

**INSTITUTE FOR QUANTITATIVE  
RESEARCH IN FINANCE®**

**SUMMARY**

**SPRING 2007 SEMINAR  
MARCH 25 – MARCH 28, 2007**

**THE CLOISTER  
SEA ISLAND, GEORGIA**

## I. INTRODUCTION, SUMMARY AND CONCLUSIONS

James L. Farrell delivered the welcoming address at the Spring 2007 Seminar of The Q-Group®.

James Haskell described techniques for reducing portfolio alpha and beta risk without sacrificing returns.

A panel chaired by Joanne Hill discussed the trading capacity of securities markets and trading costs.

Harry Kat offered a number of papers on the subject of hedge funds, focusing on his model that generates returns with the same statistical properties as a given fund or index. He offered an example and described uses for the model.

Eric Sorensen and Edward Qian presented a modeling process to maximize the Information Ratio in the context of multiple managers and multiple factors. A particular feature of the process was integration of turnover costs into the optimization.

Cynthia Tucker, the banquet speaker, offered her views on national politics, discussing the prospects for the next election of a President, but also describing public policy issues that she believes are critically important but too sensitive for this nation to face.

Mark Warshawsky discussed the Pension Protection Act of 2006 and its implications for Defined Benefit and Defined Contribution retirement plans. He included the results of a survey of plan sponsors. Contrary to some published criticism, he believes the

legislation will have positive results and described them.

Katrina Sherrerd moderated a panel on the subject of future sources of alpha, with the first question being just what alpha is. The discussion continued on the prospects for future alphas.

Olivia Mitchell reviewed the findings reported in a survey of retirement prospects for baby boomers, noting in particular differences from earlier cohorts. The chief vulnerabilities for the boomers appear to be a lack of understanding and planning, especially by those who need it most.

Robert Arnott and Clifford Asness discussed Arnott's introduction of non-cap weighted market indexes, agreeing on the usefulness of these, and their superior performances, but disagreeing on claims of novelty.

Andrew Weisman and Sandeep Patel described the sources of hedge fund alpha that can lead to significant negative returns, and offered a method of portfolio construction that is focused on predicting left tail events in the context of hedge funds.

Benson Durham described Extreme Bound Analysis as a means of dealing with model uncertainty. There are different ways of determining which explanatory variables to include in a regression model, and EBA offers the prospect of excluding a minimum of useful information.

## TABLE OF CONTENTS

### Evolving Alpha and Beta Concepts and Wealth Demographic Issues

	Page
<b>Introduction and Summary</b>	
<b>1. Alpha/Beta Separation</b> Speaker: James L. Haskel, Director-Portfolio Strategy, Bridgewater Associates, Inc.	1
<b>2. Panel: Exploring Capacity Issues</b> Moderator: Joanne M. Hill, Managing Director, Goldman Sachs & Co. Panelists: Dan Bienvenue, Portfolio Manager-Global Equities, CALPERS Knut Kjaer, CEO, Norges Bank Investment Management Matt Yamini, Managing Director –Head of Global Equity Trading, TIAA-CREF	2
<b>3. The FundCreator Approach to Hedge Fund Return Replication, Fund Creation and Performance Evaluation</b> Speaker: Harry M. Kat, Professor of Risk Management, Sir John Cass Business School	3
<b>4. Modeling Alpha</b> Speakers: Eric H. Sorensen, President and CEO PanAgora Asset Management Edward Qian, Director-Macro Strategies, PanAgora Asset Management	5
<b>5. National Politics Today – As I See It</b> Speaker: Cynthia Tucker, Editorial Page Editor, The Atlanta Journal-Constitution	7
<b>6. The Major Provisions of the Pension Protection Act of 2006: Implications for Pension and Investment Management</b> Speaker: Mark J. Warshawsky, Director – Retirement Research, Watson Wyatt Worldwide	8
<b>7. Panel: Future Sources of Alpha</b> Moderator: Katrina F. Sherrerd, Principal – Strategic Planning & Affiliate Relations, Research Affiliates, LLC Panelists: Chris Brightman, CEO, UVA Investment Management Company Craig W. French, Director of Quantitative Research, Corbin Capital Partners, L.P. Harinda de Silva, President, Analytic Investors	10
<b>8. Demographics and Finances of the Baby Boomers</b> Speaker: Olivia S. Mitchell, Professor, The Wharton School, University of Pennsylvania	11
<b>9. Non-Cap Weighted Indexes</b> Speakers: Robert D. Arnott, Chairman, Research Affiliates, LLC Clifford S. Assness, Managing Principal, AQR Capital Management, LLC	12
<b>10. Alpha Migration: Issues and Consequences</b> Speaker: Andrew B. Weisman, Managing Director, Hedge Fund Development, Sandeep Patel, Portfolio Analytics, Merrill Lynch	13
<b>11. Extreme Bound Analysis</b> Speaker: John Benson Durham, Chief, Monetary and Financial Market Analysis Section Federal Reserve Board	15