



# BETTER Beta™

Using factor premia tilts to be *better* than the substitute market-cap index



# BETTER Beta™

**BETA**

**ENHANCED MARKET CAP**

**TIGHT TRACKING ERROR**

**TRANSPARENT**

**ESG INSIDE**

**RIPE FACTORS™**

Provides systematic and efficient exposure to the market risk premium (as defined by beta) in a low-cost manner

Provides targeted exposure to multiple enhanced factor premia – Value, Quality, Momentum, Small Size, and Options Volatility

Aims for a low relative risk outcome compared to the applicable market-capitalisation weighted index

Straightforward enhanced indexing methodology that's strategically weighted to factors to maximise risk-adjusted return

Excludes controversial companies and portfolios are optimised to have a higher ESG score than the applicable market-capitalisation weighted index

Each factor is Robust, Intuitive, Persistent, and Empirical

<sup>1</sup>Robust: factors must perform effectively in a constantly changing environment.

Intuitive: factors should behave as one would expect.

Persistent: factor returns will be cyclical but show long-term persistence of excess returns.

Empirical: factors should be based on/ supported by empirical academic research.

# How BETTER Beta™ Works

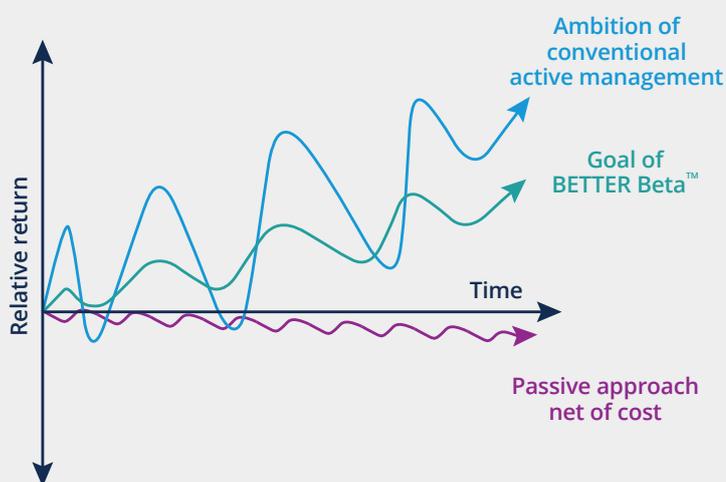
Index tracking, or passive, investment strategies have grown in popularity as a low-cost and reliable means to replicate the performance (i.e beta) of stock markets. But pure passive funds underperform the index once fees are deducted (unless these are zero).

Our BETTER Beta™ enhanced index funds seek to advance the index-tracking concept. By identifying and targeting specific characteristics, or factors, that have historically been shown to be key drivers of a stock's price, each strategy is designed to outperform its applicable market index. We also aim to achieve this outperformance at similar levels of absolute risk as the index and at lower cost than active management.

With a choice of strategies investing across world markets, and incorporating environmental, social, and governance (ESG) considerations too, the BETTER Beta™ range from Aberdeen seeks to offer investors a low-cost way to target above-market returns at market levels of risk (see diagram).

**“ BETTER Beta™**  
A cost-effective way to target risk-adjusted outperformance”

A low-cost way to target above-market returns at market levels of risk



“By identifying and targeting specific characteristics, or factors, that have historically been shown to be key drivers of a stock's price, each strategy is designed to outperform its applicable market index.”

# What are the factors?

Factors are the foundation of all portfolios – the broad, persistent forces that ultimately drive the risk and return profiles of stocks, bonds, currencies and other asset classes.

These factors arise in financial markets due to enduring behavioural and structural anomalies. Our process favours those factors that our analysis and academic research have identified to be the most robust (perform effectively in a changing environment), intuitive (behave as expected) persistent (show repeatable excess return) and empirical (supported by experience). We also look to blend factors that demonstrate low correlation with one another.

## ESG Inside

We believe that environmental, social, and governance (ESG) considerations make a significant contribution to the fundamental value, and therefore the long-term financial performance, of companies. At the portfolio level, BETTER Beta™ strategies are tilted towards companies that score highly on ESG criteria.

Each fund's investment universe also automatically excludes publicly-listed companies involved in controversial weapons including cluster bombs, landmines and chemical and biological weapons.



## Our factors

### Value

Financially distressed stocks that are inexpensive relative to their fundamental quality have tended to outperform

### Quality

Investors under-estimate the persistent profitability of higher quality companies

### Momentum

Stocks with strong recent performance tend to continue to perform well

### Small Size<sup>A</sup>

Small, high-growth companies have tended to outperform their larger counterparts

### Options

Capturing the spread between implied and realised volatility via index options

### Volatility

<sup>A</sup> Size is not explicitly targeted as an isolated factor. Instead it is implicitly targeted during the portfolio construction phase of the investment process.

## Portfolio Construction



Each stock from the relevant index is given a score for each individual factor (based on underlying financial data) and then we strategically weight each individual factor to give an overall multifactor score.

Based on this, we optimise the portfolio subject to various objectives and constraints. Regular rebalancing allows each portfolio to harvest each factor premium and maintain the target factor exposure. Using highly-liquid programme trades and cost-effective implementation via a dedicated trading desk helps minimise transaction costs and enhance performance for investors.

# Our Enhanced Index Fund Range

## A range of seven funds targeting outperformance across world equity markets

- Investment objective of long-term capital growth
- Each fund seeks to outperform its benchmark by 0.75% pa<sup>8</sup> (on a total return basis) with an expected tracking error of 0.75 to 1.50% p.a.
- Achieve similar level of absolute risk as the applicable market capitalisation weighted index
- Accumulation share classes

| Our Fund Range          |   |                               |                |       |                       |
|-------------------------|---|-------------------------------|----------------|-------|-----------------------|
|                         | Fund  | Benchmark index               | Inception date | OCF*  | Typical no. of stocks |
| UK                      | Aberdeen UK Equity Enhanced Index                         | FTSE All-Share                | March 2016     | 0.22% | 450 stocks            |
| Europe                  | Aberdeen European Equity Enhanced Index                   | MSCI Europe ex-UK             | March 2015     | 0.23% | 200 stocks            |
| North America           | Aberdeen Northern American Equity Enhanced Index          | S&P 500                       | March 2015     | 0.21% | 200 stocks            |
| Japan                   | Aberdeen Japan Equity Enhanced Index                      | MSCI Japan                    | March 2015     | 0.30% | 200 stocks            |
| Asia Pacific            | Aberdeen Asia Pacific Equity Enhanced Index               | MSCI AC Asia Pacific ex Japan | March 2016     | 0.26% | 350 stocks            |
| World                   | Aberdeen World Equity Enhanced Index                      | MSCI World                    | March 2015     | 0.23% | 500 stocks            |
| Global Emerging Markets | Aberdeen Global Emerging Markets Quantitative Equity Fund | MSCI Emerging Markets         | October 2012   | 0.63% | 300 stocks            |

## Aberdeen Quantitative Investments



An experienced and stable team of 31 investment professionals with complementary skillsets, including economists, statisticians, actuaries and ex-traders.

- Manages 130 billion\*\* in a full range of systematic investment capabilities from pure passive to smart beta to active quant
- ESG is fully embedded into our systematic investments processes
- Track record in passive investing since 2005, active systematic strategies since 2007 and smart beta strategies since 2013

<sup>8</sup> This is an internal performance target which the Investment Manager aims to achieve as at the date of this document. This target is not based on past performance, may be subject to change and cannot be guaranteed. Investors should always refer to the investment objective and restrictions as stated in the latest prospectus.

\* The Ongoing Charge Figure (OCF), is the overall cost shown as a percentage of the value of the assets of the Funds. It is made up of the Annual Management Charge (AMC) of 0.20% (0.40% for Global Emerging Markets) and other charges. It does not include any initial charges or the cost of buying and selling stocks for the Funds. The Ongoing Charges figure can help you compare the annual operating expenses of different Funds.

\*\* as at 30 June 2018

All dollars are Australian dollars unless otherwise specified.

## Contact us

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