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**New EDHEC survey on equity factor investing calls risk techniques into question**

In a new survey conducted among investment professionals between June and September 2017, EDHEC-Risk Institute and ERI Scientific Beta have analysed the interests and motivations for investing in new forms of equity factor strategies. The 114 respondents together have at least USD 2.5 trillion in AUM and span all regions of the world (52% from Europe, 28% from North America and 20% from other parts of the world). In one of the more striking findings in the survey, there is a contradiction between score-based factor design choices and the statistical beta-based risk analysis. Analysis of the extreme risk of factor portfolios is still fairly basic and does not really allow the extreme risks to be appreciated.

Amongst other key findings:

* Multi-factor strategies tend to be implemented in a passive investment context. Even when dynamic, factor investing is generally based on risk budget management rather than active views of returns.
* Investors have a good understanding of the impact of market beta, the conditionality of factors’ exposures to the market and the usefulness of measuring and controlling market beta. This concern largely dominates topics that are the subject of buzz in the market, but are not as important for investors, such as factor timing or the maximisation of factor intensity through portfolio concentration.
* In spite of its limitations, the score-based approach dominates. Even though factor investing was founded on analyses in terms of betas, the measurement of betas is still in a minority and is rudimentary.
* Although valuation-based methods have been widely criticised in academia both for the value bias introduced and for their effectiveness, and methods based on momentum are often highly sample-dependent and criticised for their arbitrary aspect, investors still favour these two approaches.
* When evaluating their control of dynamic factor investing, most investors think that they have poor control of the sophisticated techniques for measuring and integrating the variations in betas and premia in the allocation.
* Performance analysis is consistent with risk analysis and favours the multi-factor beta or score approach. The analyses combining factors with sectors and countries are only reasonably widespread, even though there are quite well developed factor investing offerings based on controlling these three dimensions.

Commenting on the survey, Professor Noël Amenc, CEO of ERI Scientific Beta, said that, “While investor interest in dynamic factor investing is growing, it should be recognised that the techniques used for risk measurement or risk control do not yet correspond to the state of the art. In the same way, in spite of the lack of academic or empirical evidence supporting factor timing, it is favoured by a considerable share of investors, and within this framework, approaches are used that lack sophistication and are not necessarily appropriate for capturing factor premia regimes.”

Professor Lionel Martellini, Director of EDHEC-Risk Institute, said, “We hope that the EDHEC Survey on Equity Factor Investing will enable investment professionals to learn and understand the interests and motivations for investing in these new forms of equity factor strategies. We see from the survey that investors, and especially asset owners, are ultimately aware of the difficulties and the technical progress to be achieved to master dynamic factor allocation. It is EDHEC-Risk’s ambition to keep on producing applied academic research on the subject so as to enhance our collective understanding of the benefits and limits of dynamic approaches to factor investing.”

A copy of the EDHEC Survey on Equity Factor Investing can be downloaded [here](http://investment.solutions.edhec-risk.institute/wp-content/uploads/publications/EDHEC%20Survey%20on%20Equity%20Factor%20Investing%20-%20Nov%2017.pdf).



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**About EDHEC-Risk Institute**

**Academic Roots & Practitioner Reach**

Since 2001, EDHEC Business School has been pursuing an ambitious policy in terms of practically relevant academic research. This policy, known as “Research for Business”, aims to make EDHEC an academic institution of reference for the industry in a small number of areas in which the school has reached critical mass in terms of expertise and research results. Among these areas, asset and risk management have occupied privileged positions, leading to the creation in 2001 of EDHEC-Risk Institute, which has developed an ambitious portfolio of research and educational initiatives in the domain of investment solutions for institutional and individual investors.

This institute now boasts a team of close to 50 permanent professors, engineers and support staff, as well as 39 research associates from the financial industry and affiliate professors. EDHEC-Risk Institute is located at campuses in the City of London in the United Kingdom; Nice and Paris in France. The philosophy of the institute is to validate its work by publication in prestigious academic journals, but also to make it available to professionals and to participate in industry debate through its position papers, published studies and global conferences.

To ensure the distribution of its research to the industry, EDHEC-Risk also provides professionals with access to its website, [www.edhec-risk.com](http://www.edhec-risk.com), which is entirely devoted to international risk and asset management research. The website, which has more than 70,000 regular visitors, is aimed at professionals who wish to benefit from EDHEC-Risk’s analysis and expertise in the area of applied portfolio management research. Its quarterly newsletter is distributed to more than 200,000 readers.

EDHEC-Risk Institute also has highly significant executive education activities for professionals, in partnership with prestigious academic partners.

In 2012, EDHEC-Risk Institute signed two strategic partnership agreements, with the Operations Research and Financial Engineering department of Princeton University to set up a joint research programme in the area of asset-liability management for institutions and individuals, and with Yale School of Management to set up joint certified executive training courses in North America and Europe in the area of risk and investment management.

As part of its policy of transferring know-how to the industry, EDHEC-Risk Institute has set up ERI Scientific Beta. ERI Scientific Beta is an original initiative which aims to favour the adoption of the latest advances in smart beta design and implementation by the whole investment industry. Its academic origin provides the foundation for its strategy: offer, in the best economic conditions possible, the smart beta solutions that are most proven scientifically with full transparency of both the methods and the associated risks.

**About ERI Scientific Beta**

ERI 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 very top academic institutions in the field of fundamental and applied research for the investment industry, ERI 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 ERI 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, ERI 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 ERI 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, ERI Scientific Beta is present in Boston, London, Nice, Singapore and Tokyo. As of June 30, 2017, the Scientific Beta indices corresponded to USD 16.46bn in assets under replication.

ERI Scientific Beta has a dedicated team of 45 people who cover not only client support from Nice, Singapore and Boston, but also the development, production and promotion of its index offering. ERI Scientific Beta signed the United Nations-supported Principles for Responsible Investment (PRI) on September 27, 2016.