

FIAP Investment Seminar - **October 17th, 2018**

# Smart Beta and Factor Investing

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Smart  
Beta

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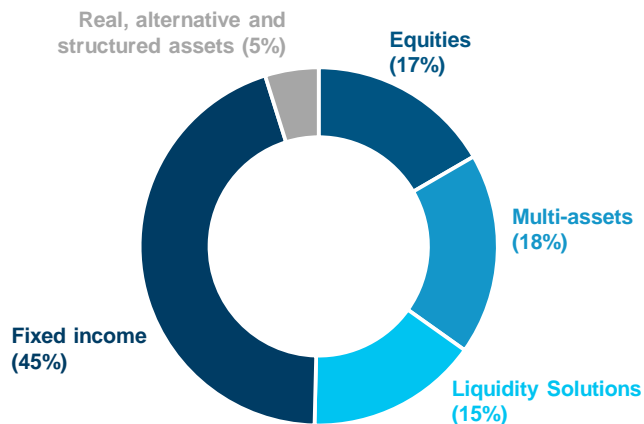
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# A comprehensive range of investment strategies

Amundi AuM:  
**\$1,769bn as of 30/06/2018** <sup>(1)</sup>

Breakdown of AuM by asset class<sup>(1)</sup>



- Innovative and high-performing products, solutions and services that cover the entire spectrum of investment strategies
- Widely-recognized know-how in Smart Beta, ETF, real estate, alternative assets, structured and guaranteed solutions, discretionary asset management solutions, global fixed income and global equities
- Strong product expertise in European, US fixed income and Emerging Market debt

(1) Amundi figures as of June 30, 2018

# Amundi's Commitment to the Americas Region

Over 90 years experience in North America and more than 10 in Latin America



518 employees with 90 billion USD in assets, 8 BN from Latam Institutionals

## Americas' Investment Offices

Boston: Since 1928  
447 Employees

Durham: Since 1982  
46 Employees

## Client Service Offices

Montreal : Since 2007  
4 Employees

Miami: Since 2001  
11 employees

Mexico City: Since 2012  
3 employees

Santiago: Since 2008  
5 employees

Buenos Aires, Since 2008  
2 employees

# Amundi ETF, Indexing & Smart Beta platform

One of Amundi's key strategic areas of development, accounting for more than US\$100 bn AUM

## ETF

- **5<sup>th</sup> Largest European provider\*\* with close to 42bn€ AUM\***
- **Fast and consistent growth** pace
- **100+ UCITS ETFs** covering all asset allocation needs
- **500+ cross listings** on the main European stock exchanges
- 2 strong pillars : **cost efficiency & innovation**

## INDEXING

- **30y+ track record** with more than 100 indexes replicated in **Equity & Fixed Income**
- Leverage on Amundi's **outstanding pricing power & dealing excellence**
- Strong **customization capabilities**, incl. ESG & low carbon index solutions
- **Open-ended range** covering the main equity & fixed income exposure

## SMART BETA

- Broad range of **Factor investing & Risk-efficient solutions** (e.g MinVar / Risk Parity)
- Experience in **both active & passive** implementation totalizing over **€20bn AUM**
- Strong **tailor-made & advisory** capabilities
- **Research-backed approach** leveraging Amundi's Quant & Research teams & reputable partners

## BESPOKE SOLUTIONS

- **ETF-based solutions for Distributors : Portfolio Models, Advisory, Training & digital solutions**
- **Indexing & Factor dedicated mandates with full range of customization capabilities incl. ESG integration**
- **Proprietary Factor design, analysis & implementation**
- **Product design: Dedicated funds, White-labelling...**

Sources: \*Amundi ETF Indexing & Smart Beta at end June 2018/ \*\*Deutsche Bank European Monthly ETF Market Review as end of June 2018.

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# (Equity) Smart Beta and Factor Investing is about...

## Avoiding unrewarded risks

Minimum Variance

Risk Parity

Equal Weight

“Risk Efficient” Solutions

## Capturing rewarded risk factors

Mid cap

Momentum

Low volatility

Value

“Factor Investing” Solutions

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# Factor Investing Solutions

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# Why factor investing: 1 - Some factors are rewarded

## Risk factor:

- A characteristic shared by many stocks that has proven its ability to partially explain stocks performance
- Can be fundamental e.g. Growth, or technical e.g. Momentum

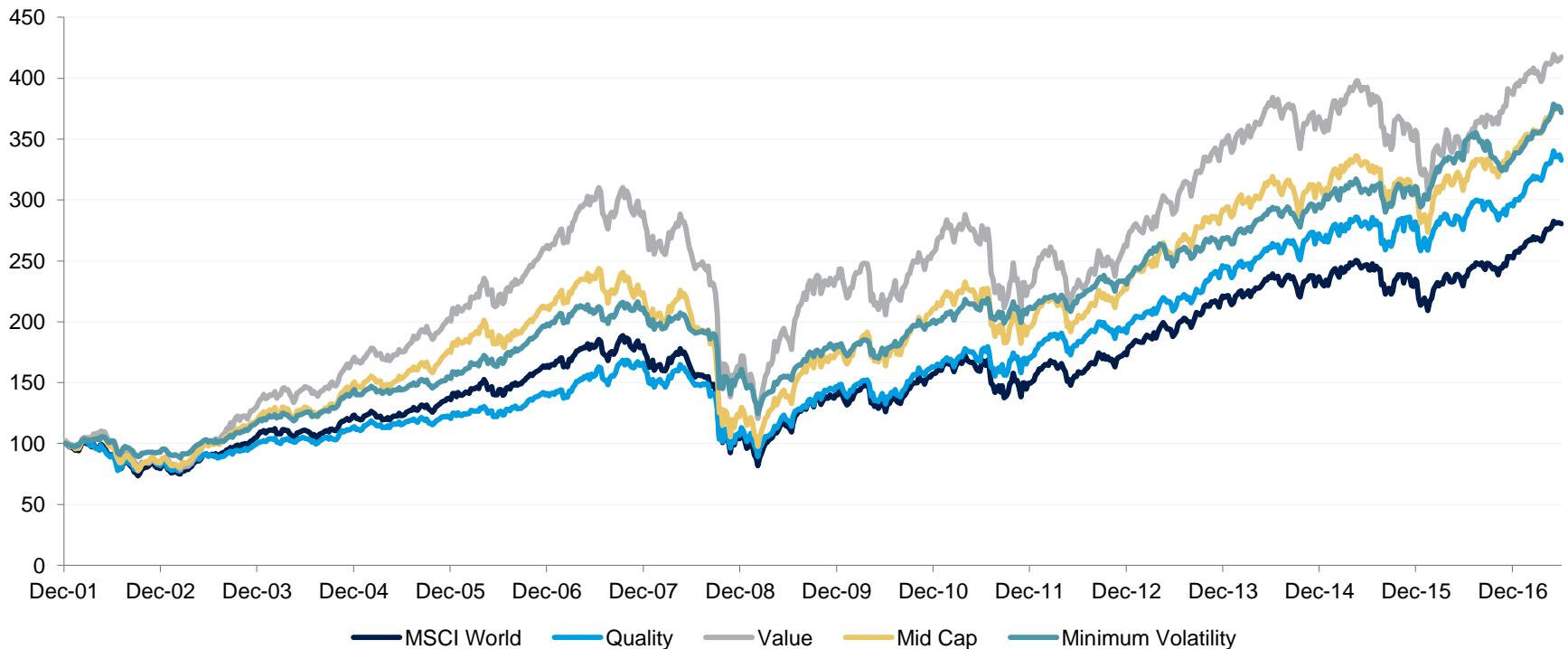
## Rewarded Risk factor:

- A risk factor that has historically earned superior risk-adjusted return
- The superior return can be due to:
  - Risks not properly priced -> Risk Premium
  - Market inefficiencies due to, for example, behavioral issues

# Why factor investing: 1 - Some factors are rewarded

— Some risk factors have been rewarded by the market

Performance of rewarded factors – Global Market 2002-June 2017



Source: MSCI, Amundi as of June 2017

Investors are reminded that the past performance cannot be regarded as a reliable indicator of future results, nor can they guarantee expected return



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## Why factor investing: - These factors are **uncorrelated**

| Correlations of excess return – Global 2002-2017 |         |                    |          |         |       |
|--|---------|--------------------|----------|---------|-------|
|  | Mid Cap | Minimum Volatility | Momentum | Quality | Value |
| Mid Cap  | 100%    |                    |          |         |       |
| Minimum Volatility                               | -19.0%  | 100%               |          |         |       |
| Momentum   | 16.3%   | 31.1%              | 100%     |         |       |
| Quality  | -30.9%  | 39.7%              | 31.8%    | 100%    |       |
| Value  | 28.9%   | -35.2%             | -22.1%   | -53.9%  | 100%  |

- Rewarded factors tend to be uncorrelated with one another
- In particular, factors such as Value and Momentum offers attractive diversification opportunities

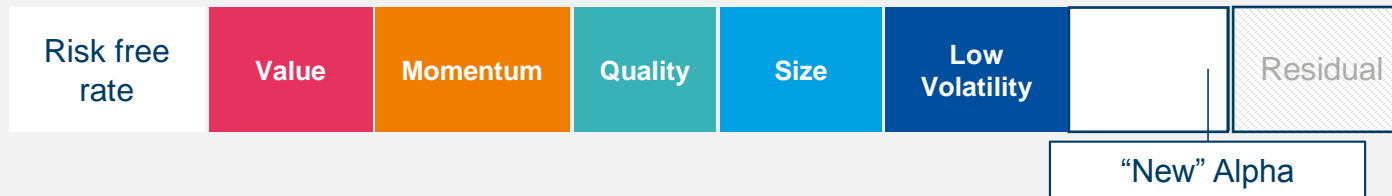
Source: MSCI, Amundi as of December 2017, net total returns in USD.

# From CAPM to Factor investing

## Portfolio performance: CAPM Mindset



## Portfolio performance: Factor Investing Mindset



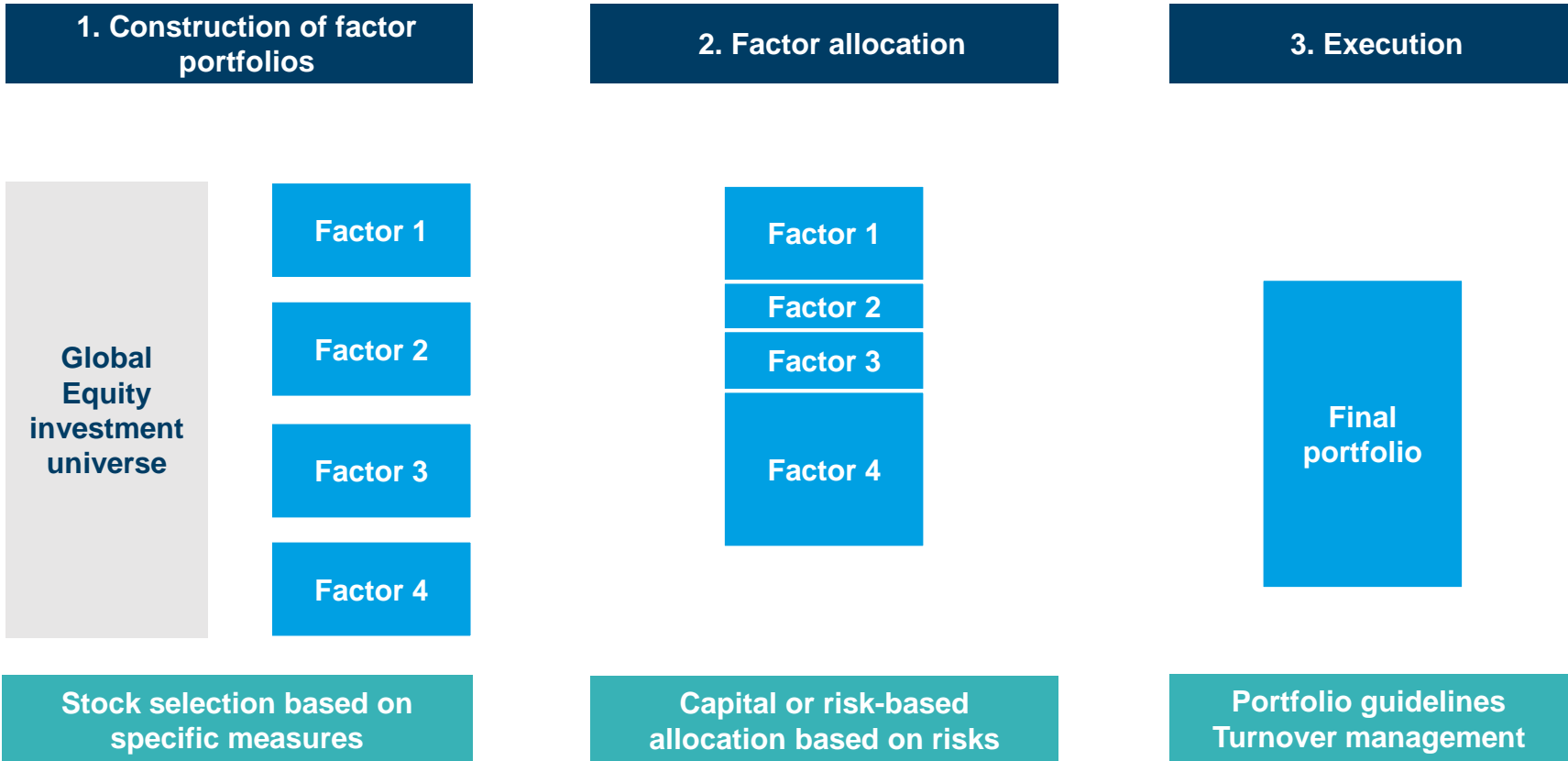
➤ Factor investing is about getting a transparent and well diversified exposure to Rewarded Risk Factors

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# How do you combine factors?

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# First approach: “Top-Down” Multi Factor portfolios



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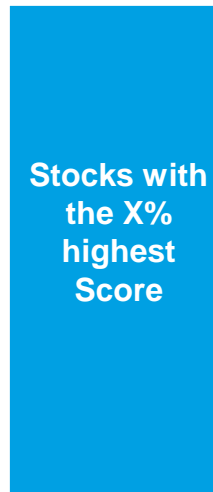
# Second approach: “Bottom-Up” Multi Factor portfolios

1. Multi factor scoring of stocks in the investment universe



Stocks with highest Z\_score are “factor champions”

2. Portfolio construction



Weighting scheme is key

3. Execution



Portfolio guidelines  
Turnover management

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## Both approaches have different characteristics

| Characteristic  | Top-Down              | Bottom-Up       |
|-----------------|-----------------------|-----------------|
| Turnover        | Low                   | High            |
| Diversification | High                  | Low             |
| Factor Exposure | Moderate              | High            |
| Risk: Vol & TE  | Lower than cap weight | Could be higher |

Both approaches have advantages and drawbacks

Our Multi Factor approach combines features of Top-Down and Bottom-Up:

- Moderate Turnover
- High Diversification
- High Factor exposure

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