

QUOTIENT AND MSCI: ENHANCING THE CLIENT EXPERIENCE WITH UNIQUE SOLUTIONS

Quotient Investors is a quantitative US equity management firm that was formed and funded in 2008 by CalPERS, Strategic Investment Group, and the Quotient management team. It was the first manager selected for the CalPERS Manager Development Program II. Unique to Quotient are its non-style biased and intra-industry alpha forecasts, integration of Environmental, Social and Governance (ESG) factors into the investment process, and dynamic risk management that combines multi-level constraints with quadratic optimization.

Bill Yost is a Managing Partner and the Director of Portfolio Management and Trading at Quotient Investors, and part of an experienced investment team that has been together since 1996. He is responsible for the portfolio management and trading for all large cap and small cap equity portfolios.

Bill said, "We have approximately USD 300m under management across seven different domestic strategies including large cap core, value and growth; small cap core, value and growth; and a sustainable alpha fund, integrating ESG data. In addition to CalPERS, our client base is primarily institutional investors, mostly larger public funds, based in the US."

Using Barra Products for Alpha Discovery and Attribution

Quotient uses the suite of Barra products from MSCI to manage risk, generate alphas, and construct their portfolios, helping them create portfolios with enhanced risk-adjusted returns. Bill said, "We have a unique way of forecasting alpha that is different from our competitors. Most managers use a single

alpha formula with a single set of alpha factors and weights for all stocks and all industries. Our approach is to build a unique alpha model for each of the 56 different Barra model industry factors, relying on these factors as a basis for our alpha research. Barra products and models are a key factor in the differentiation of our investment products, which is critical for the success of our business."

He added, "Quotient's philosophy is based on the belief that stocks in different industries respond to different sets of fundamental alpha factors, and we are trying to model that. Our success is based on our ability to build alpha models for subsets of the broader market, rather than a single cross-sectional model or formulation. We find that structural price inefficiencies are more persistent at the industry level rather than at the broader market level. Our goal is to generate a consistent pattern of excess return by focusing on risk-adjusted performance relative to a selected benchmark. The excess return is primarily generated from

stock selection rather than market-timing, industry tilts or style tilts."

Quotient uses Barra Alphabuilder to help them identify alpha factors with certain characteristics that can enhance their investment process. "Understanding the source of the alpha, whether it is from risk indices or stock specific, is critical to our alpha research," Bill noted. Alphabuilder helps to provide Quotient that alpha insight.

"Attribution in Barra Portfolio Manager has helped us better understand both strengths and weaknesses in our investment process and helped us communicate to clients more effectively."

Bill Yost

Managing Partner and Director of Portfolio Management & Trading



"Attribution analysis that identifies sources of active risk and active return is also very important to us as we continue to advance our investment process. Attribution in Barra Portfolio Manager has helped us better understand both strengths and weaknesses in our investment process and helped us communicate to clients more effectively. Understanding why we outperform or underperform is obviously important information for our clients and for us."

Building Successful Portfolios Using Barra Optimizer and Risk Models

The Barra Optimizer delivers innovative optimization techniques that can be easily integrated into most investment platforms. It addresses a variety of optimization problems ranging from large-scale convex and non-convex cases to more complex combinations of quadratic, nonlinear or mixed-integer

constraints. Using the expanded functionality of the Barra Optimizer, Quotient applies constraints or bounds at the asset level, industry level, sector level, and market level, as well as trading constraints on percent of average daily volume traded. The functionality of the Barra platform that allows for both optimization and multi-level constraints is an essential part of Quotient's risk management process. Bill said Quotient has coined the term "constrained optimization" to describe its unique risk management approach.

Bill explained, "A key factor in what makes us unique is that we have a sophisticated risk control process. Using the Barra equity model and Optimizer we combine asset, industry, sector and beta constraints with quadratic optimization. The functionality of the Barra Optimizer and the robustness of the Barra long term US equity models are critical to our success. We use the Barra models to help us identify intended and unintended risks within our portfolio and to help us build portfolios where a high percentage of the active risk is from stock selection."

Environmental, Social and Governance Factors: A New Quotient Investment Focus

Quotient's latest research is focusing on new ESG data sets that can enhance portfolio return and risk and differentiate their product offerings. Bill said, "We see a growing interest from large institutional investors in the integration of ESG factors into the

investment process. Barra tools facilitate that integration so that ESG factors can enhance portfolio return and risk." Quotient is one of the first managers to fully integrate ESG factors into its investment process. Barra attribution analysis is helping Quotient demonstrate to clients and consultants the effectiveness of its ESG integration.

Client Focused Firms: Quotient and MSCI Value Client Feedback, MSCI Research and Events

Quotient's experienced investment team understands that it is critical to provide high quality client support. It is a philosophy which is at the heart of their business. The support they receive from MSCI's client service, research, and events help them provide the high levels of support that their institutional clients demand.

Bill said, "MSCI, the firm behind the Barra brand, provides all the support we need. Their research library, proactive consultants, and client service help us gain a better understanding of new investment techniques. The applied research that



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**Managing Partner and Director
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is published is particularly helpful when thinking about investment problems.”

“There are also the supporting events that are offered, which enhance our understanding of the Barra products and research. The Client Advisory Board in New York is a great opportunity to hear about the upcoming product roadmap and discuss how we can use new Barra products in our investment process. It is a fantastic opportunity to meet my peers from other investment management firms.”

Bill has accolades for the annual MSCI Client Summit in New York City (held in May 2012). Bill said, “The Client Summit was terrific. I particularly enjoyed Dr. Jose Menchero’s presentation on short-term risk and Neil Gilfedder’s presentation on Frontier Markets. Both were fascinating and gave me information that I can apply to the investment research that our own firm is doing today.”

“The webinars and seminars that MSCI holds are also extremely valuable. I recently attended one on the functionality of the optimizer in Barra Portfolio Manager. It was particularly helpful in that it further enhanced our knowledge of the latest optimization techniques. There have been several webinars on ESG which were also very interesting and valuable. MSCI events really make an impact and give us great information to bring back and share with our colleagues and clients.”

Providing Excellent Client Support

As a company, Quotient prides itself on providing a high level of client support and service and expects the same from its research and technology service providers. Bill said, “Our success in many ways depends on the support of MSCI consultants and client support team.”

“The MSCI support team is helping us to automate the daily conversion of our

portfolio information for use in Barra Portfolio Manager and they are also creating detailed workspaces to help us improve our daily analytics. This has allowed us to focus on investing, advanced research, and client service, safe in the knowledge that the Barra analytics and models are helping us to meet our clients’ return and risk objectives.”

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MSCI, Ten Bishops Square, London, E1 6EG, United Kingdom
Contact us at: clientservice@msci.com