Editorial

This Editorial concerns the use of derivatives by institutional managers to facilitate asset allocation decisions. As is well known, many pension funds restrict the use of derivatives as a means of generating alpha, but it is now a widespread practice to allow fund managers to use futures contracts to change a fund's exposure to equity, bonds, or whatever else.

To carry out this exercise properly must require a certain amount of analysis. I cannot recall detailed expositions of trading/implementation strategies in recent issues of *DUTR*. The wide availability now of stock-specific derivatives may allow practitioners to bypass much of this analysis, but presumably the costs of such an exercise are increased. If we stay with the use of index futures, then it is necessary to calculate the funds' exposure to them. To

do this requires taking current portfolio weights and computing betas for each asset; they are likely to be variable and some notion of measurement error and the costs associated with the error need to be provided as well. On the plus side of such an analysis, however, reduced market impact and liquidity issues are likely, and these are the arguments in favour of using index futures. I would welcome communications and contributions from readers on this topic and would be delighted to publish both theoretical and practitioner oriented pieces in a later issue of the Journal.

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Editor

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