Dutch Pension quickly identifies and solves investment issue thanks to Style Analytics reports

A major Dutch Pension plan, using the Style Analytics’ Skyline™ reports, noticed that its Enhanced Index managers deviated from the benchmark more than expected.

Sharing the Style Analytics reports with the responsible managers, the Pension Plan was able to work through the issue and develop a strategy with the managers to bring the exposures back into desired territory.

The issue came about with the Pension Plan’s Enhanced Index managers who were responsible for tracking an index while deviating just enough, within specified limits, to generate enough returns to make up for the costs. The fund deviated too much from the index’s expected normal risk exposures because of two simultaneous and significant market events: a major rebalancing of the managers’ index and a significant momentum crash in September 2019. Both of these caused the managers’ positions to provide materially different exposures than the Pension Plan expected. The Pension Plan imposed compliance limits on differences between the managers’ holdings and the index’s holdings to ensure that the overall exposure was within its tolerance to various investment factors. Prior to the index rebalancing, the portfolio had factor tilts towards Momentum and Size which should have been brought back in line after the index rebalance. But the momentum crash early in September impacted the portfolios, which the index managers responded to by closing down their active positions well before the index September rebalance, leading to losses, which were beyond what one could expect from an enhanced index strategy.

Armed with Style Analytics’ factor-based Skyline™, the Pension Plan was able to identify that the managers’ portfolios were exposed to higher factor risks than what was expected from an enhanced index strategy. Key to their successful discussion with the managers was the detailed independent third-party assessment that the Pension Plan was able to provide, definitively showing the timeline and exactly how the managers were exposing the portfolios to unwanted factor risks.

The managers and the Pension Plan agreed on a hedging strategy to bring the manager’s portfolio factor risks back into a normal range during index rebalancing, which the managers then successfully executed.
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The two managers’ Style Skylines, before and after their discussions with the Pension Plan, are shown below. Note the reduction of exposure to many of the styles, especially Momentum:

**Manager A**

**Before portfolio changes**

![Manager A Before Portfolio Changes](image)

**After portfolio changes**

![Manager A After Portfolio Changes](image)

**Manager B**

**Before portfolio changes**

![Manager B Before Portfolio Changes](image)

**After portfolio changes**

![Manager B After Portfolio Changes](image)

The Pension Plan continues to use Style Analytics’ factor reports and tools to monitor their investments with all their equity funds.

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