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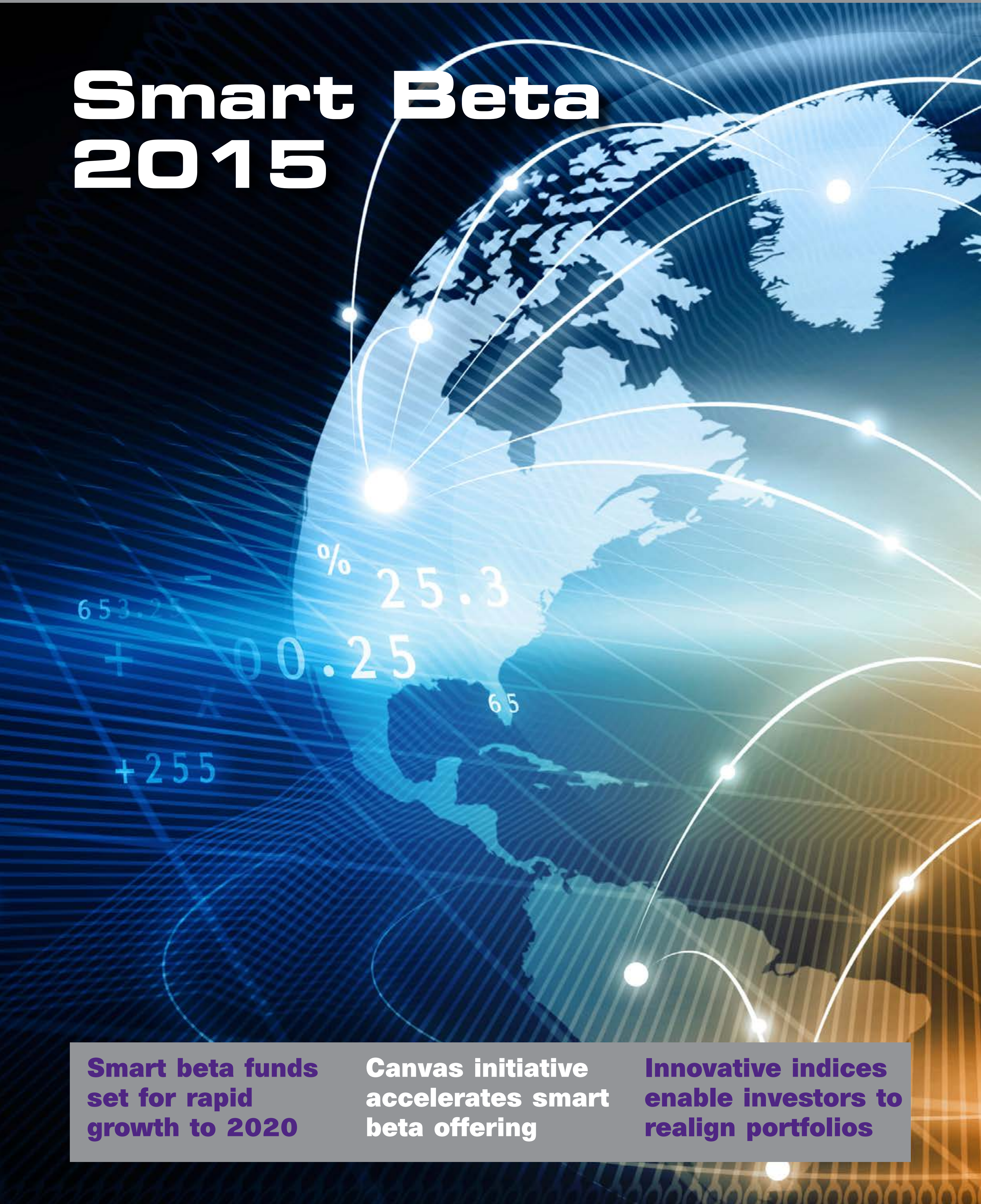

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Canvas initiative accelerates smart beta offering

Innovative indices enable investors to realign portfolios

In this issue…

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Smart beta products set for rapid growth to 2020

By James Williams

According to a new report by ETFGI, smart beta equity ETFs/ETPs listed globally, gathered USD53.7billion in the first 10 months of 2015. There were 764 smart beta equity ETFs/ETPs, with 1,336 listings and assets of USD399billion from 106 providers listed on 31 exchanges in 27 countries.

"If you look at some market studies," says Konrad Sippel, Global Head of Business Development at STOXX, "people are forecasting that by 2020, around 30 per cent of investor assets will be in smart beta products. Currently that figure is around 5 per cent or less so there is a huge growth potential for the industry as investors become more familiar with the concept and more funds and indices gain three-year track records or longer.

"Right now, we have EUR6billion of assets in smart beta ETFs, which makes up about 25 per cent of all European smart beta assets and 10 per cent of total assets linked to STOXX market indices (7,000 in total). If that 30 per cent forecast is realised, it offers plenty of room to further expand our business."

In recent times, smart beta products have caught the attention of investors allocating to active managers. Although many products would be regarded as passive, the ability to re-weight indices and build customised products based on, for example, a dividend tilt or a growth or momentum tilt, has allowed smart beta to fit the needs of active investors, who might previously have allocated to systematic managers.

"Investors realise they can take some of the skills and sophistication of active managers and use them in a systematic way. That has resonated with investors for two reasons: they get more control over their investments, and they are able to chase lower cost solutions. This is important because not all investments into active strategies have necessarily delivered what many expect of active returns; they've been too closely correlated to traditional market cap passive strategies," comments Howie Li, Co-Head of Canvas at ETF Securities, one of Europe's leading ETF providers.

At Mellon Capital, custom beta, where the team tailors exposure to specific factors based on client requirements, plays an important role in its investment universe.

It currently has three multi-factor smart beta strategies in its roster that invest in i) the US, ii) Global Developed Markets; and iii) Global Emerging Markets.

"We also offer a number of high-dividend strategies that may be viewed as smart beta. Most smart beta strategies follow a clear rules-based approach to portfolio construction, and provide simple exposure to well-understood market anomalies (Value, Small Cap, Quality, etc.).

"Although we still believe that fully active strategies can produce stronger risk-adjusted results over time, an increasing number of investors prefer to invest in a cheaper alternative. These investors are willing to sacrifice potential alpha by investing in smart beta strategies rather than fully active ones," says Mellon Capital.

Sippel says that STOXX regards smart beta as anything that takes a strategic approach to tilting traditional market cap weightings towards a specific investment objective.

"We have a lot of indices that focus on dividend investing, generating high dividend yields, we have products in the low risk space to reduce volatility as well as factor-based minimum variance products. More recently, we've developed increased combinations of the high dividend, low volatility theme and also themes such as quality, strong balance sheets, ESG, which all fall under the smart beta wrapper, to some extent," explains Sippel.

"People are forecasting that by 2020, around 30 per cent of investor assets will be in smart beta products. Currently that figure is around 5 per cent or less so there is a huge growth potential for the industry."

Konrad Sippel, STOXX

Single versus multi-factor investing

By far the widest selection of smart beta products resides in equities. This is understandable given the depth of liquidity in global equities, the sheer breadth of market indices, and the fact that equities lend themselves to rules-based investing.

When smart beta first emerged, it started with single factor equity products. The primary driver for this was demand from institutional investors for tailored indices and an ability to generate returns based on isolating specific risks in the market to harvest something a little 'smarter' than pure market beta.

"Someone who is less sophisticated and less attuned to equity investing is better off starting with a multi-factor product if they are moving away from trusting an active manager to smart beta. As they get more confident, that's when they may consider switching in and out of different single factor strategies at the appropriate time.

"People need to realise that single factor is not necessarily an all-weather approach. You've got to know when to use a single factor and why you are using it. Single factor equity products have been the first major wave of smart beta, but they require investor education," says Li.

When looking at smart beta, the uninitiated investor is advised to take baby steps. Rather than invest in single factor products, of which there are countless choices in the market, they should start by taking a multi-factor approach. This will allow them to understand how different factors respond in specific market conditions.

"It gives them time to understand how value, or momentum, or size or low volatility, ▶ 8

Canvas platform accelerates smart beta offering

Interview with Howie Li

ETF Securities is using its established infrastructure to build out its smart beta product offering as investors increasingly turn to lower cost alternatives to active strategies. Having grown into one of Europe's leading ETF providers over recent years, ETF Securities has started to see momentum build in its 'Canvas' initiative, borne out of the firm's desire to bring more solutions across different asset classes.

The Canvas initiative relies on ETF Securities' infrastructure to help external managers develop their own ETF offering or product ranges, as well as to launch ETFs off strategies that already exist within UCITS mutual funds. The Canvas platform manages UCITS funds, and currently has EUR800million in AUM.

"Canvas allows us to partner with firms that have expertise or intellectual property in a specific area. For us, the strategy has to be robust and the investment proposition must resonate with the investor community," says Howie Li, Co-Head of Canvas.

ETF Securities does not purely work with asset managers on Canvas. It has, for example, recently developed two technology-focused smart beta ETFs: one is a cybersecurity ETF called ETFS ISE Cyber Security GO UCITS ETF, the other is Europe's first Robotics and Automation ETF, ROBO Global® Robotics and Automation GO UCITS ETF.

"Our experience and expertise is not in analysing robotics companies, so we partnered with ROBO Global to launch the ETF. For the cybersecurity ETF, we partnered with International Securities Exchange, LLC, who developed a cybersecurity index," says Li.

Rather than follow a market capitalisation-weighted approach, this first slew of disruptive technology ETFs uses a modified equal weighting methodology in order to give sufficient investment weighting to early growth companies.

Howie Li, Co-Head of Canvas, ETF Securities

"That's how we are approaching disruptive technology equities in Europe as part of our smart beta development. Both these ETFs would be considered growth investments," confirms Li.

The big push on Canvas this year, however, has been in the fixed income space. Back in April, ETF Securities teamed up with Lombard Odier Investment Managers ('LOIM') to launch a range of fundamental fixed income products.

The main thrust here is to look at the inefficiencies of market cap-weighted fixed income indices i.e. lending more money to the most indebted companies.

"Our approach is to prioritise the quality of debtors based on their ability to pay and that is the essence of the fundamental approach. There are four fundamental products listed, available in USD, EUR and GBP – Global government bonds, Global corporate bonds, European corporate bonds and Emerging Market local government bonds. I emphasise 'local' as, together with LOIM, we believe in the importance of local currency in driving potential returns in emerging market bonds," says Li.

This is Canvas's strength: the ability to identify new ideas and reach out to the right partner to give investors highly original investment options, all within the transparency and cost-efficiency of an ETF wrapper.

"Lombard Odier fitted the bill because they've been managing the fundamental strategy for more than five years, with over USD5billion in this strategy, and they have an experienced fixed income team headed up by Kevin Corrigan who runs the portfolio management," adds Li. "The vision has always been to have the underlying infrastructure in place to define strategies that investors want to access. We are giving people the opportunity to work together with us on Canvas to offer different types of ETFs, including systematic, rules-based smart beta funds." ■

5 ▶ works within a multi-factor strategy. The next step could then be to integrate certain single factor products into their portfolio when the understanding of how each factor behaves increases," adds Li.

Low volatility & European quantitative easing

One firm that prides itself on leading the ETF revolution, and which offers a wide range of single factor smart beta ETFs, is Invesco PowerShares. "Having single factors as building blocks is really important," says Dan Draper, Managing Director of Global ETFs at Invesco PowerShares.

With divergent global monetary policy, the US ending quantitative easing just as Europe enters phase one, there has been a trend among investors to shift away from US equity ETFs towards non-US equity ETFs.

As a result, in May this year, the firm launched PowerShares Europe Currency Hedged Low Volatility (Ticker: FXEU), which is hedged back to the US dollar.

"In 2011, we launched PowerShares S&P 500 Low Volatility ETF (SPLV), and with approximately USD5billion in assets it has become one of our flagship products. What was interesting to us was that by taking broad-based US equity exposure, and adding a low volatility tilt, during the period when the US was going through QE, led to a period of noticeable outperformance; the combination of low volatility in the face of QE really worked well.

"Our thinking with FXEU was to introduce a product, whilst Europe is still in the early stages of QE, and apply the same low volatility factor as we had done for SPLV, hedging it back to the US dollar. We've already raised USD170million. The fund is up approximately 3 per cent YTD. Many similar products in that category, which do not use a low volatility factor, are in negative territory over that same time period," explains Draper.

Multi-factor products

Multi-factor products allow the investor to rely on a strategy that takes into account different economic cycles; these are products that know when to put more emphasis on value companies, or when it is more beneficial for momentum investing etc.

As mentioned, not all investors have

"By taking broad-based US equity exposure, and adding a low volatility tilt, during the period when the US was going through QE, led to a period of noticeable outperformance; the combination of low volatility in the face of QE really worked well."

Dan Draper, Invesco PowerShares

the sophistication to know which single factors to pick out, such as low volatility in FXEU, which Draper confirms is aimed at sophisticated institutional investors who want to implement single factor strategies.

Fund sponsors are therefore building multi-factor products to help investors and give them more of a 'ready-made' strategy.

"There are fewer multi-factor products in the market but they are growing," says Li. "The interesting thing about multi-factor is that the dynamic model, the engine behind it, matters much more in terms of how the product provider differentiates themselves compared to a single factor product; there are only so many ways you can apply value or momentum to a single factor FTSE 100 product. There's probably a bit more room for differentiation with respect to the dynamic allocation in a multi-factor approach."

Multi-factor products, with their exposure to a number of different and complementary factors, will generally give a more consistent set of risk-adjusted returns over time.

"Single-factor products, however, may also have an application in investors' overall asset allocation process. For example, a single-factor smart beta product may be used as part of a completion strategy in order to lend more exposure to lower beta stocks to an equity portfolio with a higher risk profile," explains Mellon Capital.

Dual factors

More institutional clients want single factor ETFs to use as building blocks, once they have familiarised themselves with the benefits of smart beta. According to Draper, institutional investors typically adopt a core and satellite approach, using multi-factor in a core portfolio and overweight or underweight single factors in a satellite portfolio.

"We've also looked at single factor strategies that have worked well, such as high dividend, and combined them with SPLV (low volatility) to create a product (Ticker: SPHD) that uses just two factors to minimise the value trap potential; something that one can experience in high dividend ETFs in certain times in a market cycle. That's what's really interesting about smart beta. Once you've got a wide range of single factors, you can start thinking about optimising combinations to create new solutions for investors," confirms Draper.

"We try to launch products that have a clear investment thesis behind them. They have to be products we believe in and which we think investors should be considering; that's why we've only launched eight fixed income products since 2011."

Fabrizio Palmucci, Source

Fixed income smart beta on the rise

Although there are far fewer smart beta products in the fixed income space, innovative providers such as London-based ETF sponsor, Source Ltd., are steadily building a range of fund options for investors.

When looking at fixed income, the main risk factors at play tend to be duration risk and credit risk.

"Generally, if an investor wants to invest in sovereign bonds of the main developed economies (US, UK, Germany, Japan) they would have exposure to mainly duration risk. If they want to diversify away from duration into credit a first step would be to allocate into a corporate investment grade bond product. If they want to overweight credit risk further, they could allocate to a high yield product.

"We try to launch products that have a clear investment thesis behind them. They have to be products we believe in and which we think investors should be considering; that's why we've only launched eight fixed income products since 2011," explains Fabrizio Palmucci, Fixed Income Specialist at Source.

Palmucci confirms that assets have noticeably accelerated since 2013. Across the eight fixed income products, assets currently total USD6billion, averaging USD700million per fund and underscoring the success that Source has had with each launch.

"The PIMCO EUR Short Maturity ETF has close to EUR3billion and is now the single biggest actively managed ETF in Europe. The fund is actively managed by PIMCO and invests primarily in short-term investment grade debt. The average portfolio duration will vary based on PIMCO's economic forecast and active investment process, and will not normally exceed one year."

Short Term High Yield has also been a success story at Source. The premise it offers to investors is that if they are investing in the short-term high yield segment, Source can offer a similar yield on a portfolio with a 1- to 5-year duration profile to that with a 1- to 15-year duration.

"The way we structure the product is innovative and efficient. We have just launched a GBP-hedged share class of the Short-Term High Yield Corporate Bond Index Source UCITS ETF," confirms Palmucci.

Two of Source's most recent product innovations, both of which launched at the end of 2014, invest incorporates, with a short duration bias – PIMCO Low Duration Euro Corporate Bond Source UCITS ETF and PIMCO Low Duration US Corporate Bond Source UCITS ETF.

Both are active strategies. The 'smart' component is that the strategy focuses on low duration bonds, giving a better risk/return profile given where interest rates currently are.

"We believe rates are likely to rise soon in the US and even though that's not necessarily the case in Europe for short-term rates. We don't see a lot of upside in longer duration, which has historically been correlated with US rates.

▶ 13

Innovative new indices enable investors to realign portfolios

Interview with Konrad Sippel

STOXX Ltd is a global index provider, currently calculating a global index family of over 7,000 rules-based and transparent indices. STOXX indices are licensed to more than 500 companies globally. Three of Europe's top ETFs and approximately 25 per cent of all AUM are based on STOXX indices. STOXX offers a wide range of smart-beta indices, one of the most recent additions being the introduction of the STOXX True Exposure index family (STOXX TRU™), designed to help investors realign their portfolios.

STOXX TRU Indices work by giving investors the opportunity, when selecting investments in different regions or countries, to optimise their exposure to companies with a dominant economic revenue stream within that targeted country or region.

The STOXX methodology uses an innovative model which identifies the diverse geographic revenue streams of companies, and consequently disentangles the economic overlaps. The basic index universe for the STOXX TRU index family is the respective STOXX country, broad or benchmark index.

Currently, the STOXX TRU offering comprises five country indices (Australia, Canada, Japan, UK and USA), four regional indices (Eurozone, Europe, Asia/Pacific and North America) as well as four global indices (Developed Markets, Developed Markets ex Europe, Developed Markets ex USA and Emerging Markets).

One of the side effects of an increasingly global economy is that companies are much more international in how they operate than they used to be, years ago, when traditional asset allocation models were built. There are a lot more revenues coming from countries outside the company's country of origin. As a result, its risk exposure has changed.

Konrad Sippel, Global Head of Business Development at STOXX

"If you are a European car manufacturer, for example, and you're selling 30 per cent of your cars to China, any crisis in consumer confidence will hit that company harder than something happening back home," says Konrad Sippel, Global Head of Business Development at STOXX. "However, investors typically still allocate assets to companies based on where they are headquartered. The allocation model completely overlooks China, in this example."

When constructing portfolios, there is a tendency to allocate by country or regional buckets using traditional market cap-weighted indices such as the S&P 500, MSCI Emerging Markets Index, STOXX Europe 600 Index etc. Within these indices there is often a significant amount of revenue overlap. In financial lexis, this equates to relatively high correlations between benchmarks, which investors originally chose for de-correlation and diversified risk reasons.

"We've built a database to identify the revenue exposure of each company to each country on a one-for-one basis and, where they don't report those revenues, we've built an excellent proxy estimator that includes import/export data and sector-relevant data to estimate what those revenue splits will be. The STOXX True Exposure Indices eliminate revenue overlap and create more pure-play benchmarks that protect the individual country bucket from macroeconomic factors.

"If you're building a portfolio of assets that have a low correlation to each other, the portfolio becomes more efficient on a risk-return basis because of the greater degree of diversification," explains Sippel.

Divergent global economy

With the global economy in different stages of economic growth and recovery, it is a challenging environment for investors to optimise their portfolio allocation.

Nevertheless, if an investor has a strong view on how country or regional effects are going to play out, and has a clear conviction on which regions or countries they want exposure to, using a STOXX TRU benchmark will enable them to enhance their exposure without suffering a dilution effect. For example, an investor might think that China is heading towards a slow down and Germany will be a big winner over the next couple of years.

"In this example, you would look to buy German companies with no exposure to China; the EURO STOXX TRU 100 per cent index allows you to build pure-play German exposure, stripping out companies that in a traditional country benchmark would have exposure to China. Investors get better value out of their decisions," says Sippel.

Investors, therefore, need to have a clear macro view before they decide which STOXX TRU index to add to their portfolio. That said, if they don't have strong macro views and don't want to build specific country or regional exposures, STOXX TRU is still advantageous to allocate to assets broadly and maintain diversification against individual crises, creating a more efficient portfolio allocation.

"Most pension schemes don't have that many benchmarks in their core allocation. A US investor will typically have the S&P 500 Index, a European investor will use the STOXX Europe 600 Index. Then they'll have a developed global market benchmark that typically excludes regions (e.g. MSCI Global ex-Europe) and an Emerging Markets benchmark. Those three benchmarks give them a pretty diversified asset allocation; 60 per cent domestic, 30 per cent developed global and 10 per cent Emerging Markets.

"Replacing those benchmarks with an equivalent STOXX TRU Index giving 25 per cent to 100 per cent coverage, the investor would get the same returns, overall, but with lower correlations among the benchmarks. In other words, they would get a similar return to the traditional market cap-weighted index, but their risk would be lower. In a world where risk budgeting is becoming more important than return budgeting, it frees up risk budget without having to sacrifice returns," comments Sippel.

Given that the STOXX TRU index family only launched this year, it's worth highlighting how smart-beta indices with a longer track record are able to help optimise portfolio construction, and improve an investor's risk/return profile (or Sharpe ratio).

A good example is the STOXX Minimum Variance Indices, which launched in 2012. These indices deliver lower volatility than traditional market cap-weighted indices. Without going into too much detail (more information on the mechanics of Minimum Variance is given in this report's editorial), the STOXX Minimum Variance Indices draw upon Harry Markowitz's Modern Portfolio Theory of optimal portfolio composition, using a fundamental factor model developed by Axioma. The aim is to predict future volatility as well as the correlation among individual stocks.

"Since the launch, these indices have delivered what they were designed to do, which is to reduce risk significantly compared to traditional benchmarks. For EURO STOXX 50, from 31st May 2012 to 11th November 2015, the benchmark delivered annualised returns of 19.4 per cent with a volatility of 17 per cent. Over the same period, the EURO STOXX Minimum Variance Unconstrained Index returned 19.2 per cent, but the volatility was 12 per cent, thereby reducing risk by a third," confirms Sippel.

For STOXX Global 1800, over the same period the index returned 18.4 per cent with a volatility of 13 per cent. By comparison, the STOXX Global 1800 Minimum Variance Unconstrained Index returned 16.2 per cent with a volatility of 11 per cent; still a risk reduction, but not as drastic as one gets in a more concentrated index at the region or country level. This is because the more diversified an index is, the less effect Minimum Variance has because there is inherently less correlation.

By delivering a similar return at a lower volatility, the Minimum Variance strategy gives investors a higher Sharpe ratio.

"Using data from June 2002 to February 2015, in USD gross return versions, the STOXX USA 900 Minimum Variance delivered an annualised return of 10.6 per cent and an annualised volatility of 15.4 per cent compared to 8.2 per cent and 19.9 per cent for the S&P 500, leading to a higher Sharpe ratio of 0.69 compared to 0.41," concludes Sippel. ■

9 ▸ "In our view, what is smart about these products is that, first of all, the majority of assets in Fixed Income ETFs are in broad duration; approximately EUR17billion in total assets. When investors think about exposure they take the broad benchmark, which includes all maturities. Lower maturity and duration typically mean lower yield.

"However, because our ETF is active, we supplement this lower yield through credit selection. The overall effect is to generate a yield that is similar to the broader index, but with less duration risk. This is smart positioning in the context of where rates are today," explains Palmucci.

Minimum variance methodology

For the last three years, STOXX has been running a series of Minimum Variance Indices, giving investors exposure to 24 different geographies. There are two versions: one constrained, the other unconstrained.

The constrained index version is based on a composition that is similar to the underlying index, but possesses a lower risk profile. This index version enables market participants to closely follow a certain benchmark index and still benefit from a risk optimised portfolio. The unconstrained index version might differ more strongly from the underlying index, while offering the potential benefit of an even better risk profile.

"Whichever region, or index version you look at, you will see a typical pattern, which is that returns fall more or less in line with the standard benchmark but with a significant reduction in volatility. As a result, all of our Minimum Variance Indices have a higher Sharpe ratio; in other words, providing a similar level of return at a significantly lower level of risk," says Sippel.

The objective of Minimum Variance is to provide access to the respective markets by varying the weights of the stocks of the underlying broad indices in such a way that the overall portfolio of the new index has the lowest possible volatility.

In order to achieve robust results, a covariance matrix that is estimated using a fundamental factor model developed by risk software specialist, Axioma, is used.

"With a Minimum Variance approach, what you are trying to do is predict the optimal portfolio. This relates to Markowitz's Modern Portfolio Theory where if you take a set of securities and you simulate every possible portfolio scenario, you end up with a line, called the Efficient Frontier. Any portfolio across that line has the most efficient risk/return structure," says Sippel.

"The interesting thing about multi-factor is that the dynamic model, the engine behind it, matters much more in terms of how the product provider differentiates themselves compared to a single factor product."

Howie Li, ETF Securities

Of course, nobody has a crystal ball. This requires using historical data to predict where those portfolios could lie in the future. Academically, it has been shown that by using historical data it is easier to predict future volatility, as well as the correlation among individual stocks.

Minimum Variance uses a covariance matrix to measure correlations of every pair of securities within an index. To reduce the complexity of the calculation, the returns of securities are broken down into various factors to come up with an optimised portfolio composition. This is done using a fundamental factor model developed by risk software specialist, Axioma

"To do that you need a good factor model and that's why we partner with Axioma. They've got one of the leading factor models and optimisers in the industry. The factor we are looking to optimise against, in this case, is minimum variance (low volatility)," adds Sippel.

Maximum variety methodology

Since 2005, Pierre Filippi, CEO of Paris-based Fideas Capital, has been refining and applying a unique smart beta methodology to equity and multi-asset portfolios. Referred to as "Maximum Variety", it aims to minimise volatility by focusing on individual risks within assets that are weakly correlated.

Fideas believes this approach optimises the risk reward properties of the portfolio by effectively reducing the global risk of the portfolio without having to miss out on the high return potential of volatile assets.

The strategy, which exists in two portfolios – Betamax Europe, focusing on European equities and Betamax Global, a multi-asset growth fund – has been catching the eye of institutional allocators of late. France's incubation fund, Emergence, and its investment adviser, NewAlpha Asset Management, recently announced that it was investing EUR35million in Betamax Europe. Over the last two years, assets at Fideas have doubled to more than EUR400million.

What makes Maximum Variety interesting is that it works in a very different fashion to Minimum Variance.

Both smart beta strategies use the concept of diversification to reduce risk, but whereas Minimum Variance does this by tilting the index towards low volatility stocks, Maximum Variety weights risk in such a way that it still gives exposure to higher risk stocks, whilst still limiting volatility.

The formula on which the Betamax algorithm runs is to maximise the weighted average volatility of assets divided by the volatility (ex ante) of the portfolio. Assets are measured by their risk rather than by their quantity i.e. if an asset is more volatile there is less of it in the portfolio and vice-versa.

"If one compares this methodology to a dominant risk-based smart beta methodology such as minimum variance, there is a major difference. With minimum variance, you are only taking half of our formula, which is to maximise the asset's weighted average volatility divided by ex ante portfolio volatility.

"By doing this, there is an inherent preference for low volatility assets. As a consequence, the outcome of the portfolio is mainly based on a low volatility anomaly i.e. that low volatility assets are capable of producing a good return compared to high volatility assets.

"We do not base our formula on this negation of the classical risk-reward equation of the market. Our formula means that we still seek to buy risk. Instead of looking mostly at low volatility assets, we balance assets by factoring all the potential risks that you can buy in the market. We might look at growth versus value, small-cap versus large-cap, high beta assets versus low beta assets. We try to capture everything in the market," explains Filippi.

Contrary to multi-factor strategies, that try to balance all five risk factors into a single portfolio, the Maximum Variety strategy runs on pre-determined performance factors. Different risk factors are active in the market at certain times, and silent at other times.

"The Betamax model is attracted to those risk factors that are active in the market now. Not over a period of time. Currently, two types of factors are very active in the market. One is energy, the other is small-cap stocks. These two factors are well represented in our portfolio," confirms Filippi, who confirms that around 60 per cent of the global portfolio is held in equity and commodity assets.

One important aspect of Maximum Variety is that allocations are made at the sub-index level, unlike most quantitative smart beta strategies that work on a stock-by-stock basis. This approach, says Filippi, avoids the need to identify and manage stock-specific risk. "By using sub-indices, it is easier for investors to understand the biases used (i.e. Norway would be indicative of an energy bias). This is very hard to determine in a smart beta portfolio that looks at individual stocks within a single index," adds Filippi.

Fideas has just announced a merger with credit specialist, Rivage Gestion. Over the coming years, Fillipi hopes that the Maximum Variety methodology will be successfully applied to credit markets, thereby widening the suite of Betamax products.

"We see further growth in the secular smart beta ETF industry. We estimate that these products will grow at around 25 to 30 per cent over the next three to five years," concludes Draper. ■