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Over the past 20 years hedge funds have had strong risk-adjusted returns. We open our Fall issue with Mozes' discussion of the three drivers of the returns. The drivers include a number of factor exposures which generated positive returns, sensibly timed risk exposures and exploitation of opportunities arising their superior funding ability. Bannister and Cantor examine the results of investing in a two portfolios of S&P companies. One made up of companies deemed "excellent" and the other of companies deemed "un-excellent" by the criteria of Peters and Waterman in 'In Search of Excellence: Lessons from America's Best-Run Corporations.' In his discussion of diversification, Goldsticker explores the trade-offs from expanding the number of positions in a portfolio. Several interesting findings emerged from Kuen's study of the importance of institutional forces in shape the venture capitalists' investment activities in China, India, Japan and Hong Kong.

In their paper, Filbeck, Li and Zhao conclude that contrarian strategy is profitable after extreme market movements. Schaub discusses the diversification benefits that occur from investing in developed market ADRs based on how the ADR portfolio performs relative to the S&P 500.

This issue our special section is on risk-based portfolios. Risk-based portfolios have become extremely popular recently. Starting with risk parity several years ago and continuing with the recent interest in low volatility. When handing out the Sharpe awards at IMN's annual Global Indexing and ETFs conference in Phoenix, Arizona last December, the S&P 500® Low Volatility index was named the William F. Sharpe Indexing Product of the Year for having the most significant impact on the indexing industry over the last 12 months. The ETF Product of the Year award was won by an ETF based upon the S&P 500 Low Volatility index. To examine this strong interest in low volatility, we solicited a paper from Erik Knutzen of New England Pension Consultants which takes a very thoughtful look at low volatility strategies.

In this section we have Knutzen's evaluation of the low volatility anomaly. Writing from the perspective of the users, Pluijmers, Hollander, Tol and Melas investigate the commonality in risk factors and sector biases in managed volatility equity strategies. In order to either derive higher return or to better manage risk, it is often desirable to design risk-based strategies with higher risk targets. Alonso and Qian discuss ways to do this for a risk parity portfolio. Frydenberg, Reiakvam, Thyness and Westgaard examine different hedge fund strategies and determine the risk factors affecting the returns. We conclude the issue with Ladekarl and Peters' examination of both debt and equity emerging market investment options and conclude that they share a common risk factor that drives the emerging market-related risk and return.

As always, we welcome your submissions. We value your comments and suggestions so please email us at journals@investmentresearch.org.

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