

## ERI Scientific Beta releases a series of single narrow high factor exposure indices

ERI Scientific Beta has announced the commercialisation of a new series of single narrow high factor exposure indices. These narrow smart factor indices have strong exposure to the desired factor tilt but are nevertheless well diversified through the application of a multi-strategy weighting scheme, thus remaining consistent with the Smart Beta 2.0 approach developed by EDHEC-Risk Institute and ERI Scientific Beta. The Smart Beta 2.0 framework provides the benefits of explicit control of the risk factors to which one wishes to be exposed with a selection of stocks exposed to the selected factor (beta) and diversifies the specific or unrewarded risks associated with this stock selection.

In addition, these indices benefit from the application of a High Factor Exposure filter, which strengthens their overall factor intensity while avoiding these single smart factor indices, which correspond to explicit choices of strong exposure to factors, being negatively exposed to other factors. For a given factor tilt, this filter enables the stocks that have very poor exposures to other rewarded factors (multi-factor losers) to be eliminated.

The narrow smart factor indices therefore provide more pronounced factor exposure at the single factor level and can be used in allocation solutions, notably in the case of factor overlay, because these indices:

- i. Significantly strengthen the allocation of the overall portfolio to the selected risk factor through the strong exposure to this factor
- ii. Avoid altering the exposures to the other rewarded factors and preserve a very good level of factor intensity through the presence of the high factor exposure filter

As such, on the occasion of their commercial launch, Professor Noël Amenc, CEO of ERI Scientific Beta, stated, “These indices, which we have been using since December 2016 for dedicated factor allocation solutions, correspond to two main usages in the factor overlay framework. They either allow the value of a tactical bet on a factor to be maximised or the factor biases of a pre-existing allocation to be corrected in a highly efficient way.”

The diversification of the indices leads to excellent risk-adjusted performance, and they have **interesting asymmetrical properties**: not only do they outperform traditional factor indices when these indices perform positively, but they also limit the losses when these indices perform negatively.



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## 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. It has three principles:

- **Choice:** A multitude of strategies are available allowing users to build their own benchmark, choosing the risks to which they wish, or do not wish, to be exposed. This approach, which makes investors responsible for their own risk choices, referred to as Smart Beta 2.0, is the core component of the index offerings proposed by ERI Scientific Beta.
- **Transparency:** The rules for all of the Scientific Beta series are replicable and transparent. The track records of the Scientific Beta indices can be checked and justified through unrestricted access to historical compositions.
- **Clarity:** Exhaustive explanations of construction methodologies are provided, as well as detailed performance and risk analytics.

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.

We believe that it is important for investors to be able to conduct their own analyses, select their preferred time period and choose among a wide range of analytics in order to produce their own picture of strategy performance and risk.

- **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 December 31, 2016, the Scientific Beta indices corresponded to USD 12.3bn 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.