



CASE STUDY

EMERGING MARKETS, EMERGING SOLUTIONS

OVERVIEW

A US-based multi-family office wanted an emerging markets strategy that met risk and return targets, while excluding particular regions and any state-owned enterprises (SOEs). They wanted to establish two funds, one of which would be tax efficient.

KEY PARTNERS

- Investment team responsible for private allocations at multi-family office
- PGIM Quant sales & client service
- PGIM Quant investment team
- PGIM Quant operations team

CHALLENGE

Limiting the investment universe can affect return opportunities, and the avoidance of SOEs eliminates an especially resilient component of the universe in challenging markets due to their government backing. Special attention needed to be given to balance risk and returns, but not just in a theoretical way. In real-world markets, both capitalizing on tax opportunities and forced turnover due to regional exclusion changes could cause liquidity issues or unacceptably high transaction costs.

APPROACH

Working closely with the family office to understand its needs as well as the needs of its clients, PGIM Quant set out to determine the best way to implement the necessary exclusions. While we were able to leverage existing regional and country definitions, defining SOEs was more challenging. Our investment team analyzed data from multiple sources to agree on a credible list of SOE companies with the client. In addition, our investments and operations teams partnered on a solution that would maximize tax efficiency.

SOLUTION

Through close collaboration with the family office's investment team as well as PGIM Quant's operations team, the investment team worked diligently to create strategies that met the family office's requirements in a manner that does not sacrifice alpha. To do this we:

- Presented the client with a range of risk/return profiles for the Broad MSCI EM All Cap Universe, including SOE exclusions and initial regional exclusions.
- Thoroughly discussed portfolio liquidity and transactions cost projections for potential future evolutions of the strategy.
- Provided a hands-on client service experience.
- Designed tax-managed and non-tax managed versions of our Emerging Market All Cap portfolios in line with their clients' needs.
- Developed the operational and investment technology to keep track of the prices of thousands of tranches across hundreds of stocks to harvest taxable losses.
- Since launching these portfolios, we have successfully managed to the stated risk goals and return targets for both, while accommodating regional exclusions and achieving tax efficiency where needed.

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PGIM QUANTITATIVE SOLUTIONS

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