



**INSTITUTIONAL INVESTOR INSTITUTE
QUANTITATIVE RESEARCH ROUNDTABLE
Program Guide
October 17, 1991**

NEW YORK HELMSLEY HOTEL
NEW YORK, NEW YORK

TABLE OF CONTENTS

Program	5
Biographies of Speakers	7
Institute Member Participants	9
Institute Staff	11
Evaluation	13

Institutional Investor Institute
QUANTITATIVE RESEARCH ROUNDTABLE
 October 17, 1991
 New York Helmsley Hotel, New York City

7:30 - **Registration and Coffee**
 8:20 a.m. *Foyer*

8:20 - **Welcome**
 8:30 *Turtle Bay*

Joseph E. Brunken
 Director
 Institutional Investor Institute

8:30 - **ASSET ALLOCATION UNDER SHORTFALL CONSTRAINTS**
 9:45 *Turtle Bay*

Martin L. Leibowitz
 Managing Director
 Salomon Brothers Inc

Stanley Kogelman
 Vice President
 Salomon Brothers Inc

This presentation covers the interrelationship among several themes: 1) surplus management; 2) shortfall constraints; 3) return enhancement from "foreign" assets; and 4) the expansion of fixed income from a single asset class to a full continuum of available duration points. In a standard risk/return diagram an asset-only shortfall constraint is represented by a simple diagonal line. In contrast, a surplus shortfall constraint requires a far more complex "eggshaped" curve. By overlaying these two constraint patterns, an asset and surplus shortfall grid can be created that enables an assessment to be made of the trade-offs between asset only performance and surplus control. In general one finds that the initial funding ratio and the plan sponsor's absolute and relative risk tolerance play a critical role in establishing the optimal asset mix and duration target.

9:45 - **Coffee Break**
 10:00 *Foyer*

10:00 - **THE BETA-CAPITALIZATION CORRELATION**
 11:15 *Turtle Bay*

Kenneth R. French
 Leo Melamed Professor of Finance
 Director - Center for Research in Securities Prices
 University of Chicago, Graduate School of Business

Beta has long been a mainstay of finance and investment theory, and its proper interpretation and application a prime concern of investment managers. In this talk, Professor French will offer new data suggesting that the importance of this measure is illusory. In particular, his work demonstrates a strong cross-sectional relation between size and average returns on NYSE, AMEX, and NASDAQ stocks, but no independent relation between beta and average returns; after controlling for size, average returns do not vary with beta. His work also demonstrates a strong cross-sectional relation between expected returns and book-to-market equity, and that this relation is in fact more powerful than the size effect. Together, the work shows that size and book-to-market equity absorb the apparent roles of beta, leverage and E/P in explaining average returns.

11:15 - **Coffee Break**
11:30 *Foyer*

11:30 - **SIMULTANEOUS WORKSHOPS**
12:45 p.m.

For Fixed Income Specialists
Murray Hill

ANATOMY OF OAS

Oren Cheyette
Vice President / Quantitative Research
Capital Management Sciences

This presentation will provide an intuitive discussion of the concepts underlying option adjusted spread (OAS) models for bonds and mortgages. The arbitrage-free valuation of fixed income securities involves subtleties not encountered in the equity arena (where Black Scholes rules). The no-arbitrage condition restricts the form of term structure fluctuations and implies a simple relationship between term structure evolution and market risk aversion. This has implications for the relative value of different securities, particularly for the value of convexity. Issues relating to yield curve shape, mean reversion of short rates, the term structure of volatility, and Monte Carlo modelling will be covered.

For Equity Specialists
Turtle Bay

FUNDAMENTALS FROM THE ASSET SIDE

Thomas W. Downs
Associate Professor of Finance
University of Alabama

Professor Downs offers an alternative to the familiar dividend discount model for evaluating a stock's fundamental value: summing the discounted cash flows expected from accumulated real assets. Especially well suited to industries like manufacturing or utilities with substantial fixed assets, the approach offers several advantages. For one, cash flows from real assets can be linked to structural and economic variables in a general equilibrium framework. And the model relies on factors that are either historical, directly observable, or reliably derivable. Application of the technique at the industry level indicates varying ratios of fundamental value to market value, and differing sensitivities to changes in the business environment.

12:45 - **Luncheon**
2:00 *Sutton Place*

2:00 - **PICTURES: WORTH A THOUSAND NUMBERS?**
3:15 *Turtle Bay*

Alan J. Davis
Director of Tax Communications
Price Waterhouse

If number is the language of science, pictures must be the universal interpreters. Virtually every result of every analysis undertaken in the investment field is presented with the aid of visual representations. Managers constantly work with graphs, charts, diagrams, drawings, and every other conceivable form of visual display, both in making sense of the work of others and in conveying the firm's work. Yet a remarkable number of these displays are misleading or ambiguous, whether as a result of oversight or intention. And with so much of the public impression of a firm tied to reactions to its brochures, newsletters, etc., more is riding on this issue than most understand. Mr. Davis, who has made a special study of the area, will discuss some of the more common errors - both those that are obvious when pointed out but routinely overlooked, and those that are more subtle. He will also lay down some pragmatic basic principles for displaying quantitative information in ways that are useful and fair.

3:15 **Conference Concludes**

BIOGRAPHIES OF SPEAKERS

KENNETH R. FRENCH

Leo Melamed Professor of Finance
Director, Center for Research in Securities Prices
University of Chicago

Mr. French is the Leo Melamed professor of finance at the University of Chicago, and the director of the Center for Research in Security Prices. He is also a research associate at the National Bureau of Economic Research, and an associate editor of the *Journal of Financial Economics* and the *Journal of Finance*. He has authored numerous articles and publications on securities and futures markets. Mr. French received a B.S. from Lehigh University, and an M.B.A., an M.S. and a Ph.D. from the University of Rochester.

STANLEY KOGELMAN

Vice President
Salomon Brothers Inc

Stanley Kogelman is a vice president in the research department at Salomon Brothers. Prior to joining Salomon Brothers in 1985, he was chairman of the mathematics department at SUNY Purchase. Dr. Kogelman's recent research includes a series of studies on the shortfall approach to asset allocation and surplus management and "franchise factor" models for equity valuation and spread banking. Many of these studies have been published in *Financial Analysts Journal* and *The Journal of Portfolio Management*. He received his B.S., M.S. and Ph.D. degrees in mathematics from Rensselaer Polytechnic Institute.

MARTIN L. LEIBOWITZ

Managing Director
Salomon Brothers Inc

Martin L. Leibowitz is a managing director of Salomon Brothers Inc, director of research, and a member of the firm's board of directors. He has written or co-authored over 96 articles on a wide variety of topics, ranging from immunization techniques to "total portfolio duration" to surplus management for pension funds. Many of these papers were published in *Financial Analysts Journal* and *The Journal of Portfolio Management*. Dr. Leibowitz's recent works include a series of studies on asset allocation, the shortfall approach to risk management, and the "franchise" effect in security valuation. Dr. Leibowitz serves on the executive council of The New York Academy of Sciences and is a member of the board of the Institute for Quantitative Research in Finance. In 1990, he was the recipient of the Outstanding Financial Executive Award from the Financial Management Association (FMA). Dr. Leibowitz received his bachelor's and master's degrees from the University of Chicago and his doctorate in mathematics from New York University.

OREN CHEYETTE

Vice President - Quantitative Research
Capital Management Sciences

Oren Cheyette is vice president, quantitative research at Capital Management Sciences. Prior to joining CMS in 1991 he was a bond portfolio manager at Home Insurance and did fixed income research at Merrill Lynch and County NatWest Government Securities. Mr. Cheyette has worked primarily on problems related to option theoretic valuation of fixed income securities, with applications to mortgages and corporate bonds. He holds a B.A. from Princeton University, and a Ph.D. in physics from the University of California at Berkeley.

ALAN J. DAVIS

Director of Tax Communications
Price Waterhouse

Alan J. Davis is director of tax communications for Price Waterhouse in Canada. Alan has ten years experience designing, writing and editing technical and marketing material for professionals and their clients. He has published articles and presented seminars on business communications, particularly on effective information graphics. Prior to joining Price Waterhouse, Alan worked for William M. Mercer Ltd. and one of Canada's top law firms. Mr. Davis holds a law degree from the University of Toronto, an M.B.A. from the University of Western Ontario, and a bachelor of arts degree in physics and philosophy.

THOMAS W. DOWNS

Associate Professor of Finance
University of Alabama

Thomas W. Downs is associate professor of finance at the University of Alabama. Previously he taught at Boston College. His research on the effects of tax policies on equity values has been published in the *American Economic Review*, the *National Tax Journal*, the *Journal of Public Economics*, *The Financial Review*, and has been presented at numerous national conferences. He received his undergraduate degree from Florida State University in 1975, and his doctorate in economics, which examined the effects of inflation and taxation on asset values, from Purdue University.

QUANTITATIVE RESEARCH ROUNDTABLE
October 17, 1991
New York Helmsley Hotel

MEMBER PARTICIPANTS

ALLIANCE CAPITAL MANAGEMENT, L.P.

Eric P. Johnson
 Vice President

AXE-HOUGHTON MANAGEMENT, INC.

Monique Grigg Harley
 Assistant Vice President

BARNETT BANKS TRUST CO. N.A.

Robert L. Bartkowiak
 Vice President

Murad Antia

Senior Vice President &
 Director of Equity Research

BRANDYWINE ASSET MANAGEMENT

Henry Otto
 Vice President

Steven M. Tonkovich

Senior Research Analyst

CAPITAL GUARDIAN TRUST CO.

Nancy Kyle
 Vice President

CHANCELLOR CAPITAL MANAGEMENT

Joseph W. Haley
 Managing Director

COMMODITIES CORPORATION (U.S.A.)

Michael Stivala
 Research Analyst

Jacob D. Rosengarten

First Vice President and Controller

**CROWN LIFE INVESTMENT MANAGEMENT
 INC.**

Jill A. MacRae
 Investment Analyst

DELAWARE INVESTMENT ADVISERS

Robert J. Bernstein
 Senior Vice President and
 Director, Institutional Fixed Income

**EQUITABLE CAPITAL MANAGEMENT
 CORPORATION**

Joseph Briggs
 Senior Managing Director

GE INVESTMENTS

Heather A. Chauhan
 Analyst - Quantitative Equities

Kevin L. Miller

Vice President Financial Planning & Analysis

Kathryn S. Peach

Investment Planning-Business Development

GLENMEDE TRUST COMPANY

John W. Church, Jr.
 Senior Vice President and
 Chief Investment Officer

GUARDIAN ASSET MANAGEMENT CORP.

Charles E. Albers, CFA
 Chief Investment Officer

HARRIS INVESTMENT MANAGEMENT

John Kirscher
 President

INVISTA CAPITAL MANAGEMENT, INC.

Doug Angstrom, CFA
 Vice President, Client Services

**LONDON & BISHOPSGATE INTERNATIONAL,
 INC.**

Yiannis Koskosidis
 Senior Analyst

Clifford DeSouza

Senior Portfolio Analyst

LORD, ABBETT & CO.

Daniel H. Frascarelli
 Quantitative Analyst

MAGTEN ASSET MANAGEMENT

Barbara Justiz
 Managing Director

METROPOLITAN LIFE INSURANCE COMPANY

Robert Dischel
Director, Portfolio Strategies

Gene Murphy
Investment Manager

PANAGORA ASSET MANAGEMENT, INC.

Richard T. Wilk
Senior Manager Equity

PEOPLE'S BANK

Raymond P. Granville
Senior Vice President

PROVIDENTMUTUAL MANAGEMENT CO.

Michael B. Miller
Executive Vice President and
Chief Investment Officer

RCM CAPITAL MANAGEMENT

Lee Price
Partner

SASCO CAPITAL, INC.

Lee C. Garcia
Managing Director

SCUDDER, STEVENS & CLARK

Philip S. Fortuna
Director of Quantitative Services

SMITH BARNEY CAPITAL MANAGEMENT

Jill B. Jordon
Managing Director

Philip Miller

Managing Director

TIAA-CREFF

Paul L. Davis
Second Vice President

Eric E. Fisher
Vice President

TRUST COMPANY OF THE WEST

Robert E. Schultz
Managing Director

UBS ASSET MANAGEMENT (NY), INC.

Benny Mah
Vice President

UNITED STATES TRUST COMPANY

Bruce Tavel
Senior Vice President

Cyril Theccanat
Vice President

**WARBURG INVESTMENT
MANAGEMENT INTERNATIONAL**

Carolyn Sykes
Director

Steven Zimmer
Senior Manager

YAMAICHI CAPITAL MANAGEMENT, INC.

Ichiro Sasaki
Chairman & President

INSTITUTIONAL INVESTOR

Peter A. Derow
President

INSTITUTIONAL INVESTOR INSTITUTE'S

- Research Services Division -

Andrea J. Kern
Vice President and Managing Director

Lisa Burke
Regional Director

Joseph E. Brunken
Director
Institutional Investor Institute

Beth Rustin
Regional Director

Diane Alfano
Executive Director

Carol Condon
Administrator

David Ballon
Director of Programming

Shari Cohen
Administrative Assistant

QUANTITATIVE RESEARCH ROUNDTABLE

October 17, 1991

New York Helmsley Hotel

ADDENDUM

AMERITRUST COMPANY

Mary Jane Matts
Senior Investment Officer

BARNETT BANKS TRUST CO. N.A.

John L. Allen, Jr.
Executive Vice President

**CIGNA INTERNATIONAL INVESTMENT
ADVISORS, LTD.**

Michael Hoffman
Associate Special Products

Timothy Luedtke
Portfolio Management

Michael Stevens
Managing Director

CITIBANK INVESTMENT MANAGEMENT

Ali Naqvi
Vice President

COMMODITIES CORPORATION (U.S.A.)

Holly Singer
Assistant Vice President

CONTINENTAL BANK

James D. Miller
CIO & Managing Director

Robert J. Kramer
Investment Officer

Daniel J. Cardell
Quantitative Analyst

DELAWARE INVESTMENT ADVISERS

John C.E. Campbell
Vice President, International Marketing

FAYEZ SAROFIM & COMPANY

Evan Harrel
Principal

**INDEPENDENCE INVESTMENT ASSOCIATES,
INC.**

Michael P. McElroy
Investment Officer

**MELLON BANK/MELLON EQUITY
ASSOCIATES**

Robert A. Wilk
Senior Vice President

MILLER ANDERSON & SHERRERD

Herbert P. Evert
Partner

**PENNSYLVANIA PUBLIC SCHOOLS
EMPLOYEES' RETIREMENT SYSTEM**

Mary-Beth H. Degen
Fixed Income Portfolio Manager

**PRUDENTIAL ASSET MANAGEMENT
COMPANY/PDI STRATEGIES**

Jim Scott
Managing Director

Mark Stumpp
Director of Research

**ROSENBERG INSTITUTIONAL EQUITY
MANAGEMENT**

Thomas D. Mead
Director of Client Services

THE ST. PAUL COMPANIES

Joe Mansur
Investment Officer

SCHRÖDER MÜNCHMEYER HENGST & CO.

Lorne Campbell
Peter Krebs

SCUDDER, STEVENS & CLARK

Steven J. Kelly
Quantitative Analyst

J & W SELIGMAN & CO.

Alison Ziegler
Assistant Vice President

Marlene Williams

Assistant Vice President

WILMINGTON TRUST COMPANY

Eric K. Cheng
Vice President

Clayton M. Albright
Assistant Vice President

YAMAICHI CAPITAL MANAGEMENT

Atsunori Ushioka
Assistant Vice President

Ever Villanueva

Assistant Vice President