

## Making Portable Alpha Pay Off

The concept of portable alpha is gaining widespread acceptance among institutional investors as a cost-effective way to improve returns, manage risk and adjust portfolio exposures. While portable alpha has been a mainstream practice for many years—mostly through futures-based enhanced indexing strategies—the opportunities today are more sophisticated and diverse. Plans sponsors can “unbundle” many traditional, fully funded positions into alpha and beta components and meet policy objectives with unprecedented flexibility, economy and precision.

The expanded choices, however, place increased demands on the expertise of money managers and the due diligence of investors. For example, using derivatives to track custom benchmarks requires in-depth understanding of the theoretical and practical aspects of the underlying asset classes (e.g., tracking error, liquidity). Also, the preferred strategy may require swaps instead of futures contracts to minimize tracking error. However, swaps are private contracts, unlike futures, and have counter-party exposure that must be properly managed.

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*Portable alpha strategies expand  
the choices available to investors*

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These cautionary notes do not imply that portable alpha strategies need be any riskier than traditional mandates. On the contrary, properly implemented portable alpha strategies increase return and reduce risk. But as with any sophisticated investment strategy, portable alpha requires a manager with a compatible skill set and strengths, which should be carefully evaluated by investors and their consultants.