

Press Release

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New study from Scientific Beta and Scientific Analytics highlights the risks of making changes to factor indices

A new study jointly published by Scientific Beta and Scientific Analytics entitled “[Inconsistent Factor Indices: What are the Risks of Index Changes?](#)” highlights the dangers of making frequent changes to index methodologies.

The paper

- provides concrete examples from industry practices and analyses the possible implications of such inconsistencies, namely changes in factor definitions, factor selection and portfolio construction principles
- shows that methodological changes are quite common in the industry and sometimes happen across multiple dimensions at the same time, which can lead to striking differences in the performance of multi-factor indices.

The main problems with inconsistencies across time are data-mining risks and therefore the absence of any robustness and reliability of the performance presented. This research provides illustrations based on the practices of popular index providers such as FTSE Russell, MSCI and RAFI.

Commenting on the study, Professor Noël Amenc, CEO of Scientific Beta, said, “*Providers can put stringent requirements on index changes by remaining consistent with their investment principles. Indeed, if the urge to “innovate” means deviating from investment principles that were not really justified by serious research and corresponded more to approaches driven by in-sample back-testing, there is a risk that index investors will be disappointed with results. Maintaining investment discipline by adhering to a set of long-term principles may be the best safeguard against negative surprises with factor indices.*”

The white paper can be accessed through the link below:

[Inconsistent Factor Indices: What are the Risks of Index Changes?, Scientific Beta and Scientific Analytics White Paper, February 2019](#)



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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.



About Scientific Analytics

Set up in 2018 on the basis of EDHEC and Scientific Beta's expertise in the area of factor investing, Scientific Analytics aims to provide all institutional and private investors with tools that allow them to analyse the factor exposure of their portfolio and to construct completeness portfolios based on this analysis that correspond to a search for better factor diversification.

With this in mind, at the end of 2019, Scientific Analytics will offer Scientific Factor Analytics and Solutions, accessible for free on the web and providing factor allocation diagnoses and allocation proposals that correspond to the academic state of the art in the area of factor diversification.

This tool will be open to all active or passive funds and indices available on the market and will also allow the investor's existing portfolios to be analysed in a fully confidential manner.

Drawn from a not-for-profit academic institution, Scientific Analytics intends to be a reference database accessible to all in the area of research for factor investing.