Title: **FACTOR RISK PREMIUMS AND INVESTED CAPITAL**

Speaker: Sara Shores, BlackRock

Importance: Why this matters

Significant capital has flowed into smart beta and other factor portfolios. Their capacity cannot be unlimited. This paper addresses the question of how much the stock market's capital allocation would need to shift in order to eliminate the factors' expected risk premia.

Investigation: "Speaker analyzed XXX data to address the questions yyy, zzz, etc."

The paper looked at the capital structure of the S&P 500, used historical average returns for growth, value and neutral portfolios to estimate an efficient frontier. With that, it identified the tangent portfolio and created a pricing kernel. It used the pricing kernel to identify how far the current market is away from the tangent portfolio.

Innovation: Are there new techniques of interest in the data or approach to the problem?

Creating an equilibrium and related pricing kernel to evaluate how far the current market is away from equilibrium as a tool to understand capacity.

Insights: 1-2-3, what are the three most important things the speaker offered?

1. When evaluating strategies' capacity, must consider what all investors are doing, not just one's own trades. While the long-term capacity of factor strategies cannot be unlimited, we do not appear to be approaching the limit.

2. While significant capital has flowed into smart beta, in aggregate they do not appear to be a significant portion of the market. Also, it appears that many active strategies' factor exposures are the opposite of many of the smart beta strategies.

3. Using a metric of how far the current market is away from "equilibrium" where all factors are fairly priced could be a useful way to evaluate capacity.

Audience rating: