

UC San Diego

KRONER CENTER FOR FINANCIAL RESEARCH

CALL FOR RESEARCH PROPOSALS

OVERVIEW:

The Kroner Center for Financial Research (KCFR, formerly known as Pacific Center for Asset Management, PCAM) at the University of California San Diego was founded in 2019 with the mission to improve the dialogue between major asset owners around the world -- including sovereign wealth funds, pension funds, foundations and their beneficiaries -- and the academic community in economics and finance. With the input of members of a CIO Advisory Council and an Academic Advisory Council, we seek to identify topics that are under-researched, but of high importance in asset management, and invite proposals for independent academic research on them. Benefits to academic researchers is financial support for relevant new research, access to new data sets and tools shared by member asset owners/CIOs, and a venue to present new research, to network with, and to gain feedback from industry experts.

TOPICS:

This year we identified the following topics for potential funding:

- *Measuring and modeling geopolitical risk.* How should geopolitical risk be reflected in long-term capital market assumptions for pension plans and endowments? Some analysts argue we are entering a period where geopolitical events may be more influential on capital market returns than they were in prior economic cycles. Historically, pension funds and endowments have allowed for risks to filter into higher volatility in return assumptions, but should long-term expected returns themselves be impacted, and if so, how? For some asset classes, this may call for more mechanical (e.g., sovereign credit risks impacting expected sovereign bond returns), while others (e.g. emerging market equities) could mandate more complex approaches.
- *Benchmarking benchmarks.* Standards for calculating and presenting investment performance are based on the principles of fair representation and full disclosure; one of the most important elements in the fair representation of investment performance according to the CFA Institute is the choice of a benchmark. Global Investment Performance Standards require firms to select an appropriate total return benchmark for each composite and pooled fund and to define a benchmark as a point of reference against which the composite's or pooled fund's returns or risks are compared. Choices abound (market indexes, absolute value or target returns, peer groups and manager universes, custom/bespoke benchmarks, returns-based and factor-based models), each with advantages and drawbacks in implementation. Active risk budgets that guide decisions by fund managers are defined by these choices. How should pension plans and endowments ideally select benchmarks to fulfill their mandates?
- *Exploring potential unintended consequences of over-diversification.* Understanding that diversification is essential to optimal risk/reward, have asset allocations become too

complex or over-diversified? Have they become too expensive due to fees, time-consuming to monitor, leading to unintended or hidden operational risks, global geopolitical or regulatory exposures? Building on more common diversification approaches currently used by pension funds and endowments - such as by asset class, factors, geographies, sectors, or commodity classes - are there new techniques that permit other types of cross portfolio exposures to be identified, isolated and diversified to improve total portfolio properties?

- *Rethinking private markets as an asset class.* Private equity has grown exponentially over the last 20 years and plan sponsors have continued to increase their allocations to private equity in an effort to meet return expectations. Some academic research has argued that, adjusted for leverage and market-cap (most private equity deals are comparable to small cap companies), private equity does not outperform public markets. Other studies suggest that the risk/return profile of private equity is distorted by a muted volatility due to infrequent/subjective valuation reporting methods. Notwithstanding this body of research, allocations by pension funds and endowments to private equity continue apace and PE funding grows. What underlying risks, perhaps increased competition/capital or the end of an era of low costs of leverage, are not sufficiently widely addressed in the study of private equity as an asset class?

SUBMISSION PROCESS

The Kroner Center calls for scholars to submit a proposal for a research project that addresses one of the three topics. Proposals will be reviewed by a committee drawn from the Center Academic Advisory Committee. The review committee will be chaired by Professor Andrew Karolyi of Cornell University. The goal is to fund three projects selected from the four topics, preferably no more than one from each topic although the committee may fund multiple proposals from any of the topics.

Proposals should be no longer than 5 pages and should describe the research idea, expected methodology to be employed, and data requirements. If a proposal is related to an existing working paper or publication by the submitter, then these are also welcome as part of the submission. Principal and co-investigators should submit updated CVs.

BENEFITS AND EXPECTATIONS FOR PROPOSAL WINNERS:

The KCFR can provide summer support for faculty, support for research assistants, assistance in procuring data sets, and expenses for attending Center meetings together with members of the CIO Advisory Council, Academic Advisory Council, and Industry Advisory Council. The KCFR is a non-profit organization and therefore can not pay for overhead or administrative fees to the universities of selected researchers.

KCFR-supported researchers are expected to provide a brief written quarterly research update on the progress of the funded research project and to be available to present a brief research update to the KCFR Advisory Councils at their semi-annual meetings (either virtually or in-person). The next semi-annual meeting is scheduled for **January, 2024**, in person in San Diego.

KCFR members include:

CIO Advisory Council

Chris Ailman, California State Teachers Retirement System (Chair)
Ramy Rayes & Rob Blazey, British Columbia Investment Management Corporation
Rod June, Los Angeles City Employees Retirement System
Jacky Lee, Healthcare of Ontario Pension Plan
Molly Murphy, Orange County Employees Retirement System
Amit Prakash, Alberta Investment Management Corporation
Steve Sexauer, San Diego County Employees Retirement Association
Betty Tse, Alameda County Employees Retirement Association

Academic Advisory Council

Robert F. Engle, New York University
Itay Goldstein, University of Pennsylvania
Wei Jiang, Emory University
Andrew Karolyi, Cornell University (Chair)
Kathleen McGarry, UCLA
John Shoven, Stanford University
Laura Starks, University of Texas Austin

Industry Advisory Council

Rui de Figueiredo & Ted Eliopoulos, Morgan Stanley
Robert Koenigsberger, Gramercy (Chair)
Stephen McCourt, Meketa Investment Group

Executive Directors: Graham Elliott and Michael Melvin, U.C. San Diego
Managing Director: Joe Sturtevant, U.C. San Diego

SUBMITTING A PROPOSAL:

To submit a proposal please send your submission by **November 1, 2023** to Joe Sturtevant at jsturtevant@ucsd.edu. The expectation is that the proposal selection process will conclude with authors informed of a decision by **December 15, 2023**.