

Scientific Beta study shows that conclusions in Robeco researchers' paper are erroneous

Blitz and Marchesini (2019) question the investability of factor indices and argue that active management is needed to avoid capacity issues.

In a new study entitled "[Do We Need Active Management to Tackle Capacity Issues in Factor Investing? Exposing Flaws in the Analysis of Blitz and Marchesini \(2019\)](#)," Scientific Beta shows that the argument in Blitz and Marchesini (2019) that active management is needed to avoid capacity issues in factor investing does not hold for the following reasons:

- Systematic rules allow investability to be improved with full transparency. Active management is not only unnecessary; it also creates hidden risks for investors due to a lack of transparency.
- Pre-announcement of index rebalancing trades eases implementation and helps reduce price impact, because it reduces uncertainty for liquidity providers.
- Empirical analysis of Scientific Beta factor indices shows that they avoid capacity problems, and price impact around rebalancing is zero (see the study "[Do Factor Indices Suffer from Price Effects around Index Rebalancing?](#)").

Commenting on the results of this research, Dr Noël Amenc, CEO of Scientific Beta, said, "Although the criticism in the Blitz-Marchesini paper builds on logical fallacies and is not backed by evidence, it does align with intuitive claims about the dangers of indexing. It may be convenient to rely on such intuitive arguments – they correspond to widely held beliefs – but answering questions about investability requires careful analysis of the facts. Index providers and replicators need to offer transparency and evidence to allow for factual analysis. In their due diligence, index investors need to address how the index provider achieves investability and how the passive manager adds value when replicating the index."

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

[Do We Need Active Management to Tackle Capacity Issues in Factor Investing? Exposing Flaws in the Analysis of Blitz and Marchesini \(2019\), Scientific Beta Publication, November 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. On October 31, 2019, Scientific Beta received the Professional Pensions Investment Award for “Equity Factor Index Provider of the Year 2019.”

Risk
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