Press Release **Boston, London, Nice, Paris, Singapore, Tokyo, November 5, 2019**

Scientific Beta publication tackles the poor recent performance of factor strategies

Performance a consequence of design questions and fiduciary choices and not the factors themselves

A new white paper from Scientific Beta, entitled "What Really Explains the Poor Performance of Factor Strategies over the Last 3 Years?" shows that recent underperformance is not the result of a deterioration in factor performance. Since it has been possible to offset negative performance for some factors through the good performance of other factors, the issues relate more to the factor exposure implementation choices than to the factors themselves. For instance, in the last three years, the non-control of market beta exposure in a bull market context has prevented the vast majority of multi-factor indices on the market from benefitting fully from the important market risk premium. It is this poor market conditionality rather than the variations in factor returns that explains the disappointing performance of long-only factor offerings over this period.

In a long-only framework, index and strategy design rarely takes account of the non-factor risks induced by the factor exposure choices. Among these risks, the market beta risk or gap, which often corresponds to an unstable and defensive bias in the construction of factor strategies, is the one that has the most impact over the long term in terms of both the return and volatility of these strategies and it is the one that is controlled the least.

Commenting on this publication, Noël Amenc, CEO of Scientific Beta, said, "Contrary to what has been affirmed without any really serious study or even rigorous empirical observations, the poor performances of multi-factor indices or solutions are not the result of a strong and abnormal deterioration in factor performances. One can certainly observe that some factors have experienced significant underperformance, but it has been possible to offset this with the performances of other factors. Ultimately, the average risk premium of the consensual six long/short market-neutral factors remains positive."

The Scientific Beta white paper can be accessed through the link below:

What Really Explains the Poor Performance of Factor Strategies over the Last 3 Years? Scientific Beta Publication, September 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 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.

Risk Awards 2019 Winner

Scientific Beta
Indexing firm
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