

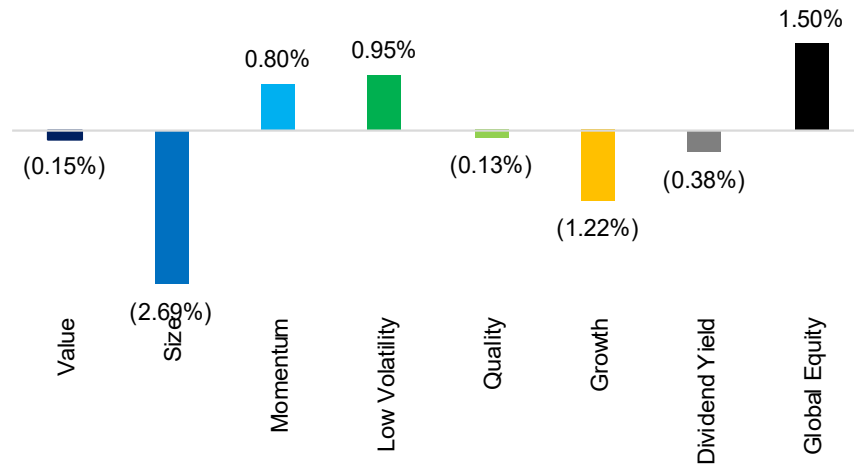
Factor Performance & Research Update

Factor Performance Update

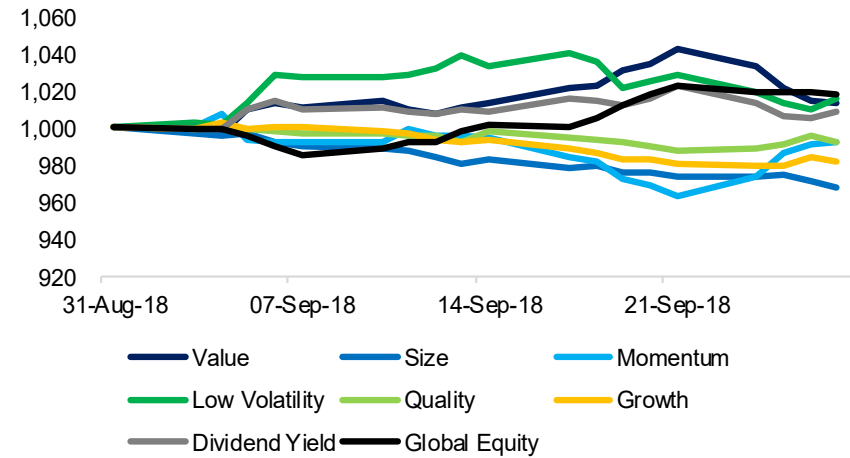
Factor Performance Update: September 2018

Global Averages Hide Regional Divergences in Factor Performance

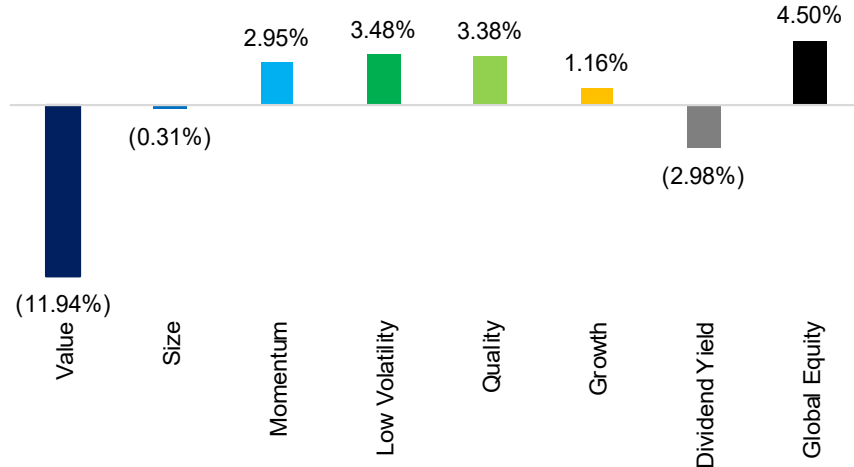
Global Equity Factors (Long-Short): Last Month



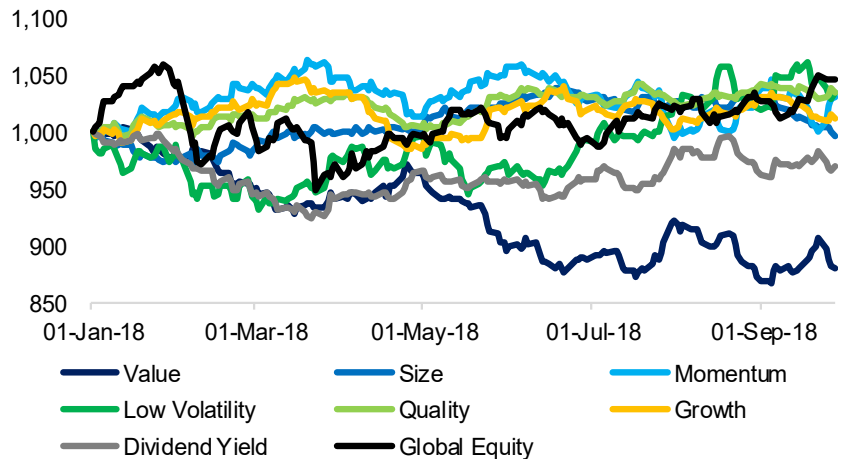
Global Equity Factors (Long-Short): Last Month



Global Equity Factors (Long-Short): Year to Date



Global Equity Factors (Long-Short): Year to Date



Research Topic 1:
Volatility, Dispersion & Correlation

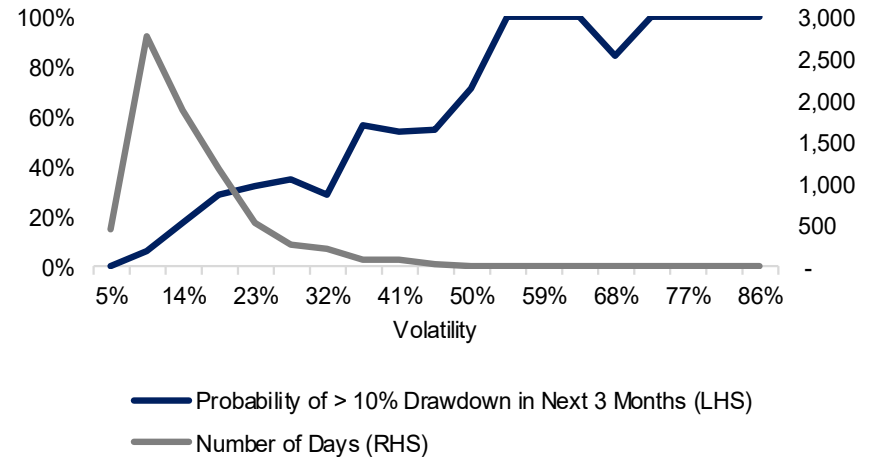
Volatility, Dispersion & Correlation (I / II)

Reading Stock Market Tea Leaves

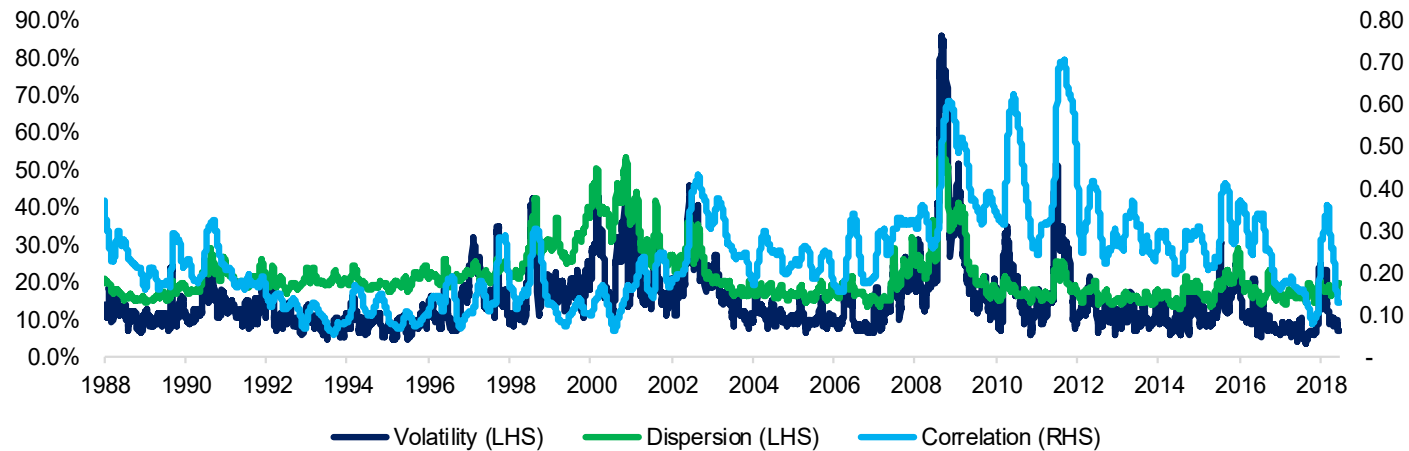
Comment

- Market technicals are typically discussed in the context of equity risks
 - Higher volatility & dispersion imply higher stock market risks
 - The relationship between correlation and risk is not linear
 - However, these market technicals do not behave consistently across time

Volatility & Expected US Stock Market Drawdowns (1988 - 2018)



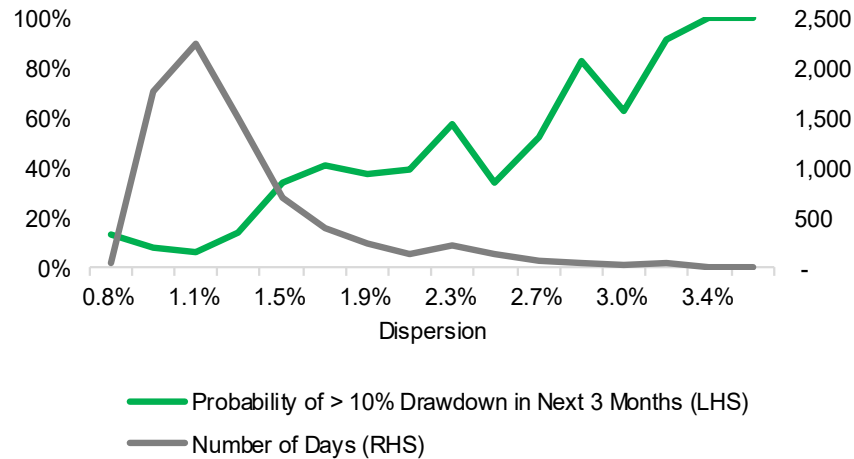
US Stock Market: Volatility, Dispersion and Correlation



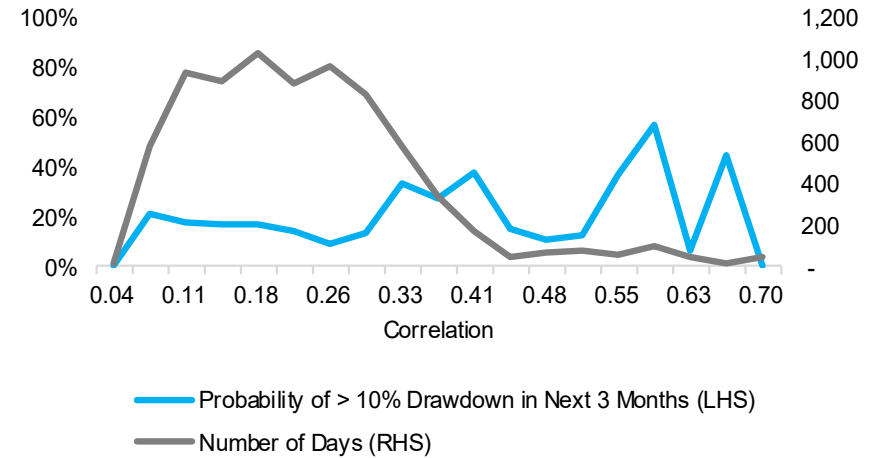
Volatility, Dispersion & Correlation (II / II)

Risk Management with Market Technicals

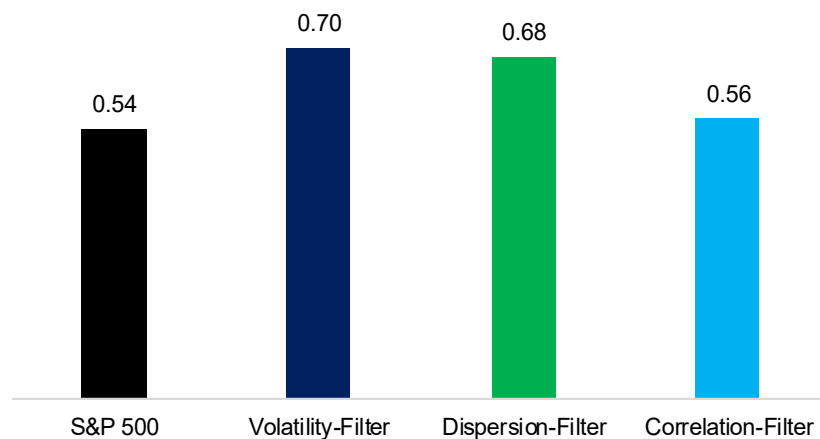
Dispersion & Expected US Stock Market Drawdowns (1988 - 2018)



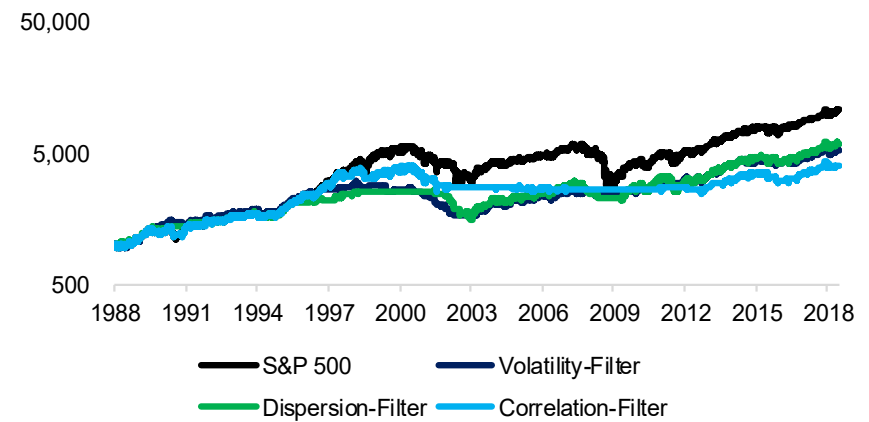
Correlation & Expected US Stock Market Drawdowns (1988 - 2018)



S&P 500 with Market-Derived Filters: Sharpe Ratios (1988 - 2018)



S&P 500 with Market Derived-Filters



Research Topic 2:
Chasing Mutual Fund Performance

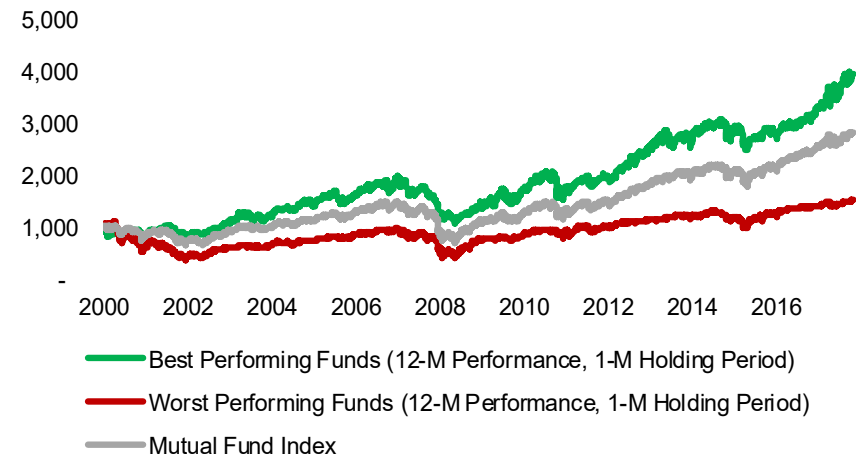
Chasing Mutual Fund Performance (I / II)

Follow the Momentum?

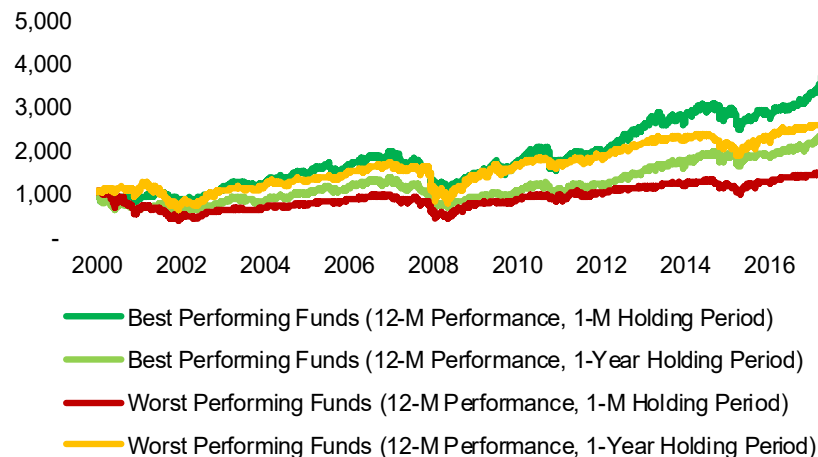
Comment

- Chasing the best performing funds is often viewed negatively, but likely the most common selection criteria
- Mutual funds exhibit momentum when measured by their one-year performance and held for a month
- However, the momentum disappears when the holding period increases to a more reasonable 12-months
- When measured by their 3-year performance, the worst performing funds outperform the best funds

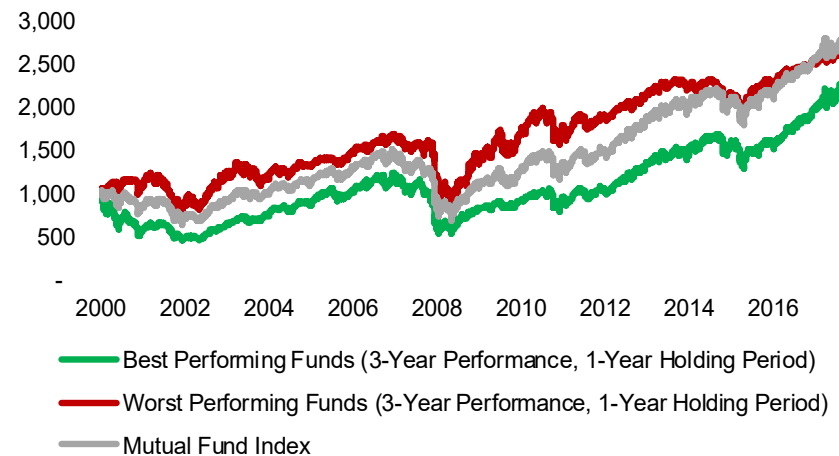
Momentum in Mutual Funds



Momentum in Mutual Funds: Different Holding Periods



Momentum in Mutual Funds: 3-Year Performance



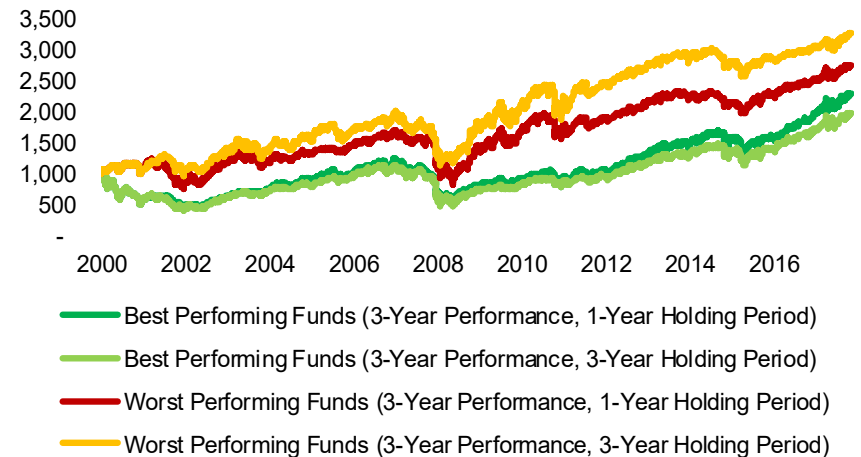
Chasing Mutual Fund Performance (II / II)

Performance Does Not Seem Effective for Selecting Mutual Funds

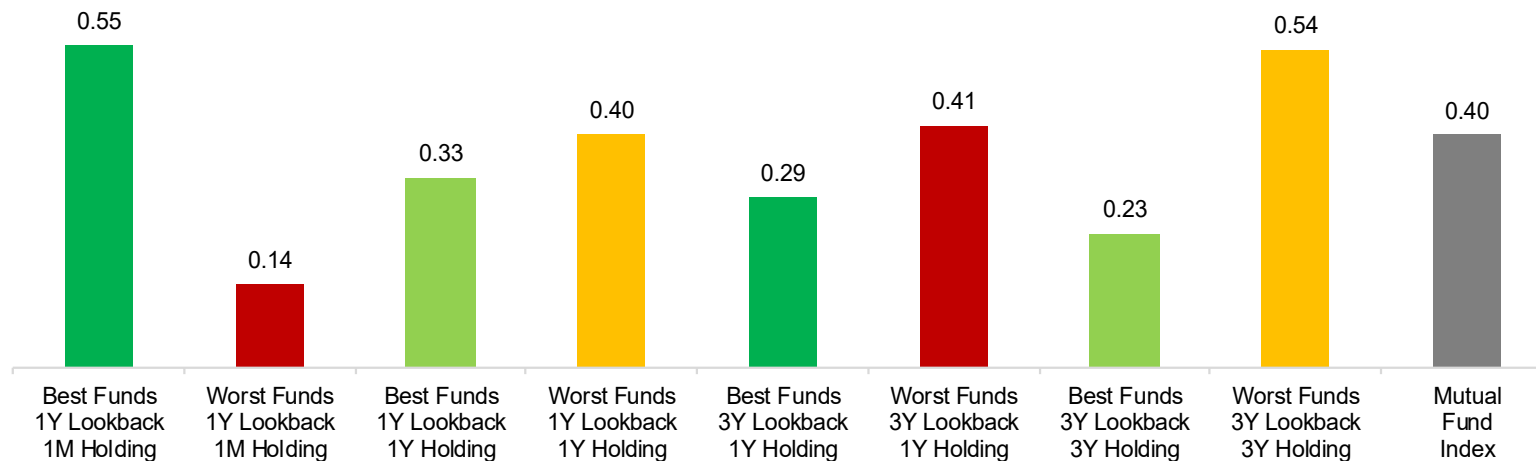
Comment

- Momentum disappears when more reasonable fund selection criteria are applied
- Performance does not seem effective for fund selection for a full market cycle
- Perhaps a combination of quantitative and qualitative metrics are more effective

Momentum in Mutual Funds based on 3-Year Performance



Momentum in Mutual Funds: Risk-Return Ratios (2000 - 2018)



Research Topic 3:
Low Volatility, Low Beta & Low Correlation

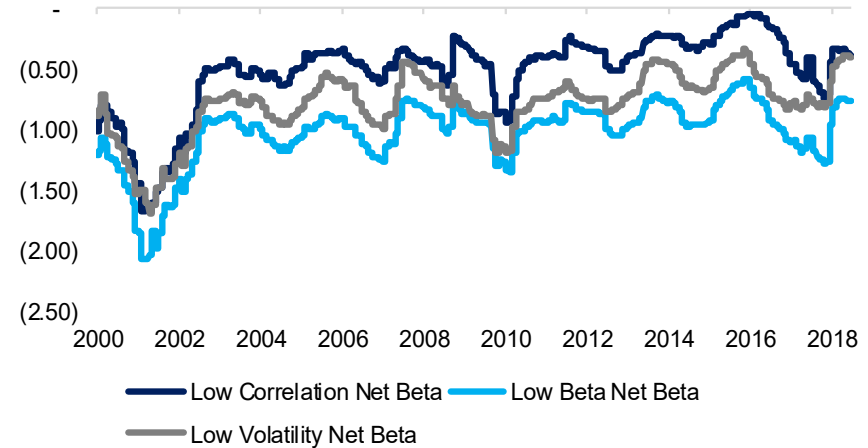
Low Volatility, Low Beta & Low Correlation (I / II)

There Is Magic In Leverage

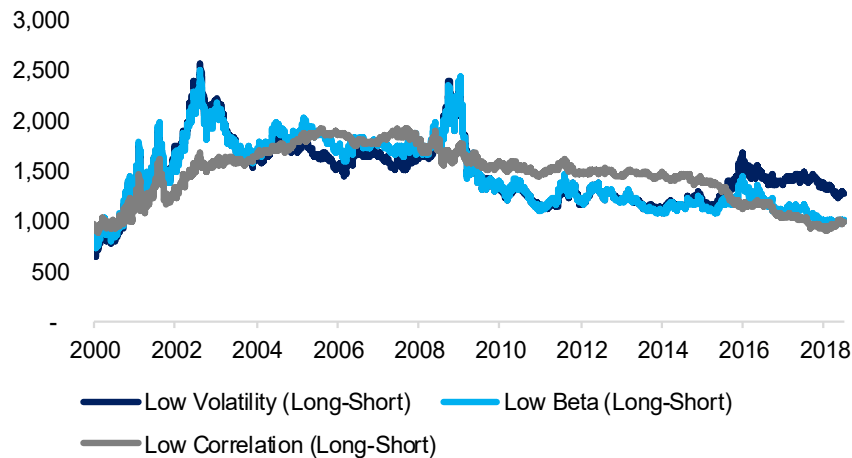
Comment

- Low-risk factors increased in popularity since the GFC
- The Low Volatility, Low Beta and Low Correlation factors are interrelated
- Low-risk factors generate attractive risk-adjusted returns, but require beta-neutrality
- Currently they feature moderate to high interest-rate sensitivity

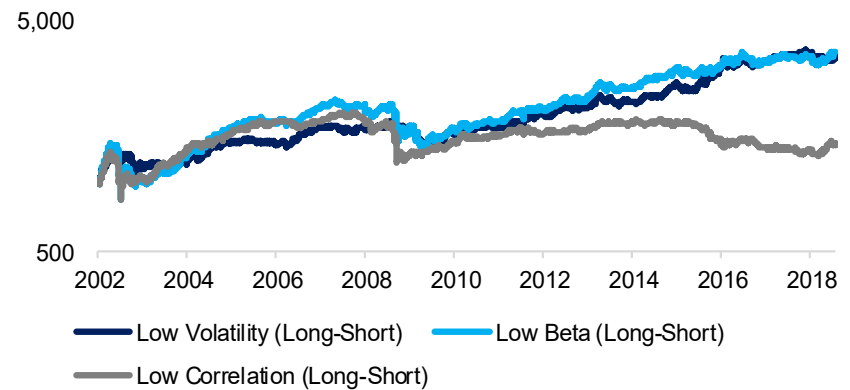
Net Betas (Long minus Short)



Low Vol, Low Beta & Low Correlation in the US: \$-Neutral



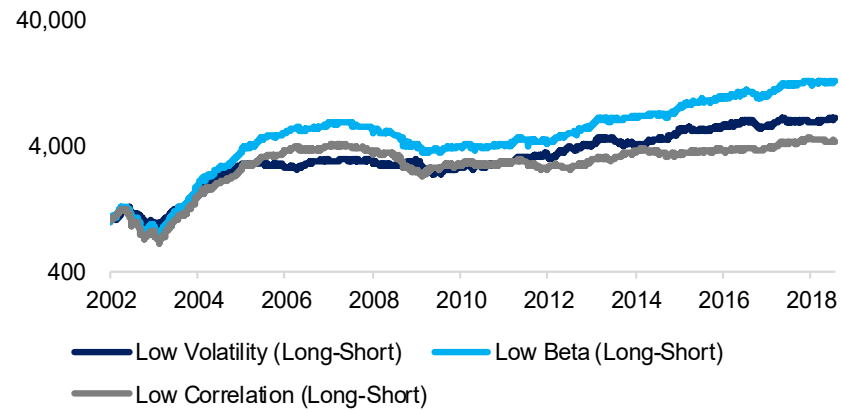
Low Vol, Low Beta & Low Correlation in the US: Beta-Neutral



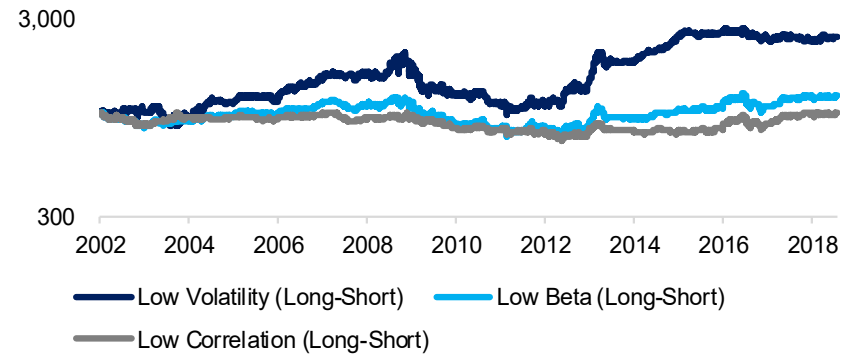
Low Volatility, Low Beta & Low Correlation (II / II)

Rising Rates May Pose a Risk

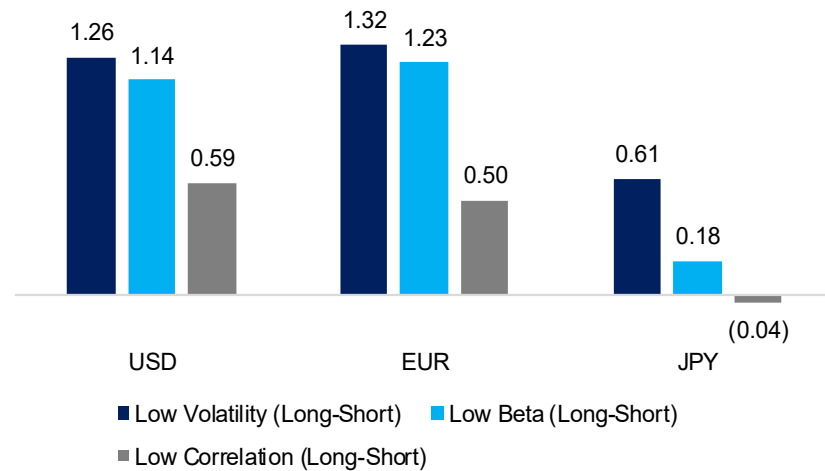
Low Volatility, Low Beta & Low Correlation in Europe



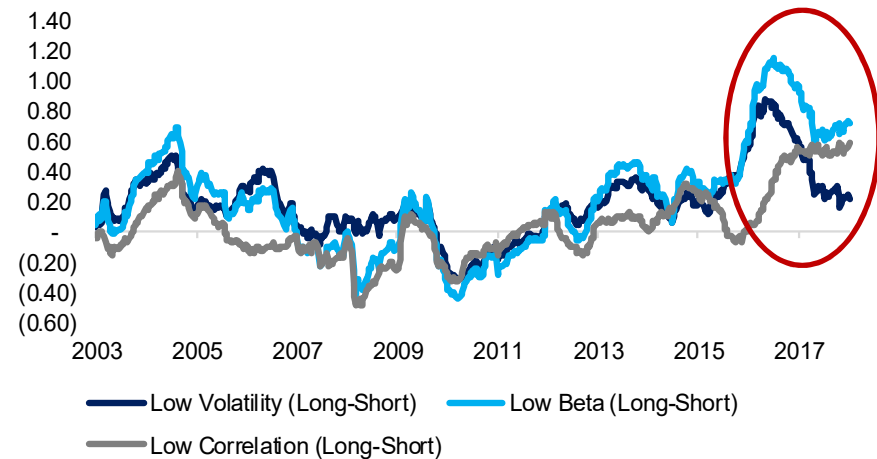
Low Volatility, Low Beta & Low Correlation in Japan



Sharpe Ratios 2001 - 2018



Interest Rate Sensitivity (Factor Betas)



Launch of Smart Beta ETF Ranking
& ETF Analyser

New Investor Tools



Smart Beta ETF Ranking

Find the smart beta ETFs
with the highest factor
exposure



ETF Analyser

Analyse the factor
exposure of 1,500+
US ETFs




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