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Quotient Receives Initial Funding From CalPERS MDP II Program

Quotient Investors has received initial funding from the **California Public Employees Retirement System**'s Manager Development Program II.

The firm, launched at the end of 2007, will receive a total of $150 million from the plan, through a partnership with **Strategic Investment Group**--$100 million in a large-cap core product and $50 million in a small-cap core product.


Andre Bertolotti


Julia M. Peter-Kerr


William Yost

"This was an attractive opportunity for us and one that we felt really fit with exactly what we were looking for," said **Julia Peter-Kerr**, who founded the New York-based firm with **William Yost** and **Andre Bertollotti**.

The group, which was able to port its track records from its previous employer, which they declined to name, has a track record for its small-cap portfolio dating back to 1996 and a track record for its large-cap product dating back to 2000.

"What we were looking for is a way to leverage what we do with a strong partner, and when the opportunity came up to talk with SIG and CalPERS, we became very interested in pursuing it," said Bertolotti, cio and director of investment strategy and research at the firm.

Quotient declined to discuss the details of the funding, in which CalPERS takes an equity stake in the firm, though they said the three managing partners will have a majority interest.

Deb Bodeker, principal at Strategic Investment Group, said her firm began an extensive due diligence on Quotient over the past year, and she was impressed with the firm's sophisticated investment process, successful quantitative approach and history of delivering returns to clients.

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> *CIO & Director of Investment Strategy & Research*
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Bertolotti said the firm's ability to look at individual industries gives Quotient a unique process that offers uncorrelated returns in a multi-manager framework.

"What we do different is we look at the market as a set of individual industries which we try to model individually, so we are following approximately 56 different industries in the marketplace with a quantitiative approach," Bertolotti said.

“Within each industry we are going to look at what are the factors in that particular industry that are driving factors.”

The firm's model was developed by Yost, director of portfolio management and trading at Quotient, and Bertolotti following the burst of the Internet bubble. "At that time is when we started researching the industry specific approach," Bertolotti said.

Bodeker said Quotient’s unique approach played an important role in their funding, explaining that in the quantitative space it is “critical to continue to be ahead of that power curve and continue to deliver the value-added returns that Quotient has demonstrated they could do for the past decade.”

Yost said modeling smaller subsets appears to be the direction the industry is moving toward.

"What we see in our quantitative world is people are trying to find more and more robust models," Yost said.

Peter-Kerr, director of client service and sales, said the firm uses "risk budgeting" in its asset allocation, similar to how an investor will budget its risk between different styles and capitalizations.

"We are doing the same thing at the industry level. Where we have information within each industry, we can be more aggressive in selecting the stocks in that industry," she said.

The firm also considers risk control an important part of its investment process, with a tracking error of 2% in the large-cap portfolio and 4-5% in the small-cap portfolio.

“An industry is both an opportunity set and also a risk group. The two things are synchronized,” Bertolotti said.

The large-cap portfolio holds approximately 150 positions, while the small-cap portfolio has approximately 125 individual securities.