

# Profitable parking with portable alpha

By Margaret Ferns

*Portable alpha is a strategy that investment managers use to separate alpha from beta by investing in securities that differ from the market index from which the beta is derived. The concept of portable alpha has been an area of controversy, prompting years of theory and debate about its pro's and cons. However, as understanding of the innovative idea has increased so has the number of successful implementations, first in the US, but now gradually in Europe as well. Indeed at the recent Alfi/Nicsa investment funds forum it became clear that the hunt for alpha is a priority for investments managers for the near future.*

In February 2005 Ikano Fund Management launched its Ikano Portable Alpha Fund 1 as a means of allowing its clients to "park" without selling their small cap shares. Peter Branner, managing director of Ikano Fund Management explained further. But first, some background information...

## Alpha & beta

Portfolio return is founded on two aspects; beta - the extent to which an investment vehicle moves with the market, often said to represent passive returns i.e. their increase in value along with the overall market, and alpha - the measure of a manager's ability to generate returns by choosing stocks or investments that will outperform the market in a given time period. It is said to represent the returns generated by active management techniques. So, if a portfolio manager can improve alpha by investing in securities that are not correlated with the beta of a portfolio, then he has created portable alpha. Now back to Ikano...

## Portable parking

Branner explained that some of Ikano's clients were looking to sell their small cap shares. "However it can be very expensive to sell small cap shares and move back in." In fact it can cost somewhere in the region of 150 basis points to do so. So, Ikano came up with a way whereby these clients could "park" without selling their small cap shares, namely the Portable Alpha 1 Fund. "Put very simply this allowed our clients, who were feeling very nervous at the time, to sell their shares as futures. And, when you sell futures and have shares you finish up in a cash position, plus the added value of the manager's performance. The benefit then is that you



Peter Branner

can move your money about." According to Branner, "With this fund we have found away to separate beta from alpha - selling the individual manager's beta and hedging the currency exposures isolates the alpha - and it can be used everywhere."

## Efficiency for institutional investors

Portable Alpha 1 has a minimum investment value of 5,000,000 euros, and therefore is for the institutional investor. "It allows the investor efficient access to the expected return from long-only active specialist managers within the traditional assets classes." As it invests via 10-15 different managers it also diversifies the sourcing of alpha. The necessary hedging is carried out by Ikano Fund Management itself.

## But smart privateers have a way in too

However, should the private investors out there be thirsting for a way in, this is also possible by way of the Ikano All Seasons Fund. This uses the same investment managers as Portable Alpha 1, but has a minimum investment value of 50,000 euros. Branner described it as, "A highly diversified, multi-manager, multi-strategy portfolio with low volatility. It has a low correlation with traditional investments and an absolute return focus."

For further information  
[www.ikano.lu](http://www.ikano.lu)