Journal Of Investment Management, Vol. 20, No. 3, (2022), pp. 92–93

www.joim.com

BOOK REVIEW

Mark Kritzman, Senior Editor

BOOK REVIEW: INVESTING AMID LOW EXPECTED RETURNS

Antti Illmanen
(*Review by Zachary Crowell*)

While the global financial climate of the past two decades has seen its share of downturns and periods of low confidence, there has been a healthy trendline of growth. What would happen if the investment climate shifts from that of the booming past to one of low expected returns? This is the exact question that Antti Illmanen seeks to answer in his new book *Investing Amid Low Expected Returns*. Illmanen posits that potential future returns of the next decade have been realized in the present and recent past, and that not only bonds, but all long-only assets are expensive. As this water finds its level, it can be expected that investors will be seeking profits amidst low expected returns.

Before diving into the weeds of investment strategies and bounds of financial research, Illmanen first makes a more human appeal. He places an emphasis on patience, noting that this virtue, coupled with the knowledge that not all whims of the market are under our control, can allow investors to spend more time carefully crafting investment strategies and decision-making processes. When heading into rough waters, we must batten down the hatches, and that all begins with the mental side of investment.

Illmanen then discusses how the approach to investing amid low expected returns is entirely contingent upon the investor and the specific type of fund they are managing, using defined benefit pensions, individual 401k, and university endowments as the main examples. Whether or not investors meet alpha goals amidst low returns can be helped by increased savings rates and contributions, as well as higher risk investments that yield higher returns. Illmanen emphasizes that decisions regarding savings rates and risk are extremely personal and considerations of liability and savings goals need to be the main consideration when making those decisions. In short, pensions that are underfunded, properly funded, and overfunded will face the issue of low expected returns in very different ways. Illmanen discusses these different strategies in detail with compelling historical evidence.

With these overall strategies in mind, Illmanen extensively breaks down the outlooks of risk premia for liquid assets, illiquid assets, and investment styles. He uses far-reaching historical evidence and a plethora of academic theory applied to the modern investment climate to form his conclusions. He places an emphasis on style premia, noting that while the performance of value investing has been disappointing over the past decade, it has centuries worth of validation and will be a useful tool in the coming years.

After discussing the various risk premia to be utilized in obtaining alpha, Illmanen presents to us the important tools to be used in portfolio construction while investing amid low expected returns. Mean-variance optimization is the driving force behind most portfolio decisions, but we are presented with other considerations that will be doubly important as expected returns decrease in the coming years. A big piece that fits into this puzzle is ESG investing, something Illmanen discusses at length along with considerations like cost and the risk appetite of portfolios.

In short, *Investing Amid Low Expected Returns* imparts upon investors wisdom that is useful in any investment climate, but especially in those less favorable. It is a technical, yet approachable work complete with logical formations derived an abundance of compelling historical evidence and modern financial theory. It is perfectly reasonable for any investor to feel apprehensive about what times of low expected returns may bring, but armed with Illmanen's knowledge in this work, one can't help but feel a little less daunted.