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INVESTING

MSCI Barra index addresses low-risk strategies

By Douglas Appell

NEW YORK — MSCI Barra, a leading New York-based provider of investment support tools, will launch the industry's first minimum volatility index as early April 14, to facilitate the growth of strategies promising equity exposure with much lower risk.

The company's MSCI World Minimum Volatility index will be composed of lower-risk stocks from the parent MSCI World index, and will have roughly 30% less volatility, said Frank Nielsen, the executive spearheading the product's development as MSCI Barra's head of equity research, Americas.

The index will provide a benchmark for the growing number of strategies asset managers have launched recently promising superior risk-adjusted returns, just as regulatory changes have begun moving pension funding shortfalls on to corporate balance sheets.

MSCI Barra officials said growing interest from asset managers and institutional investors over the past year led to the index's launch.

"We've heard from a number of clients who are in the process of launching low or managed volatility strategies in response to interest among asset owners, including corporate pension plans, which are focusing more on balance sheet volatility lately," Mr. Nielsen said. Insurance companies are likewise keenly interested in keeping volatility under control, he said.

While the initial offering is based on the MSCI World index, the minimum volatility index methodology can be applied to other MSCI indexes, including the MSCI EAFE and various domestic, country and regional indexes, Mr. Nielsen said.

Asset managers who have launched low or managed volatility strategies in recent years have faced a challenge explaining their performance in the absence of a suitable benchmark, Mr. Nielsen said.

Harindra de Silva, president of Los Angeles-based Analytic Investors LLC, said even without a benchmark, the low volatility strategy his firm launched five years ago has managed to garner $1.3 billion from three clients so far. Other managers who have launched these strategies include two Boston-based firms—Acadian Asset Management Inc. and State Street Global Advisors—as well as Geneva-based Unigestion, and Union PanAgora Asset Management GmbH and Union Investments Privatfonds GmbH, both in Frankfurt.

But with tracking errors against capitalization-weighted indexes of as much as eight to 10 points, having a benchmark would make it "so much easier for people to hire you," Mr. de Silva said. Without one, clients who see their low volatility portfolios falling way behind a cap-weighted index at any moment in time will be left wondering whether the strategy is working as planned or stumbling badly, he said.

Mr. Nielson said MSCI Barra expects initial interest in its minimum volatility indexes to come from asset managers seeking a benchmark for their low or managed volatility strategies, but another source of demand should come from financial product creators. He cited the possibility of licensing the indexes as the basis for minimum volatility exchange traded funds as one example. ■