



Press Release

London, Nice, Paris, March 16, 2017

## **EDHEC-Risk Institute paper analyses the impact of transaction costs on the performance of systematic equity strategies**

A new EDHEC-Risk Institute publication entitled “*Smart Beta Replication Costs*,” conducted as part of the Amundi research chair at EDHEC-Risk Institute on “ETF, Indexing and Smart Beta Investment Strategies”, **provides an explicit estimate of the costs applied to a range of Smart Beta strategies and analyses the impact of different implementation rules or stock universes.**

A reasonable expectation from an investor’s perspective is that providers should disclose the estimated level of transaction costs generated by their strategies so as to allow for information on net returns. However, providers often fail to make explicit reference to transaction costs and simply report gross returns, leaving it to other market participants to figure out the exact amount of transaction costs.

The objective of this paper is to **assess transaction costs of smart beta strategies in order to contrast the gross returns of such strategies shown in backtests with estimates of net returns that are actually available to investors when considering transaction costs.**

In terms of replication costs estimates that result from applying our methodology, three major findings can be highlighted:

- **Transaction costs and implementation challenges crucially depend on the stock universe:** the authors find that conclusions about transaction cost levels and strategy implementation challenges are heavily dependent on the stock universe under consideration;
- **Practical implementation rules effectively ease liquidity and cost issues:** the authors provide evidence of the usefulness of practical implementation rules. Results suggest that whether or not smart beta strategies face implementation hurdles depends on the set of implementation rules that have been included in the design;
- **Smart beta performance benefits largely survive transaction costs:** when looking at commonly used smart beta indices that are built on liquid universes and integrate implementation rules, the impact of transaction costs on returns is small, far from cancelling out the relative return benefits over cap-weighted indices.

Commenting on this research, Lionel Martellini, Director of EDHEC-Risk Institute, said, “The results of the paper provide an important contribution to the analysis of smart beta strategies from a practical perspective. Moreover, the methods we use are not computationally intensive and they draw on easily available data, making them easily replicable for practitioners who wish to analyse smart beta strategies.”

Laurent Trottier, Global Head of ETF, Indexing & Smart Beta Management at Amundi, comments: “Efficient Index replication requires strong skills, a deep understanding of the underlying indices and a strict implementation framework. At Amundi, thanks to our long experience in passive and Smart Beta management, and the group’s bargaining power, minimising transactions costs is at the core of our commitment to provide a best-in class replication to our clients. We welcome this research paper which will contribute to a better understanding of smart beta index replication challenges and help enhance transparency at an industry level.”

A copy of “*Smart Beta Replication Costs*” can be downloaded via the following link:

[EDHEC-Risk Publication Smart Beta Replication Costs](#)

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**Contact:**

For more information, please contact: **Maud Gauchon**

Tel.: +33 493 187 887 – E-mail: [maud.gauchon@edhec-risk.com](mailto:maud.gauchon@edhec-risk.com)

To visit our web site: [www.edhec-risk.com](http://www.edhec-risk.com)

## About EDHEC-Risk Institute

### Academic Roots & Practitioner Reach

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 38 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 200,000 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.

**EDHEC-Risk Institute**  
393 promenade des Anglais  
BP 3116 - 06202 Nice Cedex 3  
France  
Tel: +33 493 187 824

**EDHEC Risk Institute—Europe**  
10 Fleet Place, Ludgate  
London EC4M 7RB  
United Kingdom  
Tel: +44 207 871 6740

**EDHEC Risk Institute—France**  
16-18 rue du 4 septembre  
75002 Paris  
France  
Tel: +33 153 327 630

[www.edhec-risk.com](http://www.edhec-risk.com)

## About Amundi

Publicly traded since November 2015, Amundi is the largest European Asset Manager in terms of AUM(\*), with over 1,000 billion euros worldwide. Headquartered in Paris, France, Amundi has seven investment hubs located in the world's key financial centres, and offers a combination of research depth and market experience that has earned the confidence of its clients.

Amundi is the trusted partner of 100 million retail clients, 1,000 institutional clients and 1,000 distributors in more than 30 countries, and designs innovative, high-performing products and services for these types of clients tailored specifically to their needs and risk profile.

Go to [amundi.com](http://amundi.com) for more information or to find an Amundi office near you.

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*Amundi figures as of 31 December 2016. (\*) No.1 European asset manager based on global assets under management (AUM) and the main headquarters being based in Continental Europe - Source IPE "Top 400 asset managers" published in June 2016 and based on AUM as at December 2015.*

## **About Amundi ETF, Indexing & Smart Beta**

The Amundi ETF, Indexing and Smart Beta business line is one of Amundi group's strategic business areas and totalizes 64bn € AuM.<sup>1</sup>

Built on strong commitments on cost efficiency, innovation and transparency, the Amundi ETF platform is the 5th largest ETF provider in Europe<sup>2</sup> with 100 ETFs and more than 450 listings across Europe.

On Indexing and Smart Beta, innovation and customization are at the core of the client-oriented approach. The objective is to provide investors with robust, flexible and highly cost efficient solutions, leveraging on Amundi pricing power and extensive resources, including first class research capabilities in SRI and Factor investing.

1- *Source: Amundi ETF, Indexing & Smart Beta as of 31/12/2016*

2- *Source: Deutsche Bank European Monthly ETF market review, December 2016*