Press Release **Boston, London, Nice, Paris, Singapore, Tokyo, January 21, 2020**

EDHEC-Scientific Beta Research Chair Publication Questions the Existence of a "Green" Factor

Study sees no evidence so far to support the existence of such a factor

A new publication from the EDHEC-Scientific Beta "Advanced Factor & ESG Investing" research chair, entitled "The DeCarbonisation Factor: A New Academic Fiction?", by Abraham Lioui, Professor of Finance at EDHEC Business School and member of the EDHEC-Scientific Beta Research Chair, examines two recent papers, Cheema-Fox *et al.* (2019) and Bolton and Kacperczyk (2019), which looked at the financial market implications of firms' carbon emissions. The Cheema-Fox *et al.* paper, entitled "Decarbonization Factors," has been widely marketed and often serves to support the usefulness of considering a green factor in the factor allocation menu. Faced with this assertion, Professor Lioui observed that the second paper contradicted the results of the first one. In fact, the article by Cheema-Fox *et al.* (2019) maintains that low carbon emission firms outperform high carbon emission ones. Bolton and Kacperczyk (2019), however, conclude that high carbon emissions have a positive impact on returns.

The EDHEC-Scientific Beta research chair publication argues that these studies do not in fact shed enough light on the issue to draw any conclusions and suffer from strong methodological limitations. Whether "DeCarbonisation" is a factor that drives investment returns is a question that is worth asking, but this note shows that it has yet to be definitively answered.

Commenting on the publication, Professor Noël Amenc, CEO of Scientific Beta, said, "What is at stake with climate change goes beyond the existence or otherwise of a factor. The fact that there is no carbon factor should lead us to conclude that while there is no positive risk premium to being low carbon, there is no negative risk premium either. In the current state of scientific knowledge, it is therefore possible, on the basis of traditional, consensus-based, rewarded factors, to construct portfolios while excluding the bad apples of the climate class and ultimately to achieve highly decarbonised portfolios with very good risk-adjusted performance. This approach, which does not make carbon a factor in performance, means that providers and investors should stop overselling green performance to their stakeholders. They should explain instead that there is no harm in doing good and the fight against climate change should not depend on hasty and fragile conclusions on the existence of a carbon factor."

The full publication can be accessed below:

The DeCarbonisation Factor: A New Academic Fiction? December 2019, EDHEC-Scientific Beta "Advanced Factor & ESG Investing" Research Chair Publication

Contact:
For more information, please contact: **Séverine Cibelly**
Tel.: **+33 493 187 863** – E-mail: severine.cibelly@scientificbeta.com
To visit our web site: www.scientificbeta.com

About the EDHEC Scientific Beta Research Chair

The EDHEC Scientific Beta “Advanced Factor & ESG Investing” Research Chair was set up to transfer academic knowledge to the investment industry by providing high-quality research for decision-makers in the professional arena. The primary motivation for the research chair is to respond to real-world questions regarding factor investing with research that is recognised for its scientific quality.

The objectives of this chair are to contribute with research with strong academic potential to, and to be able to participate in, the development of knowledge on factor investing and ESG, which are two subjects of strategic importance for the investment industry.

Over the next three years, the EDHEC Scientific Beta “Advanced Factor & ESG Investing” Research Chair will address the following topics:

- Investability and factor crowding
- Questioning the ESG factor
- Factor premia regimes and the link between macro and micro factors
- Machine learning in factor investing
- How deep learning can improve the quality of ESG information
- Digital age, intangible investing and factor definitions
- New beta measurement methodology

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.

  To assist all investors in meeting the challenges and seizing the opportunities of ESG incorporation, Scientific Beta introduced complimentary Enhanced ESG Reporting on all its indices in July 2019 along with two new fiduciary options applicable across its High Factor Intensity flagship index offering. The objective of the ESG and Low Carbon options are to reconcile ESG and financial performance by enabling investors to avail of multi-smart factor indices that uphold ESG norms and support the transition to a low-carbon economy and materially reduce exposure to companies with high exposure to ESG or Climate Change risks, while at the same time retaining their ability to outperform traditional market indices in the medium-term by exploiting consensual results from state-of-the-art scientific research in the areas of factor investing and portfolio diversification.

- **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 June 30, 2019, the Scientific Beta indices corresponded to USD 48bn 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. On October 31, 2019, Scientific Beta received the Professional Pensions Investment Award for "Equity Factor Index Provider of the Year 2019."