

## Academic consensus is key to robust smart beta strategies

### New publication from ERI Scientific Beta examines the robustness of smart beta strategies

A new publication from ERI Scientific Beta, the index arm of EDHEC Risk Institute, entitled “[Robustness of Smart Beta Strategies](#),” reviews the importance of robustness for smart beta strategies, explains various methods by which smart beta strategies try to improve robustness, and discusses how to measure and assess robustness when analysing the performance of smart beta strategies.

ERI Scientific Beta underlines **the importance of trusting academic consensus** at a time when the number of factors available is increasingly rapidly. The good idea of factor investing should not be transformed into factor fishing and data mining.

The study shows that there is **no positive and statistically significant long-term risk premium for a “value” factor definition that relies on the approach termed “fundamental,”** even though this approach is highly popular with investors and index providers. ERI Scientific Beta recommends that investors stick tightly to academic consensus in the area of factor definition.

The study stresses the importance of measuring robustness correctly. The measurement relies on the transparency of track records and **the availability of instruments to measure robustness, such as the probability of outperformance**. The probability of outperformance enables the smart beta index’s capacity to outperform to be measured for a chosen investment duration, whatever the investment period.

This probability of outperformance measure allows one to observe that not alone are smart beta indices different in terms of risk-adjusted performance, they are not all equal in terms of robustness either. **It confirms the quality of indices produced with state-of-the-art academic research**, such as the Scientific Beta indices produced by EDHEC-Risk Institute, whether involving the definition of the factors or the implementation of diversification techniques to obtain high-performance proxies for factors that are rewarded over the long term.

A copy of the ERI Scientific Beta publication, “[Robustness of Smart Beta Strategies](#),” can be accessed [here](#).

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## About ERI Scientific Beta

ERI Scientific Beta aims to be the first provider of a smart beta indices platform to help investors understand and invest in advanced beta equity strategies. It has three principles:

- **Choice:** A multitude of strategies are available allowing users to build their own benchmark, choosing the risks to which they wish, or do not wish, to be exposed. This approach, which makes investors responsible for their own risk choices, referred to as [Smart Beta 2.0](#), is the core component of the index offerings proposed by ERI Scientific Beta.
- **Transparency:** The rules for all of the Scientific Beta series are replicable and transparent. The track records of the Scientific Beta indices can be checked and justified through unrestricted access to historical compositions.
- **Clarity:** Exhaustive explanations of construction methodologies are provided, as well as detailed performance and risk analytics.

Established by EDHEC-Risk Institute, one of the very top academic institutions in the field of fundamental and applied research for the investment industry, ERI Scientific Beta shares the same concern for scientific rigour and veracity, which it applies to all the services that it offers investors and asset managers.

Part of EDHEC Business School, a not-for-profit organisation, EDHEC-Risk Institute has sought to provide the ERI Scientific Beta services in the best possible economic conditions.

The ERI Scientific Beta offering covers three major services:

- **Scientific Beta Indices**

Scientific Beta Indices are smart beta indices that aim to be the reference for the investment and analysis of alternative beta strategies. Scientific Beta Indices reflect the state-of-the-art in the construction of different alternative beta strategies and allow for a flexible choice among a wide range of options at each stage of their construction process. This choice enables users of the platform to construct their own benchmark, thus controlling the risks of investing in this new type of beta (Smart Beta 2.0). The Scientific Beta platform is currently offering 2,916 smart beta indices.

Within the framework of Smart Beta 2.0 offerings, ERI Scientific Beta provides access to smart factor indices, which give exposure to risk factors that are well rewarded over the long term while at the same time diversifying away unrewarded specific risks. By combining these smart factor indices, one can design very high performance passive investment solutions.

- **Scientific Beta Analytics**

Scientific Beta Analytics are detailed analytics and exhaustive information on its smart beta indices to allow investors to evaluate the advanced beta strategies in terms of risk and performance. The analytics capabilities include risk and performance assessments, factor and sector attribution, and relative risk assessment. Scientific Beta Analytics also allow the liquidity, turnover and diversification quality of the indices offered to be analysed. In the same way, analytics provide an evaluation of the probability of out-of-sample outperformance of the various strategies present on the platform.

We believe that it is important for investors to be able to conduct their own analyses, select their preferred time period and choose among a wide range of analytics in order to produce their own picture of strategy performance and risk.

- **Scientific Beta Fully-Customised Benchmarks**

The Scientific Beta Fully-Customised Benchmarks service enables investors and asset managers to benefit from its expertise and the ability to determine and implement their choice of stocks, weighting schemes, and absolute and relative risk constraints in keeping with their objectives.

With a concern to provide worldwide client servicing, ERI Scientific Beta is present in Boston, London, Nice, Singapore and Tokyo.

ERI Scientific Beta has a dedicated team of 45 people who cover not only client support from Nice, Singapore and Boston, but also the development, production and promotion of its index offering.