

There's Beta in my Alpha! (Part 2)

June 8, 2016

Contributors: Jess B. Yawitz, Ph.D.



I received some feedback asking whether the high correlation of managers both to beta and to each other applies to "Aggregate" managers as well. As a brief follow-up to the previous post, I thought I would share results we obtained from the eVestment Analytics database of managers benchmarked to the Barclays Aggregate index.

The bottom-line: Aggregate managers are *even more* highly correlated with the credit markets and with each other than are Long Gov/Credit managers. For example, the Aggregate managers' excess performance had a median correlation with the credit market of nearly 0.7. Alternatively, the "beta" of the managers' excess return to the credit markets is about 0.2, an implied average overweight to credit of 20%!

We have updated the earlier graphs to reflect our new findings.

Source: Based on data from 03/31/11 through 03/31/16 from eVestment Analytics, Bloomberg, and Barclays.

Source: Based on data from 03/31/11 through 03/31/16 from eVestment Analytics, Bloomberg, and Barclays.

Disclosure Information

By accepting this material, you acknowledge, understand and accept the following:

This material has been prepared by NISA Investment Advisors, LLC ("NISA"). This material is subject to change without notice. This document is for information and illustrative purposes only. It is not, and should not be regarded as "investment advice" or as a "recommendation" regarding a course of action, including without limitation as those terms are used in any applicable law or regulation. This information is provided with the understanding that with respect to the material provided herein (i) NISA is not acting in a fiduciary or advisory capacity under any contract with you, or any applicable law or regulation, (ii) that you will make your own independent decision with respect to any course of action in connection herewith, as to whether such course of action is appropriate or proper based on your own judgment and your specific circumstances and objectives, (iii) that you are capable of understanding and assessing the merits of a course of action and evaluating investment risks independently, and (iv) to the extent you are acting with respect to an ERISA plan, you are deemed to represent to NISA that you qualify and shall be treated as an independent fiduciary for purposes of applicable regulation. NISA does not purport to and does not, in any fashion, provide tax, accounting, actuarial, recordkeeping, legal, broker/dealer or any related services. You should consult your advisors with respect to these areas and the material presented herein. You may not rely on the material contained herein. NISA shall not have any liability for any damages of any kind whatsoever relating to this material. No part of this document may be reproduced in any manner, in whole or in part, without the written permission of NISA except for your internal use. This material is being provided to you at no cost and any fees paid by you to NISA are solely for the provision of investment management services pursuant to a written agreement. All of the foregoing statements apply regardless of (i) whether you now currently or may in the future become a client of NISA and (ii) the terms contained in any applicable investment management agreement or similar contract between you and NISA.