Abbink, John B. – Alternative Assets and Strategic Allocation

Bloomberg, 2010, [Finance] Grade ★★★

This is an odd book. The author is hugely knowledgeable of the core functionality, the risks and rewards of alternative assets such as hedge funds, private equity, real estate etc. and presents them – to use a phrase true to the genre – in a slightly idiosyncratic, but good, way. On the other hand the text never really goes anywhere – it's almost like a number of short stories on different aspects of alternative assets, sometimes related to asset allocation but mostly not. The target audience is seen as plan sponsors, trustees, fund-of-fund managers, i.e. "asset owners" as opposed to asset managers.

John Abbink is an analyst and banker with decades of experience from Merrill Lynch, Credit Suisse, Deutsche Bank and the likes. It is obvious that he has seen many types of markets as he has a good grip of how various assets react in times of stress. Topics like changes in price volatility, convergence of correlations and also skew and kurtosis might sound obscure and academic but in a crisis they become anything but – then they present a hit on the head with a blunt object. Without knowing, I would guess that Abbink during his days often has worked with derivatives, judging from how he dissects different sources of risk and return for the assets and his knowledge of financial theory and statistics.

The book has four different sections. At first Abbink presents how he views the World of alternative assets, divides them into the three main segments directional, cash flow and arbitrage and shows how the alternative set of assets share most of their traits with the traditional ones; secondly Abbink goes through a large number of alternative assets and strategies used in this space applying his above segmentation. In the third section he dives deeper into some of the themes that have come up previously, i.e. the same alternative assets are viewed from the traits they share or don't share. Finally, a number of practical aspects of including alternative assets in a portfolio of alternative and more traditional assets are discussed.

The book is too long. The first two sections are mainly there to set the stage for the latter two. The problem is that this means that the book doesn't really start until page 237. The language is well versed but since Abbink hardly economizes with words the text is much too winded. If the first two sections were cut down by two thirds and the latter two by one third, this would be an interesting 240-page book. On the surface the language is quite simple and the writing is without the hyperbole often associated with alternative assets, and it is even humorous – for the genre. The simplicity is a bit misleading since the author is in the habit of using concepts in a slightly different way than they usually are. Hence the reader mustn't miss the definitions or the text could be confusing.

This quirkiness is also a positive trait since it means Abbink often sees issues from a fresh angle that adds insights to the topic. The topics in question can be the optionality of strategies, their trade capacity, the liquidity of assets, the effects of portfolio liquidity in a crisis and the potential liquidity premium, tactical allocation, the ebb and flow of opportunity and crowding in market niches, the changing faces of risk, investment time horizons and much more – all very important and often forgotten themes. The author is very partial to the thoughts of David Swensen, Andrew Lo and Richard Bookstaber – not a bad set of influences. Although I like the segmentation into directional, cash flow and arbitrage, it is still hardly unique and the author could have spent more time building his case for using these segments instead of traditional asset classes. This feels symptomatic as the book in the end mostly results in some interesting discussions rather than any firm advice.

Read the last two sections for their offbeat insights into central and less discussed issues in institutional asset management.

Mats Larsson, February 11, 2018