

Smart Beta

Kolektívne investovanie na Slovensku 2018

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What is Smart Beta?

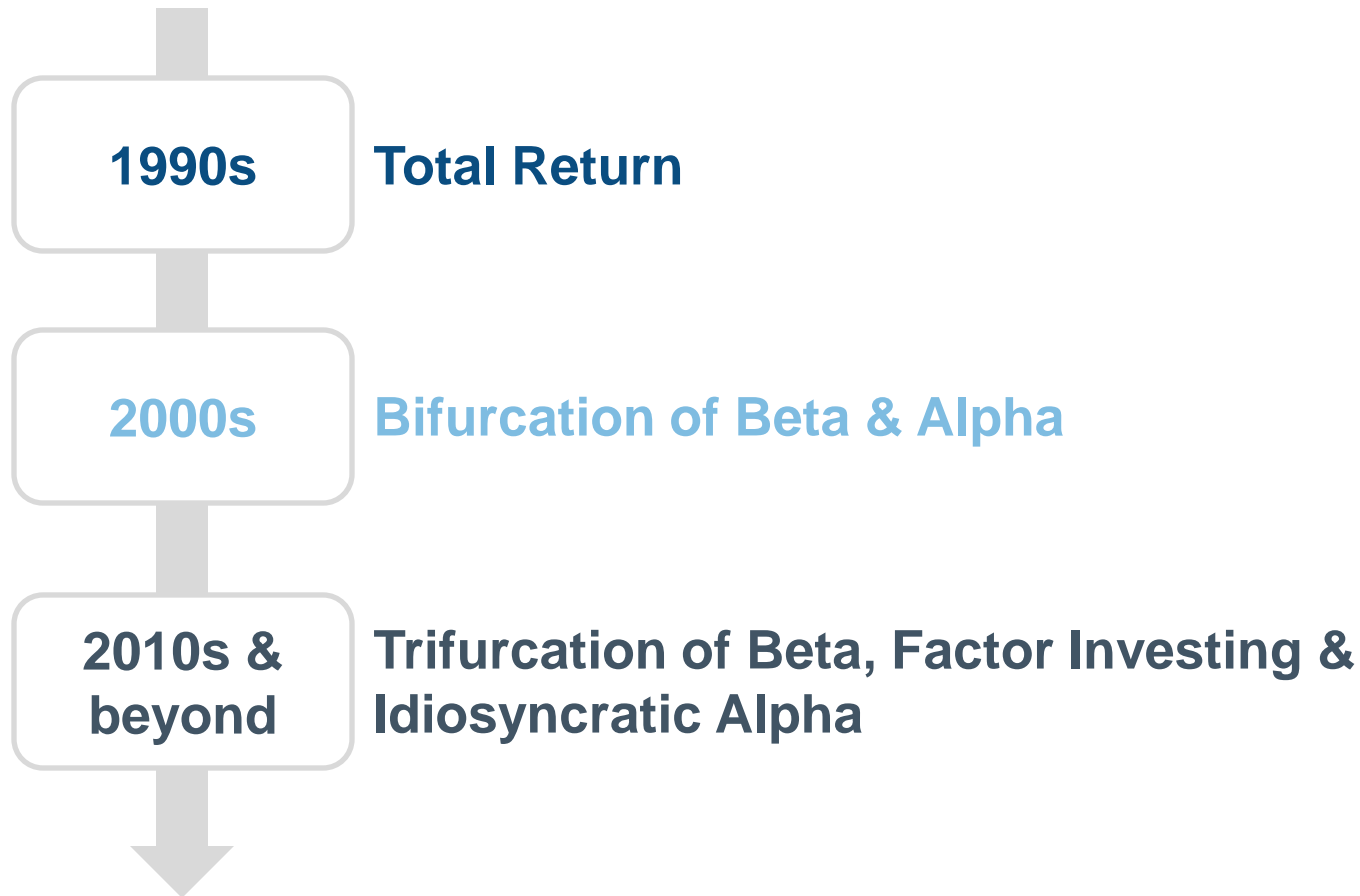
Industry Dynamics

Current & future drivers of growth

How is Smart Beta delivered?

Industry Evolution

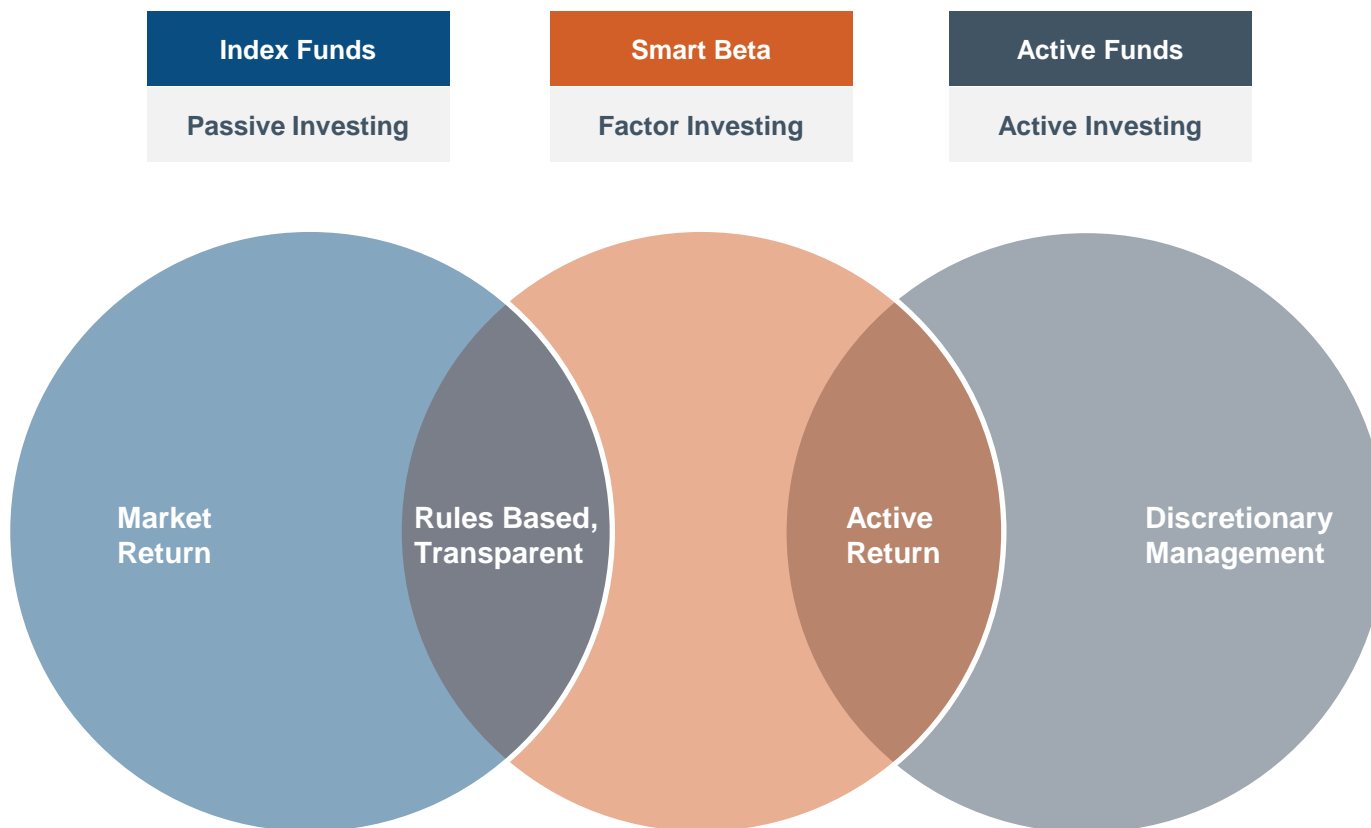
Smart Beta



Source: Fidelity International, October 2018.

What is Smart Beta?

Smart Beta combines elements of active and passive investing

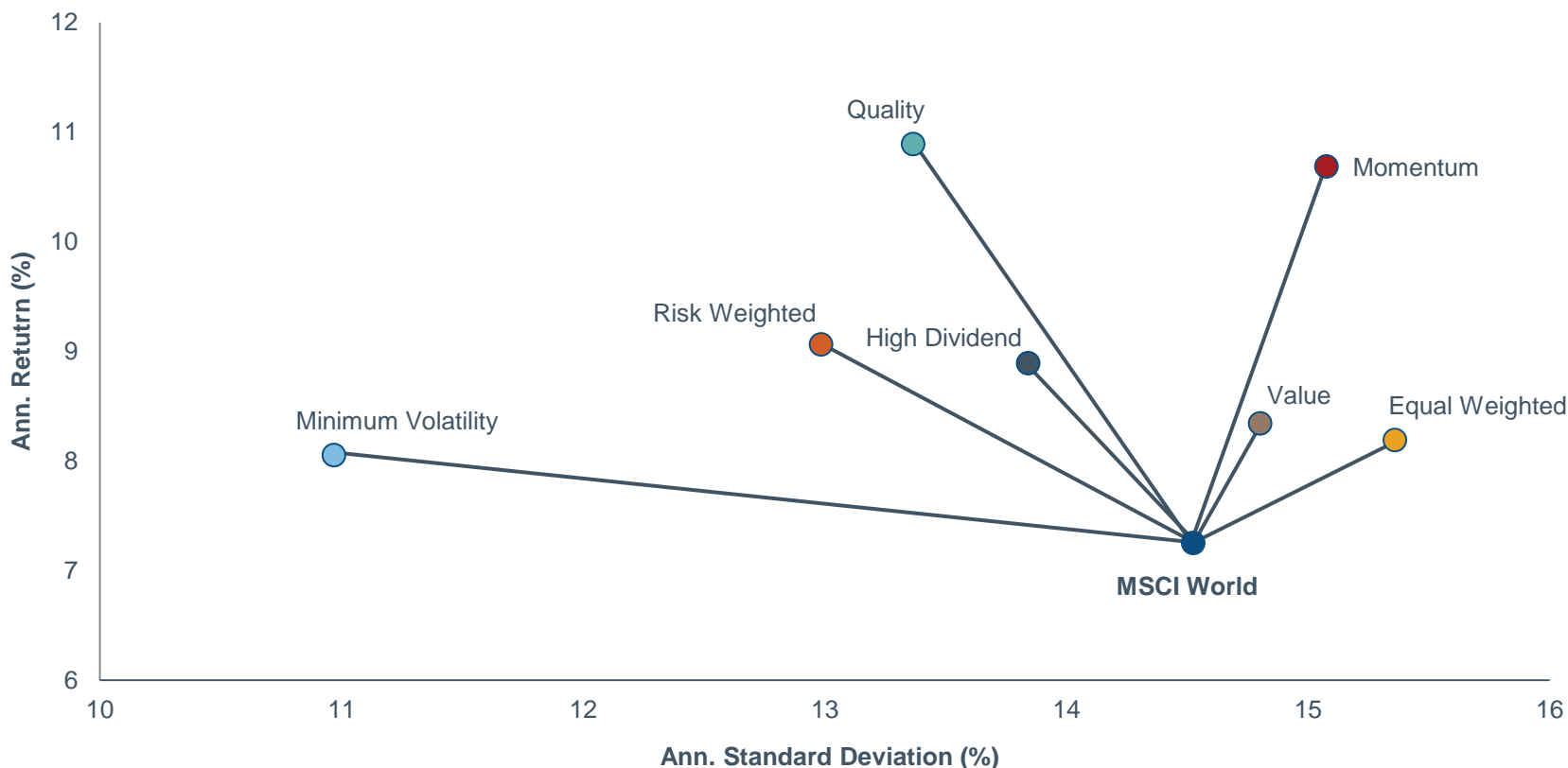


Source: Fidelity International, October 2018.

Examples of Smart Beta Strategies

Alternative risk/return profiles to market cap benchmarks

Risk and return of MSCI factor indices



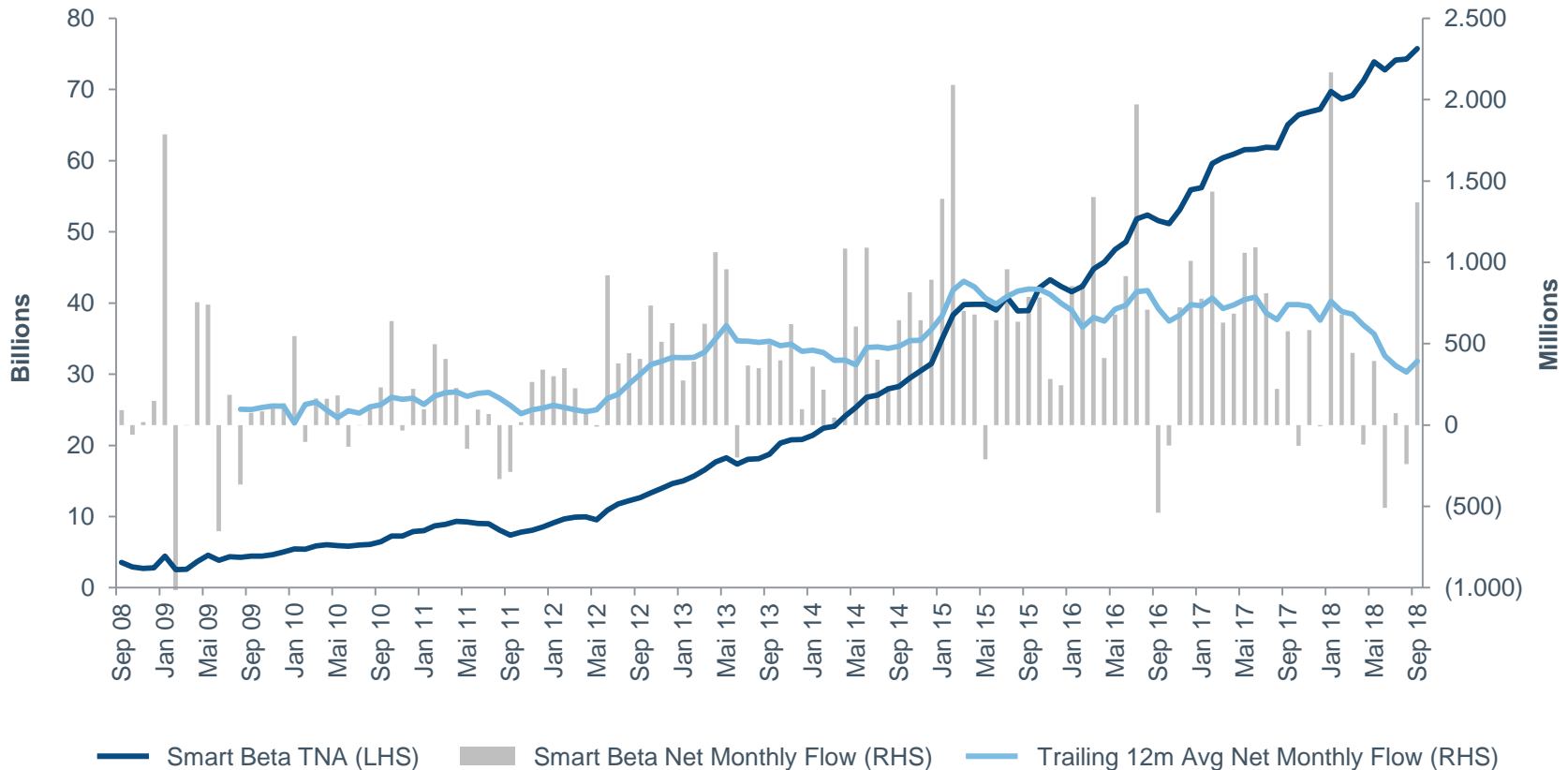
Past performance is not a reliable indicator of future returns. Fund performance and index performance may vary. The value of investments can go down as well as up and you may get back less than you invested.

Source: Morningstar Direct, Performance of MSCI World based indices, USD, (1 June 1988 – 30 September 2018).

Market is still developing

But assets growing consistently over the last 10 years

European Smart Beta Landscape – Assets & Flow (€)

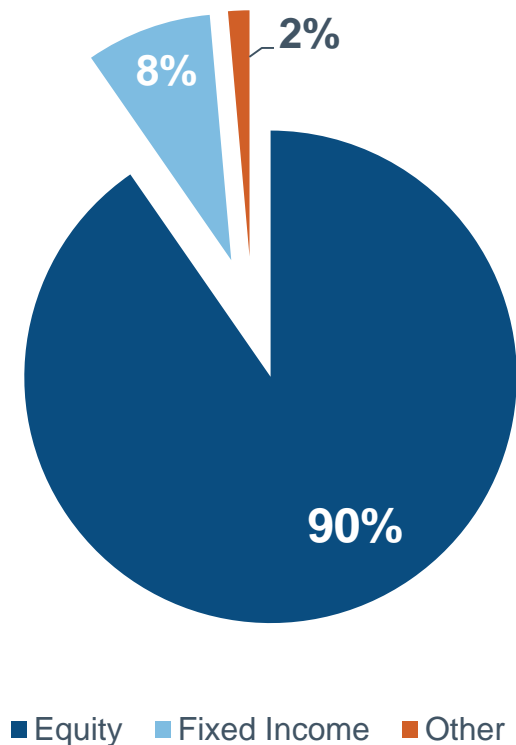


Source: Fidelity International, October 2018. Data: Morningstar as at 30/09/2018. Europe OE & ETF & MM ex FOF ex Feeder, smart beta are those labelled as strategic beta.

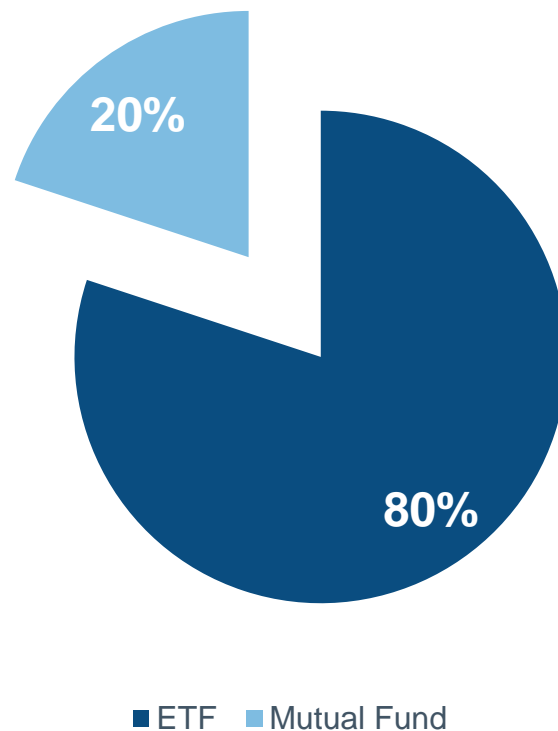
The vast majority of assets are within Equities

While the ETF vehicle is the preferred access mechanism

Smart Beta Assets – Split by Asset Class (€)



Smart Beta Assets – Split by Vehicle (€)

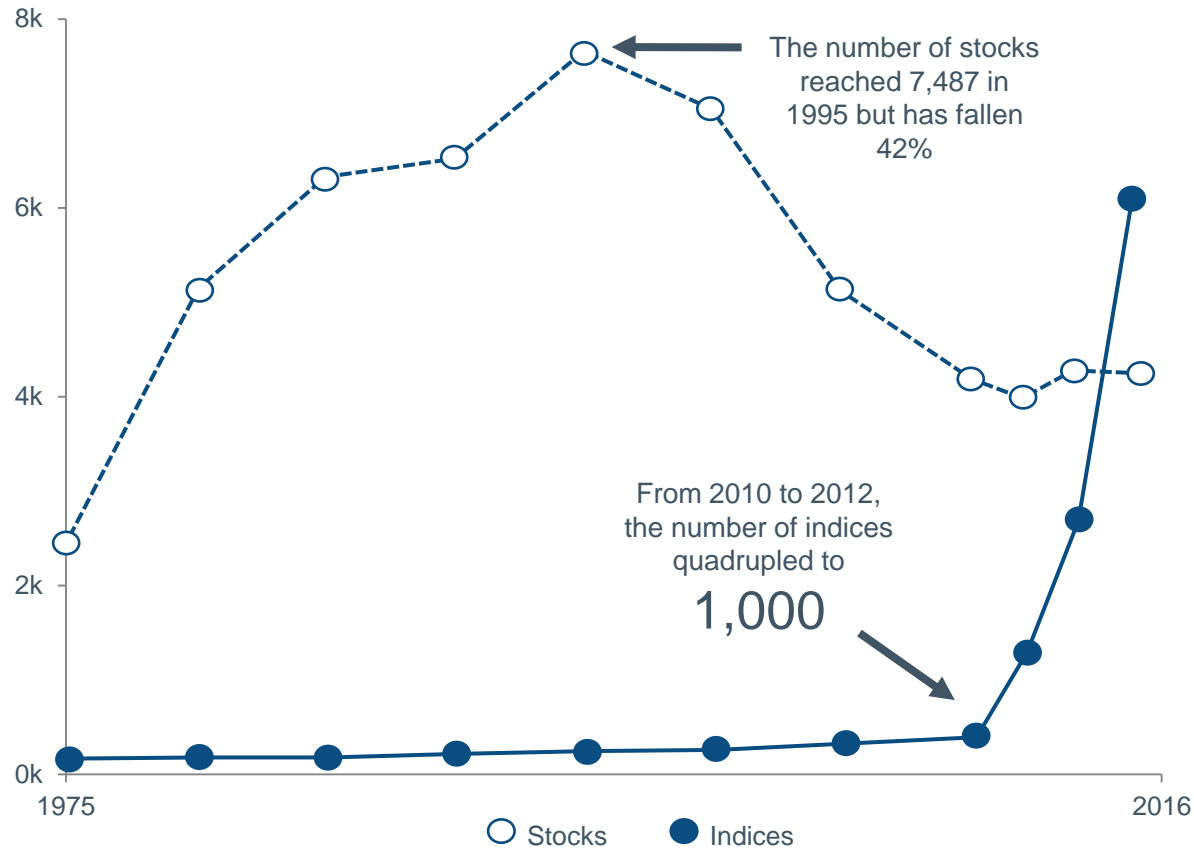


Source: Fidelity International, October 2018. Data: Morningstar as at 30/09/2018. Europe OE & ETF & MM ex FOF ex Feeder, smart beta are those labelled as strategic beta.

Exponential growth in the number of indices

Providing increasing choice to various Smart Beta themes

of US Indices vs. # of listed stocks



Source: Bloomberg, August 2017.

Adoption rates have reached record levels

With Europe leading the way

Smart Beta has now become mainstream



c. 77% of asset owners have exposure or are considering exposure to smart beta.

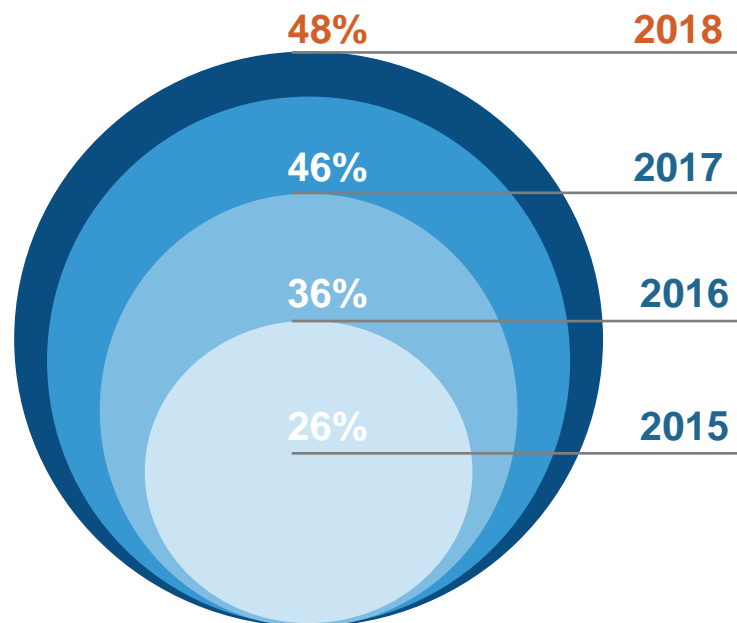


Adoption rates of Smart Beta are evenly distributed between large, medium & small asset owners. Previously just large asset owners.



Adoption rates in Europe higher than RoW but North American adoption is increasing fast.

Global adoption



Source: FTSE Russell, 2018 Smart Beta Survey.

Why are asset owners adopting Smart Beta?

Global environment means Smart Beta is becoming increasingly attractive



Risk Reduction



Return Enhancement



Improved Diversification



Cost Savings

Source: Fidelity International, October 2018.

What will help continue the growth of Smart Beta?

Three key themes likely to drive greater asset levels and adoption rates



Education

- Further education to increase familiarity with Smart Beta strategies and the vehicles in which they are delivered will increase uptake



Fixed Income

- Large gap in the market with opportunity for AUM growth and product innovation within this asset class



ESG

- The natural parallels between passive ESG investing and Smart Beta mean that increased uptake could drive growth in the latter

Source: Fidelity International, October 2018.

Smart Beta Delivery

How is Smart Beta delivered and used?

Systematic screening and portfolio weighting to achieve desired objective

Liquid Investable Universe

An investment universe with basic liquidity screens often seen in broad benchmarks

Screen

Quantitative screen to select stocks with desired characteristics

Weight

Tilt portfolio weights to achieve desired outcome or exposure

1

Access Investment Style or Theme

For example, tactical allocations to express view on certain factors or investment themes.

2

Achieve Specific Outcome

For example, achieving a specific investment outcome such as generating income.

3

Improve Portfolio Risk/Return

For example, alternative weighting methodologies can offer a better risk adjusted return.

4

Portfolio Completion/ Diversification

For example, to remove an unwanted bias resulting from existing positions.

Source: Fidelity International, October 2018.

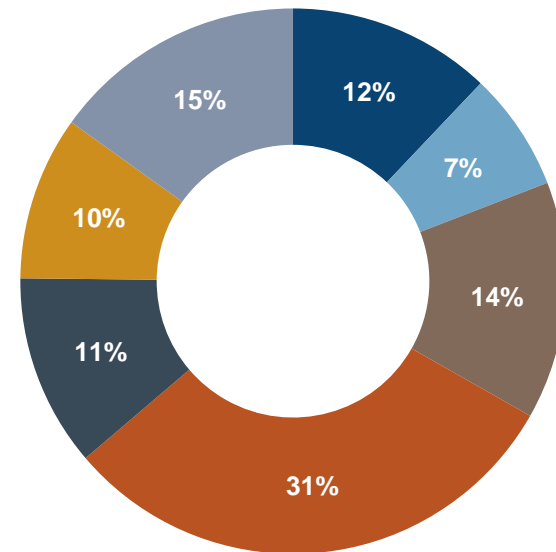
Fidelity have begun entering Smart Beta

Equity Income strategies selected for initial launch

In April 2017 Fidelity launched its first ETFs. These were Smart Beta strategies that tracked Fidelity indices which select high quality dividend paying stocks.

- Smart Beta is a rapidly growing segment and one where we can differentiate by applying our active IP.
- Barriers to entry are lower than for core/passive products and existing providers are less dominant.
- Equity income is the most popular strategy among existing asset owners.
- Opportunity to offer differentiated solution and enhance delivering vs existing competitor products.

Equity Smart Beta Assets – Split by Factor (€)

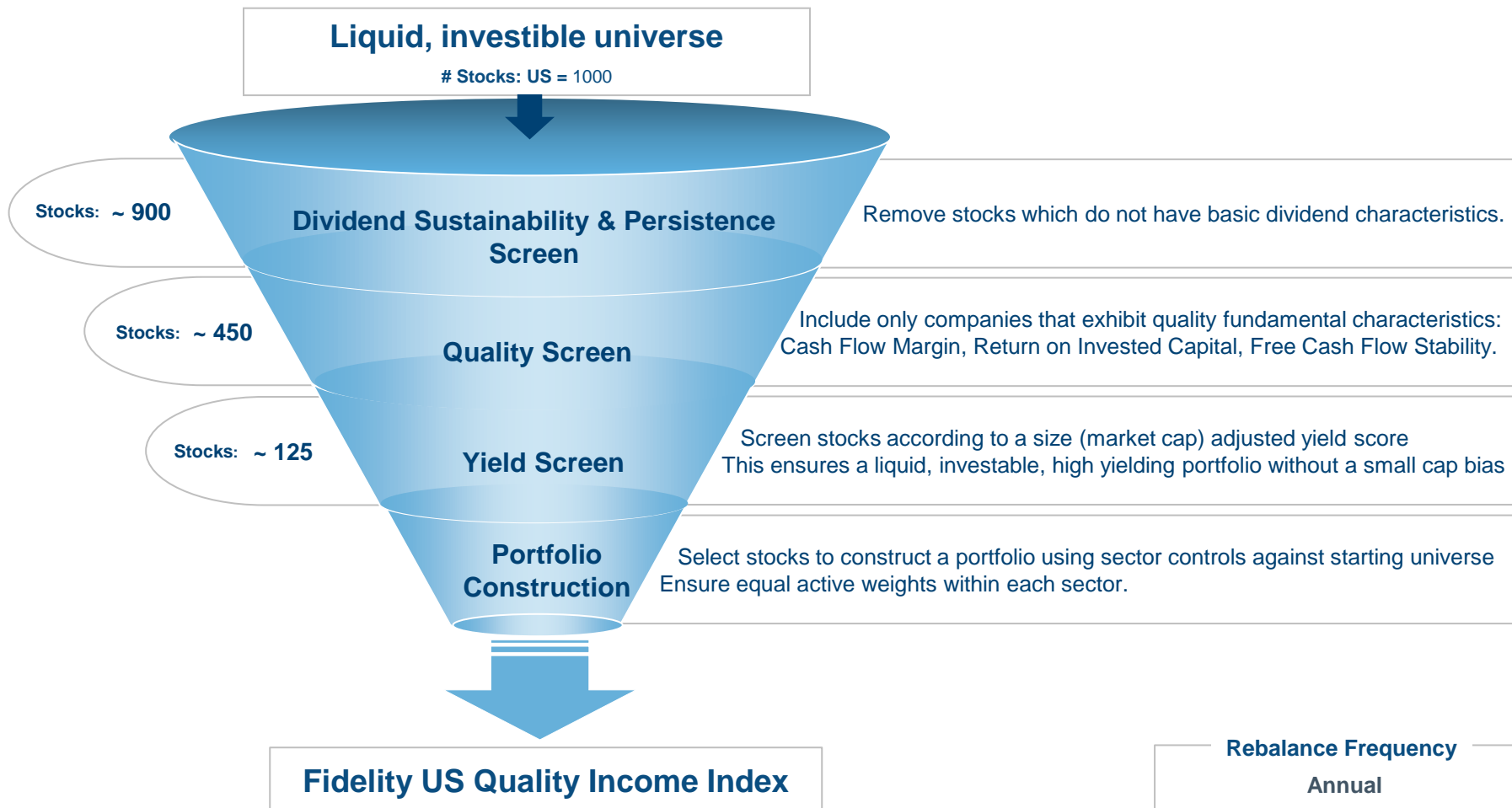


- Low/Minimum Volatility
- Quality
- Multi-Factor
- Dividend Screened/Weighted
- Equal Weighted
- Value
- Other

Source: Fidelity International, October 2018. Morningstar, 30/10/2018. Europe OE & ETF & MM ex FOF ex Feeder, equity only, smart beta are those labelled as strategic beta.

Case Study: Fidelity's delivery of smart beta

Differentiated methodology leveraging active heritage

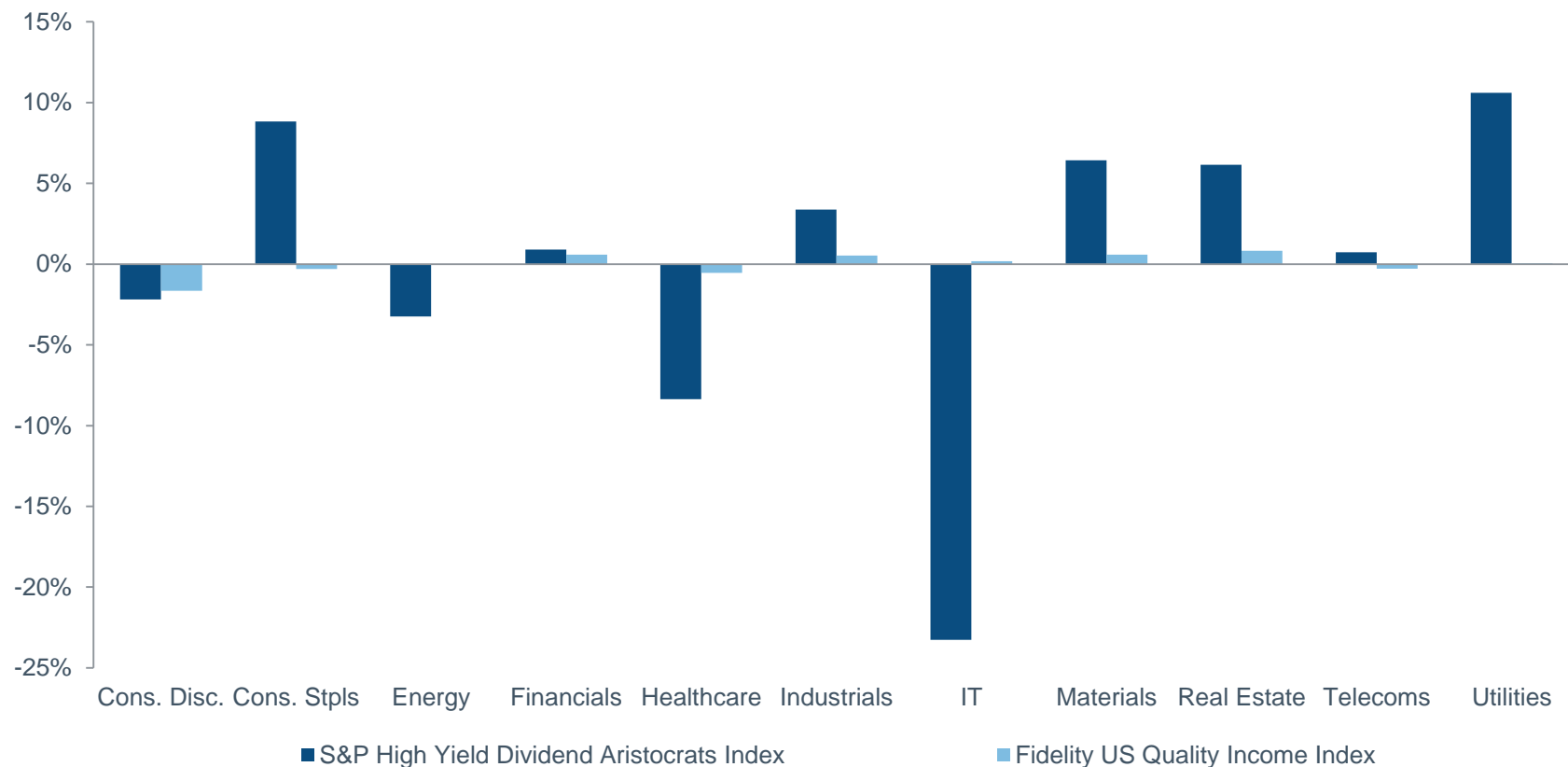


Source: Fidelity International. Example construction methodology only, for illustration only.

Fidelity's index implementation approach

Offers income without traditional sector biases

Index sector weights relative to S&P 500

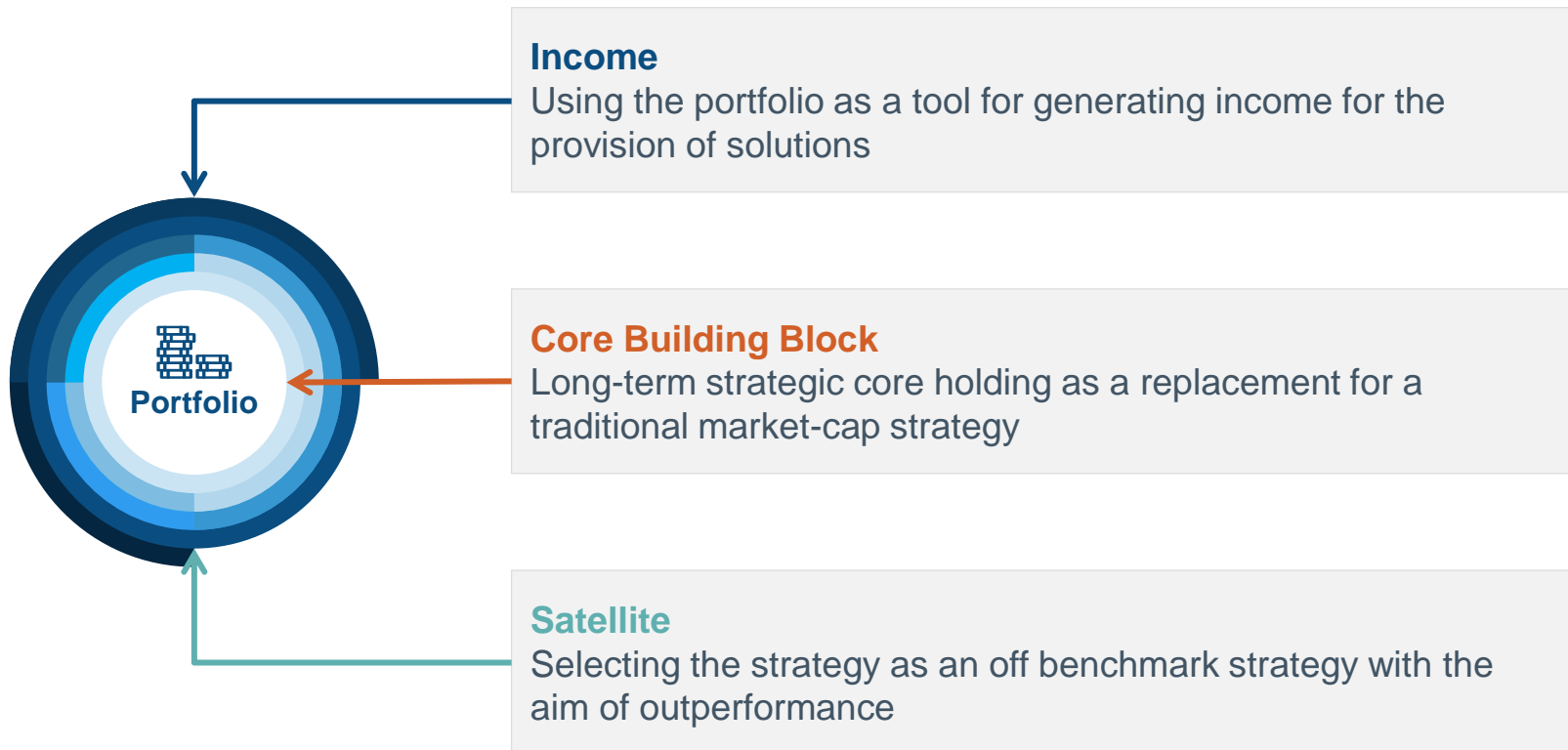


Source: Fidelity International / Morningstar Direct as at 30/06/18. Relative weights may vary over time

How are clients using Smart Beta?

Clients are using the same products in different ways

Example: Fidelity Quality Income Range



Source: Fidelity International, October 2018.

Questions



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