
JOIM CONFERENCE SERIES
OCTOBER 17–18, 2022 / UCSD
Co-hosted with UCSD, Rady School of Management

CONFERENCE SUMMARIES



This Fall 2022 covered selected presentations which included portfolio management issues, determinants of inflation, housing prices and ESG. Each will be presented by distinguished experts who will provide recent important insights both for background and actionable follow-up.

Sanjiv Das, Santa Clara University – Keynote Speaker

Multimodal Machine Learning in Finance

The keynote described the evolving landscape of multimodal machine learning and its role in financial data science, with examples from recent research, placed within a framework for industrialized AI/ML.

**Stefano Cavaglia
State of Wisconsin Investment Board**

Portable Beta and Total Portfolio Management

Discussant: Caio Natividade, Deutsche Bank

Alternative Risk Premia (ARP) strategies have traditionally been sold as stand-alone products to

complement a reference portfolio. We illustrate how ARP can be integrated with a reference portfolio to achieve optimal total portfolio outcomes. From 1931 to 2020, a factor diversifying overlay reduces the risk of the reference portfolio and captures a welfare enhancing diversification premium. The relaxation of the risk budget enhances the fund Sharpe ratios through strategic factor tilts and by leveraging existing asset class or active management exposures. We provide a modular framework illustrating how ARP overlays may complement the decentralized investment management model to benefit plan constituents.

Alessio de Longis, Invesco

Tactical Asset Allocation, Risk Premia, and the Business Cycle: A Macro Regime Approach

Discussant: Michael Reher, UCSD Rady School of Management

Market conditions change over the course of the business cycle. When are investors compensated to take risk? And what type of risk? We

propose a practical regime-based framework for tactical asset allocation (TAA), combining leading economic indicators and global risk appetite to identify four macro regimes—recovery, expansion, slowdown, and contraction. We document distinct performance characteristics across regimes for traditional asset classes and their underlying risk factors, focusing on the term premium, credit premium and equity premium. We provide simple and practical examples of TAA strategies for long-only multi-asset and fixed income portfolios with the potential to generate attractive excess returns. Results are statistically significant and economically relevant after transaction costs, with information ratios between 0.70–0.80.

Will Kinlaw, State Street

The Determinants of Inflation

Discussant: Anish Ghosh, Invesco

The authors apply a Hidden Markov Model to identify regimes of shifting inflation and then employ an attribution technique based on the Mahalanobis distance to identify the economic variables that determine the trajectory of inflation. Their analysis enables policymakers to focus on the most effective tools to manage inflation, and it offers guidance to investors whose strategies might benefit from knowledge of the prevailing determinants of inflation. Their analysis reveals that as of February 2022, the most important determinant of the recent spike in inflation was spending by the federal government.

Ananth Madhavan, BlackRock

How Many Active Funds Should You Hold?

Discussant: Felix Xu, Vanguard

Traditional quantitative approaches to portfolio construction have drawbacks for investors or advisors who combine multiple active managers in typically producing large numbers of disperse

positions. We develop a new methodology for sequentially allocating to active funds that results in parsimonious numbers of funds and test our results on US active equity mutual funds. To initiate the algorithm, we choose the fund with the highest information ratio (IR). Then, we select the next fund that produces the highest increase in the portfolio's IR, noting that the IRs of the remaining funds depend on the current active portfolio. This procedure is repeated as long as the active risk of the portfolio is above a minimum threshold. Under certain conditions, the problem nests the well-known Knapsack Problem. The algorithm generates approximately the same IRs with significantly smaller numbers of funds than traditional mean-variance optimizations.

Michael Melvin, UCSD Rady School of Management

How useful is a Prospectus in Identifying Greenwashing versus True ESG Funds?

Discussant: Ked Hogan, BlackRock

Many funds have “ESG” in their names, suggesting they hold a portfolio of stocks or other assets issued by firms that rank highly on ESG criteria. However, names may be misleading and actual portfolio holdings often do not reflect ESG investing criteria so that the investor in such funds ends up with a “brown” portfolio instead of the “green” portfolio they desired. We study the prospectuses of funds with “ESG” in their name and find that prospectus language is not useful in identifying true ESG funds from “greenwashing” funds that do not invest according to ESG principles.

Allan Timmermann, UCSD Rady School of Management

Search and Predictability of Prices in the Housing Market

Discussant: Todd Mattina, Mackenzie Investments

We develop a new housing search index (HSI) extracted from online search activity on a limited set of keywords related to the house buying process. We show that the HSI has strong predictive power over subsequent changes in house prices, both in-sample and out-of-sample and after controlling for the effect of commonly used predictors, and relate our findings to models of search-induced frictions. Our results imply that search data can be used as an early indicator of where the market is going.

Johannes Wieland UCSD/NBER

Housing Demand and Remote Work

Discussant: Mark Kritzman, Windham Capital Management

What explains record U.S. house price growth since late 2019? We show that the shift to remote

work explains over one half of the 23.8 percent national house price increase over this period. Using variation in remote work exposure across U.S. metropolitan areas we estimate that an additional percentage point of remote work causes a 0.93 percent increase in house prices after controlling for negative spillovers from migration. This cross-sectional estimate combined with the aggregate shift to remote work implies that remote work raised aggregate U.S. house prices by 15.1 percent. Using a model of remote work and location choice we argue that this estimate is a lower bound on the aggregate effect. Our results imply a fundamentals-based explanation for the recent increases in housing costs over speculation or financial factors, and that the evolution of remote work is likely to have large effects on the future path of house prices and inflation.