



Press Release

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## **EDHEC-Risk Institute study highlights the added value of active allocation to smart beta indices**

In a new study entitled “Active Allocation to Smart Factor Indices”, drawn from the eponymous Rothschild & Cie research chair, EDHEC-Risk provides a formal empirical analysis of the benefits of strategic and tactical allocation to multiple equity smart factor indices in a context where relative risk with respect to the cap-weighted indices needs to be explicitly controlled for.

Once regarded as exotic curiosities, smart equity factor indices have now made it into the mainstream, and have become important for investors to better understand how their outperformance relates to underlying sources of risk.

The focus of this paper is to provide a quantitative assessment of the **benefits expected from the three sources of added-value** (which come from time-varying strategic, time-varying tactical or time-varying core-satellite allocation decisions) in the design of equity benchmarks with superior risk and return characteristics.

In this paper, the authors show the **benefits that active managers and asset owners can expect from dynamically allocating to smart factor indices**, with a focus on efficiently reacting to changes in market conditions, as well as efficiently spending relative risk budgets with respect to a cap-weighted reference portfolio.

A copy of “*Active Allocation to Smart Factor Indices*” can be downloaded via the following link:

[EDHEC Publication Investing: Active Allocation to Smart Factor Indices](#)

**This research was supported by Rothschild & Cie as part of the research chair at EDHEC-Risk Institute on “Active Allocation to Smart Factor Indices”. This chair is examining the benefits of smart beta allocation.**



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## **About Rothschild & Cie Gestion**

Rothschild has been involved in investment management since its beginning two hundred years ago when Rothschild businesses were established in the principal cities of Europe at the end of the 18th century. The Rothschild Group is one of the world's leading independent investment banking and asset management organisations and has established a network of companies around the world: more than 2800 people are employed by Rothschild in 40 offices all over the world (New-York, Paris, London, Zurich, Tokyo, Singapore...).

Our Asset Management business provides investment management and advisory services to institutional clients, fund distributors and financial intermediaries worldwide. Our services are provided from Paris, London and New York through specialist subsidiaries.

Headquartered in Paris, Rothschild & Cie Gestion offers high-conviction strategies, mainly in European assets. We cover a full range of products including equities, fixed-income, convertible bonds and flexible diversified funds. These strategies are offered in mutual funds, dedicated funds or mandates. Our goal is to deliver excellent returns for our clients by over-performing the indices, whatever the market conditions, with a controlled level of risk.

Rothschild HDF Investment Solutions offers its clients a full range of innovative and open-architecture investment solutions that cross the traditional boundaries between asset classes. These solutions are adapted to clients' specific needs and regulatory status, and are offered under various formats; including open-ended or dedicated funds, mandates, portfolios of managed accounts, and others.

Headquartered in London, Risk-Based Investment Solutions Ltd (RBIS) constructs a broad range of risk-based weighting schemes without limitation in terms of number of underlying securities, asset classes and combinations of asset classes. This new risk-based approach to portfolio construction offers more efficient alternatives to traditional "cap-weighted" (equity) or "debt-weighted" (bond) portfolios.

Rothschild Asset Management (New York) offers investment management services in the following strategies: US Large-Cap Equity – Core and Value US Small/Mid-Cap Equity – Core US Small-Cap Equity – Core, Value, and Growth US Balanced.

[www.rothschild.com/IAM/](http://www.rothschild.com/IAM/)

## **About EDHEC-Risk Institute**

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 36 research associates from the financial industry and affiliate professors. EDHEC-Risk Institute is located at campuses in Singapore, which was established at the invitation of the Monetary Authority of Singapore (MAS); 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 1.5 million readers.

EDHEC-Risk Institute also has highly significant executive education activities for professionals. In partnership with CFA Institute, it has developed advanced seminars based on its research which are available to CFA charterholders and have been taking place since 2008 in New York, Singapore and London.

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.

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