



**ORS CASE STUDY**  
**LONG/SHORT EQUITY**  
**MARKET NEUTRAL**

powered by **SHERPA FUNDS**  
TECHNOLOGY



## MAXIMIZING SELECTION ALPHA BY DETERMINING THE BEST HEDGES FOR LONG-SHORT

In this 2019 case study, a **Japanese long/short equity** client improved their portfolio results using the Sherpa Funds Technology ORS process.

The portfolio manager uses Sherpa's approach to maximize the value of his stock-picking Alpha by utilizing Sherpa's ORS engine to select hedges that mitigate market and factor risks while preserving and amplifying the value of his selection skill.

To help this client improve their portfolio construction decision making, Sherpa Funds Technology works with them to:

- Understand the risks they want to take versus the risks they don't want
- Define a consistent process for scoring their investment ideas
- Construct optimal portfolios to implement their ideas in a risk-controlled manner
- Develop a workflow around rebalancing and analytics to realize process improvement

## SHERPA GUIDED THE PM TO UNDERSTAND HIS PORTFOLIO OBJECTIVES AND PROCESS

Through working with Sherpa, the core portfolio construction goals were defined as

### *More of the Risk You Want*

- Increase portfolio absolute returns
- Best expression of the Alpha in his long-side investment ideas

### *Less of the Risk You Don't*

- Neutralise the portfolio's Beta, Market and Factor risks

To achieve this on an ongoing basis the PM simply provides Sherpa with his list of stock selections once the problem was well-defined.

## ORS CREATED RISK-CONTROLLED LONG-SHORT PORTFOLIO TO COMPLY WITH OBJECTIVES

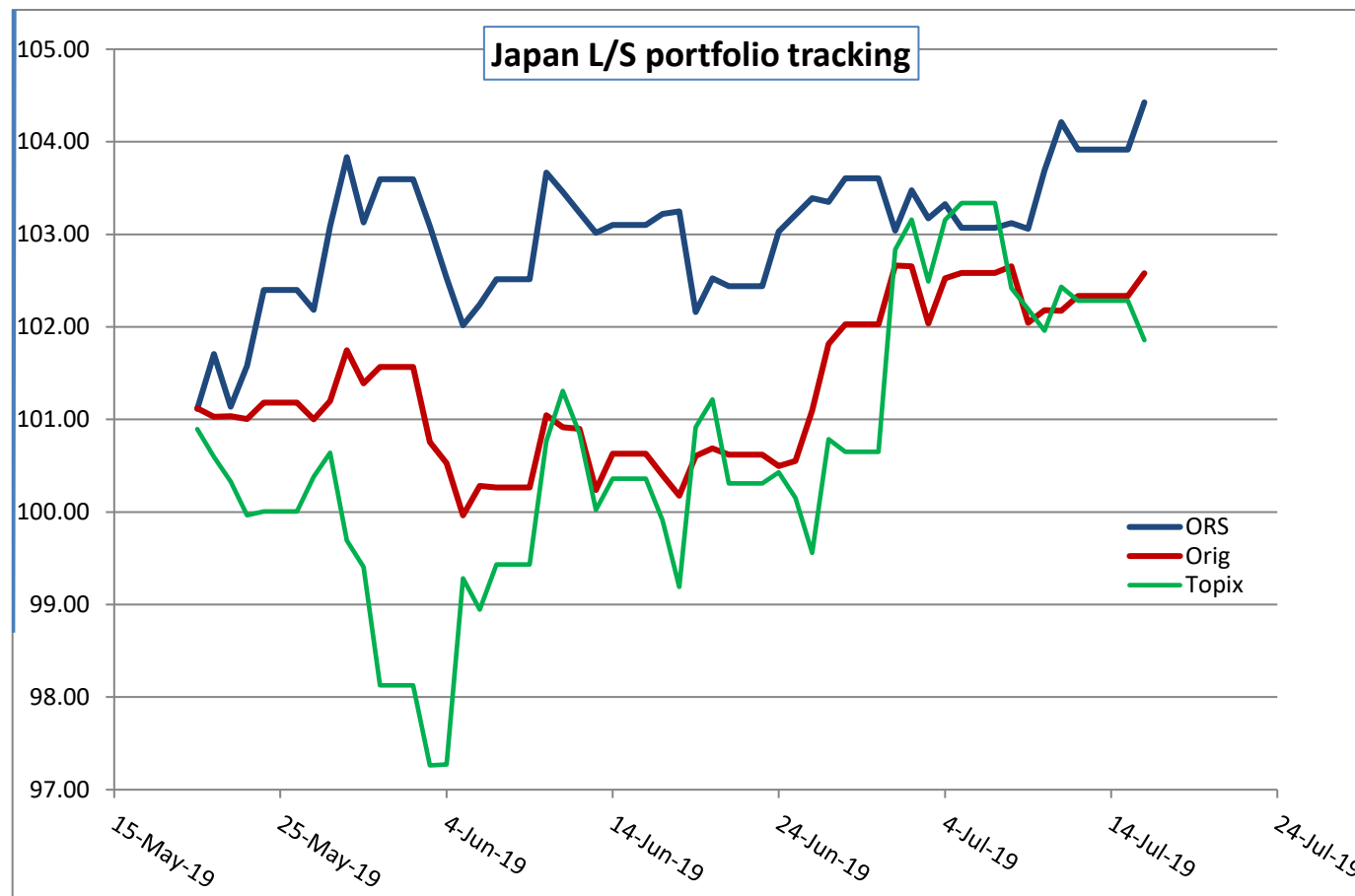
The ex-ante Sherpa ORS portfolio shown below selected a series of hedging instruments to drive a substantial reduction in market and factor exposures.

Factor Risks	Original	Sherpa
BetaBenchMark	15%	3%
LogMktCap	-10%	-3%
Volatility	2%	2%
Momentum	-15%	-4%
BetaValue	-23%	0%
BetaRisk	-24%	0%
BetaQuality	-49%	3%
BetaGrowth	26%	4%
BetaUSDJPY	30%	4%

When compared to the manager's original portfolio, the Sherpa portfolio neutralised exposure to the desired beta, market and factors.

## THE OPTIMAL LONG-SHORT PORTFOLIO PRODUCED IMPROVED RESULTS

The Sherpa approach added 1.84% to the returns of this portfolio in the 2 months from construction with minimal beta versus the market (TOPIX) and minimised factor exposures.



## SHERPA ASSISTED IN UNDERSTANDING AND OPERATIONALIZING THE RESULTS

After setting up the process and running the portfolio construction, Sherpa worked with the PM to explain and integrate the results for maximal impact.

- Break down the relative contribution of long-side versus short-side ideas
- Generate a process for adding assets for hedging and risk mitigation
- Determine a weekly rebalancing frequency was suitable for this very active shorter-term PM. Other Sherpa clients range from daily to quarterly based on their strategy.

## LET US SHOW YOU HOW SHERPA CAN HELP YOUR PORTFOLIO

Contact the Sherpa team below and let us...

- Share how funds like yours are already benefiting from implementing ORS
- Go into more detail on the ORS philosophy and methodology
- Demonstrate how the ORS process can help you on a Portfolio of your own data

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