

# Index

- Absolute return, 22
- Accounting risk, 139
- Active management:
  - in equity markets, 143
  - in fixed-income portfolio context, 153–154
- Alexander, Gordon, 17
- Allocations, 33–34
- Alpha (alpha strategy), 201, 204
  - vs. beta, 95–96
  - decoupling of asset allocation and, 72
  - defined, 2, 15, 81, 95–97, 274
  - derivation from, 226
  - is not alpha without beta, 104–105
  - Jamil Baz on, 127–128
  - as jump event, 131–133
  - misperceptions of, 109, 110, 126
  - nature of, 127–128
  - negative vs. positive, 70
  - for portable alpha program, 118
  - relevance of, versus excess return, 100–101
  - risk profile of, 21–22
  - skill vs. noise, 128–131
- Alpha, beta, and alpha-beta separation, 11
- Alpha, Beta, Bafflebag, 95
- Alpha and beta:
  - combination impact on portable alpha, 276–278
  - confusion surrounding, 7–9
  - correlations of, 108
  - dependency of, 105
  - in a portfolio evaluation context, 98–100
  - selection of, 103
- Alpha-beta separation, 96
  - estimation of, 101–102, 103
  - management of, 212
  - risk correlation, 103
- Alpha opportunities in currency markets, 162–165
- Alpha regime, 15
- Alpha transport. *See* porting alpha:
- Amaranth Advisors LLC, 37, 228
- Ambachtsheer, Keith, 87, 95
- Ambachtsheer Letter*, 95
- A Random Walk Down Wall Street* (Malkiel), 144
- Asness study, 174
- Asset allocation:
  - active decisions in management of, 70
  - inadvertent tactical, 69
  - macro, 69
  - strategic and tactical, 66
- Asset allocation and portable alpha:
  - benchmarking at the portfolio level, 87–88
  - challenges with the classic model, 70–71
  - classic model for portfolio construction, 69–70
  - conclusion, 93–94
  - contributions, 82–83
  - dividends and a slender risk premium, 86–87
  - implications of a slender risk premium, 83–84
  - introduction to, 10–11
  - lower return world, 66–69
  - pitfalls of porting, 75–76
  - portable alpha, level one, 71–73
  - portable alpha, level two, 73–75
  - risk budgeting: an imprecise science, 76–77
  - risk measures, 88–89
  - risk premium and the building blocks of return, 81
  - role of alpha in setting expectations, 81–82
  - stocks for the long run, 84–86
  - success in, 90–93
  - sustainable spending in a lower-return world, 79–80
- Asset allocations, 280
- Asset classes co-movement, 239
- Asset classes vs. liabilities, 264

- Asset class exposure, 115
- Asset mix and alpha capture, 71
- Asset mix drift, 71
- Asset-only volatility, 261
- Baily, Jeffery, 17
- Basis, defined, 193
- Basis risk:
  - of beta management, 192–194
  - in derivatives, 193
  - outsourcing of, 200–201
- Baz, Jamil, 127–133
- Benchmarking:
  - purpose of, 109
  - risk factors for, 117
  - tracking error of, 87–88
- Benchmark portfolio, 109
- Benefits of diversification, 48–49
- Bernstein, Peter, 1, 25, 57, 87
- Beta:
  - vs. alpha, 95–96
  - causes of, 181
  - cost of, 281
  - defined, 7, 15, 95–97, 274, 277
  - derivatives-based market exposure, 20
  - derivatives exposure, 278
  - misperceptions of, 126
- Beta management:
  - basis risk of, 192–194
  - derivatives-based, 12–13
  - operational risk, 198–199
- Bhansali, Vineer, 241
- Bid-offer spread, 138
- Black-Scholes option pricing model, 59
- Bond portfolios:
  - diversification characteristics of, 146–147
  - management of, 153–154
  - risk factors exposure of, 149
- Bonds:
  - trading rich, 152
  - used in meeting margin calls, 33
- BondsPLUS strategy, 24–25
- Borrowing:
  - to achieve higher returns, 3–4
  - costs of, 105–106, 221
  - liquidity requirements arrangements for, 209–211
- Bottom-up analysis, 144
- British pound, 178
- Business cycle risk, 158
- Callable bonds, 252
- Call option:
  - defined, 58
  - equity as, 55
  - payoff as function of asset price and the strike price, 59
- Capital asset pricing model (CAPM):
  - beta used in, 276
  - defined, 98
  - and factor models, 47–48
  - introduction to, 46–48
  - Markowitz on, 231
  - William Sharpe on, 96–97
- Capital Ideas Evolving* (Bernstein), 1, 25, 28, 57
- Capital market line, 45–47
- Case studies:
  - liability-driven investing, 263–267
  - portable alpha bond strategy, 113–115
  - portable alpha equity strategy, 112–113
  - segregated portable alpha, 221–224
- Cash equivalent securities, 24
- Cash/futures basis, 161
- Cash reserves, impact of uncommitted, 70–71
- Charting, 144
- Chicago Mercantile Exchange, 25
- Clearinghouse, 187
- Clientele effect, 150
- Collateral calls liquidity, 205–211
- Collateral management, 199, 201
- Commission, 138
- Commodities, 196
- Commodity contract delisting, 197–198
- Commodity risk, 138
- Commodity trading advisors (CTAs), 171
- “Consistent Alpha Generation through Structure”, 24
- Consolidated risk management, monitoring, and reporting, 211–214
- Constant proportionate portfolio insurance (CPPI), 267
- Convertible arbitrage hedge funds strategies, 170–171
- Coordination, outsourcing of, 201
- Corporate bankruptcy, 268
- Corporate capital structure vs. tax incentives, 268
- Correlated factors, 236

- Correlation:
  - between index returns, 118–125
  - and liquidity, 229–230
  - of risks, 48, 77–79
- Correlation assumptions, 222
- Costs:
  - of borrowing, 105–106, 221
  - with derivatives-based beta management, 183
  - derivatives-based beta management, 281
  - explicit, 215
  - of financing, 107, 197
  - of hedging, 155, 158
  - of immunization approach, 255
  - of implementation, 107, 112, 219–220
  - implicit, 215
  - of integrated strategies, 215, 218
  - legal, 193
  - of leverage, 202
  - of liquidity, 106, 112
  - opportunity, 153
  - of portable alpha implementation, 219–220, 282
  - of rolling derivatives, 76–77
  - of segregated strategies, 219
  - summary of, 218
  - of transactions, 105–106, 137–138, 183
- Counterparty risk, 187
- Country-specific business cycles, 160–161
- Country-specific interest rate risk, 158
- Credit default swaps (CDS)/cash basis, 161–162
- Credit quality management, 154
- Credit risk, 138, 198, 201
- Credit risk premium, 170
- Currency risk, 140
  
- Damsma, Marvin, 28
- Debt as put option, 55
- Defined-benefit pension plan deficiencies, 250–251
- Delisting of commodity contract, 197–198
- Delivery, 186
- Derivatives:
  - cash rate, 15
  - liability-driven investing (LDI) and, 284
  - for replication of market indexes, 229
- Derivatives-based beta management:
  - beta management: basis risk, 192–194
  - beta management: operational risk, 198–199
  - conclusions, 201–202
  - costs of, 281
  - futures, 185–189
  - proactive beta management, 194–198
  - recommendations, 199–201
  - securities lending, 183–185
  - swaps, 189–192
- Derivatives-based market exposure (beta), 20, 205
- Derivatives contracts, 2, 4
- Derivatives market, 274–275
- DeSouza and Gokcan study, 174
- Disciplined strategies, 145
- Discount rate, 252–253
- Distressed securities investing hedge funds strategies, 174–175
- Diversification:
  - benefits of, 8, 142
  - characteristics of bond portfolios, 147
  - in country-specific business cycles, 160–161
  - international, 154–155
  - as a means to increase return, 3
- Dividend risk, 195
- Duarte et al study, 176
- Duration mismatch, 262
- Duration overlay, 260–261
- Duration risk factors, 149, 154
- Dynamic disequilibrium, 178
  
- Economic and Monetary Union (EMU), 159
- “*EDHEC Comments on the Amaranth Case: Early Lessons from the Debacle*”, 228
- Efficient frontiers, 10, 38, 42, 44–46, 48, 245–246, 257
- Emerging markets:
  - hedge funds strategies, 177
  - returns on, 66
- Endowments, capital campaigns for, 82
- Equities:
  - beta management, 194–195
  - as call options, 55
- Equity alpha generation strategies, 144–146
- Equity long/short (equity hedge) hedge funds strategies, 172–173
- Equity market-neutral hedge funds strategies, 173–174
- Equity market risk, 138, 279

- Equity markets, 141–146
  - active management in, 143
  - equity alpha generation strategies, 144–146
- Equity non-hedge hedge funds strategies, 176–177
- Equity premium, historical, 141
- Equity risk, 170
- Equity volatility, 262
- Event-driven hedge funds strategies, 177
- Excess return, 46, 100–101
- Exercising the option, 58
- Expected return vs. standard deviation, 43
- Expiration date, 58
  
- Fama, Eugene F., 46–48, 141–142
- Fat-tail events, 78, 234, 239
- Financial Analysts Journal*, 24, 84, 85, 110
- Financial disclosure rules, 251
- Financial engineering, 269–272
- Financing rate risk, 195–196
- Financing rates differential, 107
- Financing risk, 139
- 5-sigma Events, 78
- Fixed-income arbitrage hedge funds strategies, 176
- Fixed-income instruments, 53, 146–153
- Fixed income markets:
  - active management in a fixed-income portfolio context, 153–154
  - fixed-income instruments, risk factors, and sources of return, 146–153
- Forced liquidation, 187
- Foreign bond portfolios volatility, 159
- Forward bias basket, 163–164
- French three-factor model, 46–48, 141–142
- Front-end forward swap curve, 160–161
- Fundamental analysis, 144
- Fung and Hsieh study, 171, 173
- Future commission merchants (FCMs), 187–188
- Futures, 185–189
  
- Global diversification and currency:
  - alpha opportunities in currency markets, 162–165
  - cash/futures basis, 161
  - CDS/cash basis, 161–162
  - front-end forward swap curve, 160–161
  - international diversification benefits, 157–160
  - need for, 154–157
- Global macro hedge funds strategies, 178
- Global sources of portable alpha, 11–12
- Goals, performance to peers comparison, 69
- Government-guaranteed bonds,
  - inflation-indexed, 83–84
- Graham, Ben, 90
- Great moderation, 158, 160
- Grinold, Richard, 230
- Gross, Bill, 24
  
- Hedge Fund Research, Inc. (HFRI) hedge fund composite index, 111–112
- Hedge funds:
  - correlation with equities, 36
  - defined, 169
  - fee structure of, 166
  - investors in, 165–166
  - performance of, 32–33
- Hedge funds strategies, 165–166
  - convertible arbitrage, 170–171
  - distressed securities investing, 174–175
  - emerging markets, 177
  - equity long/short (equity hedge), 172–173
  - equity market-neutral, 173–174
  - equity non-hedge, 176–177
  - event-driven, 177
  - fixed-income arbitrage, 176
  - global macro, 178
  - managed futures (trend-following), 171–172
  - multistrategy, 179
  - returns of, 136, 137
  - risk factors, 168, 279
  - risk measures, 167
- Historical equity premium, 141
- Historical returns as a proxy for future returns, 49
- History and time horizons, 240–241
- Hutchinson and Gallagher study, 170
  
- Ibbotson data, 83
- Idiosyncratic risk, 143
- Immunization strategies, 255
- Implementation costs, 107, 112, 219–220, 282
- Incentives mismatch, 56–57
- Inflation risk, 140
- Information asymmetries, 143

- Initial margin, 187
- Integrated approaches, 214–215
- Interest rate exposure, 258
- Interest rate risk, 138–139
- Interest rate sensitivities, 244
- Interest rate swaps (IRs), 190–192
- International diversification, 154–155
- International diversification benefits, 157–160
- International swap dealers association (ISDA) master agreements, 188, 190
- Intrinsic value of option, 60
- Investment Company Holding Act, 167
- Investment returns decomposition, 276
- Investments, 28
- Investments* (Sharpe, Alexander, and Baily), 17
- Investments introduction, 10, 39–63
  - benefits of diversification, 48–49
  - capital market line, 45–47
  - CAPM and factor models, 47–48
  - conclusion, 51–57
  - merger arbitrage example, 61–63
  - optimal investment portfolio, 40–41
  - option pricing, 58–59
  - portfolio selection and the efficient frontier, 42–45
  - risk premiums, 49–51
  - theory versus reality, 51–52
  - utility functions and risk aversion, 41–42
- Investor response to leverage, 4–5
- Investors focused on LDI, 284–285
  
- Japan, global equity investments in, 144
- Japanese convertible bond market, 171
- Japanese equity market, 36
- Jensen, Michael, 96
- Jensen's Measure, 98
- Jones, Alfred Winslow, 172
- Journal of Finance*, 41
  
- Kahn, Ronald, 230
  
- Lehman Brothers Aggregate Bond Index (LBAG), 28
- Leverage:
  - benefits and disadvantages of, 4–7
  - consequences of, 233–235
  - cost of borrowing and, 69
  - effects of, 225–226
  - investor response to, 4–5
  - risks created by, 227
  - risks of, 4
- Leverage strategies, 264–265
- Liabilities, examination of, 252–255
- Liabilities vs. asset classes, 264
- Liability discount rates, 82
- Liability-driven investing (LDI), 14
  - building better betas through financial engineering, 269–272
  - case study, 263–267
  - conclusions, 269
  - derivatives and, 284
  - described, 244–249
  - examining the liabilities, 252–255
  - incorporating factors outside the pension plan, 267–268
  - less room for complacency, 249–252
  - liability-driven investing, 255–263
  - origins of, 243
  - pension plans in, 284–285
- LIBOR (London Interbank Offered Rate). *See* London Interbank Offered Rate (LIBOR):
- Limit moves, 196–197
- Liquidity, 21
  - for collateral calls, 205–211
  - and correlation, 229–230
  - for margin calls, 205–211
  - sellers of, 227–228
- Liquidity costs, 106–107, 112
- Liquidity risk, 137–138, 188
- London Interbank Offered Rate (LIBOR), 3, 15, 52, 118
- Long/short strategies, 145–146
- Long Term Capital Management (LTCM), 77
- Long volatility, 170
- Look-back straddle, 171
  
- Maintenance margin, 187
- Malkiel, Burton, 144
- Managed futures (trend-following) hedge funds strategies, 171–172
- Management of portable alpha structure, 75
- Manager selection, 77
- Margin calls, 76, 106, 187
  - bonds used in meeting, 33
  - liquidity for, 205–211
- Market indices, 53–54, 229
- Market-neutral equity strategy, 18
- Market risk, 276

- Market segmentation effect, 150
- Market timing, 279
- Market volatility, 77
- Markowitz, Harry, 14, 41, 230, 233
- Markowitz paradigm, 230, 233
- Mean-variance model, 42
- Mean-variance optimal portfolio, 233, 235
- Merger arbitrage:
  - example, 61–63
  - investment strategy, 61, 175–176
  - mechanics of strategy, 55
- Mitchell and Pulvino study, 175
- Model selection, 237–240
- Modern portfolio theory, 3, 7
  - relevance to portable alpha, 275–276
  - risk as element in, 32
- Modified value at risk (VaR) calculations, 167
- Money market-based rate as proxy for risk-free rate, 3–4
- Mortality adjustments, 254–255
- Multifactor regression analysis, 137
- Multiple betas, 8
- Multistrategy hedge funds strategies, 179
  
- Non-normal distributions, 167
  
- “*On the Impossibility of Informationally Efficient Markets*” (Grossman and Stiglitz), 127
- Operational risk of beta management, 198–199
- Optimal investment portfolio, 40–41
- Optimal portfolio, 3, 41, 276
- Optimization in asset-only space, 245
- Optionlike characteristics of securities, 54–55
- Option pricing, 58–59
- Option pricing model, 59
- Options:
  - intrinsic value of, 60
  - time value of, 60
  - types of, 58
  - valuation of, 58
- Orthogonal (uncorrelated ) factors, 236
- Outsourcing:
  - of basis risk, 200–201
  - of collateral management, 201
  - of coordination, 201
  - of credit risk, 201
  - of risk management, 200–201
  
- Overlay managers, 206
- Overlays, 4
  
- Pacific Investment Management Company (PIMCO), 24
- Passive indexing, 5, 143
- Patton study, 174
- Peer group comparisons, 88–89
- Pension asset allocation, 259
- Pension Benefit Guaranty Corporation (PBGC), 249
- Pension plans, 246–248
  - exposure of, 249
  - liabilities of, 252
  - liability growth, 29
  - in United Kingdom, 252
- Pension return assumption, 80
- Performance benchmarking, 87–88
- Policy portfolio, 280–281
- Portable alpha:
  - ability to borrow through the derivatives market sets the stage for, 274–275
  - alpha and beta combination, 276–278
  - and asset allocation. *See* asset allocation and portable alpha
  - defined, 15, 274
  - definitions and trends, 9–10
  - derivatives-based beta management costs, 281
  - evaluating approaches to, 220–221
  - evolution of, 24–25
  - examples of, 17–20
  - global sources of, 11–12, 135–182
  - increased use of, 28–29
  - for investors focused on LDI, 284–285
  - key risk factors of, 279–280
  - management of structure of, 75–76
  - misperceptions of, 22–24
  - modern portfolio theory relevance, 275–276
  - policy portfolio, 280–281
  - portable alpha implementation can be complex and costs, 282
  - risk management component, 282–284
  - short-term bond-based portable alpha equity strategy, 19
  - stock-selection based strategy, 18
  - theory and practice, 273–285
  - tools for better investment results from, 285
- Portable alpha bond strategy, 113–115
- Portable alpha concept, 269–272

- Portable alpha equity strategy, 112–113
- Portable alpha implementation, 13, 203–224
  - alpha strategy, 204
  - comparing and contrasting different approaches, 218–220
  - conclusions, 221
  - consolidated risk management, monitoring, and reporting, 211–214
  - the derivatives-based market exposure (beta), 205
  - evaluating portable alpha implementation/ approaches, 220–221
  - implementation costs, 219–220
  - integrated approaches, 214–215
  - liquidity for margin or collateral calls, 205–211
  - segregated approaches, 215–216
  - segregated portable alpha case study, 221–224
  - semibundled approaches, 216–218
- Portable alpha investment, 273–274
- Portable alpha program, 118
- Portable alpha strategies, 30, 31
  - general rules for, 1
  - risk factors exposure of, 180
  - semibundled, 282
- Portfolio risk reduction, 68
- “Portfolio Selection”, 41
- Portfolio selection, 42–45
- Porting alpha, 9
  - borrowing costs of, 105–106
  - diversification benefits resulting from, 17
  - meaning of, 16
  - value and components to, 16–20
- Prepayment risk, 151
- Proactive beta management:
  - commodities, 196
  - delisting of commodity contract, 197–198
  - derivatives-based, 194–198
  - dividend risk, 195
  - equities, 194–195
  - financing rate risk, 195–196
  - limit moves, 196–197
  - rebalancing, 196
  - rebalancing risk, 196
- Probability distribution of future underlying asset price, 59
- Pure alpha, 226–227
- Put option:
  - debt as, 55
  - defined, 58
- Qian, Edward, 53
- Quadratic utility function, 42
- Quality risk factors, 149
- Quantitative analysis, 145
- Random walk hypothesis, 144
- Real estate investment trusts (REITs) returns, 66
- Rebalancing, 196
- Rebalancing program, 70–71
- Rebalancing risk, 196
- Regulatory risk, 139
- Repo (financing) rates, 193–194
- Repo (financing) risk, 195–196
- “Report and Recommendations Pursuant to Section 401c of the Sarbanes-Oxley Act of 2002” (SEC), 250
- Return and risk, 30–31
- Risk-adjusted excess return, 2, 15, 22, 54, 96, 99, 160, 275
- Risk and diversification measurement statistics, 56
- Risk appetite, 282
- Risk arbitrage. *See* merger arbitrage:
- Risk factor exposures, 168–170, 278
- Risk factors:
  - accounting risk, 139
  - in actively managed fixed-income strategies, 279
  - commodity risk, 138
  - credit risk, 138
  - currency risk, 140
  - in derivative markets, 152
  - duration, 149
  - equity market risk, 138
  - exposure to, 136–137
  - financing risk, 139
  - fixed-income hedge fund strategies, 279
  - inflation risk, 140
  - interest rate risk, 138–139
  - for Japanese convertible bond market, 171
  - key to portable alpha, 279–280
  - liquidity risk, 137–138
  - quality, 149
  - regulatory risk, 139
  - sector, 149
  - systemic, 136
  - tactical, 136
  - tax treatment risk, 139
  - vega/volatility risk, 139
  - yield curve, 149

- Risk factors exposure:
  - of bond portfolios, 149
  - of portable alpha strategies, 180
- Risk-free borrowing, 3
- Risk-free portfolio, 60
- Risk-free reference point, 51–52
- Risk management:
  - component of portable alpha, 282–284
  - options, 200
  - outsourcing of, 200–201
  - solutions to, 167–168
- Risk measurement and management:
  - conclusions, 241
  - the consequences of leverage, 233–235
  - history and time horizons, 240–241
  - identifying risks: alpha, beta, and leverage, 226–229
  - introduction to, 225
  - liquidity and correlation, 229–230
  - stress testing: measuring risk in portable alpha, 235–240
- Risk measures limitation, 167
- Risk metrics, 5, 46
- Risk-neutral portfolio concept, 59
- “Risk Parity Portfolios: Efficient Portfolios Through True Diversification”, 52–53
- Risk premium compression, 283
- Risk premiums, 49–51, 85–86
  - defined, 49
  - types of, 49
  - value of, 83
- Risk profile of alpha strategy, 22
- Risks:
  - categories of, 90
  - correlation of, 77–79
  - as element in modern portfolio theory, 32
  - facets of, 66
  - identification of, 226–229
  - identification of alpha, beta, and leverage, 226–229
  - measurement and management of, 13–14 and return, 30–31
- Risk spreading, 151
- Ryan Labs liability index, 28
- S&P 500 Index futures, 25–26
- Sarbanes-Oxley, 250
- Scholes, Myron, 25
- Sector risk factors, 149
- Securities, optionlike characteristics of, 54–55
- Securities and Exchange Commission (SEC), 250
- Securities lending as a form of low-risk portable alpha, 183–185
- Security return distributions, 53–54
- Security selection, 279
- Segregated approaches, 215–216
- Segregated portable alpha case study:
  - correlation assumptions, 222
  - volatility assumptions, 223
  - worst-case scenario, 223–224
- Sellers of liquidity, 227–228
- Semibundled approaches, 216–218
- Semibundled portable alpha strategies, 282
- Separable strategies, 66
- Sharpe, William F, “Bill”, 17, 96
  - on capital asset pricing model (CAPM), 97
  - on Markowitz, 41
- Sharpe ratio, 34, 46, 118
- Short term focus, 65–66
- Siegel, Laurence B., 110
- Soros, George, 178
- Standard deviation:
  - defined, 42
  - vs. expected return, 43
- Stock market:
  - historic returns of, 66–68
  - as a proxy for the market portfolio, 7
- StocksPLUS strategy, 25–26
- Stress testing, 283
  - measuring risk in portable alpha, 235–240
  - test algorithms, 240, 241
- Strike price, defined, 58
- Success, defined, 90
- Surplus volatilities relative to liabilities, 244
- Sustainable spending, 79–80
- Swaps:
  - derivatives-based beta management, 189–192
  - interest rate swaps, 190–192
  - total swap return (TRS), 189–190
- Systemic risk factors, 136

- Tactical asset allocation (TAA), 69
- Tactical risk factors, 136
- Tails. *See also* fat-tail events:  
 extreme value theory modeling, 167  
 fat-tail events, 78, 234, 239  
 of liability stream, 255  
 of return distributions, 14
- Tax incentives vs. corporate capital structure, 268
- Tax treatment risk, 139
- Taylor rule, 157
- Technical analysis, 144
- “*The Myth of the Absolute-Return Investor*” (Waring and Siegel), 110
- Theory and practice, 273–285
- Theory versus reality:  
 potential for a mismatch of incentives, 56–57  
 risk-free reference point, 51–52  
 security return distributions, 53–54
- Till, Hillary, 228
- Time value of money, 62–63
- Time value of the option, 60
- Tobin, James, 45
- Tools for better investment results, 285
- Top-down analysis, 144
- TOPIX index, 36
- Total return performance, 146
- Total return swaps (TRSs), 189–190, 192, 195, 210–211, 229
- Tracking errors:  
 of assets, relative to liabilities, 244  
 of benchmarking, 87–88
- Trading strategy, merger arbitrage as, 61
- Transactions costs, 105–106, 137–138, 183
- Transportable alpha. *See* porting alpha:
- Treasury inflation-protected securities (TIPS):  
 vs. 60/40 portfolio, 91–93  
 as a proxy for risk-free returns, 110  
 returns on, 66  
 risks of, 90–92  
 volatility of, 155–156
- Trustees’ responsibilities, 184
- United Kingdom pension plans, 252
- U.S. money markets, 150
- U.S. Treasury bills:  
 role of, 39  
 volatility of, 26
- Utility functions and risk aversion, 41–42
- Utility indifference curve, 44
- Value at risk (VaR):  
 assumptions under, 235  
 limitation of, as risk measure, 167
- Vega. *See* volatility risk:
- Volatility:  
 assumptions about, 223  
 of foreign bond portfolios, 159  
 limitation of, as risk measure, 167  
 sources of, 262  
 surplus, relative to liability, 244  
 of Treasury inflation-protected securities (TIPS), 155–156
- Volatility risk, 139, 170, 188
- Waring, M. Barton, 110
- “What Risk Premium is ‘Normal?’”, 85
- Wise, Mark, 241
- Withholding taxes and alpha capture, 71
- Worst-reasonable outcomes, 84
- Yield curve risk factors, 149

