ATIVO
CAPITAL

The Role of Quantitative Models in Building Smarter SMAs

Actively Investing Worldwide

As investors increasingly turn to separately managed accounts (SMAs) to achieve customization and flexibility, integrating quantitative models into portfolio management is reshaping the industry. Quantitative approaches, grounded in data-driven insights and advanced analytics, offer opportunities to enhance portfolio performance while maintaining alignment with client-specific goals. In 2025 and beyond, leveraging these models will be critical for investment managers seeking to provide smarter, more effective solutions.

THE POWER OF DATA IN DECISION-MAKING

Quantitative models rely on vast datasets to uncover patterns and trends that human intuition might overlook. By analyzing historical performance, market behavior, and macroeconomic factors, these models can generate actionable insights. For SMAs, this means creating portfolios that are not only tailored to individual client objectives but also optimized for risk and return. With the growing availability of real-time data and machine learning capabilities, the precision and adaptability of these models continue to improve.

ENHANCING CUSTOMIZATION AND EFFICIENCY

Customization is at the core of SMAs, and quantitative models enable investment managers to tailor portfolios with remarkable specificity. Whether addressing ESG preferences, tax optimization, or risk tolerance, these models can incorporate multiple constraints and objectives simultaneously. For example, Ativo Capital uses models to identify securities that meet a client's environmental criteria while ensuring adherence to diversification and liquidity thresholds. This level of customization enhances client satisfaction and retention.

Efficiency is another critical benefit. Traditional portfolio construction methods can be time-intensive, particularly when dealing with complex client requirements. Quantitative models streamline the process by automating key aspects of analysis and allocation. This not only saves time but also reduces the potential for human error, resulting in more consistent outcomes.

MITIGATING RISK THROUGH ADVANCED ANALYTICS

Risk management is a cornerstone of successful portfolio management, and quantitative models excel in this area. By analyzing historical volatility, correlation matrices, and scenario simulations, these models help managers anticipate potential risks and adjust portfolios proactively. For example, during heightened market uncertainty, a quantitative approach can dynamically rebalance a portfolio to maintain desired risk levels while capitalizing on opportunities.

Quantitative models can also incorporate stress testing to evaluate how portfolios might perform under various adverse scenarios. This capability is particularly valuable for SMAs, where clients often demand greater transparency and accountability in how their assets are managed.

THE HUMAN TOUCH: BALANCING QUANTITATIVE AND QUALITATIVE INSIGHTS

While the benefits of quantitative models are undeniable, their effectiveness is maximized when paired with human judgment. Ativo Capital emphasizes the importance of blending quantitative precision with qualitative expertise. Investment professionals play a vital role in interpreting model outputs, contextualizing recommendations, and communicating strategies to clients. This ensures that portfolios align with both numerical objectives and broader client values.

LOOKING AHEAD: THE FUTURE OF QUANTITATIVE SMAS

As technology advances, the potential applications of quantitative models in SMAs will expand. Artificial intelligence and machine learning enable more sophisticated pattern recognition and predictive analytics. These tools promise to further enhance customization, efficiency, and risk management, solidifying the role of quantitative strategies as a cornerstone of SMA innovation.
For investment managers, the challenge lies in staying ahead of the curve by adopting and integrating these tools effectively. Those who succeed will be well-positioned to deliver smarter, more tailored solutions that meet the evolving needs of their clients.

In conclusion, quantitative models are not merely tools for optimization; they are enablers of innovation and customization in SMAs. By harnessing their power, firms like Ativo Capital can build portfolios as intelligent as they are individualized, setting a new standard for the industry.

Disclosures

While we disclosed the many benefits of use of quantitative models, they do come with risks and limitations that you should be aware of. The financial markets are influenced by a wide range of factors, including economic conditions, geopolitical events, and investor sentiment, many of which cannot be predicted or fully incorporated into quantitative models. The accuracy of quantitative models heavily relies on the quality of the data used for analysis. Incomplete, incorrect, or biased data can significantly affect model outputs, leading to inaccurate predictions and suboptimal investment decisions. The models used in our firm's strategy are only as good as the assumptions and algorithms on which they are based. Any flaw in the model design, incorrect assumptions, or errors in the algorithm could lead to significant financial losses. There is no guarantee that the model will always perform as expected.

For more information please contact:

Michael Brooks
Director of Marketing & Client Relations

Ativo Capital Management, LLC
120 N LaSalle Suite 1045
Chicago, IL 60602

marketing@ativocapital.com
312-229-5208