

Using Axioma Portfolio Optimizer™ to Create Better 130/30 Strategies

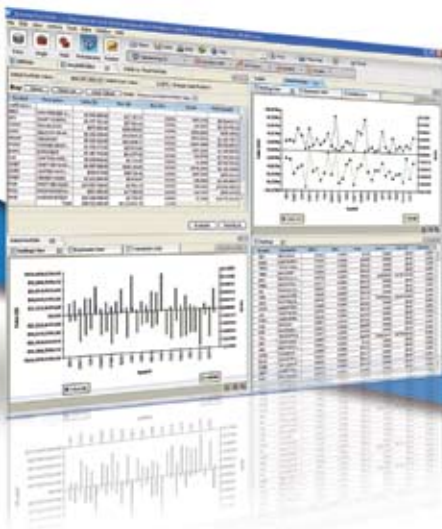
The Axioma Portfolio Optimizer™ is widely praised by clients for its unrivaled flexibility. That flexibility is particularly valuable when creating 130/30 strategies, says Dr. Robert Stubbs, Vice President of Research for Axioma.

“To put it in the simplest of terms, Axioma Portfolio makes it easier to build 130/30 strategies. In fact, in talking with clients, they’ve identified eight unique features that make Axioma Portfolio the solution of choice for a 130/30 strategy-building process.”

Dr. Robert Stubbs,
Vice President of Research
for Axioma

Axioma Portfolio Optimizer™ is better for 8 key reasons. Axioma enables portfolio managers to:

- 1. Include transaction costs directly in the portfolio construction process.** Only with Axioma Portfolio can portfolio managers model borrowing costs, short-sell costs, ticket charges and brokerage fees. Capturing these costs is critical to deciding on the optimal leverage and to helping eliminate assets with high borrowing costs from the optimal portfolio. Costs may be constrained directly in the optimization or included in the objective function to be traded off against expected return.
- 2. Include accurate non-linear market-impact costs in the portfolio construction process.** Since leveraging necessitates larger trades, compared with the long-only case, long/short strategies typically generate more turnover. In doing so, it is critical to keep the market-impact costs of the larger trades generated by a 130/30 strategy under control. Axioma Portfolio, with its optional transaction cost model, helps portfolio managers control market impact costs, particularly when leveraging in a 130/30 strategy.
- 3. Gain complete flexibility across all objective terms for a long/short optimization.** Axioma Portfolio Optimizer gives the user the flexibility to design their own objective function. Additionally, the decision to go long or short an asset does not need to be made prior to the optimization. For example, with Axioma Portfolio, the optimizer can be asked to choose whether a position should be long or short an asset, as long as no constraint restricts that freedom.



4. Fix the leverage ratio or allow it to be selected by the optimizer.

Portfolio managers may set the maximum leverage to 60% and achieve up to a 130/30 strategy and set the minimum leverage to 60% and be guaranteed a 130/30 strategy. Intermediate settings are also an option. That is, the optimizer can be permitted to select the optimal leverage, or do so with the limitation that the final portfolio must be somewhere between a 125/25 and a 130/30. Having the flexibility to make choices is important, because the optimal leverage ratio can change over time, meaning that a 130/30 strategy is not always optimal. Resources are best spent on improving alpha and reducing risk, and not on wasting the turnover budget to force a less-than-optimal 130/30 strategy.

5. Generate additional alpha by combining a core long-only strategy with a dollar-neutral portable alpha overlay.

Managers can take a long-only strategy and offer it as a 130/30 variant by managing the core portfolio using a fundamental approach, while taking a quant approach via a dollar-neutral 30/30 strategy as an overlay as a means of generating additional alpha.

6. Control the long, short, and net holdings separately.

This enables the portfolio manager, for example, to create a portfolio with the desired long, short, or net exposures to industries, sectors, styles, etc. The number of positions held long, short, or in aggregate can each be restricted, if so desired.

7. Incorporate ETFs and Futures, which are sometimes used as a cost-efficient means to create a short extension that provides significant risk reduction.

Similarly, stock swaps can be incorporated into the investment universe to create short extension portfolios under UCITS III compliance.

8. Limit trades, buys, sells, and short sales on an asset-by-asset basis or over any subset of the universe.

This flexibility allows the portfolio manager to have even greater control over the generated trades, particularly the short trades generated in a short extension strategy. Managers may use this functionality to assist in the operational details associated with shorting assets. For example, portfolio managers use short sell constraints to restrict further shorting of assets that are hard-to-borrow.

“Flexibility is the key to building better strategies,” says Stubbs. “Axioma Portfolio Optimizer gives skillful portfolio managers more choices, greater functionality and the power to fully express their best investment ideas.”

Axioma is making it easier than ever for portfolio managers to find additional alpha with the help of a superior optimizer. Contact Axioma to learn more about the QuickSwitch™ Paid Trial.

During the Axioma QuickSwitch™ Paid Trial, Axioma will:

- 1. Personally install or work with your technical team to install the software**
- 2. Integrate your current data into Axioma Portfolio Optimizer™**
- 3. Formally train all users**
- 4. Provide a PhD subject matter expert in optimization for two days to efficiently model your strategies and show you how to find additional alpha**

To arrange a demo of Axioma Portfolio Optimizer or get more information call **212-991-4500** or visit www.axiomainc.com

FLEXIBLE IS BETTER