

# ARROWSTREET CAPITAL, L.P.

## 2010 CLIENT CONFERENCE

### Learning and Profiting from the Global Financial Crisis

- Alpha Opportunities: Dead or Destabilized
- This Time Is Different: Eight Centuries of Financial Folly

#### Featured Speakers:

Kenneth S. Rogoff, Professor of Economics, Harvard University  
Mark J. Warshawsky, Director of Retirement Research, Towers Watson

**April 13 & 14, 2010**

**Venue:**



CFA Institute has approved this program, offered by Arrowstreet Capital, L.P., for 5 CE credit hours. If you are a CFA Institute member, CE credit for your participation in this program will be automatically recorded in your CE Diary.

**Attire: Business Casual for All Events**

Please contact Yasemin Kilinc if you have any questions.

[ykilinc@arrowstreetcapital.com](mailto:ykilinc@arrowstreetcapital.com)

Phone (617) 919.0081

Tuesday, April 13

2:30pm – 4:45pm

**Open House, Registration and Demonstrations**

*The John Hancock Tower  
200 Clarendon Street, 30th Floor  
Boston*

2:30 – 3:15

**Registration and Open House**

3:15 – 4:00

**Demonstration of Pre Trade Review**

**Host: Alex Ogan**  
**Partner, Research**

Although Arrowstreet is a quantitatively oriented firm, we apply a significant human oversight to the generation of current forecasts and the review of proposed trades. Our Pre Trade Review represents one of the central pieces of this oversight. This talk is a demonstration of the pre trade review process, illustrating its role as:

- a final stage for checking forecast inputs
- a “sanity check” on proposed trades
- a mechanism for ensuring the consistency of the outputs of investment process with the insights that are the basis of that process
- a forum for identifying best ways to react to suspect data and sudden intra-day changes in prices and news

4:00 – 4:45

**Demonstration of Forecast Systems**

**Host: Alex Merlis, CFA**  
**Partner, Research**

Arrowstreet updates forecasts for over 28,000 equity listings globally on an intra-day basis as new information about prices and spreads, trading volumes, company events, analyst revisions, and financial results is ingested. These forecasts include predicted returns, risks, and transaction costs. Arrowstreet's trading and forecast review processes require quick insight into the recent evolution of a stock's forecast, including intraday changes, the driving signals behind forecast changes, and the entire cross-section of stock-level forecasts. If a stock is trading away from the price used at the time of optimization, by how much has its forecast deteriorated? If a stock's forecast has changed significantly, was it on the basis of value, momentum, or a different source? If the original motivation for a trade has deteriorated, what is a suitable substitute trade? To address these needs, we have developed a proprietary database platform that services both programmatic and interactive requests for forecasts and forecast diagnostics.

Tuesday, April 13

6:00pm – 10:00pm

**Cocktail Reception, Dinner and Dinner Presentation: This Time Is Different: Eight Centuries of Financial Folly**

*The Back Bay Hotel  
350 Stuart Street  
Boston, MA 02116*

**Keynote Speaker: Kenneth S. Rogoff  
Professor of Economics, Harvard University**

**Abstract:** In this talk, Ken Rogoff draws on the lessons of his new book on the history of financial crises, *This Time Is Different*, to cast light on the global economy today. The book is a part of a larger research project with Professor Carmen Reinhart that exploits a vast new data base covering sixty-six countries across five continents and eight centuries. Their work has been highly influential over the course of the financial crisis, particularly the historical benchmarks they provide for key macroeconomic indicators such as housing prices, stocks and unemployment, using the experience of past severe financial crises. The book itself is far broader, presenting a comprehensive look at the varieties of financial crises over eight centuries, including government defaults, banking panics, and inflationary spikes--from medieval currency debasements to today's subprime catastrophe. Reinhart and Rogoff document that financial crises occur in clusters and strike with surprisingly consistent frequency, duration, and ferocity across time and place.

Wednesday, April 14

8:00 am – 4:00pm All events will be held at the Back Bay Hotel

8:00 – 8:30

**Breakfast**

8:30 – 9:15

**Dead or Destabilized?**

**Speaker: Peter Rathjens, Ph.D.**  
**Partner, Chief Investment Officer**

**Abstract:** The recent financial crisis has called into question the effectiveness and risk control of many active investment processes. This talk reviews the impact of financial instability, in particular flows into and out of active strategies, on the performance of these strategies. In particular, we discuss how arbitrage may cause some alpha signals to become permanently ineffective, while others remain profitable on average but undergo cyclical variation in their effectiveness. Finally, we discuss some of the pitfalls facing active managers as they try to adapt to this environment.

9:15 – 10:00

**Model Attribution**

**Speaker: Jim Thames, CFA**  
**Partner, Portfolio Management**

**Abstract:** We track the results of our investment process from multiple viewpoints to identify potential weaknesses, risks, and opportunities for future research. One important viewpoint is that of the model attribution. The model attribution tracks the performance our return forecasts, which is one of the most important inputs to our portfolio construction. We demonstrate the performance of our models at various stages of the financial crisis using our new proprietary software.

10:00 - 10:30

**Break**

10:30 – 12:00

**Panel:**

**The Morning After: What Institutional Investors Have Learned from the Financial Crisis**

**Moderator: John Campbell, Ph.D.**  
**Morton L. and Carole S. Olshan Professor of Economics, Harvard University, Partner, Co-Head of Research, Arrowstreet**

**Speakers: Peter Drew, Pensions Manager, C&J Clark International Ltd.**

**Craig Husting, CFA, Chief Investment Officer, Public School & Education Employee Retirement Systems of Missouri**

**Joseph A. Boateng, CFA, CPA, Chief Investment Officer, Casey Family Programs**

**John Campbell, Ph.D., Morton L. and Carole S. Olshan Professor of Economics, Harvard University, Partner, Co-Head of Research, Arrowstreet**

12:00 – 1:30

**Lunch & Arrowstreet – 10 Years in Review**

1:30 – 2:15

**Investor Expectations and Impacts on Corporate Plans**

**Guest Speaker:** **Mark J. Warshawsky,**  
**Director of Retirement Research, Towers Watson**

**Abstract:** The first part of the presentation will review the results of the 2010 Towers Watson Global Survey of Investment and Economic Expectations. Large institutional investors responding to the survey give their views on capital market expectations and macroeconomic forecasts for 2010 and the next ten years, as well as key investment and governance issues and government policies affecting them. The second part will be a presentation of the current status of large corporate retirement plans in the United States: funding, freezes, contributions, match suspensions and renewals, and investments.

2:15 – 2:30

**Break**

2:30 – 3:15

**ESG (Environmental, Social & Governance) and Portfolio Returns**

**Speaker:** **John Capeci, Ph.D.**  
**Partner, Portfolio Management**

**Abstract:** There is increasing interest among investors in evaluating companies by their environmental, social, and corporate governance (ESG) quality. While some take the responsible investing approach of tilting their portfolios to desired ESG characteristics, others consider ESG data as information that may potentially forecast risks and returns. In this note we discuss how ESG information can be used in a quantitative investment process, and what implications it has for the return and risk of an actively managed equity portfolio.

3:15 – 4:00

**Forecasting Returns for Global Asset Allocation**

**Speaker:** **Tuomo Vuolteenaho, Ph.D.**  
**Partner, Co-Head of Research, Arrowstreet**

**Abstract:** The stunning decline in risky asset prices, and their subsequent sharp rebound, has led investors to revisit the importance of dynamic asset allocation. The challenge of asset allocation is that this most important of decisions is, painfully, the most difficult to get right. Although we at Arrowstreet have devoted our research efforts to finding investment signals that predict cross-sectional variation in equity returns, as a byproduct of this research we have found signals that are also useful in predicting asset class returns. This talk discusses the measurement of asset class returns from global data and illustrates some of our findings about their long-run and shorter-run predictability.

4:00

**Conference Concludes**