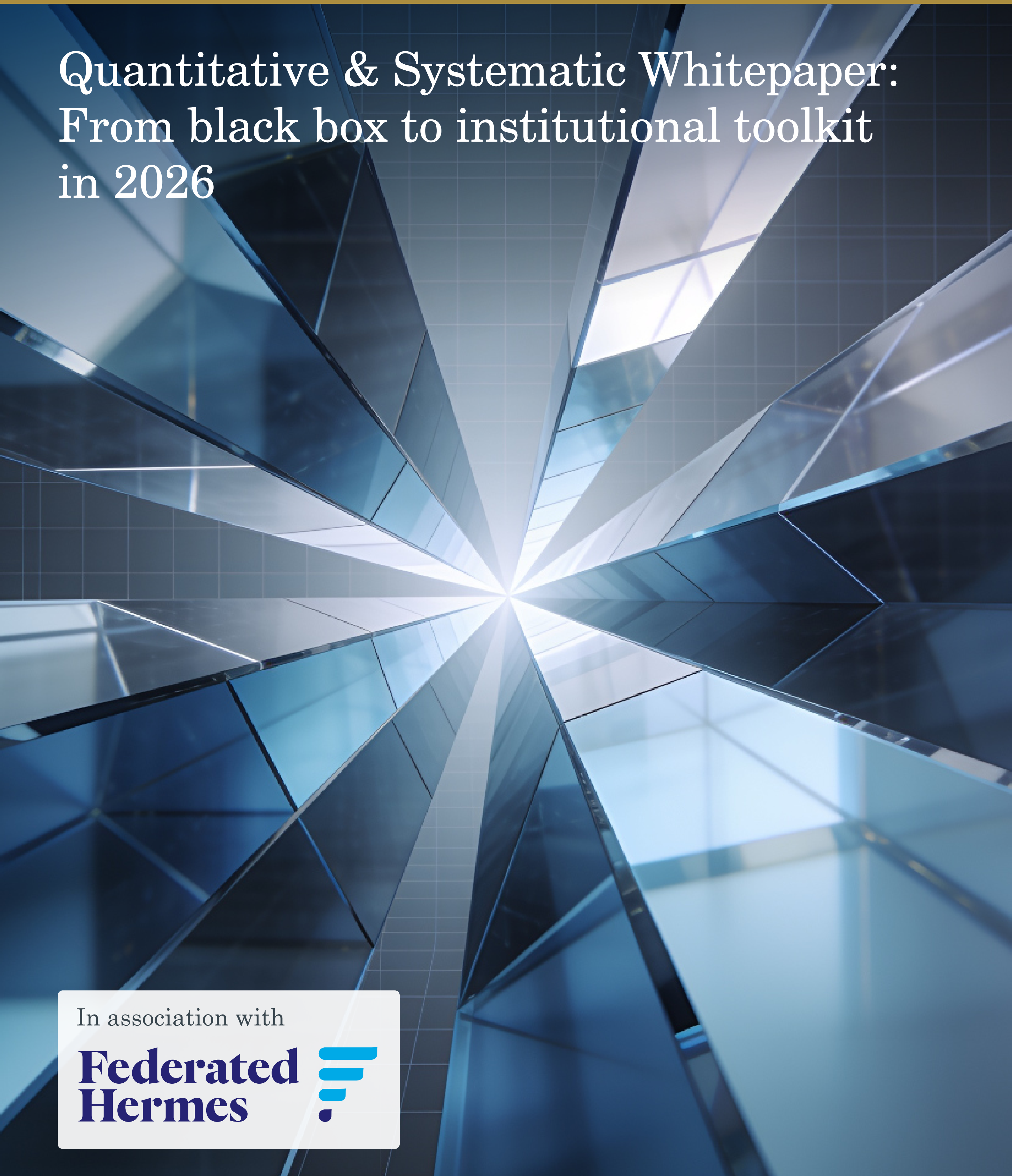
cio investment club

Whitepaper #27 June 2026

Quantitative & Systematic Whitepaper: From black box to institutional toolkit in 2026



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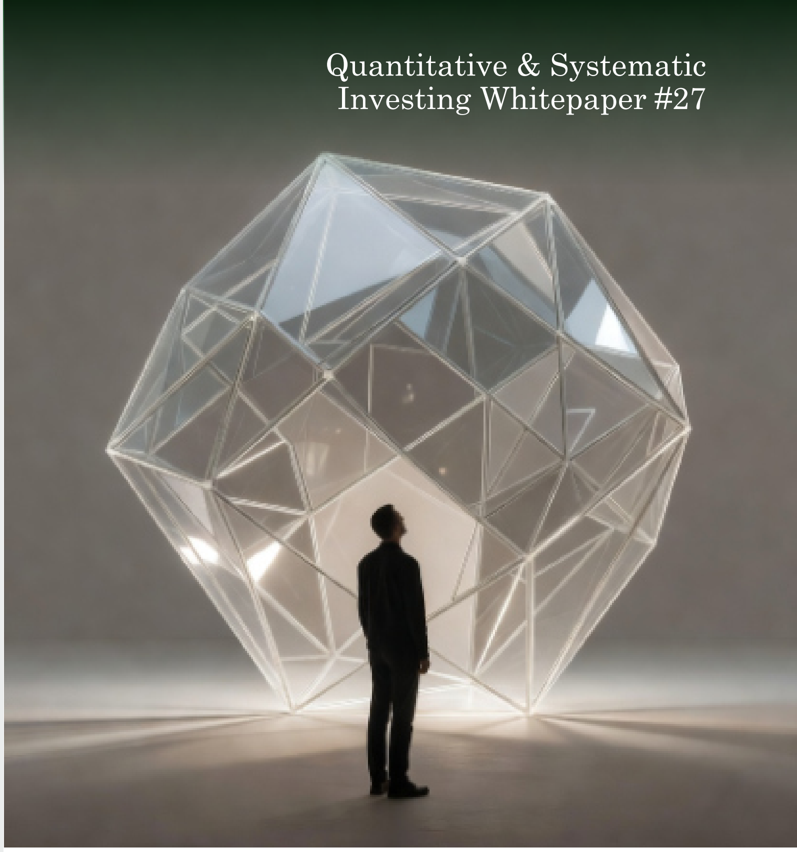

Roundtable sponsor

Thank you to our sponsor for this edition of the Quantitative & Systematic Investing Roundtable.

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Why quant matters right now

Quantitative investing – which uses statistical, mathematical and analytical techniques to support portfolio construction and investment decision-making – is moving into the mainstream. Once associated primarily with hedge funds and specialist systematic managers, quantitative strategies are now attracting growing interest from pension funds, insurers and asset allocators looking for greater consistency, diversification and implementation discipline.

During May 2026, at a cio investment club roundtable, some participants suggested that this shift is a response to wider institutional pressures around governance, performance consistency and more robust risk management. Rather than seeking purely high-return strategies, allocators are increasingly evaluating how systematic approaches can acclimatise to different market environments and how they can complement existing portfolio exposures.

By 2025, bank trading units were already managing around $850 billion in Quantitative Investment Strategies (QIS) - more than double the figure recorded in 2020.

These figures reflect a broader shift that was discussed extensively in this roundtable: quantitative investing is no longer being viewed purely as a specialist or hedge fund-led discipline. Participants are now talking about a market in which systematic approaches are being evaluated by institutional allocators as core, scalable solutions that deliver returns with diversification, risk management and improving portfolio efficiency.

Advances in AI, machine learning and computing power have revolutionised research development of increasingly sophisticated systematic investment approaches. Against this backdrop, the discussion centred on why quantitative investing is increasingly being viewed as a core institutional toolkit, rather than just a niche allocation.

The discussion framed quantitative investing as a framework for portfolio construction, diversification and implementation discipline, rather than just a source of alpha.

In fact, according to Tom Stork, Associate Partner, Equity Manager Selection at Aon, it might even be an understatement to say that quant is 'in demand'.

"I would struggle to find a time in my career to date when there has been so much appetite from my client base for quant," he said.

What is driving this trend?

Stork pointed to style rotations and recent pressure on fundamental managers.

"Fundamental active managers have struggled… we've seen cycles on the fundamental manager side… since Covid we've seen a shake-out in those different styles, and investors start to capitulate - initially on value, and then a capitulation on growth, and then a capitulation on quality."

Another recurring theme was the impact of equity market concentration, which has created a particularly difficult environment for discretionary managers, especially with the dominance of the Magnificent Seven technology stocks. Some argued that benchmark-aware systematic strategies are better positioned to navigate this environment while diversifying alpha opportunities elsewhere in the portfolio.

Scott Conlon, Vice President, MDT Investment Director, Quantitative Strategist, Federated Hermes, referred to the 2000s as the 'heyday' for asset raising and quantitative strategies – but he was careful to mention the fact that clients would exit when performance 'turned', because they did not understand the process behind the returns.

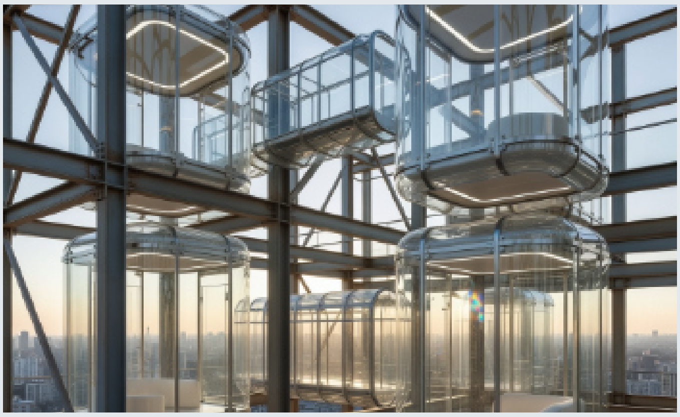
Meanwhile, Jon Woo, Senior Research Analyst on the equities team at Russell Investments, argued that the environment has reinforced the importance of advances around more adaptive portfolio construction alongside stock selection, noting that "there is actually a skill in construction, not just in selection."

Conlon added that institutional appetite for quant has returned after years of quieter demand, while Krishna Nehra, Head of Quantitative Strategy at Evelyn Partners, suggested that the distinction between systematic and fundamental investing is already beginning to narrow. Cameron Allan, Senior Manager – ALM & Investment Solutions, Lloyd's of London, described the current environment as "a very good time for quant."

> *I would struggle to find a time in my career to date when there has been so much appetite from my client base for quant*

Moving from black box to quant explainability – and accountability

Renewed demand for quant is only one side of the story, however. Explainability and accountability are also becoming increasingly important: participants stressed that the institutional adoption of quant will depend on whether managers can clearly explain how a strategy works, where the risk comes from, and in which environments performance may deteriorate.



Some argued that explainability is already central to institutional governance. Allocators may be willing to tolerate periods of underperformance if they understand the drivers behind the investment strategy and the common circumstances that typically lead to weaker performance.

Conlon argued that "it's up to the managers to do a better job of articulating what's driving any period of underperformance."

"These are active strategies. You are not going to outperform every year," he said. "We intentionally designed [our process] to be very transparent."

Dean Wetton, Managing Director at Dean Wetton Advisory, also argued that institutional allocators still need clarity around how quantitative strategies behave in practice.

"I would never invest in a quant strategy unless the manager explained exactly why they got the stock weighting that they did," he said. "Clients need to understand what they're buying."

Wetton also stressed that transparency matters most during periods of underperformance.

> *Sometimes explaining these strategies to investment committee members can be difficult.*

"The most important thing is when this thing is going to underperform. I don't feel comfortable with any black box."

Participants agreed that this communication challenge becomes particularly important when explaining complex systematic strategies to broader governance bodies.

As Allan noted: "Sometimes explaining these strategies to investment committee members can be difficult."

Nehra similarly argued that institutional investors increasingly want managers to explain their investment processes clearly - but without necessarily disclosing proprietary intellectual property.

"It is more about explaining your process... without giving away your secret sauce."

Stork added that sustainable competitive advantage should still be explainable at a high level.

"If you can't explain it without revealing your secret sauce… maybe you don't have sustainable competitive advantage to begin with."

There also needs to be an important distinction between transparency and intellectual property disclosure. While managers are often hesitant to reveal any proprietary modelling, there was a consensus that allocators still need to understand the portfolio construction logic, implementation discipline, risk controls and the likely periods of underperformance.

To put it more succinctly: be transparent. Whatever the forecast is.

"Explain to me when your model will underperform and how materially," said Woo. "If you can't answer that, your model work is incomplete."

The expanding role of portfolio construction

Next, the discussion moved towards the increasing commoditisation of traditional factor exposures. Participants repeatedly emphasised that modern quantitative investing is increasingly influenced by portfolio engineering to break the mould rather than just factor discovery. Several argued that signal breadth and signal combo, regime management and implementation strength are becoming important alpha sources and are integrated into quantitative stock selection.

Woo argued that the centre of gravity has already shifted towards sophisticated modelling.

"Quant strategies are becoming adaptive, alongside figuring out how to curate differentiated alpha sources, deploying machine-learning in both instances. This is empowering them to achieve returns across an increased breadth of market regimes."

Today, the institutional appetite for quant is not driven solely by returns. Allocators are increasingly evaluating systematic strategies that demonstrate portfolio resilience, implementation consistency and good governance.

> *Quant strategies are becoming adaptive, alongside figuring out how to curate differentiated alpha sources, deploying machine-learning in both instances.*

Pension funds and insurers are under more pressure to demonstrate repeatable, predictable investment processes, along with diversified returns and robust risk controls, especially during periods of market volatility.

This has created a more favourable backdrop for systematic approaches that can deliver the disciplined portfolio construction and transparent implementation frameworks that many institutional investors now prioritise.

Stork described quant as "a higher batting-average, lower slugging-ratio type approach", adding: "Where can I get a high information ratio? Where can I build the core of my portfolio?"

This became particularly relevant during the recent period of extreme equity market concentration, where a small number of technology stocks increasingly dominated benchmark performance.

The dominance of the 'Magnificent Seven' technology stocks was repeatedly referenced during the discussion, but primarily as a challenge for discretionary managers. Participants made a strong case that benchmark-aware systematic strategies can navigate this environment more effectively because they can maintain exposure to dominant benchmark constituents without losing access to alpha elsewhere in the portfolio.

Conlon argued that modern quantitative frameworks are increasingly focused on diversification across multiple alpha sources.

"What we try to do is identify differentiated alpha ideas," said Conlon. "The whole point of the modelling framework that we use is to build as much diversification of alpha sources into the portfolio as possible."

Nehra also highlighted the trade-off between scalability and alpha generation.

"There is a trade-off between scale and alpha," she said. "If you want a strategy to be scalable… your alpha will be less."

She also suggested that machine learning may become increasingly valuable in helping managers adapt to shifting market environments and changing regimes.

"Machine learning will add a lot of value in systematising regime identification and capturing non-linear relationships between different drivers, adapting your process and system based on changing regimes."

Some participants also argued that it is becoming harder to define the historical distinction between quantitative and fundamental investing. Fundamental managers increasingly use systematic screens, data science methods and quantitative overlays, while quant managers are incorporating more adaptive and contextual modelling approaches.

Allan noted that institutional allocators increasingly evaluate systematic strategies in the context of broader portfolio diversification.

"How does including this strategy help us diversify the other equity mandates?"

Wetton also warned against over-diversifying benchmark-aware approaches that ultimately deliver very similar exposures.

"There's no point blending too many [strategies] that have a very low tracking error around the same benchmark, because you're just going to contra the bets," he said.

> *The whole point of the modelling framework that we use is to build as much diversification of alpha sources into the portfolio as possible.*

The new reality for managers – from innovation to asset-gathering

The discussion also examined the rapid growth in new quantitative managers entering the market. This has been supported by advances in cloud computing, machine learning tools and data accessibility, which have significantly lowered barriers to entry.

However, it is important to emphasise that lower technological barriers have not eliminated the operational complexity associated with running successful systematic strategies at institutional scale.

Having better access to tools does not necessarily make quant investing easier, as large investors still want to see proof of execution capability, implementation experience, operational robustness and disciplined risk management across different market regimes.

As Woo explained: “It’s actually more challenging to start out as a quant today in terms of competing on sophistication and innovation. You need scale, you need compute, and an even greater combination of disciplines and tools.”

“You need to be creative. You need to have a strong, robust research agenda.”

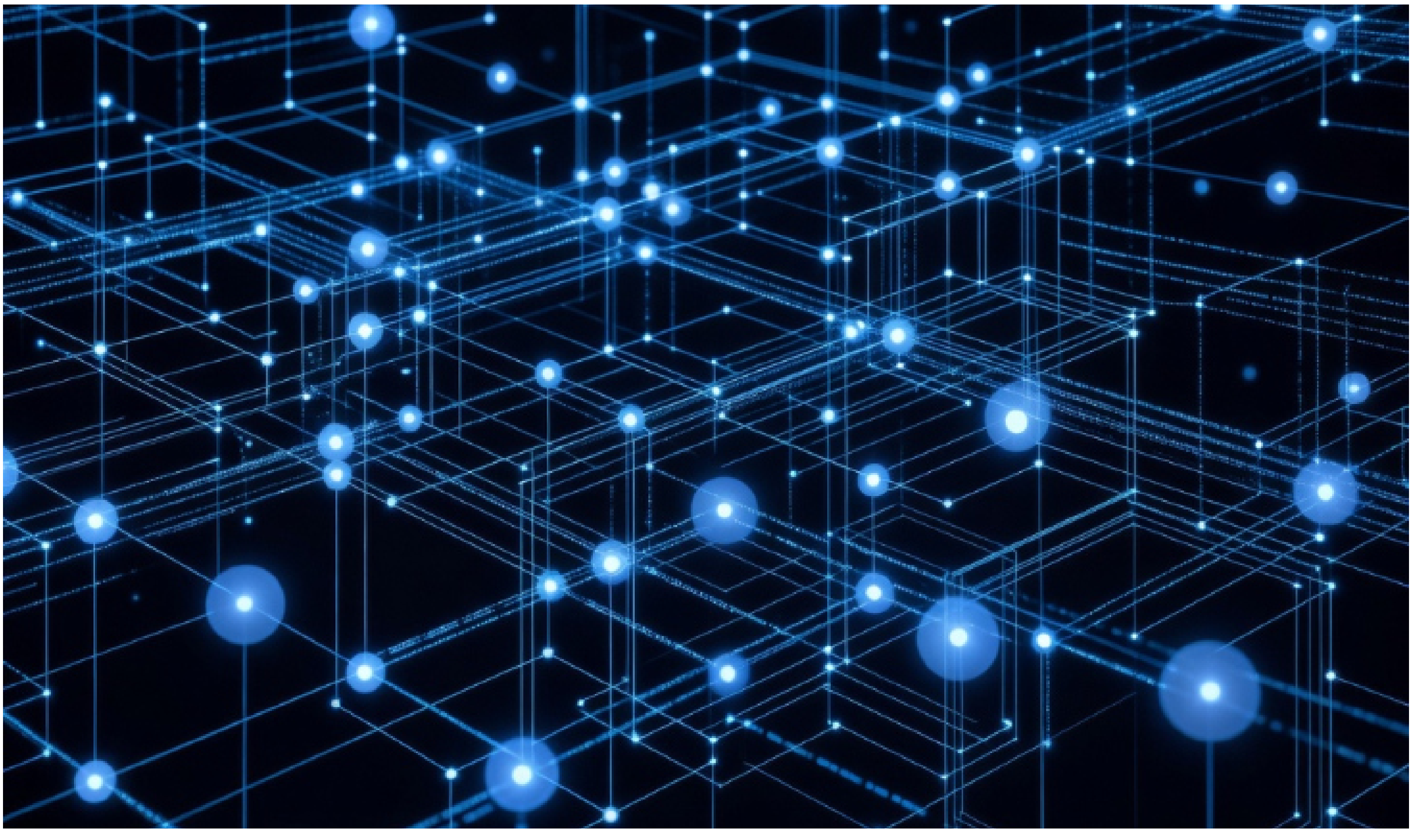
Conlon argued that live experience remains one of the most valuable differentiators in systematic investing.

“You learn a lot managing this process through a variety of different environments,” he said. “There’s a benefit from having a lot of experience managing that strategy live.”

Several participants also warned against relying too heavily on backtesting alone, as this cannot fully replicate the behavioural pressures associated with spells of underperformance, liquidity constraints, market impacts or execution challenges.

As Wetton put it, “developing the idea is only part of the challenge - managers also need the right platform to execute efficiently.”

Participants also suggested that new entrants often underestimate this operational dimension. Although recent technological advances have reduced the technical barriers to entry, institutional allocators still place significant importance on execution capability, liquidity management, operational robustness and live-track-record experience.



Successful systematic investing therefore increasingly depends not just on the quality of the underlying research, but on the ability to implement strategies consistently across different market conditions.

However, Nehra argued that newer managers may be more open to innovation and more willing to adapt quickly to evolving market conditions.

"With the new tools and everything, their process will be much more linked to where the market is going now," she said.

One of the main consequences of this trend, as Stork suggested, is that the competitive intensity within quant is only likely to increase.

"You have this paradox of skill where you need to be even better to outperform."

Several participants argued that this increasing competitive intensity may make operational robustness and implementation discipline more important differentiators than factor discovery alone. There were also suggestions that institutional allocators are becoming increasingly focused on distinguishing genuine systematic engineering from marketing-led rebranding, particularly as more firms attempt to position themselves as AI-driven or quantitatively sophisticated.

Allan, for example, highlighted the governance pressures faced by institutional allocators when evaluating emerging managers.

"You have this paradox of skill where you need to be even better to outperform."

"If we invest in this new entrant that no one's ever heard of and they underperform, then we look like we've made a silly decision."

The discussion also examined the growing risks of crowding and factor convergence across the industry – with Woo noting that many firms are increasingly using similar tools and machine learning techniques.

"Everyone's talking about machine learning and non-linear models appearing. At some point… everyone has an NLP signal," he added.

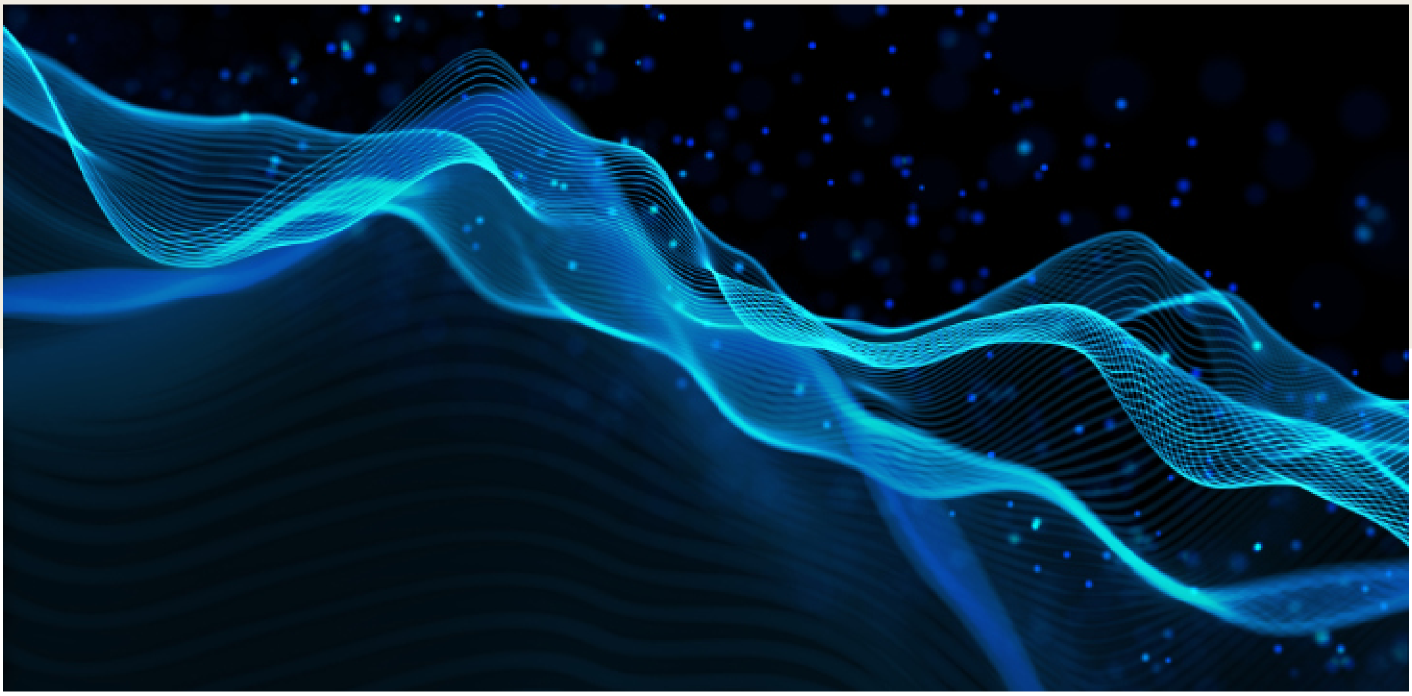
However, that doesn't mean everyone is following the same path.

"Hopefully today, quantitative managers are a bit more differentiated than they were relative to each other back at the global financial crisis timeframe," said Conlon.

Participants generally supported this view, although the widespread adoption of similar data sets, machine learning techniques and alternative data sources could still create hidden common exposures across the industry.

What CIOs must demand next

The discussion ultimately returned to the big institutional question: what should institutional CIOs and allocators demand from quantitative managers as systematic investing becomes more deeply embedded within portfolios?



Wetton argued that trust in investment strategies and new technologies still ultimately comes down to trusting people. Woo agrees and adds that this refers to the quant practitioner - the curation of their signals and techniques, how to outsample or anonymise.

Despite the rapid evolution of machine learning, data science and portfolio engineering, participants repeatedly returned to the importance of human judgement, governance and institutional trust.

Above all, investors need to be confident in the people managing the strategy - whether they are investing in driverless cars or quantitative portfolios.

"You don't trust a machine. You trust people," Wetton said.

He also referenced a famous historical sector collapse to illustrate the dangers of relying on systems that are not fully understood, indicating that "they trusted the people instead of understanding the machine".

Wetton further suggested that markets themselves may now be entering a structurally different environment as the industry approaches a new regime "where things just don't work the same way as they did before."

Allan argued that increasing institutional adoption of systematic investing may therefore be a rational response to changing market dynamics.

"It's kind of sensible for more money to flow into these types of strategies."

Nehra and Stork also suggested that the distinction between quantitative and fundamental investing is likely to continue narrowing as systematic tools become more widely adopted across the industry.

"The line between fundamental and quant managers will become very thin," argued Nehra.

"Models that have more traditional factor exposure will continue to move away from that into more

It's kind of sensible for more money to flow into these types of strategies.

> *The industry evolves because people are constantly researching and these days scraping the latest new academic paper.*

idiosyncratic signals," said Stork, adding that "we will continue to see people coming into quant shops that don't have traditional quant backgrounds."

Woo suggested that this ongoing evolution is likely to continue reshaping the industry.

"The industry evolves because people are constantly researching and these days scraping the latest new academic paper."

In the era of new ideas: "Some quants will fail with new models and toolkits. Some will go back and rethink what they've done wrong."

Conlon described the current environment as one of the most exciting periods for quantitative investing in recent years.

"It's a pretty exciting place to be if you're a quantitative manager," he said. "The tools available today just weren't as abundant ten or fifteen years ago."

Throughout the discussion, participants repeatedly returned to one overarching theme: quantitative investing is evolving away from the opaque 'black box' image of the past and towards a more integrated institutional toolkit. Rather than replacing discretionary investing entirely, systematic approaches are increasingly being combined with traditional investment processes to improve diversification, portfolio construction, discipline and risk management.

At the same time, participants suggested that the distinction between quantitative and fundamental investing is likely to continue narrowing as both disciplines adopt similar tools, data science methods and portfolio engineering techniques.

CIOs and institutional allocators are therefore likely to place even greater emphasis on implementation discipline, explainability and robustness across different market regimes. As discussed previously, the future of quantitative investing is unlikely to be defined solely by autonomous machines replacing discretionary investors. Instead, it is likely to be defined by the deeper integration of systematic intelligence, portfolio engineering and human judgement into mainstream institutional investing.

Participants

Dean Wetton

Managing Director, Dean Wetton Advisory

Dean Wetton, BComm (Hons), MBA, CFA, Managing Director, founded Dean Wetton Advisory in 2009, recognising the need for a fresh approach to providing investment advice to clients: an approach that delivered straightforward, clear advice in a cost-effective way.

Dean has wide experience of advising clients on a range of investment issues, having previously been Head of the Manager Evaluation Function at P-Solve Asset Solutions and a senior member of Hewitt's Manager Research Team.

Tom Stork

Associate Partner, Equity Manager Selection, AON

Thomas is an Associate Partner in Aon's equity manager selection team and Head of Factor Investing. He brings more than a decade's experience in covering global and emerging market equity strategies with roles in Australia and the UK.

With a focus on systematic investing strategies, Thomas has a keen focus on improving client outcomes via rules-based strategies aligned to their financial and sustainability objectives.

Jon Woo

Senior Research Analyst, Russell Investments

Jon graduated with an undergraduate MEng degree from Imperial College in Information Systems Engineering. He is currently a Senior Research Analyst at Russell Investments covering Global Equities as well as EM & China equity strategies.

He has over a decade of experience in manager research, having joined from Santander Asset Management in 2018. Prior to that, Jon held quantitative investment and portfolio construction roles at UBS and Barclays Wealth respectively where his projects included factor signals, risk systems, and multimanager blending.

Russell Investments

Cameron Allan

Senior Manager – ALM & Investment Solutions, Lloyd's

Cameron is a senior manager in the investment team at Lloyd's. His primary focus is the investment strategy of the assets managed by Lloyd's (c.£15bn), including the Lloyd's Central Fund and the Lloyd's managed overseas trust funds.

Prior to joining Lloyd's in 2021, Cameron was a manager in the quantitative advisory services team at EY, where he built credit risk models for clients. Cameron graduated with a first-class degree in Mechanical Engineering from Queen's University in Canada and is also a CFA and CAIA charter holder.

LLOYD'S

Krishna Nehra

Head of Quantitative Strategy, Evelyn Partners

Krishna Nehra is responsible for quantitative asset allocation and research at Evelyn Partners. She has over 14 years of experience in strategic and tactical asset allocation, factor analysis, and systematic quantitative processes across asset classes.

She is a member of the firm's Asset Allocation Committee. Krishna joined Evelyn Partners in November 2022 from USS, where she led quantitative strategy and asset allocation across both defined benefit and defined contribution schemes. She holds a PhD in Telecommunications Engineering.

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Scott Conlon

Vice President, Investment Director, Quantitative Strategist, Federated Hermes

As an investment director for MDT Advisers, a Federated Advisory Company, Scott Conlon is responsible for interaction with institutional clients and consultants, articulating the strategy, process, positioning and performance of Federated Hermes MDT's quantitative equity strategies. He has more than 25 years of investment experience.

Prior to joining Federated Hermes in 2023, Scott was a Senior Equity Investment Specialist at Aberdeen, where he was responsible for advancing the growth of the firm's equity investment capabilities. He also worked at State Street Global Advisors as Vice President and Portfolio Strategist, where he was responsible for driving all aspects of strategy positioning and market penetration for the firm's quantitative equity strategies.

Scott earned his bachelor's degree in Finance from Bentley College and master's degree in Finance from Boston College. He is a CFA® charterholder.

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In attendance

Elizabeth Pfeuti (Moderator)

Director, Rhotic Media

Former Dow Jones staffer Elizabeth Pfeuti is a member of the Rhotic Media executive leadership team. A highly decorated journalist, Elizabeth has been in financial journalism for almost 20 years. At Dow Jones, she covered the asset management, investment banking and investor services beats for Financial News, where she also wrote on a wide range of regulatory themes.

She was previously the European Editor for CIO Magazine and boasts an exceptional contact book of buy-side and in-house institutional CIOs and asset management executives. More recently she has worked on corporate briefs for pension consultants, investment banks and asset management groups.

Douglas Anderson

Executive Director, Head of International Consultant Relations, Federated Hermes

Douglas joined in February 2017 as Head of Consultant Relations. Prior to this, he was a consultant relations manager at Lazard Asset Management Limited for five years from 2011 and at Capital International for 11 years from 2000. He has also worked in consultant and actuarial roles at Bacon & Woodrow (now Aon Hewitt) and Hymans Robertson.

Douglas holds the Investment Management Certificate (IMC) qualification and a BSc (Hons) in Mathematics from the University of St Andrews.

Jessica Henry

Vice President, Investment Director for Equities, Federated Hermes

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Jessica joined in December 2024 as an Investment Director supporting and representing our Sustainable Equity and Impact strategies. Jessica joined from Man Group, where she worked as a Responsible Investment Specialist. Prior to this, Jessica also worked as a Senior Research Analyst within Man Group's Responsible Investment team and as an Investment Analyst on Man Group's Investment Graduate Programme.

Jessica currently serves a Chair of the UK Sustainable Investment and Finance Association's ("UKSIF") Industry Development Committee, and has previously held positions on the Principles of Responsible Investment ("PRI") Nature Reference Group and the Investment Association's ("IA") Climate Change Working Group. In 2023, Jessica was named "Rising Star Sustainable Investment Champion of the Year" by Investment Week and announced as a listee for "Women of the Future: 50 Rising Stars in ESG" in partnership with Tesco.

Jessica has a first-class BSc degree in Economics and an MSc in Finance and Investment from the University of Nottingham.

Ian Coulman

Strategic Consultant, cio investment club

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Ian is an experienced investment professional with international experience and strong leadership and management skills. He has a strong investment knowledge of major asset classes and a wide variety of investment products and styles in fixed income, equities and alternative asset classes. His most recent role was Pool Re's Chief Investment Officer, where he was responsible for the development and implementation of investment strategy, strategic asset allocation and the monitoring of the investment managers through whom Pool Re invested. Since leaving Pool Re Ian is now exploring opportunities where he can use his experience and knowledge.

Prior to joining Pool Re as CIO, Ian fulfilled several senior investment roles with Butterfield Bank in Bermuda and AIG in London, Boston and Tokyo. Ian began his investment career with the private Swiss bank Lombard Odier.

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Chloe Irapah

Administrator, cio investment club

Chloe joined the cio investment club in June 2025 to assist with the coordination of marketing, events, and administration of the club.

Chloe is a Marketing and Management professional with over six years of industry experience, starting in luxury fashion and progressing into roles focused on partnerships and project management.

She holds a First Class Honours Bachelor's degree in Marketing and Management and is known for aligning brand vision with innovative marketing strategies and impactful partnerships.