



Recent Explorations in the Factor Investing Space

Smart Beta Europe Conference
18th April 2018

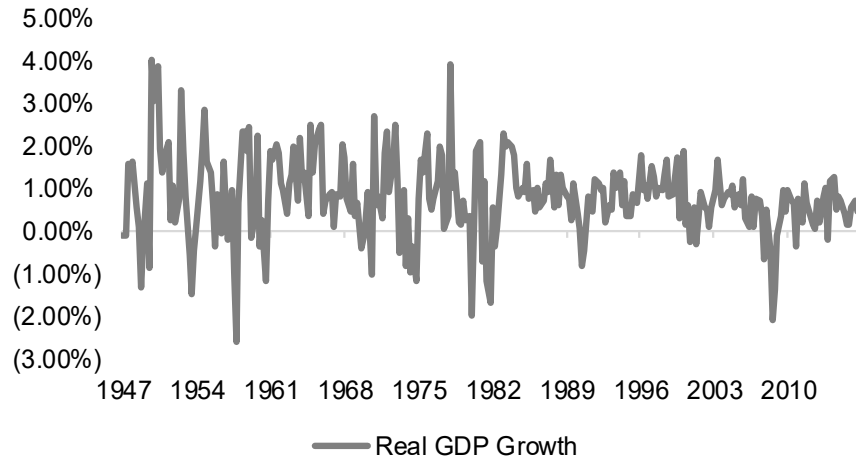
Agenda

- I. Equity Factors & Economic Growth
- II. Factor Allocation Models
- III. Smart Beta or Smart Marketing?

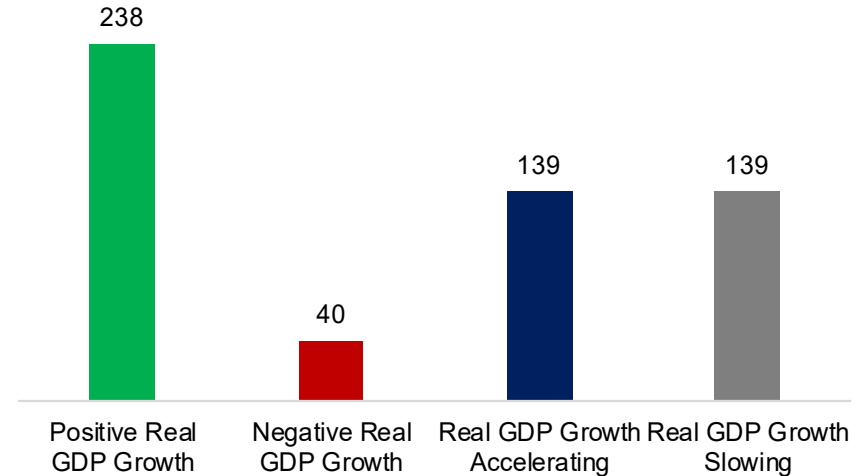
Equity Factors & Economic Growth

Does Strong Economic Growth Equal to High Factor Returns?

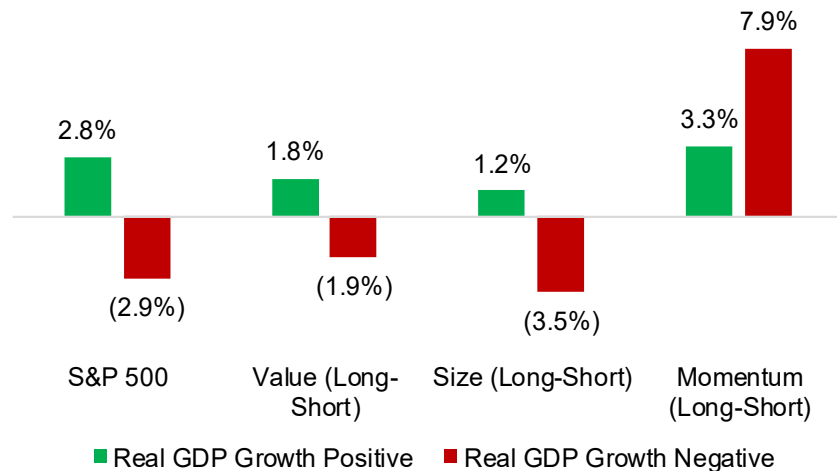
US Real GDP Growth



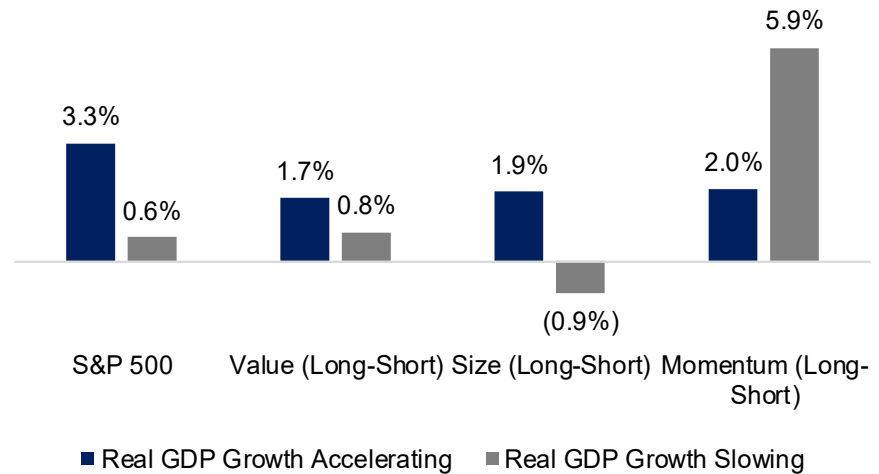
US Real GDP in Number of Quarters (1947 - 2017)



GDP Growth: Positive or Negative (1947 - 2017)

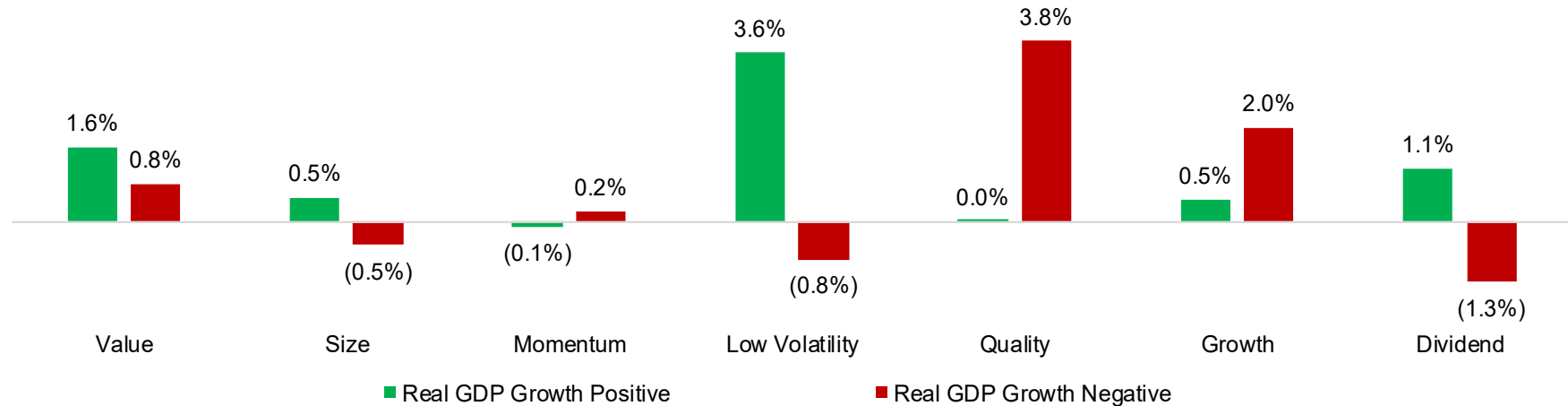


GDP Growth: Increasing or Slowing (1947 - 2017)

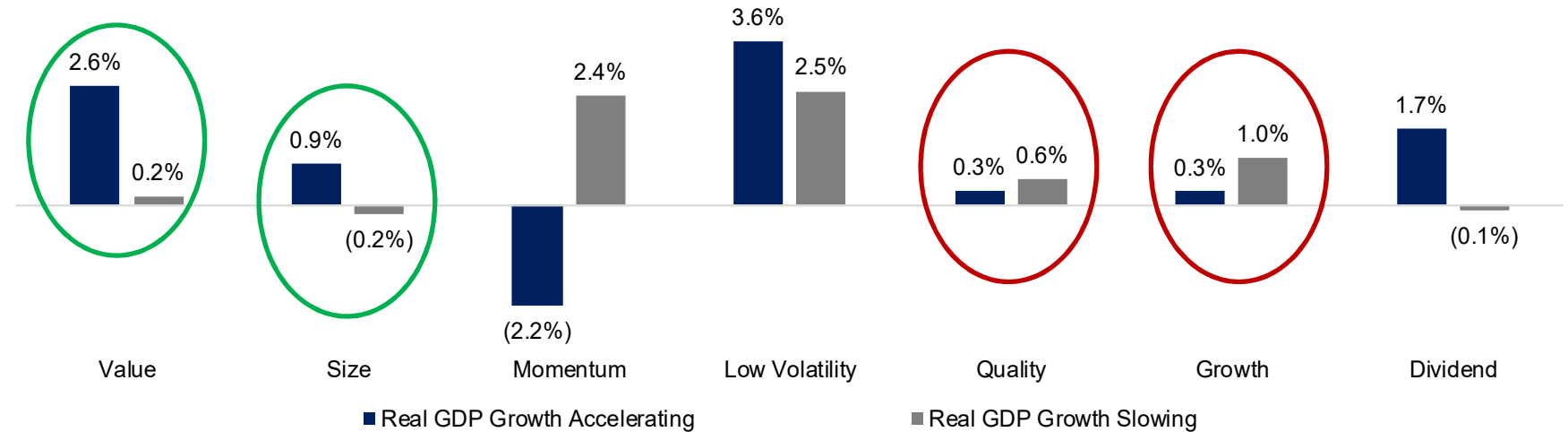


Some Factors are Pro-Cyclical, Others Anti-Cyclical

Equity Factor Returns (Long-Short) & Real GDP Growth: Positive or Negative (2000 - 2017)

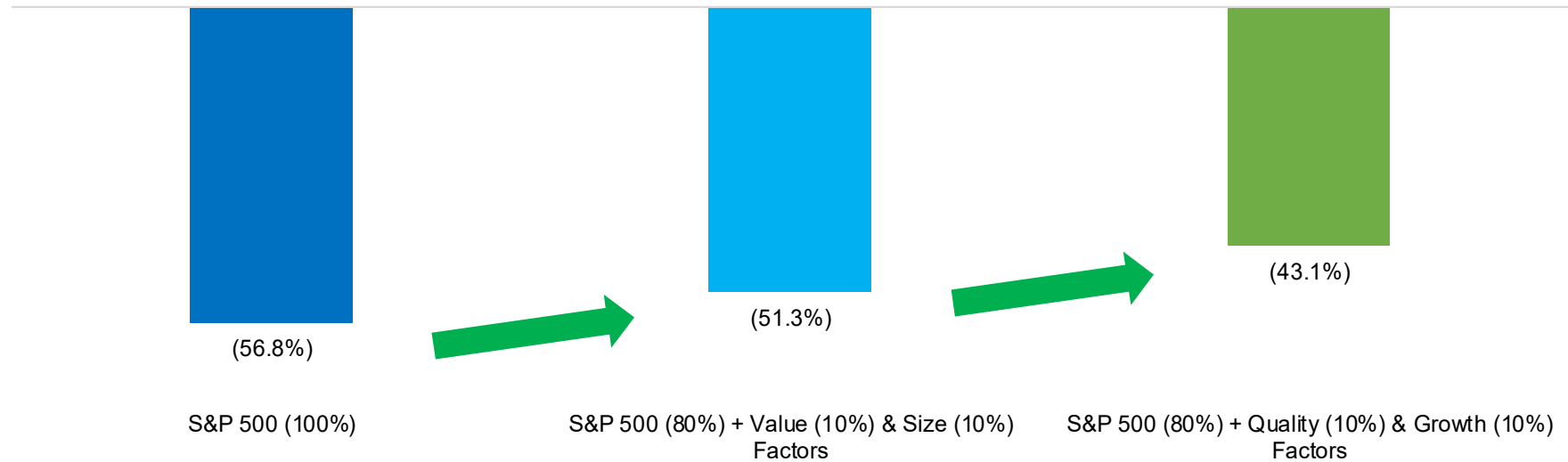


Equity Factor Returns (Long-Short) & Real GDP Growth: Accelerating or Slowing (2000 - 2017)



Which Factors are Optimal for Risk Reduction?

Diversification for an Equity-Centric Portfolio: Max Drawdowns (2000 - 2017)

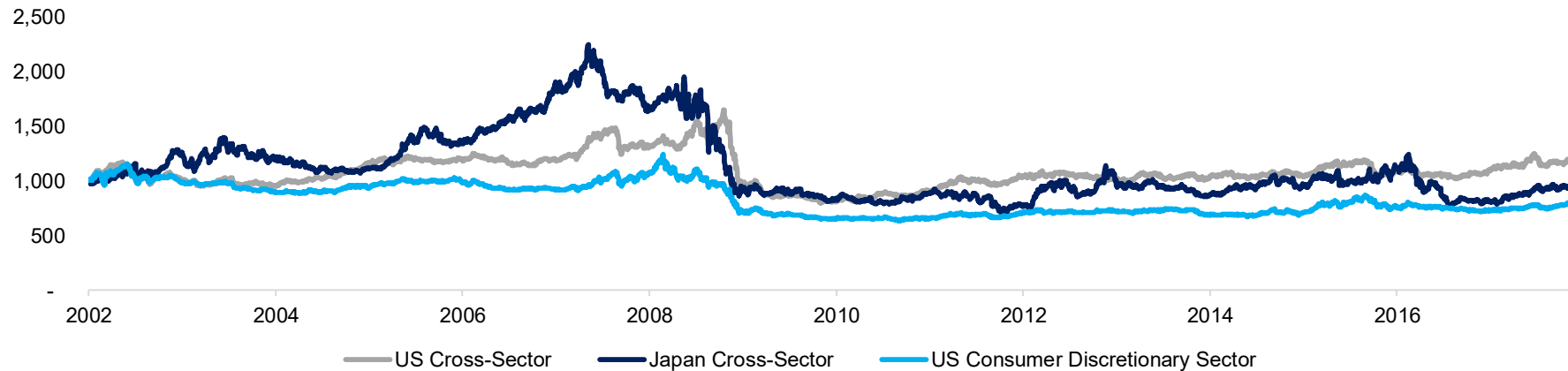


- Given the pro-cyclical nature of the long-short Value & Size factors, these are less attractive from a maximum drawdown perspective compared to the Quality & Growth factors

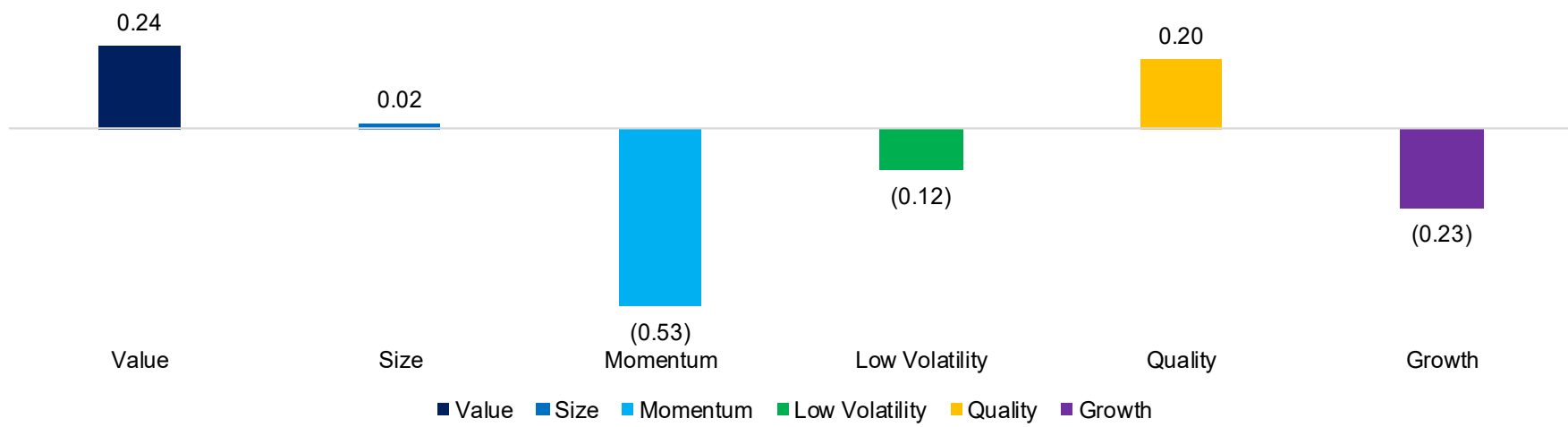
Factor Allocation Models

Factors: Same, Same, but Different

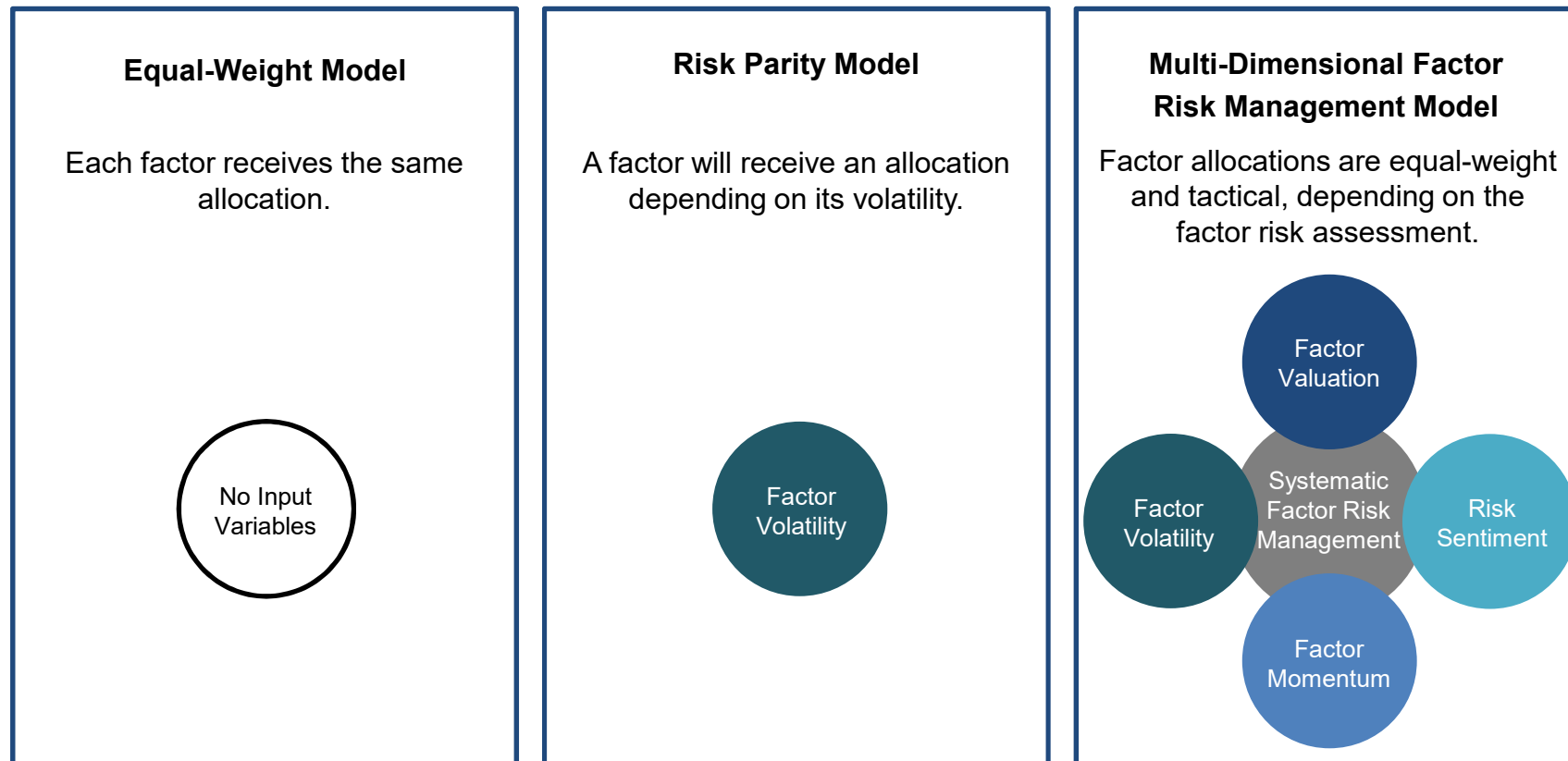
The Momentum Factor (Long-Short): Similar Trends Across Markets & Sectors



Skewness of Factors (Long-Short) (2000 – 2017): Different Factors, Different Skew



Common Approaches to Factor Allocation

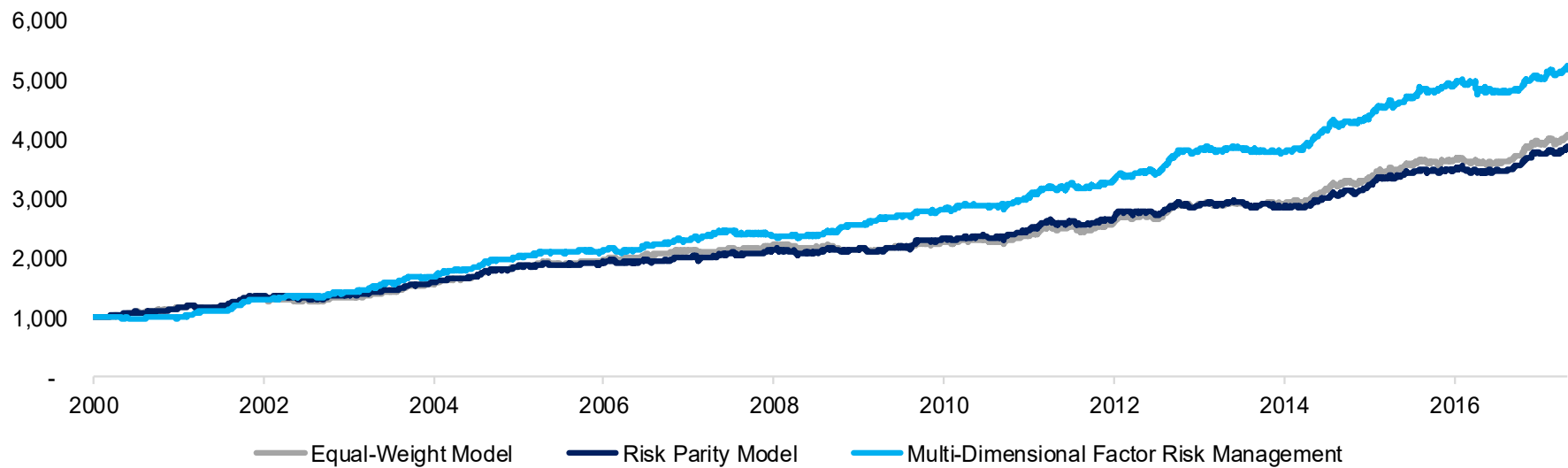


- Factor timing and factor risk management are related concepts, but have different objectives
 - Factor timing aims at increasing returns
 - Factor risk management aims at improving risk metrics like Sharpe ratios and drawdowns

Building Global Multi-Factor Portfolios

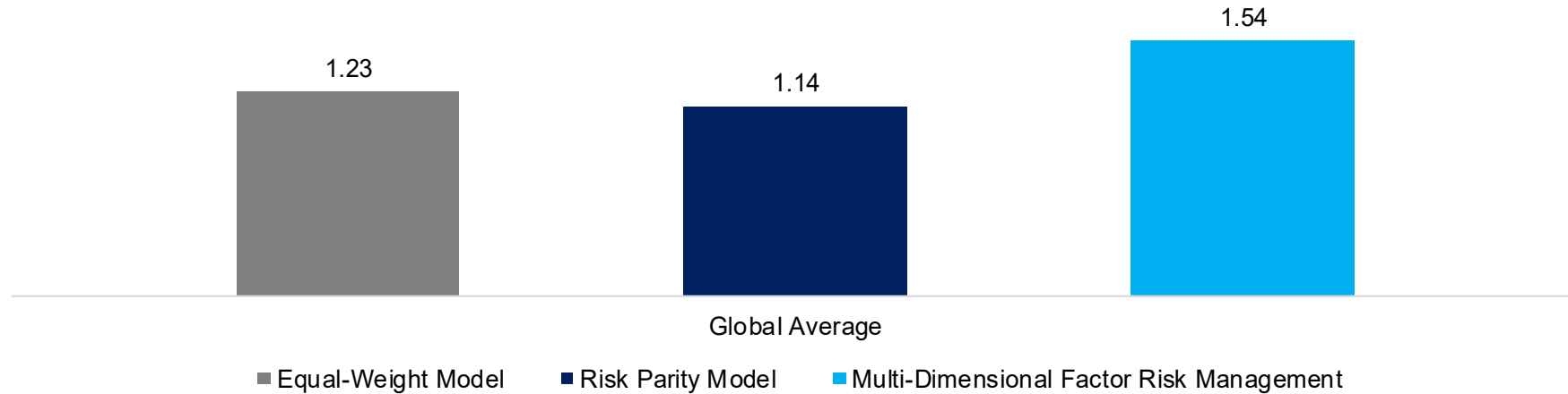
- Multi-factor portfolio combines Value, Size, Momentum, Low Volatility and Quality factors
- Includes US, European and Asian markets

Multi-Factor Portfolios (Long / Short): Performance of Factor Allocation Models

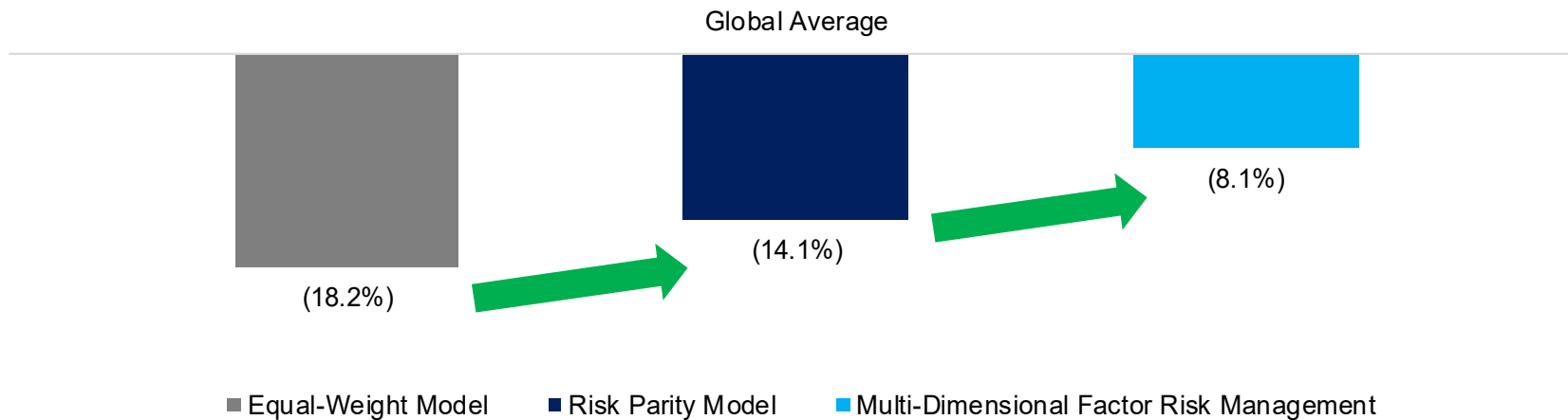


Increasing Sharpe Ratios and Reducing Drawdowns

Multi-Factor Portfolios (Long-Short): Sharpe Ratios (2000 - 2017)



Multi-Factor Portfolios (Long-Short): Maximum Drawdowns (2000 - 2017)

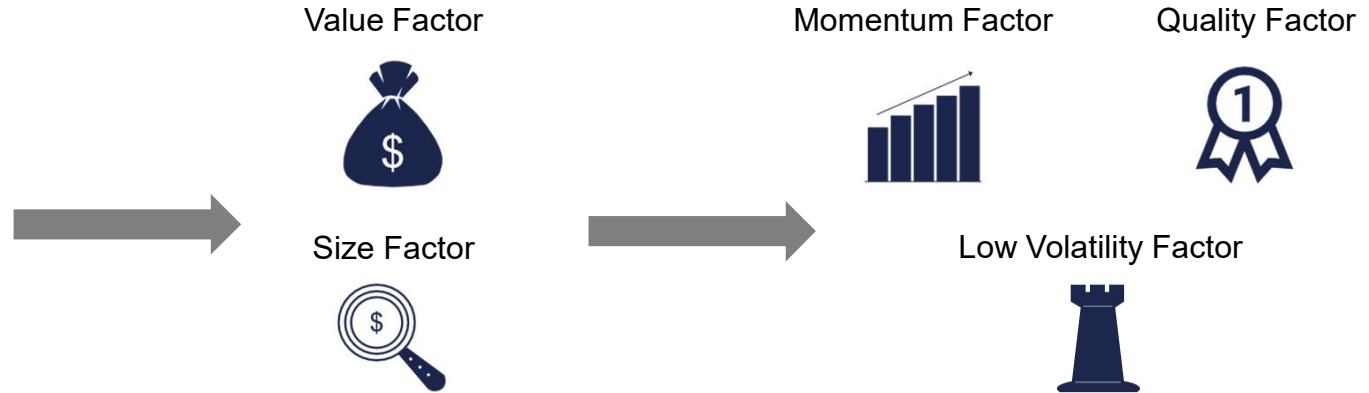


Smart Beta or Smart Marketing?

The Unusual Choices of Evidence-based Investors

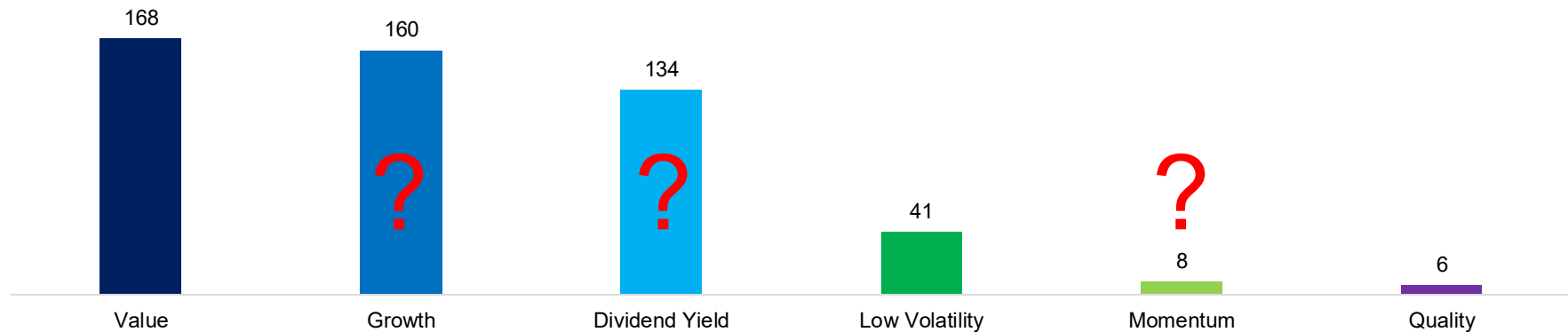
Factor Investing History

Fama & French (1992)

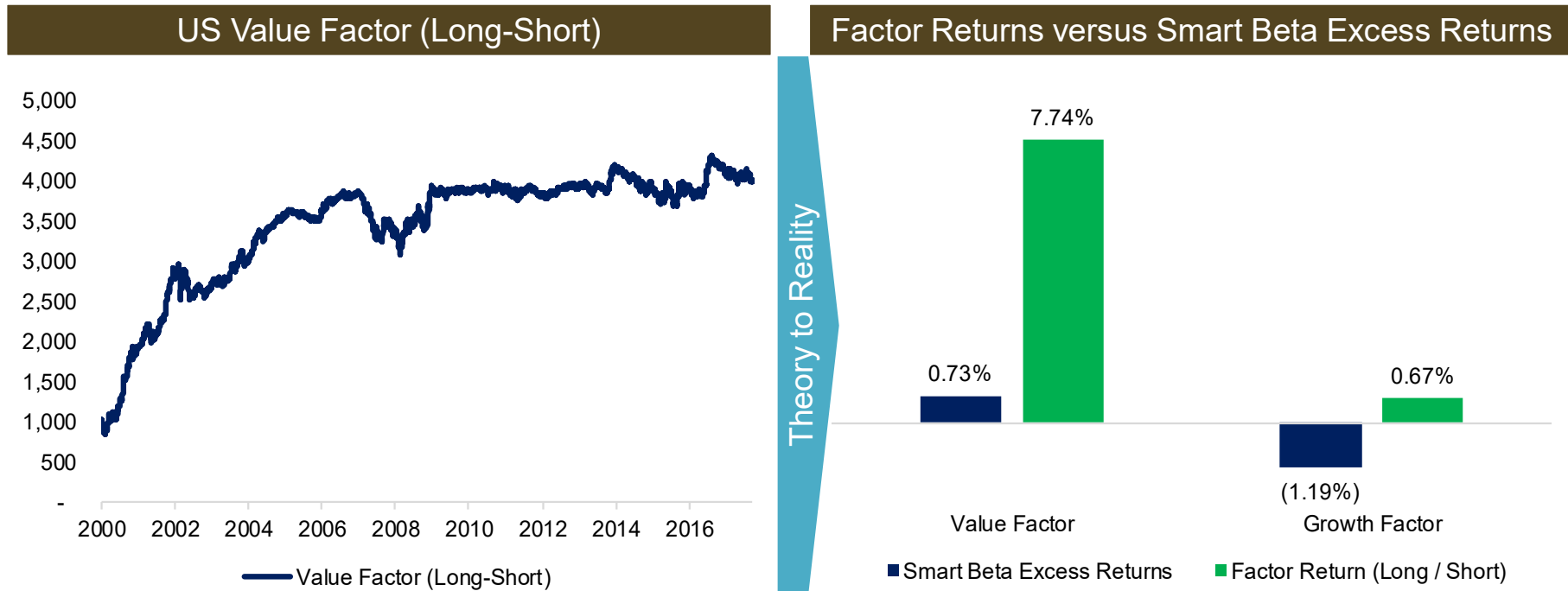


Theory to Reality

Smart Beta ETFs - Assets Under Management (\$ billion)



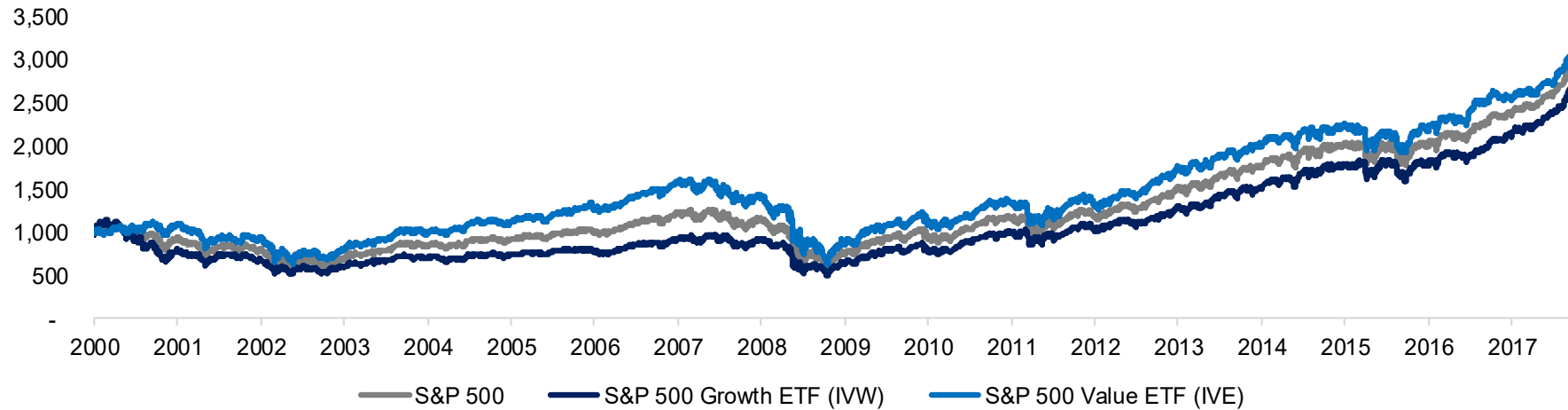
Theoretical versus Realised Returns



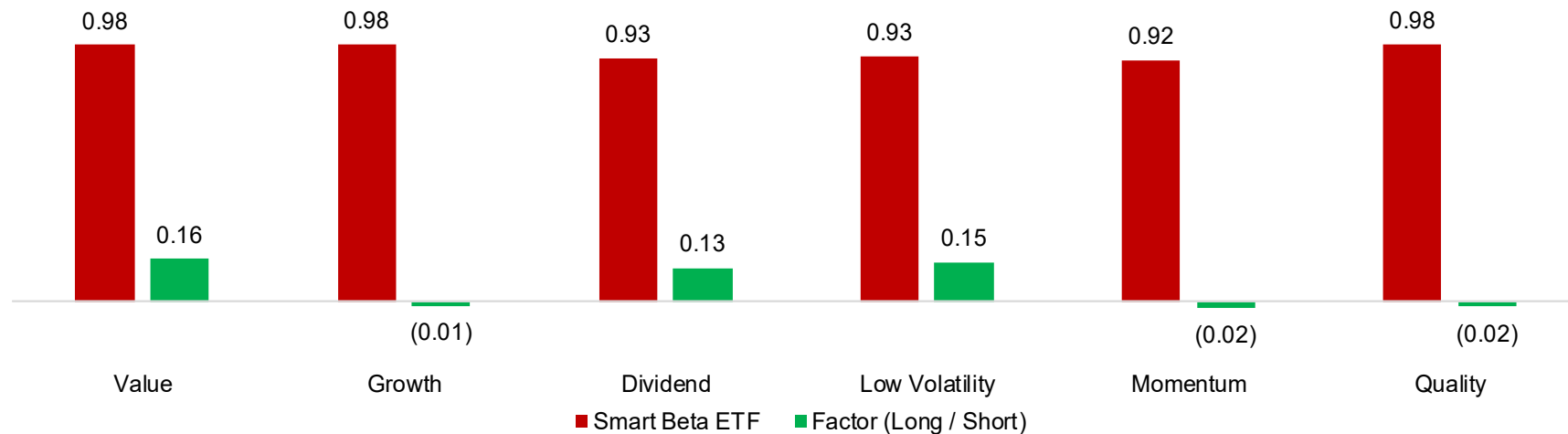
- Smart beta investors likely consumed some research highlighting theoretical factor returns
 - Realised excess returns from smart ETFs are significantly different from factor returns

Limited Risk Reduction from Smart Beta ETFs

Smart Beta ETFs versus S&P 500



Correlations of Smart Beta ETFs & Factors (Long / Short) to the S&P 500

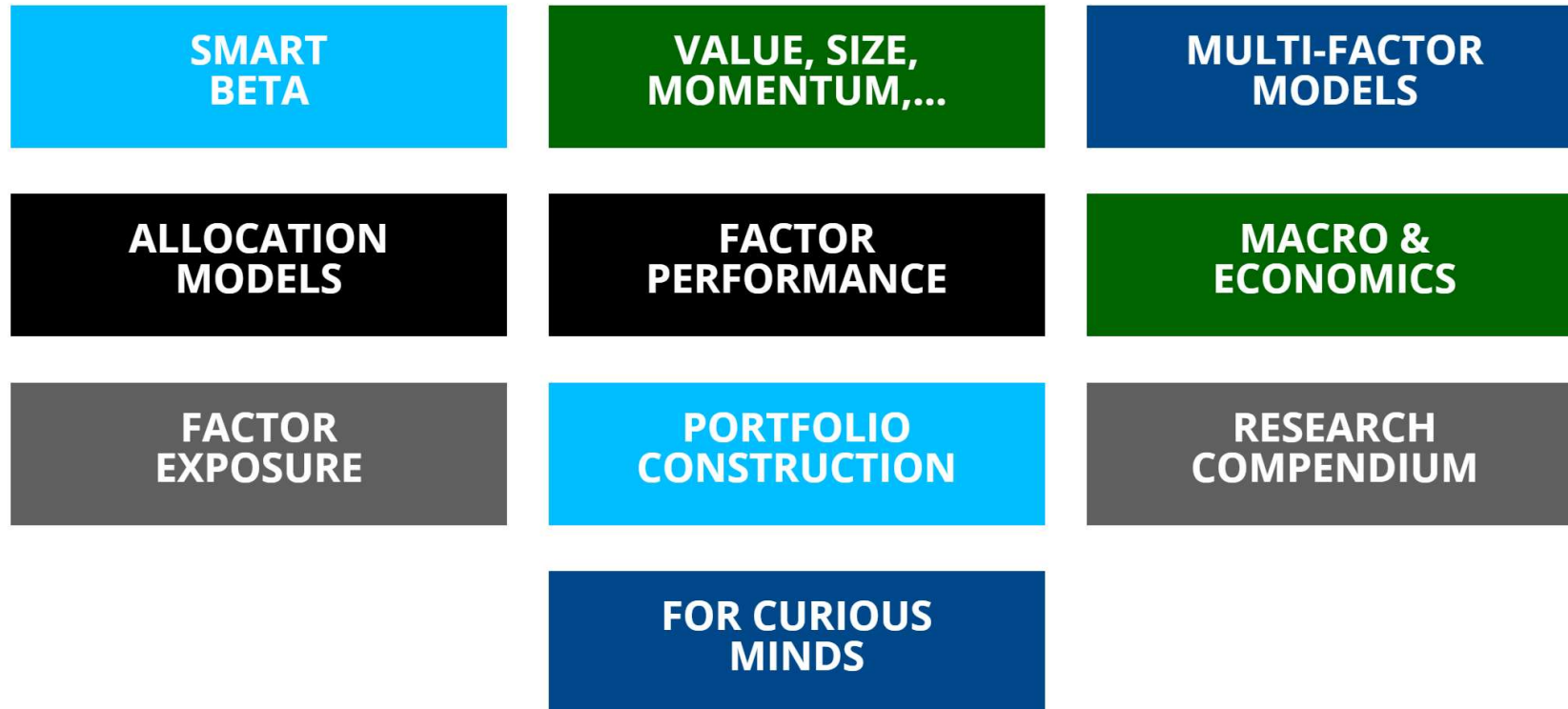


Q&A

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