



Press Release

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Scientific Beta disagrees with MSCI on the exclusion of controversial weapons

In a letter in response to [Swiss Sustainable Finance's open letter of January 31, 2019](#), Professor Noël Amenc, CEO of Scientific Beta, the smart beta index provider set up by EDHEC Business School, considers that MSCI's arguments, in response to the request from the investors and asset managers who co-signed the letter to exclude controversial weapons from global cap-weighted indices, are not admissible. Indeed, there are no practical or academic grounds for the idea that a broad cap-weighted index representing all investment opportunities cannot as a result contain an ESG filter by default.

From a practical point of view, we know that the exclusions on controversial weapons proposed by Swiss Sustainable Finance represent a very marginal weight that in any event is far lower than the exclusions or weight limitations implemented by all index providers to guarantee the liquidity and investability of their global cap-weighted indices.

In addition, as a venture by an academic institution, Scientific Beta clearly affirms that the argument that would have one believe that the cap-weighted index is the representation of the theoretical true market portfolio has no scientific credibility. We know that the cap-weighted index is ultimately an index like any other that has the particular virtue of providing the weighted average performance of the market. Excluding stocks that represent controversial weapons would not affect this average significantly.

Scientific Beta considers that promoting an opt-in option that corresponds to a paid service falls short of what is at stake with this exclusion from an ethical and humanitarian standpoint.

Ultimately, for Noël Amenc, MSCI's response is representative of the attitude of a large share of the players in the index industry who consider that ESG is a good business opportunity rather than an opportunity to do good. Index providers too often perceive ESG as a driver of profits by increasing the number of costly options for access to data.

Scientific Beta, which does not provide broad cap-weighted index series, cannot respond directly to the request from Swiss Sustainable Finance and the 155 (as of February 18, 2019) investors and asset managers who have co-signed the letter of January 31, 2019. Like them, Scientific Beta is restricted by the failure of the major index providers to take a decision in this area. From June 2019, however, Scientific Beta commits to offering all its clients an ESG option on its smart beta index series, at no additional cost, that will provide for a minimal exclusion representing fewer than 5% of the stocks in the global universe, without pre-empting a more active exclusion policy.

Apart from the exclusion of controversial weapons, this exclusion also takes into account tobacco, the coal industry and coal-based resources, companies that openly violate ethical standards and companies that do not guarantee equal voting rights to shareholders without compensation.

In a concern to generalise this filter, Scientific Beta will also undertake a consultation of all its clients that aims to be able to consider these exclusions as the default choice (with an opt-out approach) and no longer as an opt-in option to be exercised by the investor, as proposed by other index providers.

The letter sent by Scientific Beta to the president of Swiss Sustainable Finance can be accessed by clicking [here](#).



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About Scientific Beta

Scientific Beta aims to be the first provider of a smart beta indices platform to help investors understand and invest in advanced beta equity strategies.

Established by EDHEC-Risk Institute, one of the top academic institutions in the field of fundamental and applied research for the investment industry, Scientific Beta shares the same concern for scientific rigour and veracity, which it applies to all the services that it offers investors and asset managers.

The Scientific Beta offering covers three major services:

- **Scientific Beta Indices**

Scientific Beta Indices are smart beta indices that aim to be the reference for the investment and analysis of alternative beta strategies. Scientific Beta Indices reflect the state-of-the-art in the construction of different alternative beta strategies and allow for a flexible choice among a wide range of options at each stage of their construction process. This choice enables users of the platform to construct their own benchmark, thus controlling the risks of investing in this new type of beta (Smart Beta 2.0).

Within the framework of Smart Beta 2.0 offerings, Scientific Beta provides access to smart factor indices, which give exposure to risk factors that are well rewarded over the long term while at the same time diversifying away unrewarded specific risks. By combining these smart factor indices, one can design very high performance passive investment solutions.

- **Scientific Beta Analytics**

Scientific Beta Analytics are detailed analytics and exhaustive information on its smart beta indices to allow investors to evaluate the advanced beta strategies in terms of risk and performance. The analytics capabilities include risk and performance assessments, factor and sector attribution, and relative risk assessment. Scientific Beta Analytics also allow the liquidity, turnover and diversification quality of the indices offered to be analysed. In the same way, analytics provide an evaluation of the probability of out-of-sample outperformance of the various strategies present on the platform.

- **Scientific Beta Fully-Customised Benchmarks and Smart Beta Solutions** is a service proposed by Scientific Beta, and its partners, in the context of an advisory relationship for the construction and implementation of benchmarks specially designed to meet the specific objectives and constraints of investors and asset managers. This service notably offers the possibility of determining specific combinations of factors, considering optimal combinations of smart beta strategies, defining a stock universe specific to the investor, and taking account of specific risk constraints during the benchmark construction process.

With a concern to provide worldwide client servicing, Scientific Beta is present in Boston, London, Nice, Singapore and Tokyo. As of December 31, 2018, the Scientific Beta indices corresponded to USD 43bn in assets under replication. Scientific Beta has a dedicated team of 52 people who cover not only client support from Nice, Singapore and Boston, but also the development, production and promotion of its index offering. Scientific Beta signed the United Nations-supported Principles for Responsible Investment (PRI) on September 27, 2016. On November 27, 2018, Scientific Beta was presented with the Risk Award for Indexing Firm of the Year 2019 by the prestigious professional publication Risk Magazine.

