

# Smart Beta Strategy

June 2019



# Summary

- Smart Beta Strategy: risk-factor investments in global stock market
- Assets in portfolio: stocks, bonds, ETFs
- Number of positions: from 50 to 200
- Target yield: 15%+ in USD
- Target volatility: 10%
- Minimum investment: \$100k
- Investment term: starting from 1 year
- Alphatek commission:
  - Management fee 1.5% per annum
  - Success fee: 25% of income above 5% p.a.
- Advantages of the strategy:
  - High yield with moderate risk
  - Moderate correlation to global stock indices
  - The system is a long-term investment strategy in contrast to short-term speculative trading. Rebalancing of the portfolio occurs once a week.
  - This strategy is not offered for retail investors in Russian market.



# Smart Beta – risk factor strategy

Smart Beta is an investment strategy in the global stock market based on a risk factor approach. The idea of this approach is that the properties of an asset can be broken down into subcomponents - risk factors, the sum of which provides the final characteristic of the asset.

For example, the risk-yield of corporate bonds can be divided into several risk factors: interest rates and the issuer's credit risk. Interest rates, in turn, can also be divided into duration and inflation, which are the basic risk factors for government bonds without credit risk. Risk factors can be divided into three broad categories within their inherent risks and returns (risk premium):

1. Traditional. For example, market equity beta premium (stock index returns, depending on many macro-indicators). Positive risk premium exists in the long run and in the equilibrium state of the market. These factors do not contradict modern portfolio theory or the theory of market efficiency.
2. Alternative Beta (Smart Beta). Based on various forms of market inefficiency: due to irrational behaviour of investors, restrictions on the investment policy of institutional investors and other barriers. The risk premium can be both positive and negative. It has a cyclical nature.
3. Idiosyncratic. These factors contain unique asset characteristics.

Thus, asset return may be decomposed into the following components:

Asset risk-return = traditional equity beta + alternative beta + idiosyncratic alpha + stochastic component

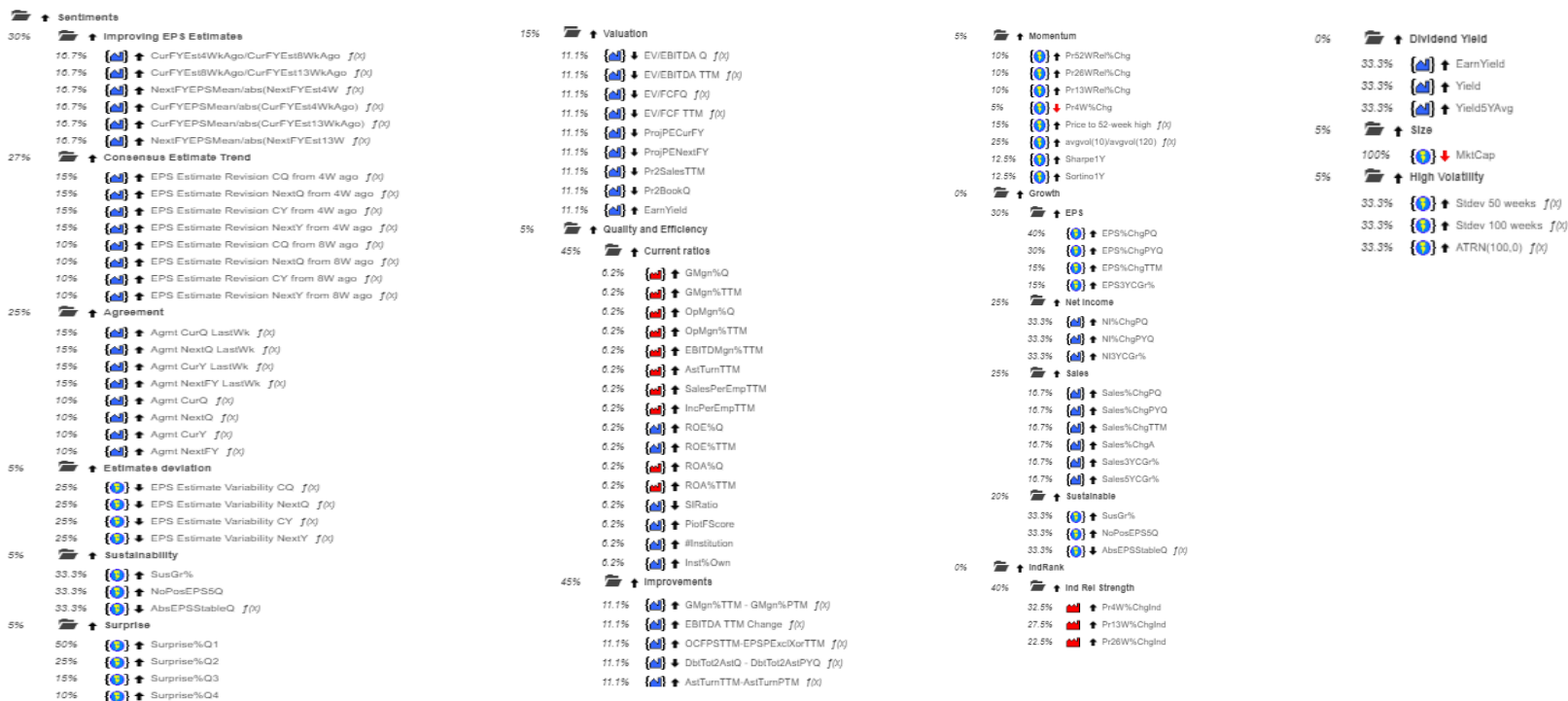
The proposed strategy called Smart Beta includes the first two components (and stochastic component as well).

# How Smart Beta portfolio is created: Ranking

The first step in creating a strategy is to build a ranking. Rank is the sum of weighted risk factors: Sentiment, Value, Quality, Momentum, Volatility, Size. Each factor is calculated based on financial information from S&P Capital IQ database. For example, the Sentiment factor includes a number of parameters such as :

- EPS Estimates (analysts' estimates of the profitability of the company and the change in this indicator over time)
- Estimates Deviation (standard deviation of these estimates)
- Surprise (the excess of actual indicators over forecast)

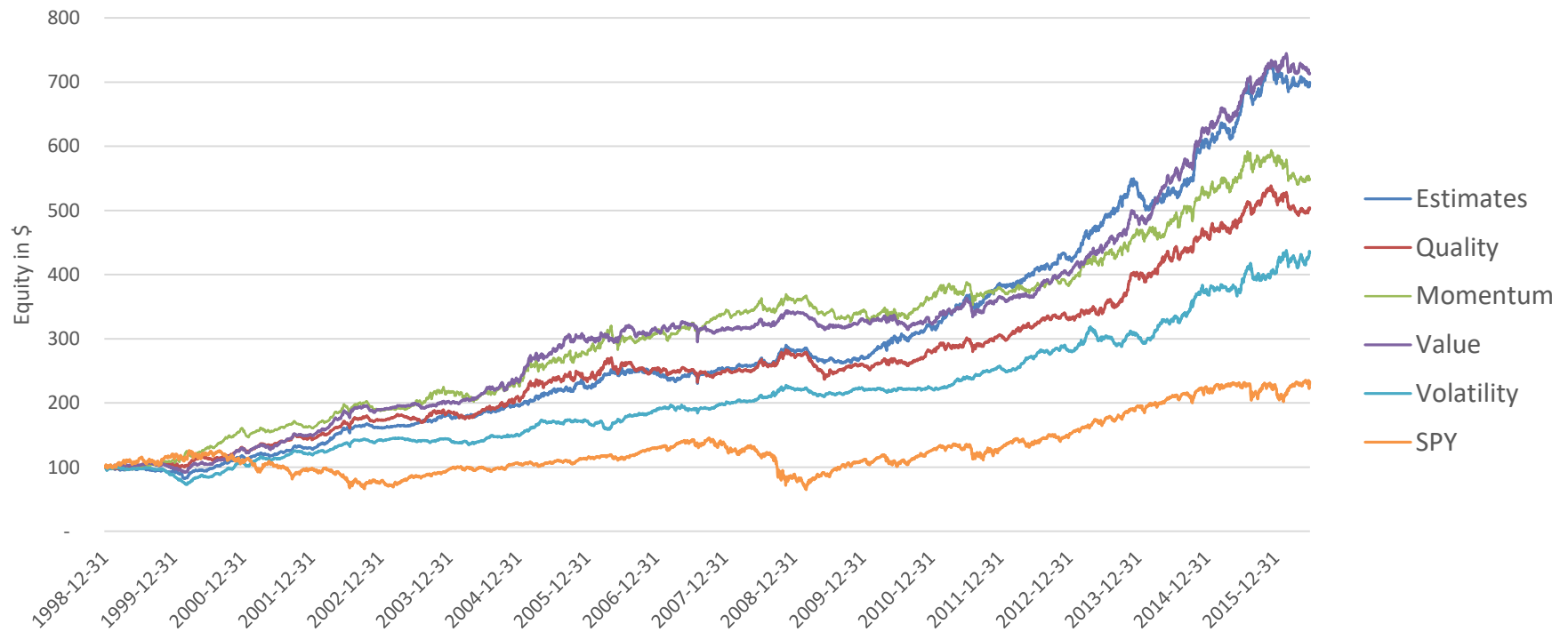
Each block has from 5 to 30 different parameters. Below is a complete set of parameters with weights.



# Factor Outperformance

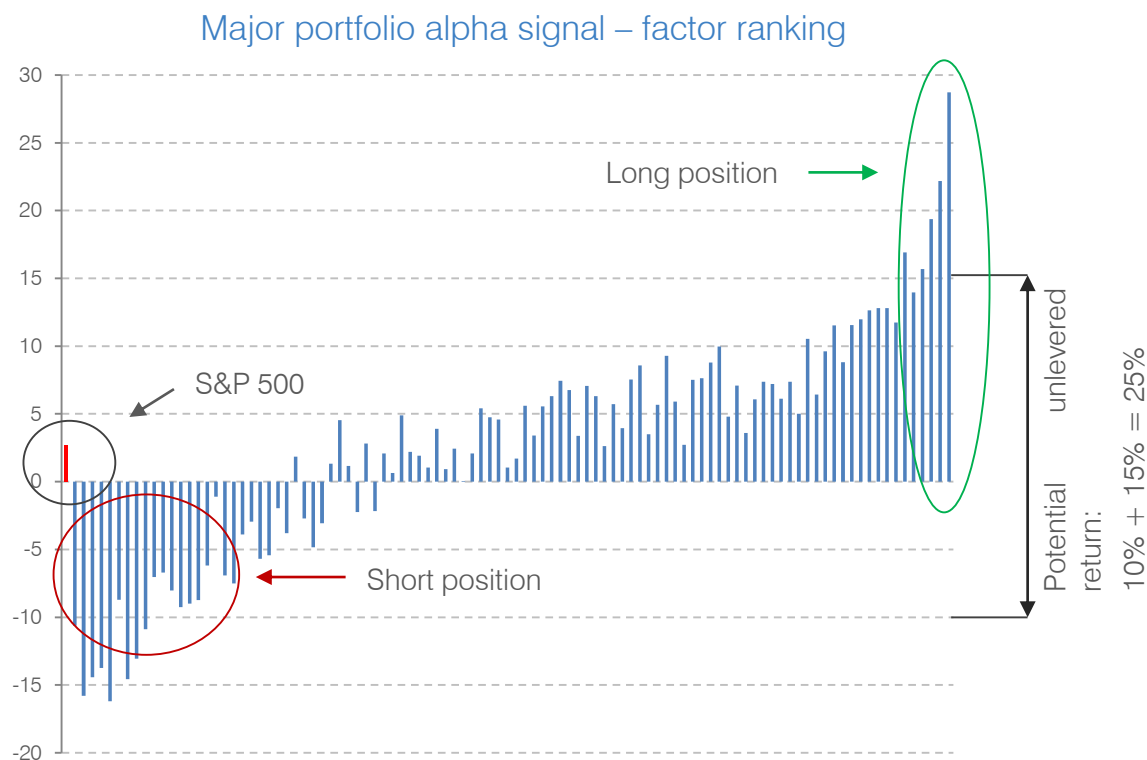
Each factor presented in the strategy has a positive risk premium and in the long run beats a stock-weighted index (S&P 500). But more importantly, each factor has zero correlation to each other, which allows them to be effectively combined in the ranking to improve the result of the final portfolio.

Factors performance on US equity universe vs S&P500 ETF - SPY  
(dividends reinvested). 1999 -1H2016 period.



# Ranking Performance

Below is a profitability graph of American stocks portfolios depending on the value of the ranking from 0 to 100. When creating a market-neutral portfolio, stocks with a high rating value are bought long and stocks with a low rating value are sold short. In the long term, 15% -25% annual yield is achieved with 10-15% portfolio volatility.



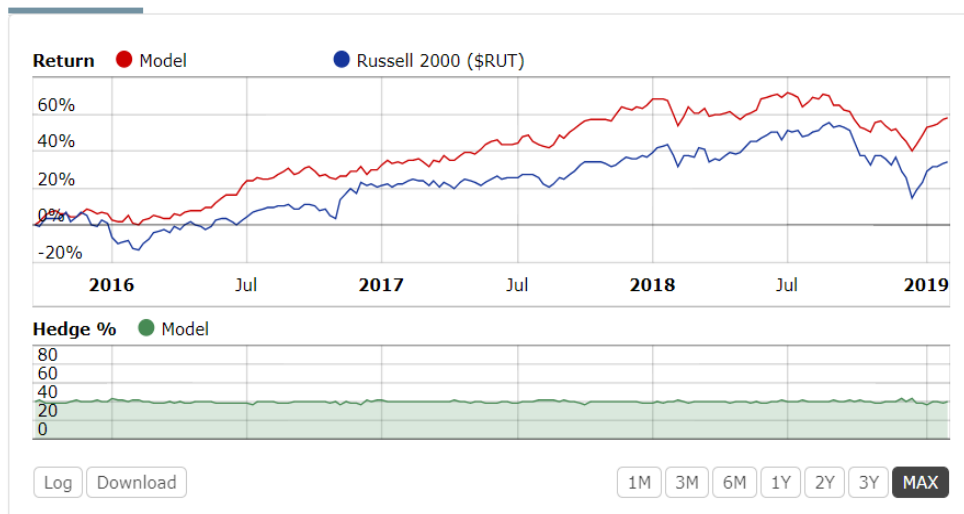
Composite alternative beta ranking launched on USA equity universe which comprises 3500 investable shares with minimum daily liquidity of \$500K, no over the counter stocks, dividends reinvested. Sample period 31 Dec 1998 – 30 June 2016

# Additional filters and rules

The second step in creating a portfolio is a set of filters and other rules for buying and selling securities in a portfolio, such as:

1. Asset universe – stock base to create a portfolio (exchanges, indices, custom sets)
2. Ranking values for buying and selling
3. Limitations on liquidity, capitalization, sectors
4. Restrictions on cross-correlating securities in a portfolio
5. Portfolio rebalancing frequency
6. Purchase algorithms (Market on open/closing, VWAP etc.)
7. A number of other rules in accordance with the specifics of a given portfolio. (hedging, weight distribution, number of positions etc.)

***The yield of the Small Cap portfolio since its launch in September 2015 is 60% (40% TLT Hedged)***

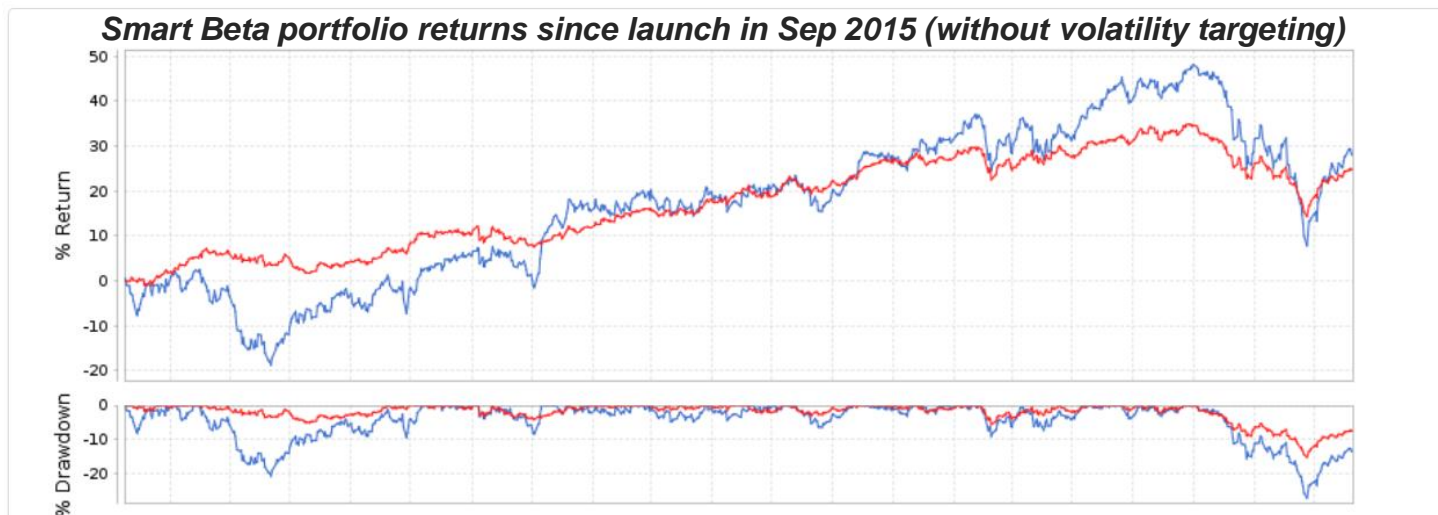


	Model	Russell 2000 (\$RUT)
Max Drawdown	-19.05%	-27.22%
Standard Deviation	10.24%	16.80%
Sharpe Ratio	1.23	0.57
Sortino Ratio	1.70	0.76
Correlation with Russell 2000 (\$RUT)	0.69	—
Beta	0.42	—
Alpha (annualized)	8.88%	—



# Smart Beta Track Record: Large Cap

A diversified set of Smart Beta strategies, including small and large cap, defensive, aggressive, short, and ETF portfolios for hedging positions is offered to Investors. As a rule, 10% of the total portfolio volatility and 15% + yield are targeted.

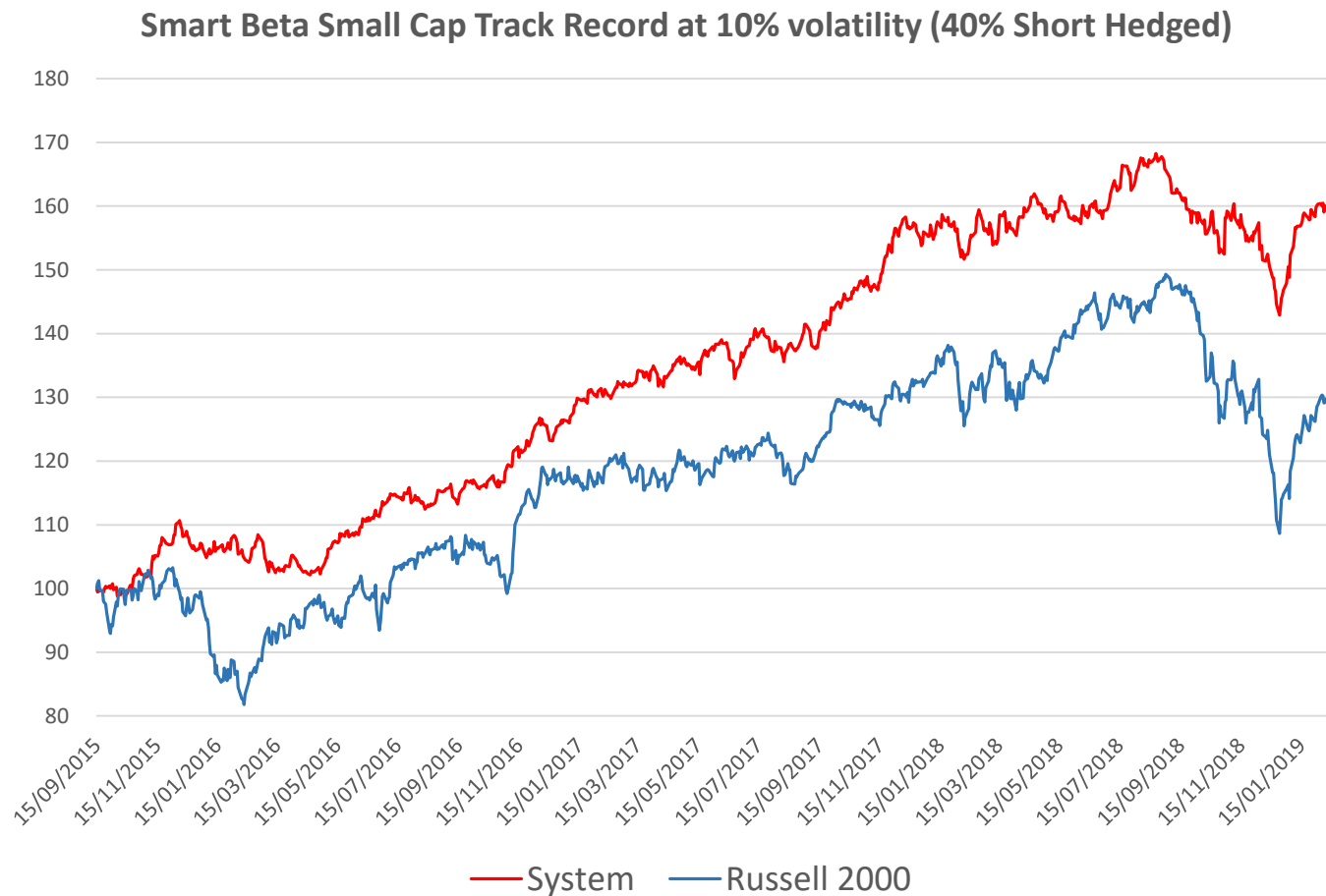


Since Inception 09/16/15

	Model	Russell 2000 (\$RUT)	DEFE	DYNA	DYNA	BALA	SHOR	TLTI	MAXS	SHRW	BALA	DEFE
Total Return (%)	24.88	28.18	32.78	44.73	51.80	36.05	28.94	8.59	72.50	-31.67	40.14	34.80
Annualized Return (%)	6.76	7.58	8.70	11.50	13.07	9.48	7.77	2.46	17.41	-11.35	11.26	9.90
Max Drawdown (%)	-15.23	-27.22	-20.94	-33.66	-32.88	-28.80	-32.66	-12.81	-34.91	-44.33	-30.40	-21.52
Daily Samples	855	855	855	855	855	855	855	855	855	794	794	794
Standard Deviation (%)	7.44	16.66	14.44	17.54	19.07	15.97	19.68	7.45	19.17	13.93	16.44	14.26
Sharpe Ratio	0.82	0.48	0.60	0.67	0.70	0.60	0.44	0.27	0.90	-0.85	0.69	0.68
Sortino Ratio	1.10	0.65	0.81	0.91	0.96	0.81	0.63	0.37	1.25	-1.28	0.92	0.92
Correlation with Benchmark	0.73	-	0.88	0.89	0.84	0.94	-0.63	-0.36	0.82	-0.97	0.91	0.88
R-Squared	0.54	-	0.77	0.80	0.70	0.88	0.40	0.13	0.67	0.94	0.83	0.77
Beta	0.33	-	0.76	0.94	0.96	0.90	-0.75	-0.16	0.94	-0.82	0.91	0.76
Alpha (%) (annualized)	3.55	-	2.65	4.29	5.93	2.49	15.81	3.34	10.15	-3.70	2.33	2.24



# Smart Beta Track Record: Small Cap



# Investment conditions

Standard Smart Beta Portfolio	
Description	Smart Beta is a strategy of investing in the global stock market based on the risk factor approach
Currency	USD
Exposure to risk factors	Traditional equity beta + smart beta + interest rate risk
Asset classes	<ul style="list-style-type: none"> <li>• Shares in the global stock market</li> <li>• US government bonds</li> </ul>
Target rate of return	15%+ (excluding asset management fees)
Target risk level	10% portfolio volatility (maximum drawdown ~15%)
Leverage	Up to 2x
Use of short sales	Yes
Number of assets in the portfolio	From 50 to 200 individual tickers including ETF
Minimum capital	From \$100k
Liquidity	Depends on the capital amount. Portfolios up to \$1M can be closed within 3 business days.
Management fee	<ul style="list-style-type: none"> <li>• Management fee: 1.5% per annum</li> <li>• Success fee: 25% of investor's profits above 5% p.a.</li> </ul>
Investment term	From 1 year (early complete liquidation of all positions within a few days and withdrawal of funds from the account is possible. The remainder of the annual commission will be withheld in this case).
Strategy benefits	<ul style="list-style-type: none"> <li>• High yield with moderate risk</li> <li>• Moderate correlation to global stock indices</li> <li>• The system is a long-term investment strategy in contrast to short-term speculative trading. Rebalancing of the portfolio occurs once a week.</li> <li>• The strategy is not offered for retail investors.</li> </ul>

# Action Plan

## **Action plan for a potential investor is the following:**

- You should contact us by phone, email or meet at the office.
- Based on the discussion results, we draw up an investment profile of a potential client and make a report with recommendations on the composition of strategies for the investment portfolio.
- This is followed by opening a client's account and making a deposit within Interactive Brokers (the largest international discount broker) <https://www.interactivebrokers.com>
- You sign asset management contract with us.
- You tie your account to our IB advisory account. The funds remain within your account under our management without possibility of unauthorized access or withdrawal of funds from our side. This ensures absolute safety of your funds, as well as full automatization of all the investment process.
- As a result, you see your account balance online from any device. Detailed reports with the results of investment and the calculation of management fees are provided by us quarterly.

# About the company

**Alphatek Advisors** is an alternative investment platform. Our team is represented by professionals and entrepreneurs with 12 years of experience in the field of business creation and development, asset management and building complex IT systems.

We offer wealthy investors (HNWI) a wide range of investment strategies and opportunities in both the global financial market and the direct investment market with a range of targeted returns from 5% to 25% per annum (depending on asset class, currency and risk level).

The proposed investment strategies, such as Smart Beta, Pure Alpha, P2P loan portfolio are based on years of research and development of our team, have a long track record and outstanding risk-return characteristics, and presented for the first time in the Russian market for retail clients.

In the area of direct investment in existing business or new projects, investors are invited to participate in the GP / LP capital structure (General / Limited Partner) as LP partners with the ability to receive priority on the distribution of profits from the project. We participate as a General Partner and provide operational management of the project, as well as invest our own capital in the amount of 5-20% of assets, which guarantees compliance with the interests of the management team and investors.

The company also provides services in the field of investment consulting, structuring investments, optimizing taxation, obtaining investment citizenship and a residence permit.

For the owners of the existing business or entrepreneurs with greenfield projects, we provide services for operational management, attracting GP-LP capital, selling a business or assets.







# Contact Us

Email & Website:

[info@alphatek-advisors.com](mailto:info@alphatek-advisors.com)

[www.alphatek-advisors.com](http://www.alphatek-advisors.com)

Address:

Moscow, Pyatnitskaya 18/3

Athens, Voukourestiou 15

Phone:

+7 (495) 150-93-00

+30 (697) 442-18-47