

2011 CLIENT CONFERENCE

Organizing for Sustainable Alpha

Featured Speakers:

Jared Diamond, Pulitzer Prize-Winning Author of *Guns, Germs and Steel*
Lauren H. Cohen, Ph.D., Assistant Professor of Finance, Harvard Business School

October 25 & 26, 2011

Venue:

The Back Bay Hotel
BOSTON

*350 Stuart Street
Boston, MA 02116*



CFA Institute has approved this program, offered by Arrowstreet Capital, Limited Partnership, for 6.5 CE credit hours, inclusive of 1 hour in the content areas of Standards, Ethics, and Regulations. 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 Erica Monroe if you have any questions.

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Tuesday, October 25th

8:00 am – 9:00 am

Breakfast and Registration

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

9:00 am – 9:45 am

Enhancing Portfolio Management: Optimally Exploiting Investment Insights

Speaker: **Peter Rathjens, Ph.D.**
Partner, CIO

Abstract: Active managers have long understood that real world frictions impact their ability to create portfolios that perfectly reflect their changing views on the relative attractiveness of individual securities. This idea is sometimes summarized by the notion of a transfer coefficient. This talk will discuss some of the most important impediments present in broad global mandates. In particular, we will describe how the importance of those impediments can vary dynamically, especially as assets grow, and the extent to which the manager can control them.

9:45 am – 10:30 am

Managing Implementation Costs

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

Ezra Levine, CFA
Partner, Portfolio Management

Abstract: Precise measurement and minimization of transaction costs is a critical part of managing global portfolios. This talk reviews Arrowstreet's transaction-cost measurement tools as well as the trading techniques employed to minimize costs. In particular, we present empirical analysis of implementation shortfall incurred during the life cycle of an order from trade decision to ultimate portfolio position. We also show how we have achieved significant savings with relatively simple but effective forecasting models and trading policies.

10:30 am – 11:00 am

Break

11:00 am – 12:30 pm

Panel Discussion: PIGS and BRICs

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

Speakers: **Jack Gray**
Director, Arrowstreet Capital Australia Pty. Ltd.

Phil Paroian
Senior Investment Officer for Public Equity
Washington State Investment Board

James Scott
Managing Director, Global Public Markets
General Motors Asset Management

Tuesday, October 25th

Abstract: This panel addresses whether the conventional dichotomy between developed and emerging markets appears to have been turned on its head now that the worst of the global financial crisis is behind us. "Hard asset" economies that tend to characterize emerging markets ultimately weathered the recent financial storms more successfully than their developed market counterparts. Such outcomes call into question long held assumptions about the expected risks and returns that investors use when making strategic and tactical decisions regarding these markets. Recognizing the potential seismic implications that changing assumptions may have for investor portfolios, this panel will review the latest thinking on the topic from the perspectives of a diverse set of institutional investors.

12:30 pm – 1:45 pm

Lunch

1:45 pm – 2:45 pm

Decoding Inside Information

Guest Speaker: Lauren H. Cohen, Ph.D.

Assistant Professor of Finance, Harvard Business School

Abstract: Corporate insiders trade for a variety of reasons. Professor Cohen will show how he differentiates "routine" insider trading (caused by cash-flow timing, liquidity issues, and possibly habit) which he believes is not informative of the future prospects of the firm from "opportunistic" insider traders. His research shows that the trades of opportunistic insider traders predict future stock returns: A portfolio strategy that focused solely on opportunistic traders had outperformed the market by 82 basis points per month in historical data. He will also review how opportunistic insiders' trades predict future firm-specific news, as well as announcement returns around future analyst forecasts, management forecasts, and earnings announcements.

2:45 pm – 3:30 pm

Break

3:30 pm – 4:30 pm

Shuttles to Harvard Faculty Club

*The Harvard Faculty Club
20 Quincy Street
Cambridge, MA 02138*

4:30 pm – 6:00 pm

Panel Discussion: Quantitative Easing

**Moderator: Tony Ryan, CFA
Chief Operating Officer**

**Speakers: Kenneth N. Kuttner, Ph.D.
Professor of Economics, Williams College
Research Associate, NBER**

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

Abstract: The Federal Reserve Board's quantitative easing (QE), the policy of purchasing long-term government bonds and/or private-sector debt instruments, has a large and obvious practical impact on financial markets. However, there is no agreement among academic economists why and how QE works, with some formal models suggesting that it should have no effect at all. We'll discuss QE and its impact on the economy and capital markets, as well as the potential investment implications for risk premia, absolute returns and asset allocation decisions.

Tuesday, October 25th

6:00 pm – 10:00 pm

**Cocktail Reception, Dinner and Dinner Presentation:
Risk Management by Tribal Societies**

Keynote Speaker: Jared Diamond, Ph.D.
Professor of Geography, UCLA
Pulitzer Prize-Winning Author of *Guns, Germs and Steel*

Abstract: A certain fund manager serves clients whose objects are income with growth, and who have negligible income sources other than that from the fund. But the fund is restricted to dealing only in highly volatile investments subject to unpredictable fluctuations. What strategy should the manager adopt? This is a real scenario. The clients are the world's subsistence peasant farmers, the investments are arable land, the income is the crop yields produced, the manager is natural selection, and the penalty for a year of low investment returns is death by starvation. Thousands of years of natural selection have resulted in successful long-term farmer "investment" strategies – by trial and error, without the benefit of computers, MBA's, spreadsheets, or even of literacy. Peasant strategies reach surprisingly sophisticated compromises to maximize long-term yield while minimizing year-to-year coefficients of variation. Other traditional peoples around the world adopt other time-tested strategies towards dealing with other risks. Professor Diamond asks whether the endowment fund managers at his alma mater (Harvard University) might have found the "investment" experience of Andean potato farmers instructive.

Wednesday, October 26th

8:00 am – 9:00 am

Breakfast - The Back Bay Hotel

9:00 am – 9:45 am

Enhancing Currency Management

Speaker: Samuel Thompson, Ph.D.
Partner, Research

Abstract: Over the last several years, we have enhanced and refined our approach to currency management. This talk reviews some of the recent enhancements and outlines future possible paths for currency management. The topics include forecasting currency alphas, currency risk and hedging, implementation costs, and optimized portfolio construction.

9:45 am – 10:30 am

Reducing Portfolio Risk & Generating Alpha by Investing in Low-Risk Equities

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

Abstract: Better risk management, dampening the volatility of returns, and/or seeking superior risk adjusted returns is very much on the minds of institutional investors. Traditionally, most active investment managers look for excess risk-adjusted returns by focusing on opportunities with high expected returns with similar (although often higher) market risk. There is, however, an alternative route: finding investment opportunities that deliver market oriented returns but at a meaningfully lower level of volatility than cap-weighted equity indexes. This talk discusses these issues and seeks to answer questions including: Should we expect low-risk equities to outperform high-risk equities on a risk-adjusted basis in the future? What is an appropriate benchmark for an active investment strategy in low-risk equities?

Wednesday, October 26th

10:30 am – 11:00 am

Break

11:00 am – 12:00 pm

Managing for (and Maintaining) Success

Speaker: **Bruce E. Clarke, CFA**
Partner, CEO

Abstract: Arrowstreet's success has led a number of clients and consultants to seek assurance about our size and rate of growth. We too are focused on these issues - whether they are investment related or related to our business. In this talk we look back to Arrowstreet's inception and describe the steps we have taken over the years to ensure that growth was sustainable and that client interests have always been protected. In addition, we will review Arrowstreet's current plans to ensure that we continue to strengthen our capabilities while maintaining our focus on investment performance and serving clients.

12:00 pm – 1:30 pm

Lunch

1:30 pm

Conference Concludes