Investment strategy for long-term owners

Setting the scene

Elroy Dimson
LBS, and Cambridge Judge Business School
Strategy Council of the Norwegian GPFG

Joint work with Paul Marsh and Mike Staunton
Investment strategy

Fund characteristics

Financial theory
Empirical evidence
Market conditions

Investment strategy
Fund characteristics

- Investment horizon
- Liabilities
- Scale
- Resources
- Skills
- Cost base
Financial theory

- Risk
- Illiquidity
- Contra-cyclicality
- Insurance
Empirical evidence

Universal risk premia

- Equity risk premium
- Term premium

You need to

- judge risk tolerance
- avoid fire-sales
- manage headline risk

Zero-sum risk premia

- Value; size
- Momentum; carry
- Portfolio insurance; etc

You need to

- be super-smart (which is hard) or
- match fund characteristics (less hard)
Today, risk premia are needed to ensure a positive expected real return.
Setting strategy

- If you aim to harvest premia
  - do it with humility
  - do it on many fronts
  - do it with multiple indicators
  - do it systematically (though maybe with some discretion)
  - avoid pro-cyclical strategies
  - think hard about resources, governance, accountability
  - evaluate success over a long horizon
Today’s panel

- Andrew Ang
  - Columbia Business School

- Kenneth French
  - Tuck School of Business

- Adrian Orr
  - New Zealand Superannuation Fund

- Leslie Teo
  - GIC, Singapore

- Elroy Dimson
  - LBS and Cambridge Judge Business School