OPTIMAL
ASSET MANAGEMENT

2018 Q1: Factor Performance in Review

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The first quarter of the year brought stock market volatility that we haven't seen in years. Our Dynamic Alpha strategy has responded to this environment by adjusting its factor exposures based on the elevated volatility in the market for the first time since May of 2016 (read more about this here).

In a continuation of the trend of 2017, the leadership of the Momentum factor has been maintained. The cap-weighted versions of Value and Low Vol underperformed. However, OAM's risk mitigated weighting paid off handsomely and the risk-mitigated portfolios managed to perform significantly better than their cap-weighted counterparts. In Table 1 below, we show the Q1 performance of our factors[1], expressed using our standard OAM risk-mitigated weighting methods, as well as cap-weighted versions of each factor vs the S&P 500® benchmark[2].

Table 1: Q1 2018 Factor Performance

		Quality	Low Vol	Momentum	Value	SP500
Cap-weighted	Gross Returns	-0.23%	-2.66%	1.37%	-3.36%	-0.76%
	Excess Returns	*0.53%*	*-1.90%*	*2.13%*	*-2.61%*	---
	Vol	20.6%	18.5%	22.3%	19.6%	19.9%
	Excess Vol	*0.76%*	*-1.35%*	*2.41%*	*-0.26%*	---
OAM-Weighted	Gross Returns	0.48%	0.03%	1.57%	-1.54%	-0.76%
	Excess Returns	*1.24%*	*0.79%*	*2.32%*	*-0.78%*	---
	Vol	18.1%	16.0%	18.6%	17.7%	19.9%
	Excess Vol	*-1.77%*	*-3.85%*	*-1.31%*	*-2.16%*	---

[1] Our "OAM-weighted" factors are 'live' within existing portfolios as part of our Premia Harvest factor-blend strategy.

[2] Further details on our portfolio construction process can be found in our publication: **Factor Focus Volume I**.

The risk-reduction benefit that results due to our weighting processes was clearly evidenced last quarter with strong reduction in volatility across the board in the OAM factor portfolios. The diversification benefit resulting from our stock-weighting process helps reduce volatility at times when one is likely to most need it (i.e. during periods in which volatility has spiked).

This is starkly illustrated by Table 2. Our risk-mitigated implementation of factor portfolios dramatically reduced volatility in Q1 2018, far beyond the risk reduction achieved in 2017. Meanwhile, volatility in the market has nearly tripled from 6.7% in 2017 to 19.9% so far in 2018.

Table 2: Risk Reduction of OAM-weighted vs cap-weighted factor portfolios

	Quality	Low Vol	Momentum	Value
Q1 2018 Volatility (OAM - CW)	-2.53%	-2.50%	-3.72%	-1.90%
2017 Volatility (OAM - CW)	0.47%	0.33%	-0.36%	-1.41%

2017 S&P Vol = 6.7%; Q1 '18 Vol = 19.9%

The benefits of risk reduction become undeniably clear now. Over the entire year 2017, the factor-specific risk for cap-weight or OAM portfolios was mixed, but on average resulted in moderately lower volatility. In contrast, so far this year, we see uniform and substantial vol reduction in OAM portfolios as volatility has spiked. The risk-mitigation built into our weightings of stocks within a factor portfolio truly show their full advantage in markets such as these, when volatility is elevated and systematic diversification benefits are most effective.

MODEL PERFORMANCE: DISCLAIMER

While the individual OAM factor portfolios are 'live' within a larger strategy, factor performance statistics shown are based on model back-test. No representation is being made that OAM will or is likely to achieve comparable performance results in the future to those shown above. In fact, there are frequently sharp differences between a hypothetical performance record and the actual performance record subsequently achieved by live trading.

The investment process described in this document is subject to change at OAM's discretion, based on OAM's work with clients to create a suitable portfolio.

Hypothetical, back-tested results were achieved by means of the retroactive application of a simulation model and, as such, the corresponding results have inherent limitations, including:

1. the results do not reflect the results of actual trading using client assets,

2. the results do not reflect the investment of dividends in the same way that an investor might, nor the deduction of transaction, custodial or advisory fees, the deduction of which would have the effect of decreasing model performance results, and

3. back-tested performance may not reflect the impact that any material market or economic factors might have had on the adviser's management of actual client assets.