



iSTOXX Europe Factor Indices Quarterly – The future looks bright...

... for factor investing - both from an investor's as well as from specialized factor investing manager's perspective. This is the general finding in **INVESCO's "Global Factor Investing Study 2017"** ([Link](#)), released at the end of September. From an industry lifecycle point of view, factor investing is still in early stage but adoption rates are rising across all regions and investor groups albeit with different pace and requirements, the study shows.

INVESCO's findings with respect to products and adoption rates are supported by an **ETFGI report** titled "*Assets Invested In Smart Beta Equity ETFs/ETPs Listed Globally Reached A New Record Of \$592 Billion At The End Of The First Half Of 2017*" ([Link](#)).

Germany's *Börsenzeitung* completed its Factor Investing series ([Link](#)), which started at the end of last year and where we contributed several articles at the beginning. Among other topics, the final article highlighted major **differences in excess returns of more than 10% within the same factor category** (i.e. Quality, Low Risk, Size) across different providers.

Gleicher Faktor, aber anderes Resultat			
Über-/Unterrendite zum Hauptindex ab 1. April 2016 bis 30. August 2017			
Stil/Faktor in %	MSCI	J.P. Morgan	iStoxx
Value	2,2	4,0	8,1
Quality	-6,2	-10,3	1,4
Momentum	-0,6	0,5	3,8
Low Risk	-7,9	-9,1	1,2
Size	0,0	-7,7	9,1

Zugrundeliegende Hauptindizes: Stoxx 600 Europe Net Return, MSCI Europe Net Return
Quelle: Bloomberg Börsen-Zeitung

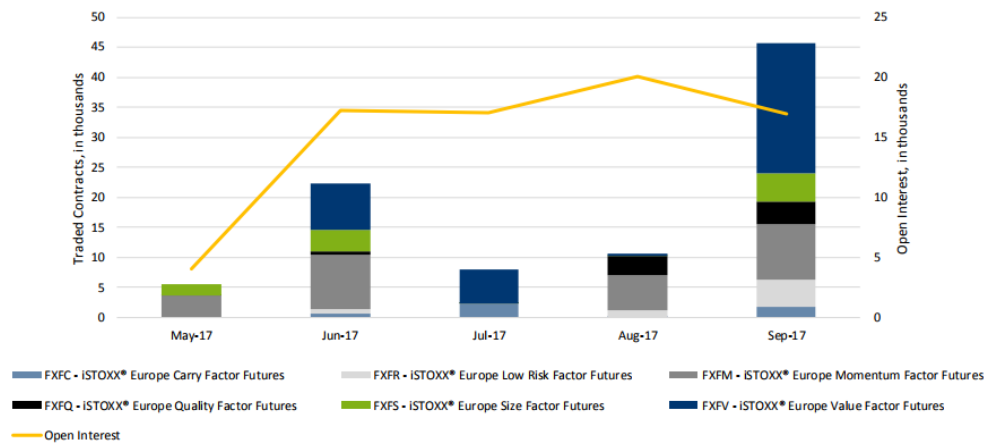
Source: *Börsenzeitung*

This outcome might come as a surprise for investors looking to invest in smart beta-, factor- or risk premia strategies but we pointed out this topic in various articles over the last two years. Designing this type of strategies (or indices) is different to developing trading strategies or market cap indices.

In this sense, STOXX CEO Matteo Andreetto might be right, that at the end "**Providers who define smart-beta the best will dominate market [...]**" ([Link](#)). First time investors should pay attention to a result and order of Invesco's study: "Philosophy, transparency and performance are considered key selection criteria (for specialist managers)".

EUREX Futures

Futures on the iSTOXX Europe factor index family, available since May 2017, received growing interest. During the first five months, 93.000 contracts with a total volume of more than 580m EUR have been traded.



Source: [“Futures on iSTOXX® Europe Factor Indexes”](#) by Eurex

All iSTOXX Europe futures qualify for “Eurex Clearing’s PRISMA Portfolio Margining”, enabling investors to trade the factor futures vs. STOXX Europe 600 Index while saving up to 80% margin from netting effects.

“We expect that in the coming months this product suite will continue to experience growth in both volumes and open interest and thus cement itself as the **marketplace for European equity factor derivatives**”, Zubin Ramdarshan, Head of Product Research and Development at Eurex, was quoted in a recent [press release](#).

Factor performance Q3/2017

The index family **continued to outperform by 1.0 %** in aggregate during the 3rd quarter – the 6th consecutive quarter of positive excess returns since being live. The equal weighted aggregate, one of our internal measures for the quality of the family as a whole, crossed the 5% outperformance mark for the first time after clearing 3% in April and 4% in June. With realized tracking error of 2% and 12-month rolling excess return correlations of 0.01 to bonds and -0.07 to equities currently, these are supportive facts for investors looking for uncorrelated sources of excess performance.

Quality, one of the weaker factors since “Going Live” in April 2016, outperformed STOXX 600 by **+2.8%** recovering all of its underperformance relative to STOXX Europe 600 during the last quarter. **Carry (+2.1%)** was second, touching a **new excess return high of 9.04 %** at the beginning of September. **Size (+1.65%)** completed the winner’s podium, letting its **excess return climb to 10.1%** since inception. Multi-Factor delivered performance in line with STOXX 600.

The only factor unable to beat its benchmark since June is **Low Risk**, underperforming STOXX Europe 600 by **-0.5 %**. Nevertheless, since “Going Live” - **all single factors outperformed STOXX 600**.

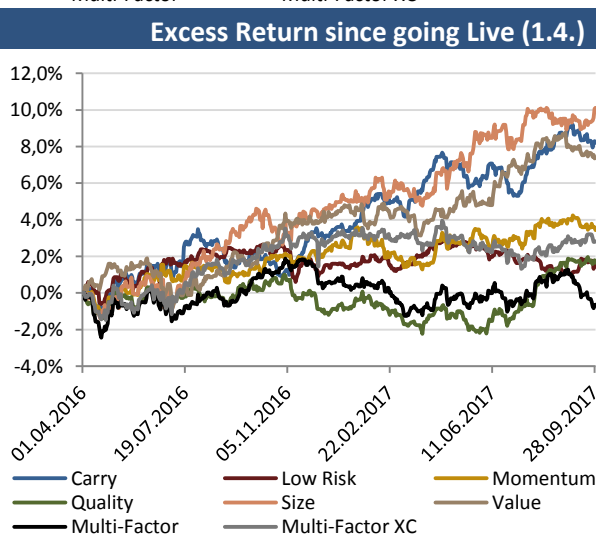
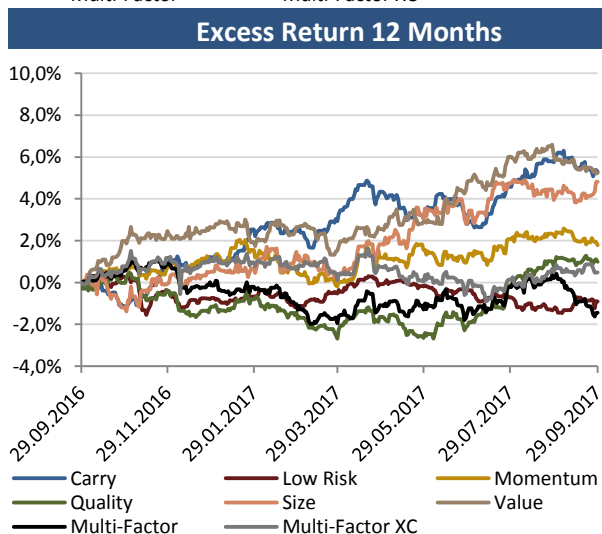
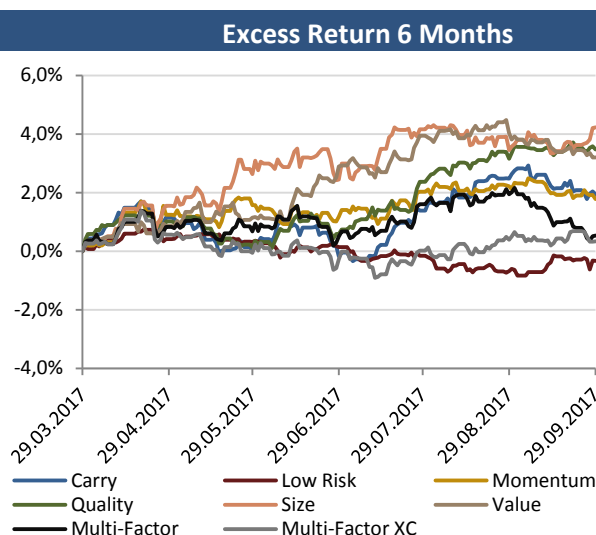
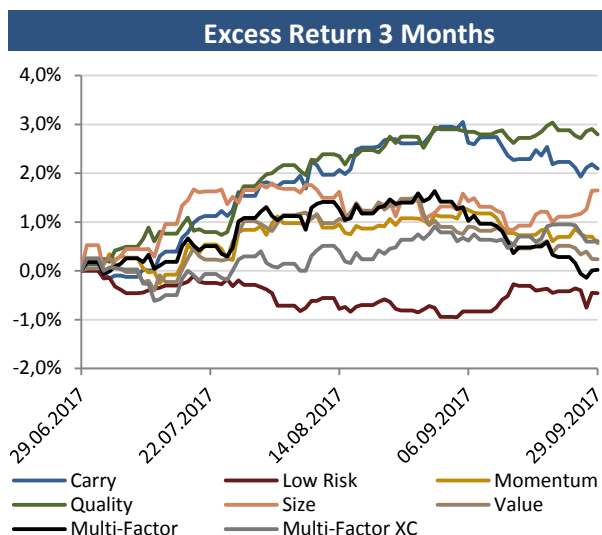


Alpha Centauri Indexing - Data as of 30.09.2017

Description: The iSTOXX Europe Single Factor index family developed by STOXX in collaboration with Alpha Centauri offers investors a unique and very innovative way to target and capture premia. It consists of six single factors that aim to capture well-known risk premia and one multi-factor that aims at simultaneously capturing premia from the aggregate of all single factors rather than from just one source of risk alone. All indices are constructed to maximize the exposure to their particular factor and minimize unwanted risks. While constructing the final indices the FIS APT risk model is used to measure and restrict risk.

For more information go to www.alpha-centauri.com or www.stoxx.com

Performance and Volatility Breakdown							
Name	Ticker	Return 3 Months	Return 6 Months	Return 12 Months	Return Live (1.4.)	Vola pa	Vola pa Live (1.4.)
Carry	ISECFER Index	4.5%	6.4%	21.6%	30.2%	16.2%	13.9%
Low Risk	ISERRER Index	1.9%	4.1%	15.4%	23.7%	14.8%	12.9%
Momentum	ISEMFER Index	2.9%	6.2%	18.1%	25.5%	15.8%	13.5%
Quality	ISEQFER Index	5.2%	7.9%	17.3%	23.7%	15.9%	13.7%
Size	ISEZFER Index	4.0%	8.6%	21.2%	32.1%	16.0%	14.1%
Value	ISEVFER Index	2.6%	7.6%	21.6%	29.4%	16.9%	14.6%
Multi-Factor	ISEXFER Index	2.4%	4.9%	14.9%	21.4%	15.3%	13.2%
Multi-Factor XC	ISEXFCR Index	3.0%	4.7%	16.8%	24.8%	15.6%	13.4%
Benchmark	SXXR Index	2.4%	4.4%	16.3%	22.0%	16.3%	13.8%



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