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Research Papers

# A VaR Black-Litterman model for the construction of absolute return fund-of-funds

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## **Abstract**

The objective is to construct fund-of-funds (FoFs) that follow an absolute return strategy and meet the requirements imposed by the value-at-risk (VaR) market risk measure. We propose the VaR Black-Litterman model which accounts for the VaR and trading (diversification, buy-in threshold, liquidity, currency) requirements. The model takes the form of a probabilistic integer, non-convex optimization problem. We first derive a deterministic reformulation of the probabilistic problem, which, depending on the

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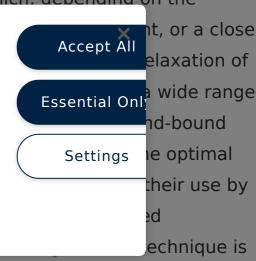
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very efficient, outperforming, in terms of both speed and robustness, three state-of-theart alternative solution methods and solvers.

Q Keywords: Portfolio optimization Probabilistic programming Funds-of-Funds Black-Litterman

Absolute return Trading constraints

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