A growing interest from investors in Smart Beta ETFs with more requirements and challenges to address

In a survey of investment professionals conducted as part of the Amundi ETF, Indexing & Smart Beta research chair at EDHEC-Risk Institute on "ETF and Passive Investment Strategies", EDHEC-Risk Institute has solicited the specific views of 180 European ETF investors on "smart beta" exchange-traded funds (ETFs). This questionnaire has given rise to a study entitled "Investor Perceptions about Smart Beta ETFs".

EDHEC Publication

There are four key findings:

• A high global rate of satisfaction (86%) towards Smart Beta among ETF users
Investors consider smart beta indices as tools for improving their investment process. 81% of them think that smart beta indices avoid concentration in very few stocks or sectors and 79% of them think that diversification across several weighting methodologies allows a reduction of risk and adds value.

• Capturing *factor premia* is the prime motivation for 87% of respondents when investing in smart beta ETFs
Value, low volatility and size factors are considered as the most likely to be rewarded. When considering factor investing, respondents consider the ease of implementation, low turnover and transaction costs to be key, beyond the existence of a rational risk premium and the existence of extensive empirical literature documenting these premia.

• There is an important gap between information required by investors on smart beta strategies and information offered by providers
Results suggest that investors do not believe that information considered important for assessing smart beta strategies is made available to them with sufficient ease, especially when it comes to data-mining risks and holdings-based information needed for risk assessment. Furthermore, 94% of the respondents (compared to 88% last year) agree that smart beta indices require full transparency on methodology and risk analytics.

• A higher need for education to properly assess smart beta strategies
Despite this growing interest for smart beta products, investors allocate fewer resources to the assessment of smart beta when compared to the appraisal of active managers or the evaluation of cap-weighted-indices. While a quarter of full-time staff is dedicated to the evaluation of active managers, only 10% of staff is dedicated for the evaluation of smart beta or systematic factor investments.

Commenting on the results of the survey, Fannie Wurtz, Managing Director of Amundi ETF, Indexing & Smart Beta, said: "the findings of this survey demonstrate that investors' appetite for Smart Beta ETFs will keep on growing in the coming years. As a long-standing provider of Smart Beta solutions we are particularly attentive to investors' perception and needs, in order to keep on developing accurate and cost-efficient Smart Beta tools to efficiently answer their needs".

Professor Lionel Martellini, Director of EDHEC-Risk Institute, added, "The growth of ETFs is largely fuelled by an ever growing interest in investable forms of factor premia, the benefits of which are well-documented by long-term academic evidence. In the next phase of development, as smart beta ETFs will start being perceived as commonly-available commodities, we expect investors' focus to shift more towards implementation challenges, including transaction costs - an important question that we shall explore and publish about in the future".

A copy of the EDHEC-Risk Institute study can be found here: EDHEC-Risk Publication Investor Perceptions about Smart Beta ETFs

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