A L T E R N A T I V E   I N V E S T I N G

Understanding Style Premia

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Four investment "styles" — Value, Momentum, Carry and Defensive — have emerged as compelling sources of alternative returns, backed by economic theory and decades of data across geographies and asset groups. When applied as long/short strategies, these styles have delivered positive long-term returns across multiple asset groups and markets, with low correlations to other investments.

Equity and bond premia are often considered to be the most reliable sources of long-run investment returns, but investors may be relying on them too much. We believe that sustained investment success involves cost-effectively harvesting multiple, independent sources of returns, including long-only market premia (such as stocks and bonds) and alternative risk premia, including hedge-fund risk premia and style premia.

Evidence in favor of styles has existed in academia for some time, but styles have rarely been pursued in their purest form, as a multiasset, market-neutral, multistrategy investment. As a result, investors often view each style premium separately, failing to appreciate the potential diversification benefits of combining different styles. Just as multistrategy alternatives seek to benefit from diversification, so can multistyle alternatives.

In this paper, we discuss the intuition and evidence underlying investing styles and we describe a strategy to access these sources of returns in a liquid, market-neutral framework.

We believe that styles can provide what many investors seek: a source of returns that is largely independent of traditional risk factors, and still diversifying to classic alternative strategies. With the advent of market-neutral style daily-liquidity strategies, investors may have another tool for reaching their return objectives.

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