An integrated allocation can provide meaningful returns and diversification to core allocation
- + Risk and return profile of factors changes – your allocation should change with them



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