Syntax

Risk-Managed Equity for Open-Ended Portfolios

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How exposure-based equity strategies can fit within long-term institutional allocations

Portfolio construction often requires balancing two objectives that can appear in tension: maintaining meaningful exposure to equity markets while managing the risks associated with large drawdowns. Risk-managed equity strategies have emerged in response to this challenge, offering investors tools to modify the behavior of equity allocations across different market environments.

Many of these strategies are designed around defined outcome periods, providing a specific payoff profile over a fixed horizon. While this structure can be useful when capital will be deployed or spent within a defined timeframe, it reflects only one way to frame the equity risk problem.

For investors with open-ended time horizons, the considerations can differ meaningfully. Institutions such as endowments, foundations, and long-term asset owners often prioritize sustained capital growth across multiple market cycles rather than achieving a defined payoff at a specific date. In this context, risk management is often less about defining short-term outcomes and more about managing how portfolios behave across extended market regimes.

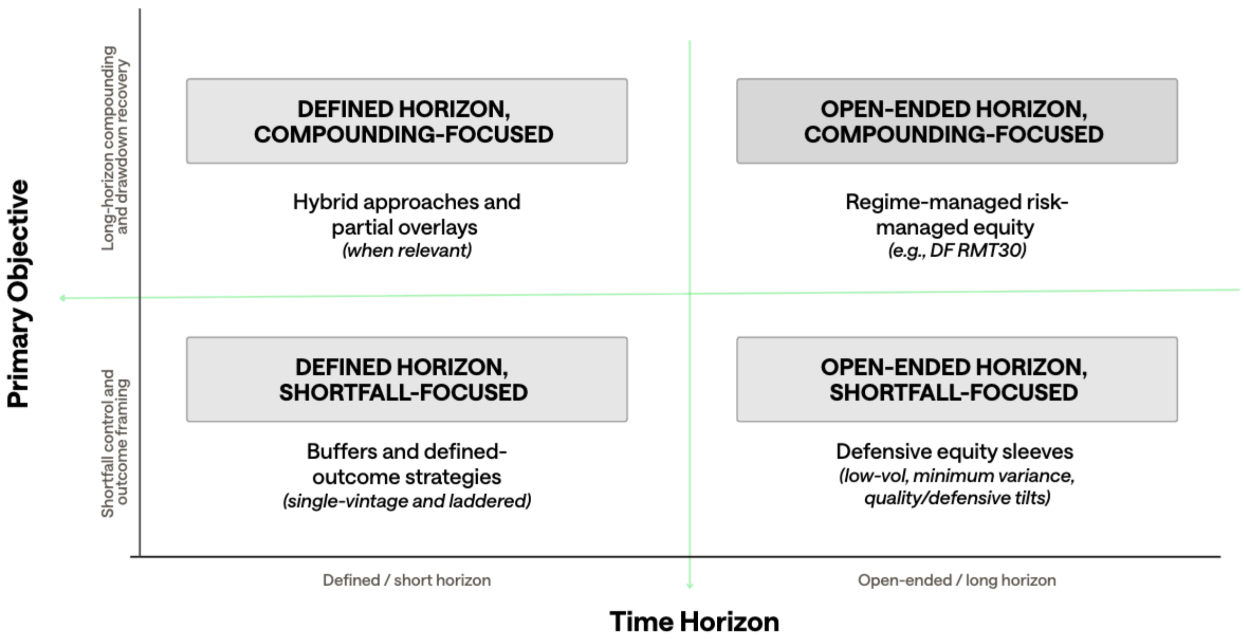
Time horizon and portfolio objectives

The distinction between fixed-horizon and open-ended portfolios plays an important role in determining how risk-managed equity strategies may be used. Investors with a defined horizon frequently focus on limiting losses over a specific time window, particularly when capital will be required for a known liability or expenditure.

By contrast, open-ended portfolios generally focus on maintaining exposure to long-term sources of return while managing the potential impact of large drawdowns. In these portfolios, the primary concern is often how deeply a portfolio falls during market downturns and how quickly it recovers afterward.

Exhibit 1 illustrates how different approaches to equity risk management can align with different investor objectives. Strategies that define outcomes over a specified period may be well suited to situations where capital must be preserved over a known horizon. Approaches that manage exposure across market regimes may be more closely aligned with portfolios focused on long-term compounding.

Exhibit 1: Framework for selecting equity risk management approaches



Source: Syntax

This distinction does not imply that one approach is universally preferable. Rather, it reflects how investment horizon and portfolio objectives influence the type of risk management framework that may be most appropriate.

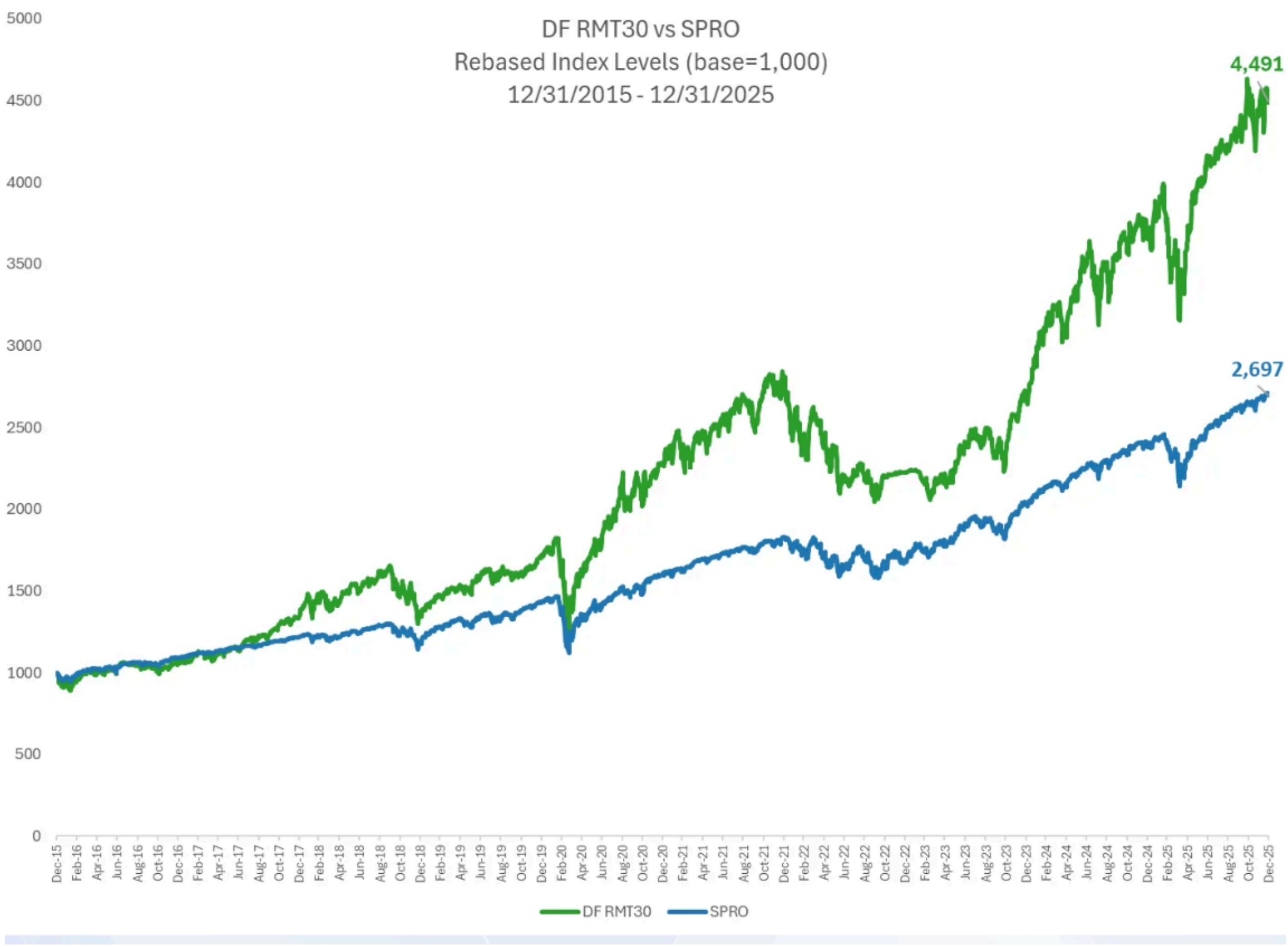
Exposure management in long-term portfolios

Exposure-based approaches to equity risk management focus on how allocations evolve across market conditions rather than on defining outcomes over a specific period. In these frameworks, risk management occurs through adjustments in portfolio exposure as market regimes change.

For long-term portfolios, this structure can offer several practical advantages. Because exposure remains fully engaged during most favorable market environments, the portfolio retains participation in sustained equity advances. At the same time, allocation adjustments during extended downturns may alter the depth of drawdowns and the time required to recover from them.

Exhibit 2 illustrates how these structural differences can influence long-term compounding. Over extended horizons, strategies that maintain participation in equity advances while managing exposure during prolonged downturns can produce different cumulative return paths than approaches that consistently limit upside participation.

Exhibit 2: Long-term compounding impact on exposure allocation vs buffers



Source: Syntax. Data from 12/31/2015-12/31/2025.

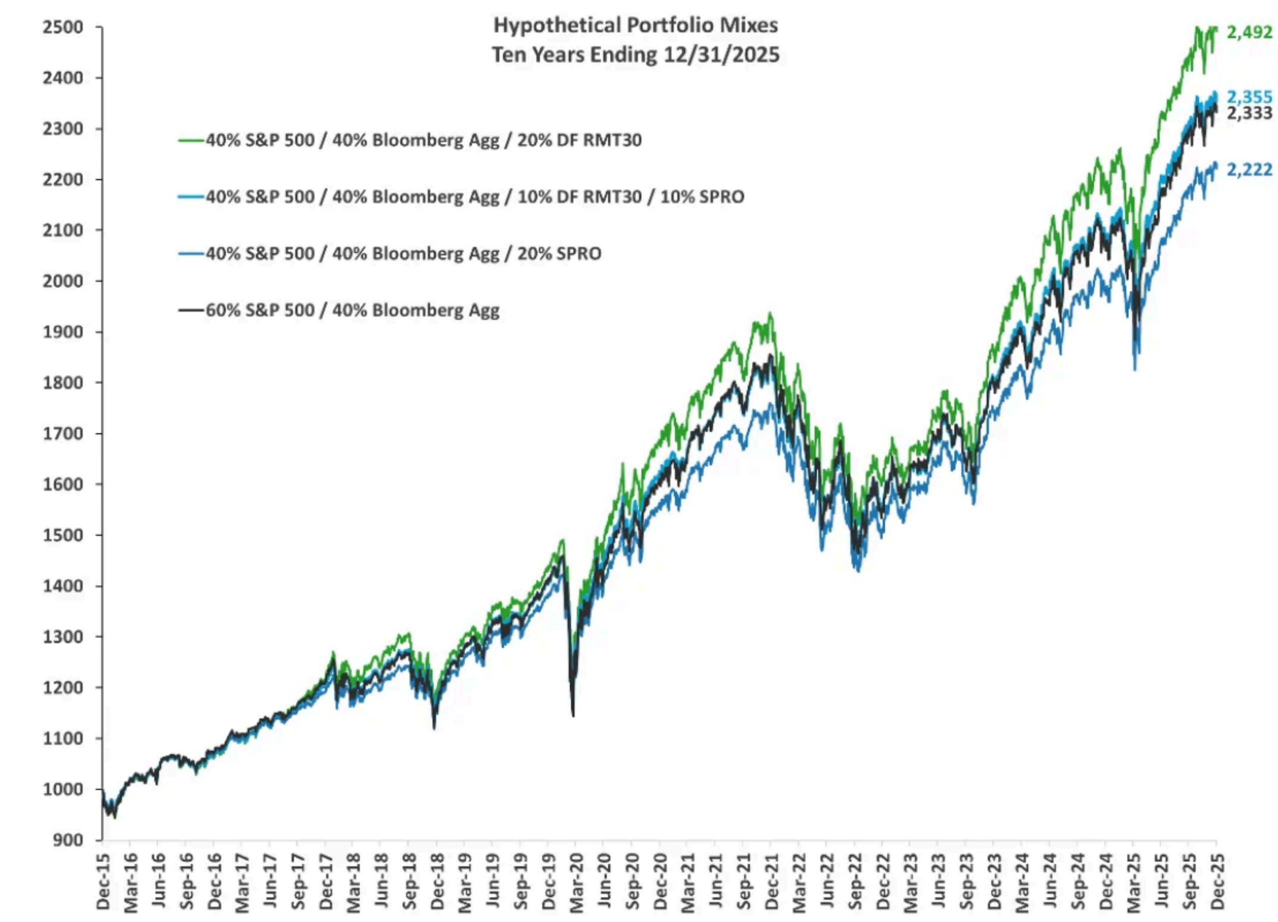
From a portfolio construction perspective, this distinction highlights the importance of aligning strategy design with the underlying objectives of the allocation.

Portfolio integration and diversification

In practice, exposure-managed equity strategies may be incorporated into portfolios in several ways. One approach is to use them within a portion of the equity allocation to introduce a systematic mechanism for adjusting exposure across market conditions.

Exhibit 3 provides an illustrative example of how different portfolio combinations can affect risk and return characteristics. Portfolios that incorporate exposure-based risk management alongside traditional allocations can exhibit different risk-adjusted outcomes over time, reflecting the interaction between equity participation and drawdown behavior.

Exhibit 3: Risk and Return Characteristics of Hypothetical Portfolio Mixes



	Annualized Return (%)				Annualized Volatility (%)				Sharpe Ratio				Sortino Ratio			
Horizon	1Y	3Y	5Y	10Y	1Y	3Y	5Y	10Y	1Y	3Y	5Y	10Y	1Y	3Y	5Y	10Y
40% S&P 500 / 40% Bloomberg Agg / 20% DF RMT30	14.5	15.7	8.1	9.6	12.1	10.0	10.9	11.3	0.83	1.10	0.45	0.66	1.52	2.23	1.05	1.03
40% S&P 500 / 40% Bloomberg Agg / 10% DF RMT30 / 10% SPRO	13.5	14.8	7.7	8.9	11.1	9.2	10.2	10.4	0.82	1.09	0.44	0.65	1.53	2.28	1.07	1.03
40% S&P 500 / 40% Bloomberg Agg / 20% SPRO	12.4	13.8	7.3	8.3	10.1	8.5	9.5	9.7	0.80	1.07	0.43	0.63	1.55	2.32	1.08	1.03
60% S&P 500 / 40% Bloomberg Agg	13.2	14.7	7.7	8.8	11.4	9.5	10.8	11.0	0.76	1.04	0.42	0.60	1.46	2.19	1.01	0.97

Source: Syntax. Data from 12/31/2015-12/31/2025. Best ranked statistics are shaded.

For long-term institutional portfolios, the objective is typically not to eliminate drawdowns altogether. Instead, the goal is to manage the magnitude and duration of those drawdowns while preserving exposure to long-term equity returns.

Aligning strategy design with portfolio context

Ultimately, the role of risk-managed equity strategies depends on the broader context of the portfolio in which they are used. Investors with fixed spending horizons may prioritize clearly defined outcomes over a specific period. Investors with open-ended horizons may focus more on how allocations behave across multiple market cycles.

Exposure-managed approaches are designed to address the latter objective by adjusting equity participation as market conditions evolve. Rather than defining outcomes over a predetermined window, they focus on managing drawdown behavior and recovery dynamics over time.

For institutions seeking to maintain long-term equity exposure while managing the risks associated with large market declines, this framework provides an alternative lens for approaching risk-managed equity allocations.

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