

Factor Heat Map: Quality and Momentum Lead the Way

U.S. listed, smart beta ETFs total \$739.2bn in AUM and increased by \$33.4bn in 2018, a growth rate of 4.7%. The U.S. listed, multi-factor segment of smart beta ETF assets has grown 8.9% to \$77.7bn. Quality finished as the top performing factor in 2017 and the performance has carried through to the start of 2018. Quality and Momentum outperformed the FTSE USA index in January.

Diversifying a portfolio by asset class, region and sector is important for investors looking to reduce risk. Diversifying by factors, adds another method for investors looking to reduce the volatility in their portfolio returns. The 6 main factors are quality, volatility, yield, momentum, value and size.

Reasons to consider a multi-factor approach:

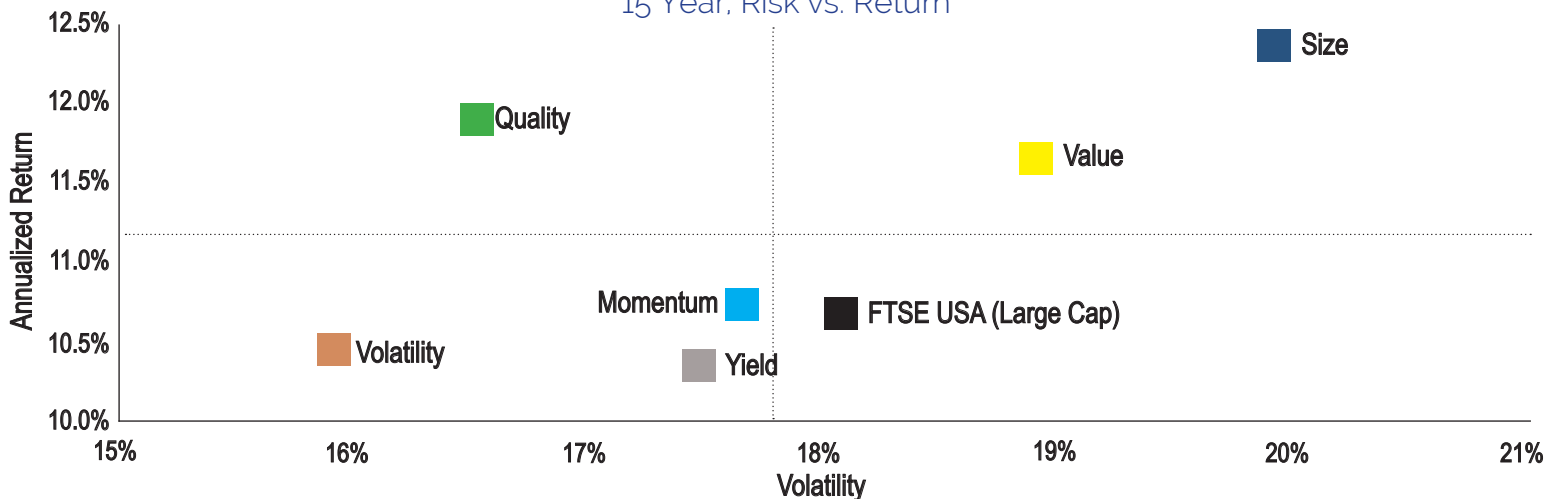
- Single factor cyclical may result in extended periods of underperformance compared to a market cap weighted index, potentially causing investors to exit positions too early. A multi-factor approach, mitigates this risk by diversifying among several factors.
- Comparing yearly returns since 2002, the market cap weighted FTSE USA starting universe is often outperformed by several single factors. Combining factors, may not only reduce risk but may also boost performance in investor portfolios.

Yearly Return Comparison

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
-12.4%	40.0%	19.6%	12.1%	20.7%	12.0%	-28.2%	39.2%	24.8%	11.4%	17.4%	37.7%	16.1%	3.5%	17.3%	27.0%	6.6%
-17.6%	32.7%	17.6%	9.1%	19.3%	9.2%	-29.4%	27.2%	15.7%	8.8%	17.3%	37.1%	13.8%	2.9%	16.0%	24.0%	6.1%
-18.2%	28.4%	12.0%	9.0%	18.3%	6.0%	-33.5%	24.9%	15.1%	8.1%	16.3%	32.8%	13.7%	2.8%	14.6%	22.1%	5.8%
-18.5%	25.9%	11.5%	7.7%	15.7%	4.3%	-34.0%	24.5%	14.9%	1.9%	16.3%	32.8%	13.3%	1.0%	11.8%	21.4%	4.9%
-18.6%	25.3%	11.1%	6.3%	14.7%	3.8%	-35.6%	21.4%	12.9%	1.7%	14.5%	32.4%	12.9%	0.4%	11.8%	19.6%	4.5%
-20.9%	23.8%	10.3%	4.7%	14.7%	1.7%	-36.8%	20.0%	12.7%	-1.2%	13.5%	29.0%	12.6%	-2.3%	9.2%	19.3%	4.4%
22.3%	19.2%	9.2%	4.5%	14.7%	1.4%	-40.5%	17.9%	12.1%	-1.4%	11.6%	28.4%	12.4%	-3.2%	7.8%	17.3%	3.9%

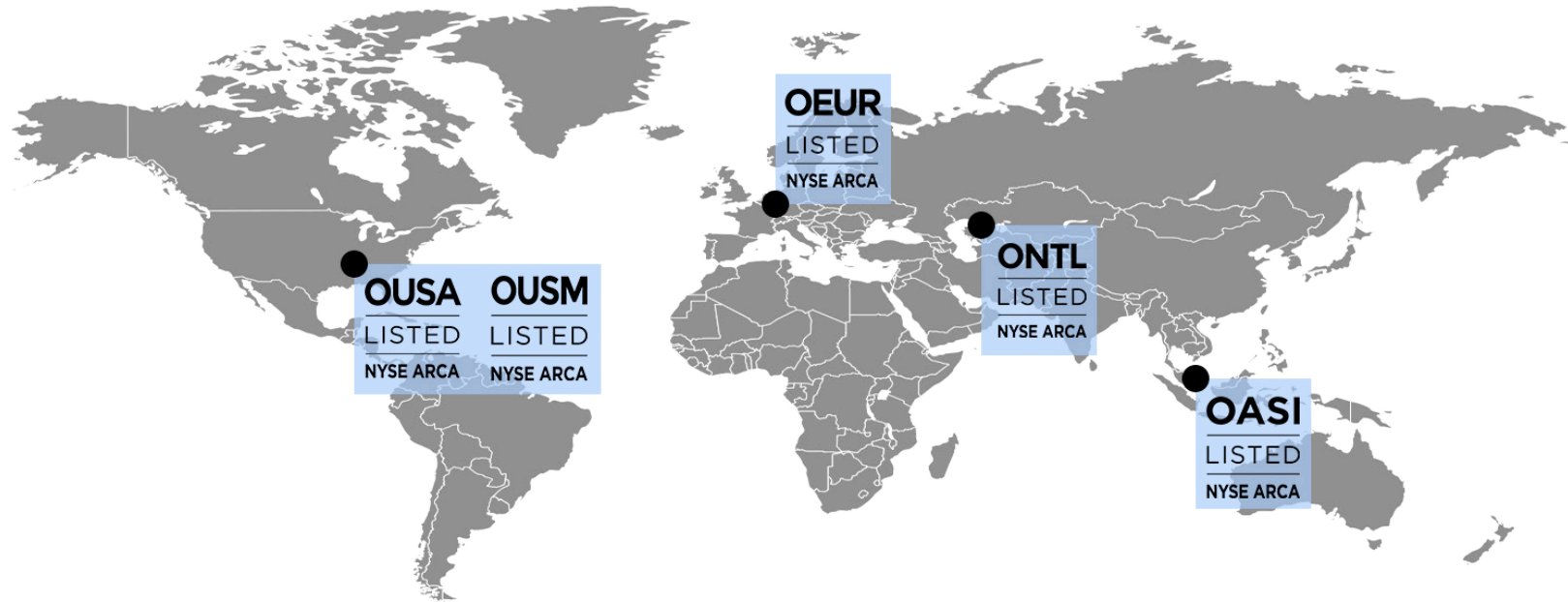
■ Quality
 ■ Volatility
 ■ Yield
 ■ Momentum
 ■ Value
 ■ Size
 ■ FTSE USA (Large Cap)

15 Year, Risk vs. Return



Source: FTSE Russell. Data as of 1/31/2018. *Volatility expressed as 15 year annualized daily standard deviation. Quality is the FTSE USA Quality index; Volatility is the FTSE USA Low Volatility index; Yield is the FTSE USA Yield index; Momentum is the FTSE USA Momentum index; Value is the FTSE USA Value index; Size is the FTSE USA Size index; FTSE USA is the FTSE USA index. Past performance is no guarantee of future results. One cannot invest directly in an index.

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