



**INFORMED PORTFOLIO MANAGEMENT**

**Россия и другие развивающиеся рынки.  
Взгляд quant менеджера**

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# IPM Informed Portfolio Management

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## **Systematic Investment Manager**

- Alpha: GTAA, Currency, Commodity, CTA and Multi Strategy
- Beta: Equity Management (Fundamental Index®)

## **Servicing Leading Institutional Investors Globally**

- Private & Public Pension Funds, Sovereigns, Insurance Companies, Foundations

## **AUM**

- C. US\$ 8 billion

## **Awards and nominations**

- Global Pensions Awards
  - Winner: “Hedge Fund Manager of the Year 2011” & “Quant Provider of the Year 2010”
  - Nominated: “Currency Manager of the Year 2001” & “Specialist Equities Manager 2010”
- EuroHedge Awards
  - Nominated 2010 “Commodities & Currencies” and “Global Macro” Categories
- Hedge Funds Review European Performance Awards
  - Nominated 2011 for “Best Global Macro Hedge Fund” & “Best Non-Directional Hedge Fund Over Three Years” (winners not announced yet)
- HFMWeek European Awards
  - Nominated 2011 for “Best Macro > USD 1 bln” (winners not announced yet)

# Outline

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- Is Russia a typical emerging market?
- What are you compensated for and how much of that premium is still available?
- Are there smart ways to profit beyond traditional approaches?

# Long Emerging Equity Market:

## What Are You Paid For?

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- Global Equity Market risk
- Convergence risk
  - Commodity prices go down;
  - Unpredictable forces come to power;
  - Domestic consumption freezes at current levels or falls;
  - Tax collection gets worse;
  - A (cold) war begins;
  - Authorities decide
    - to default;
    - to dramatically tighten their monetary policy;
    - to expropriate a few “strategically important” companies;
    - that forward contracts are akin to gambling and thus not protected by law;
    - etc.
  - etc.

Change in the market perception of these risks is a source of your return

# Actively managed emerging Market Product:

## What Are You Paid For?

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- Same as before;
- Plus
- Liquidity risk;
- Risk of fraud;
- Risk that your fund manager is not granted a visa or convicted of tax evasion;
- Your manager's counterparty risk;
- Stale pricing;
- Portfolio  $\beta$  and various tilts;
- etc.
- Plus
- Your manager's skill
- Minus
- Fees

Does the skill less the fees provide a good compensation for the risks above?

# The markets are inefficient, so what?

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Some stocks are overvalued and some are undervalued

Cap-weighting will overweight overvalued stocks and underweight undervalued stocks

Reversion to true value means cap-weighted portfolio will underperform

Cut the link between cap and weight

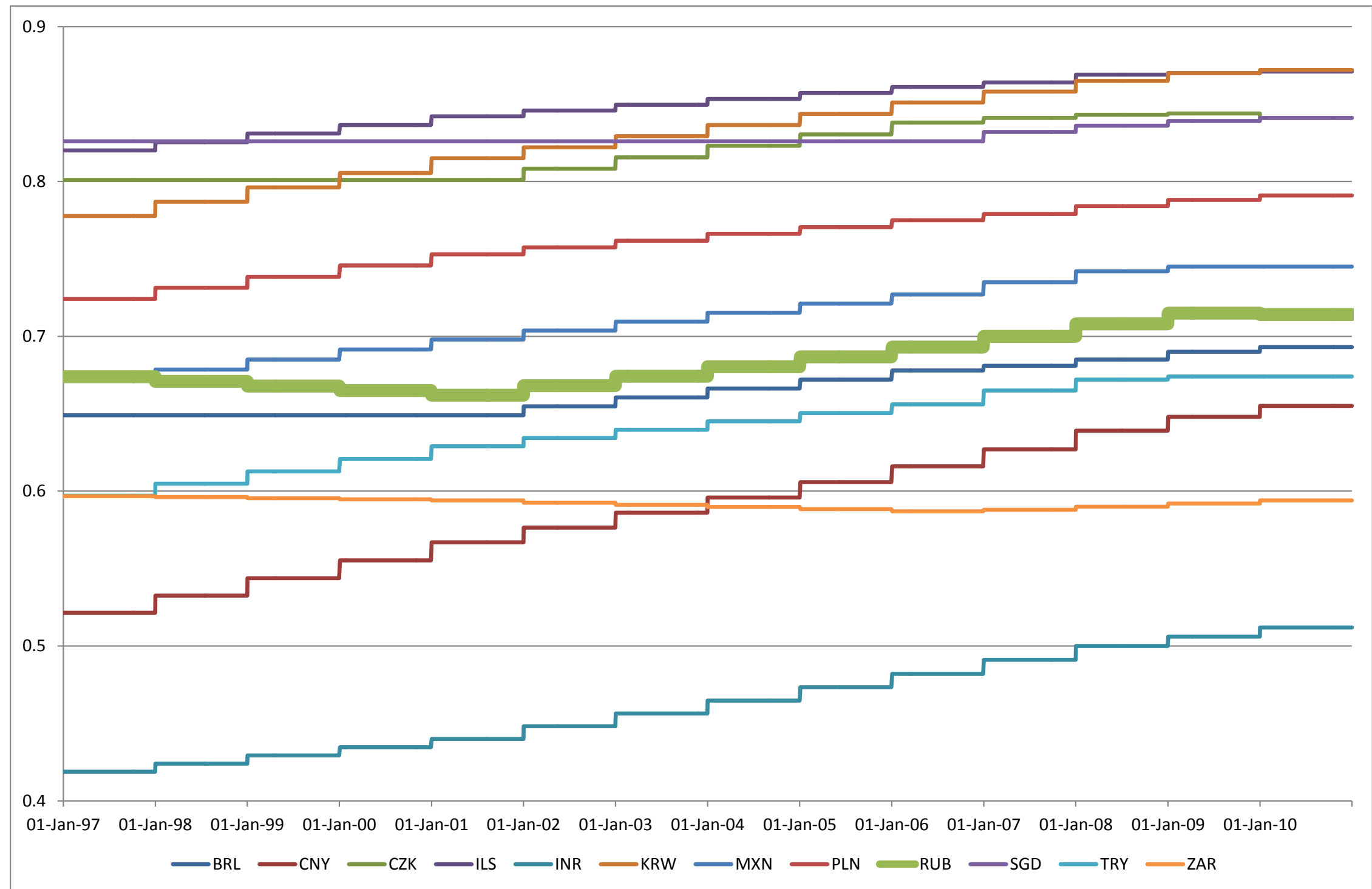
# RAFI® Emerging Markets

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Country	Value added, annualised, %
Argentina (1997)	3.56
Brazil (1995)	3.69
China (1994)	1.99
India (1994)	0.70
Indonesia (1994)	5.63
Korea (1994)	1.94
Mexico (1994)	0.78
South Africa (1994)	2.07
Taiwan (1994)	5.03
Thailand (1994)	8.12
Russia (1997)	14.29

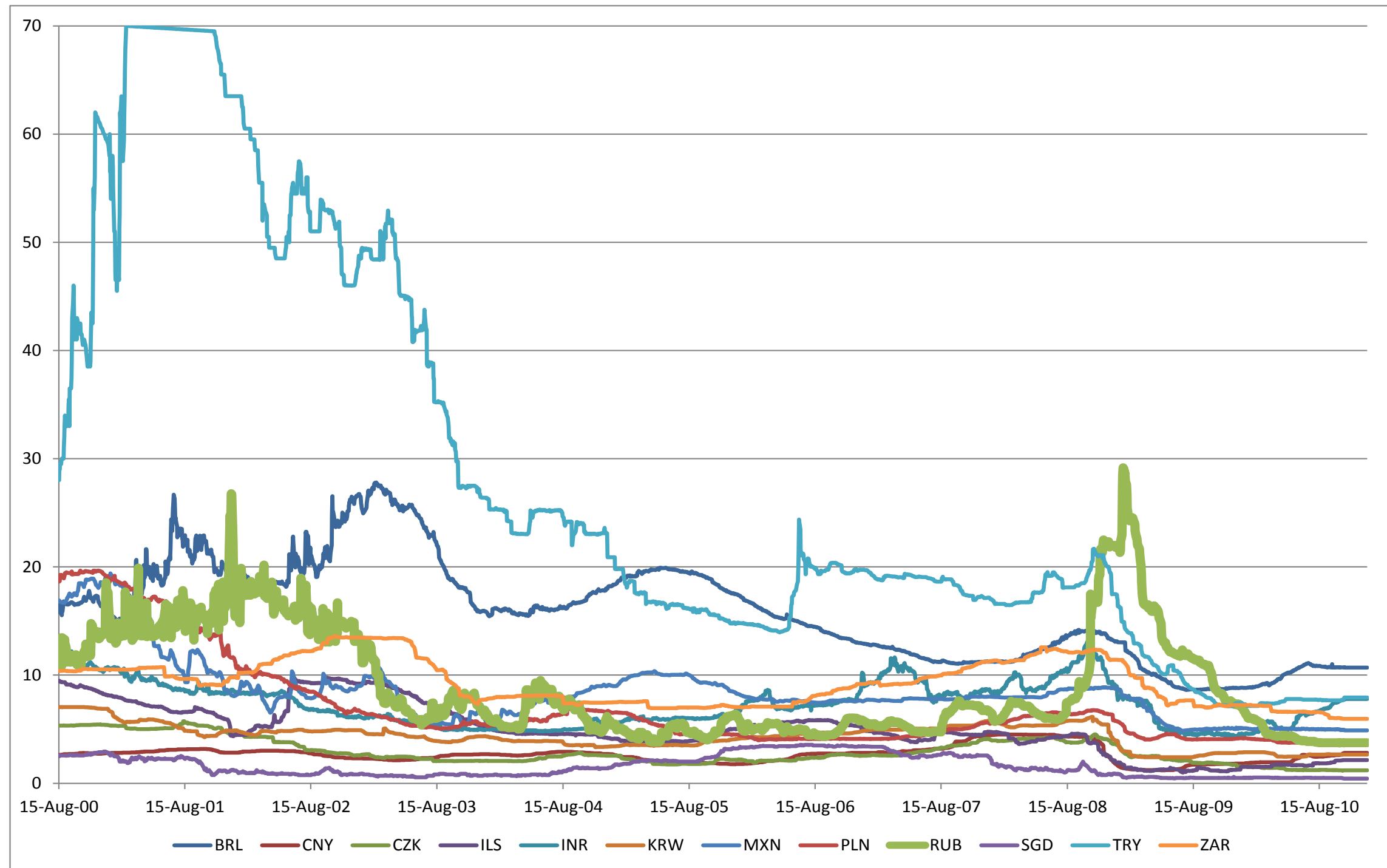
# Convergence: how much is still out there?

## Human Development Index



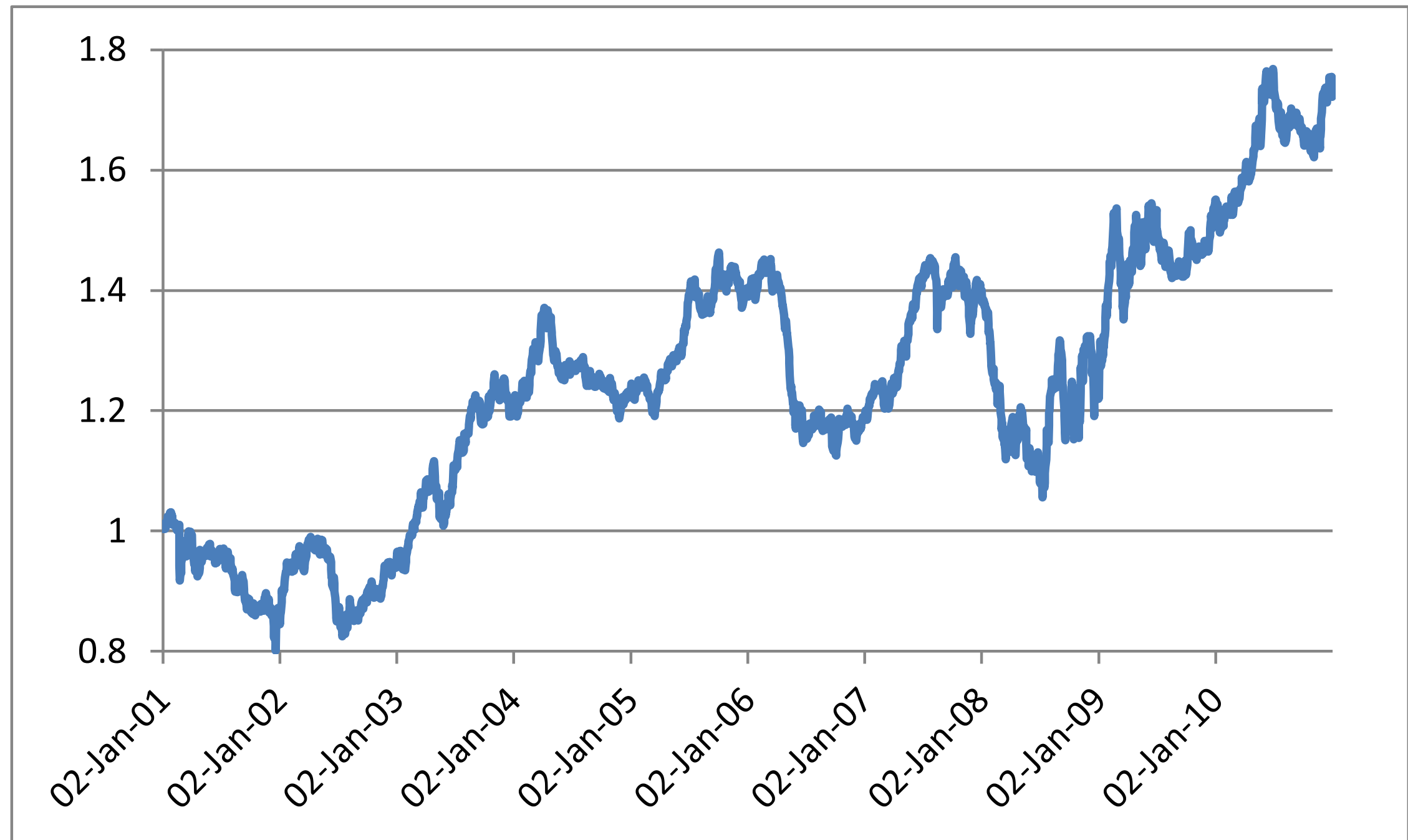


# A simpler way to measure convergence



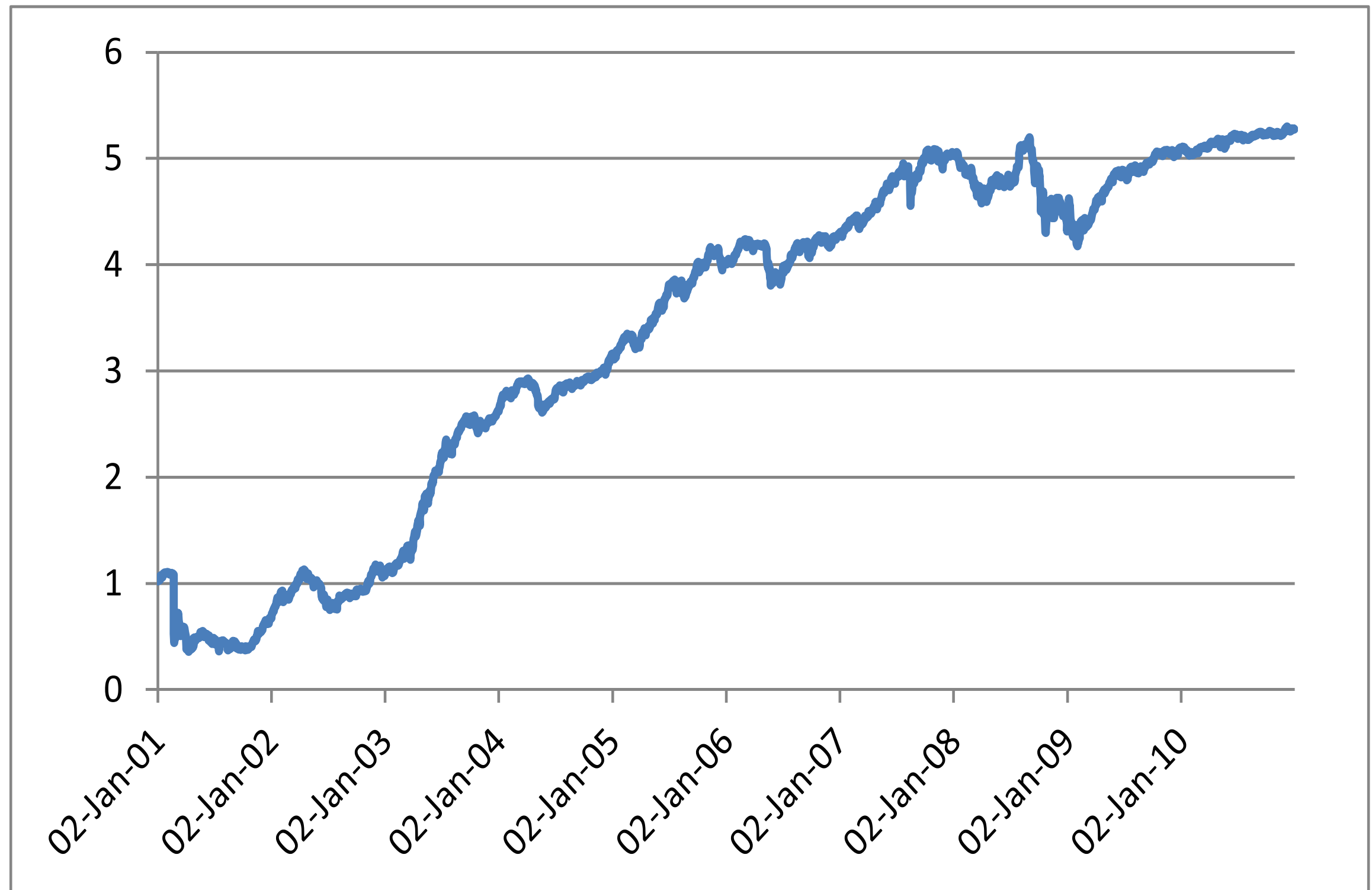
And by the way – you could trade this (HDI)...

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...or this (Carry)

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# Conclusions

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- Russia has been a typical emerging market
- Russian stock market has exhibited a significant degree of inefficiency and mean reversion
- There is still a room for further convergence but it is far less than before
- Simple and cheap strategies might be a better choice
- Quant strategies work