Talking Transitions *with* Penserra

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Managing Risk in Volatile Times

Extreme market volatility wreaks havoc with target allocations. In such an instance, institutional investors are confronted with questions similar to those raised in 2008 - not just if, but when, to rebalance the portfolio.

For those considering alternatives to mitigate their tracking error to their overall asset allocation, a beta management strategy can be a viable solution.

▶ What is Beta Management?

In its simplistic form, beta management allows the investor to actively target their asset class exposure while significantly reducing the potential performance slippage. Typically offered by transition providers, also known as beta managers, the most common approach to manage beta exposure is with a short term futures - based solution where adjustments are made in response to periodic cash flows and interim volatility. They structure an optimized basket of futures (and currencies) to either synthetically add and/or reduce a desired benchmark exposure.

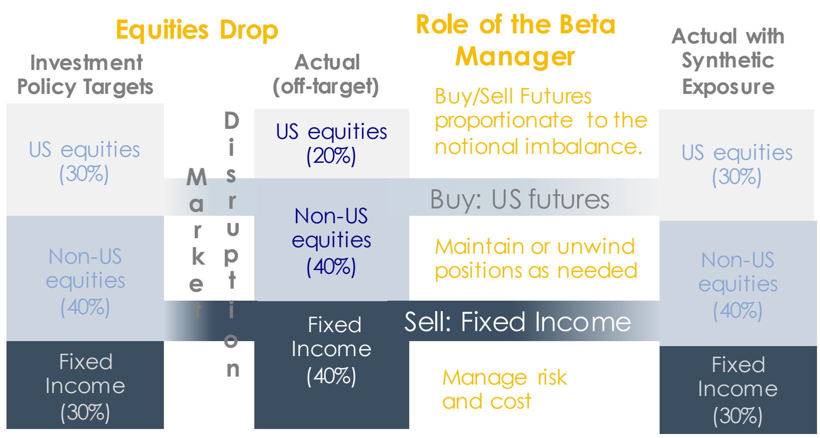
▶ The Advantages of Beta Management

Asset owners can:

- Replicate large exposures with relatively small starting cash or cash equivalent (e.g., Treasury instruments) requirements.
- Implement a cost efficient rebalance strategy (instead of forcing their existing investment managers to trade the physical assets).
- Restore exposure(s) to their policy benchmark ranges.
- Minimize the tracking error.

In addition, the benefits of deploying such a strategy can be achieved simply and quickly. The use of futures generally requires the client to submit some additional paperwork with a futures broker.

Example - Hypothetical Changes to Traditional Asset Allocation



When asset allocation is thrown off balance by market disruption, portfolio-level risk can be quickly brought back to policy target by low-cost, synthetic rebalancing.

The cost of implementing a beta strategy will vary depending on its complexity, but tends to fall in a range much lower than the total transaction costs of rebalancing the physical assets with your respective managers.

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▶ Selecting a Beta Manager

Partnering with a beta manager can help reduce investment risk. Conducting the proper due diligence prior to selection is always a prudent step, and should be adopted as part of any asset owners' best practices.

As part of the offering, asset owners should expect the following services from their beta managers:

1) Management of dynamic, multi exposure hedges.
2) Able to assess both costs and risks in order to identify the optimal implementation trade-offs.
3) Oversee the logistics required when managing ongoing derivatives positions.

▶ Planning Ahead

When instituted in their policies and prepared with paperwork in place, asset owners have the flexibility to utilize tactical solutions to hedging their risks in a timely fashion. This can be especially attractive in times of extreme uncertainty and volatility.

Turn to Penserra to deliver the investment, trading, and operational expertise you require for a seamless transition.

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