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Editor's Letter

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This issue of *The Journal of Alternative Investments* covers risk management and measurement, private equity and real assets, and asset allocation. In recent years, strategies consisting of positions in options and the underlying assets have gained widespread use by mutual funds and hedge funds. With the introduction of indexes and exchange-traded funds that track the performance of these strategies, retail investors and their advisers now have access to these products.

One of the original strategies involving options and the underlying assets is the protective put strategy, also known as portfolio insurance. In "Pathetic Protection: *The Elusive Benefits of Protective Puts*," Roni Israelov investigates drawdown characteristics of protected portfolios via simulation and a study of the CBOE S&P 500 5% Put Protection Index. The author shows that protective puts may not provide the expected reduction in drawdown if the portfolio is not constructed properly. The author argues that option purchases and their maturities must be timed just right around equity drawdowns to offer significant downside protection. If the portfolio is not constructed properly, the protective put and its associated costs could make things worse by increasing rather than decreasing drawdowns and volatility per unit of expected return.

"Analyzing the Different Modules of Longevity Risk in Death Bonds" by Dror Parnes presents an actuarial prognostic model that can disentangle and assess two complementary modules of longevity risk for death bonds. A death bond is like a mortgage-backed security except that a pool of transferable life insurance policies backs the death bond. The study examines the possible paths of the transition rates for life settlement issuers across three states of nature: healthy, terminally ill, and dead. The model proposed by the author can assist life settlement providers, brokers, investors, and credit raters in evaluating and understanding possible payoffs of death bonds as a function of the overall death intensity among pools of life settlement issuances.

Shubeur Rahman and Ranjan Bhaduri, in "A Best Practice Protocol for the Risk Measurement of a Portfolio of Hedge Funds," discuss an approach to the measurement of the market risk of a multi-asset class, multi-strategy, fund of hedge funds portfolio. The approach involves a good level of transparency from the manager and the active participation of an independent fund administrator, an independent risk aggregator, the investor, and the manager. Although the proposed approach is increasingly adopted by the industry, the article cautions that important challenges need to be addressed if the market risks of such portfolios are to be properly measured and managed, for example, obtaining timely, granular, and verified transparency from managers. The authors argue that although many of the elements outlined in their article are already well known in the industry, they are underutilized.

In "Real Natural Assets: *The Real Green Investment Alternative*," Raul Martinez-Oviedo and Francesca Medda present real assets by grouping them into two broad categories: non-real green assets and real green assets. The article attempts to identify which green investment alternatives offer greater financial benefits and are thus more attractive to investors. The authors investigate performance and the intrinsic risks of this asset class. Their findings indicate that real green assets may represent the appropriate alternative in the adoption of green investments.

Using a sample of 2,174 unique private equity transactions Benjamin Puche and Reiner Braun report that multiple expansion is an important factor in explaining deal returns in private equity. In their article "Deal Pricing and Returns in Private Equity," they show that private equity transactions are strongly influenced by the expansion of the multiple of the ratio of the enterprise value to free cash flow, approximated by earnings before interest cost, taxes, depreciation, and amortization. The expansion of this valuation metric is the result of differences in deal pricing from entry to exit. The authors shed light on how relative pricing, in comparison to market price levels, influences multiple expansion and thus deal returns. The authors analyze the influence of both market price levels by themselves as well as the influence of deal pricing in relation to those market price levels. In addition, they analyze the influence of this relative pricing on final deal returns. They attribute a skillset to general partners who are investing in private equity deals because they can influence the pricing when buying or selling companies through their negotiations. The authors thus recommend that limited partners providing capital to private equity funds look for fund managers with this skillset as it can help them achieve higher than normal returns in their transactions and funds.

The momentum factor and return to momentum strategies have been subject of numerous studies. Vikram Srimurthy, Steven Shen, and Matthew Smallbach, in their article "Fund Flows as Country Allocator," advocate momentum-like strategies for determining asset allocation at the country level. The authors show that using fund flow data, one can develop an asset allocation strategy with attractive risk–return properties. Strategies that buy countries that have attracted indirect investment via equity fund flows and sell countries that have not generated significant positive returns over a forward one-month holding period. Interestingly, the article reports that the profitability of these active strategies is independent of the price momentum effect of Jegadeesh and Titman. In other words, the authors argue that the information contained in the past flow of funds in each country is not fully reflected in the past performance of that country's equity markets.

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