PORTFOLIO CONSTRUCTION

Strategic Portfolio Construction

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This issue of *Alternative Thinking* discusses strategic portfolio construction, focusing on top-down decisions where mean-variance optimization, always to be used carefully, is of even more limited use. How to combine traditional asset classes with illiquids or with alternative risk premia? How much illiquidity, leverage and shorting to allow? The answers — and thus major portfolio choices — are largely driven by investor beliefs and constraints.

Many investors ask for guidance on "putting it all together." This issue does not give definitive answers, or even recommend a particular framework for making such decisions. Instead, it starts from the authors' quantitative home territory (inputs such as expected returns, volatilities and correlations) and then explores how investor-specific beliefs and constraints can inform and interact with formal optimization methods.

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