

# Smart beta: 2017 global survey findings from asset owners



**FTSE  
Russell**





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# Introduction

FTSE Russell is proud to present the fourth annual survey of global institutional asset owners' adoption and evaluation of smart beta indexing. For the past four years we have recruited decision makers from across a broad spectrum of AUM tiers and at a variety of stages in their evaluation of smart beta. Almost 200 asset owners responded in 2017. Respondents are drawn from North America (43%), Europe (32%), Asia Pacific (19%) and other regions (5%) and have an estimated total AUM of over \$2 trillion.

Over the past four years, our survey has documented global institutional asset owners' growing interest in smart beta indexes and allocations to investable products based on those indexes. In the 2017 survey, nearly three-quarters of survey respondents have either implemented, are currently evaluating, or planning to evaluate smart beta index products. Just 9% of survey respondents have evaluated smart beta indexes and chosen not to implement any. Clearly, smart beta indexing has become an important part of the industry conversation.

Our survey documents what is trending in asset owners' thinking about smart beta indexes. The headline trend belongs to multi-factor combinations: 64% of respondents who are currently implementing a smart beta index are using a multi-factor strategy. That is more than triple the rate in the 2015 survey (the question was not even asked in the 2014 survey). Furthermore, 71% of those who have implemented a smart beta strategy for the first time within the last two years are using a multi-factor combination. This illustrates a growing awareness amongst asset owners of combining factors with a view to diversification, downside protection and return.

As in past surveys, risk reduction, return enhancement and improved diversification remain the top three motives for allocations to smart beta investable products. But cost saving has steadily increased in importance over the four years of the survey. So it is not surprising that 34% of respondents with smart beta allocations report funding them from active equity; another 35% report funding from a combination of active and passive equity. Interestingly, 51% of respondents also view smart beta indexes as useful for benchmarking active strategies.

New in 2017, we have included questions on smart beta in fixed income and questions on integrating environmental, social, and governance (ESG) considerations with smart beta indexes. Industry consensus about which fixed income factors have historically rewarded market participants has not yet occurred. Not surprisingly, few asset owners indicate they have evaluated smart beta for fixed income. We expect that to change going forward as research in this space evolves and new indexes are developed.

Regarding ESG, the greatest interest is coming from large European asset

owners with over \$10 billion in AUM. It may surprise some that the top motive for applying ESG considerations is not "societal good" but rather "avoid long term risk." We expect that motive to remain top of mind as more asset owners consider ESG allocations.

The 2017 survey demonstrates robust growth in smart beta indexing, especially multi-factor indexes. Satisfaction with current users remains high, suggesting growth will continue. Among those asset owners who are re-evaluating smart beta indexes after having previously passing on them, 75% cited increased understanding through new information and 67% also indicated new types of smart beta strategies. This underscores the continuing need for education and product innovation to meet the needs of asset owners. We hope the results of this survey provide a degree of insight for all market participants with an interest in smart beta.

**Rolf Agather, CFA**  
*Managing Director of Research,  
North America*

**Peter Gunthorp**  
*Managing Director, Research & Analytics*

# Summary of key themes

## Why smart beta?

Our survey results indicate that risk reduction, return enhancement and improving diversification persist as the primary objectives for use of smart beta. Cost savings continues to grow in importance, indicating that smart beta is increasingly being used in place of active strategies.

### Primary objectives

✓ RETURN ENHANCEMENT

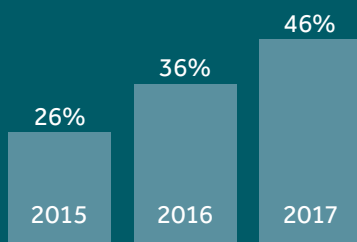
✓ RISK REDUCTION

✓ IMPROVE DIVERSIFICATION

## Smart beta evolution and adoption

Smart beta adoption rates increased from 2016 to 2017; now, nearly half of asset owners surveyed have a smart beta allocation. Adoption growth was fueled by a record number of asset owners evaluating smart beta in 2016. Looking forward, the pipeline of asset owners evaluating smart beta remains strong and is comprised of first-time evaluators, re-evaluators, and asset owners with an existing smart beta allocation who are considering allocations.

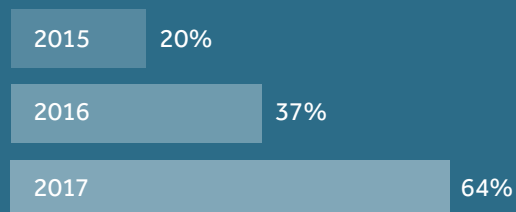
### Global adoption



## Equity smart beta strategies

This year, multi-factor combination strategies have become the most popular smart beta equity strategy used; they are also the most widely evaluated smart beta equity strategy. Among single factor strategies, Value and Low Volatility are most widely used and evaluated.

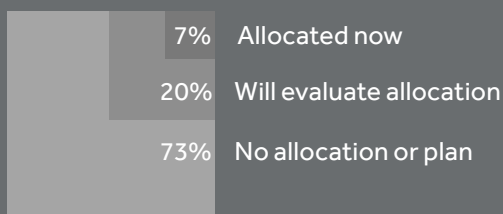
### Use of multi-factor strategies



## Fixed income smart beta strategies

New in 2017, we introduced an analysis of smart beta evaluation and usage for fixed income. Industry consensus about a well-defined set of factors that have historically rewarded investors has not taken place yet for the debt markets; as such, far fewer asset owners indicated they have evaluated smart beta for fixed income. We expect evaluation and usage of fixed income smart beta strategies to grow from this year's baseline.

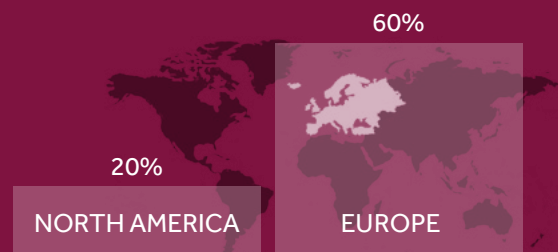
### Adoption and evaluation



## ESG considerations of smart beta

Interest in applying ESG considerations to smart beta is measurable, with the greatest interest coming from European asset owners and asset owners with over \$10 billion in AUM. Primary motivations for using a smart sustainability strategy are investment-led rather than regulatory or social/ethical.

### Interest is worldwide



## Outlook

We expect growth in smart beta to continue at a robust pace, as the adoption expectations of asset owners who are currently evaluating initial or additional smart beta allocations remains strong and satisfaction with smart beta among current users remains high. In particular, we see strong growth prospects in the usage of multi-factor combination strategies and the application of ESG considerations to smart beta.

# Survey background

This is the fourth year in which FTSE Russell has conducted this study, which is meant to measure the market for smart beta and provide readers with insight on asset owners' views on the role of smart beta in their portfolios.

The 2017 survey was conducted in January and February 2017. This year, 194 global asset owners participated; the majority of participants were drawn from North America (43%), Europe (32%), and Asia Pacific (19%). A wide mix of organization types are represented, including government organizations (23%), non-profit organizations or universities (17%), corporations or private businesses (15%), unions or industry-wide pension schemes (11%). The rest is a mix of insurance companies, sovereign wealth funds, health-care organizations and family offices. Fifty-six percent of survey respondents manage defined benefit plan assets, 36% manage defined contribution plan assets and 18% manage endowment or foundation assets. Respondents also include asset owners with insurance general accounts, sovereign wealth funds and other types of institutional entities. To provide additional insights, respondents are grouped by total AUM tiers; asset owners with under \$1B in total AUM (19%); those with between \$1B and \$10B in total AUM (34%); and those with \$10B or more in total AUM (47%). Aggregate AUM of the survey participants is estimated to be over \$2 trillion.

The distribution of our asset owner sample has shifted from year-to-year across regions and AUM tiers. This can contribute to year-over-year changes in the results such as smart beta adoption rates. In our evaluations, the sample differences have been taken into account to ensure that the trends identified are not due to shifts in the sample.

For the purposes of this survey, "smart beta" is defined as an investment strategy which applies an index-based investment strategy that is not traditionally market cap-weighted (i.e. fundamentally weighted, equal weighted, factor weighted, optimized, etc.).

For a sample size of 194, the margin of error is +/- 10% at a 95% confidence margin. Throughout the report, percentages may not total 100, due to rounding, and/or because some questions allowed for multiple responses. (Allowance for multiple responses is noted in each exhibit footer).



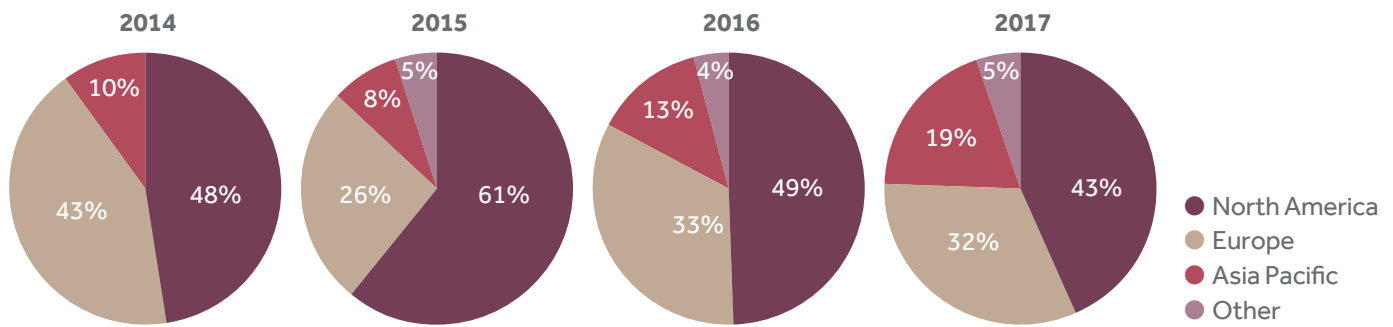
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## Sample distribution by year for 2014 – 2017

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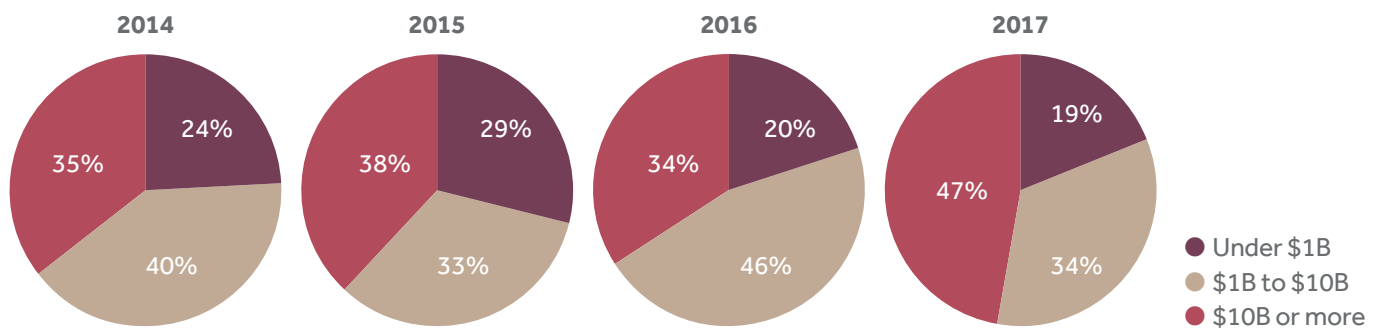
### Exhibit 1

#### Region distribution



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#### AUM tier distribution





# 1

## Smart beta evaluation and adoption

### The trend observed over the past three years of increasing global growth and adoption of smart beta continues in 2017.

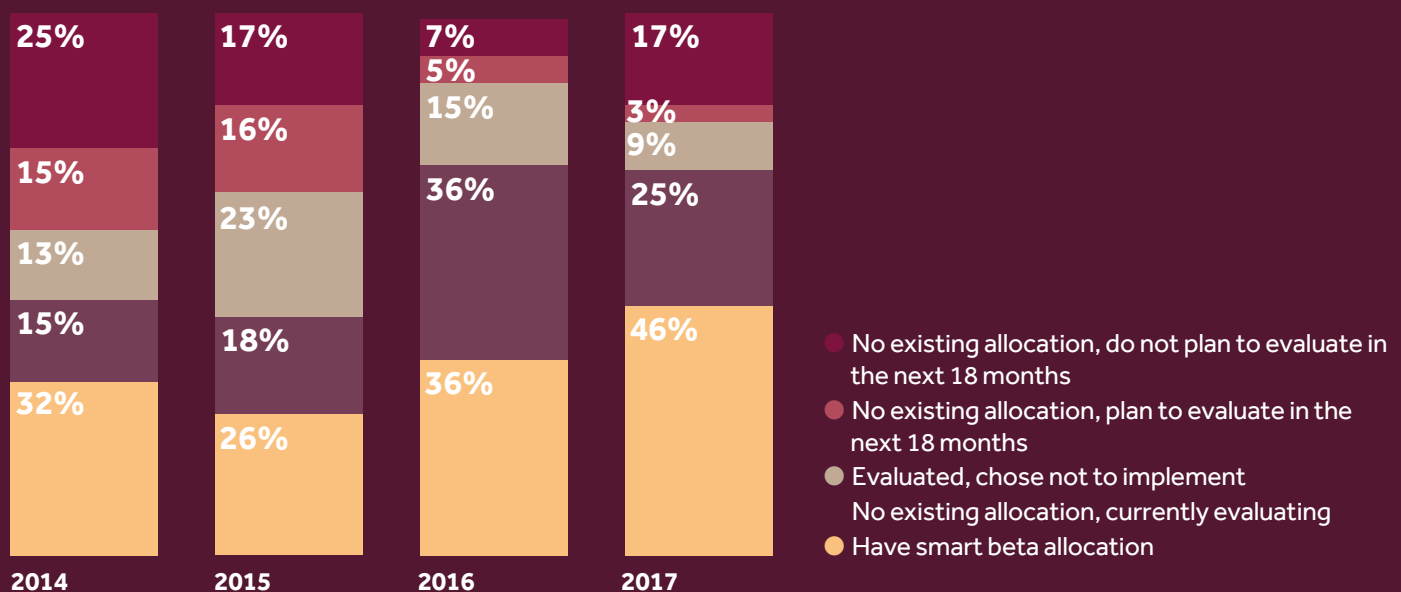
The percentage of asset owners reporting an existing smart beta allocation has reached a new peak, 46%, up from 36% last year. This growth is in line with expectations, given the sizable pipeline of asset owners who reported being in process of evaluations in 2016.

As an increasing share of asset owners reported having allocations to smart beta, corresponding declines in those currently evaluating and those who previously evaluated and

decided against implementation are observed. This year, the share of asset owners without existing allocations who are currently evaluating smart beta is 25%, still representing a healthy pipeline of asset owners who could potentially make future allocations. Those reporting having previously evaluated smart beta and deciding against implementation is down to a new low, 9%.

#### Exhibit 2

Which best describes your organization's usage of smart beta strategies?



We believe the decline in the measured adoption rate in 2015 is due to sample differences.



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## Increased smart beta adoption is happening globally.

Adoption growth is widely observed in the three major regions covered in this report, Europe, North America and Asia Pacific.

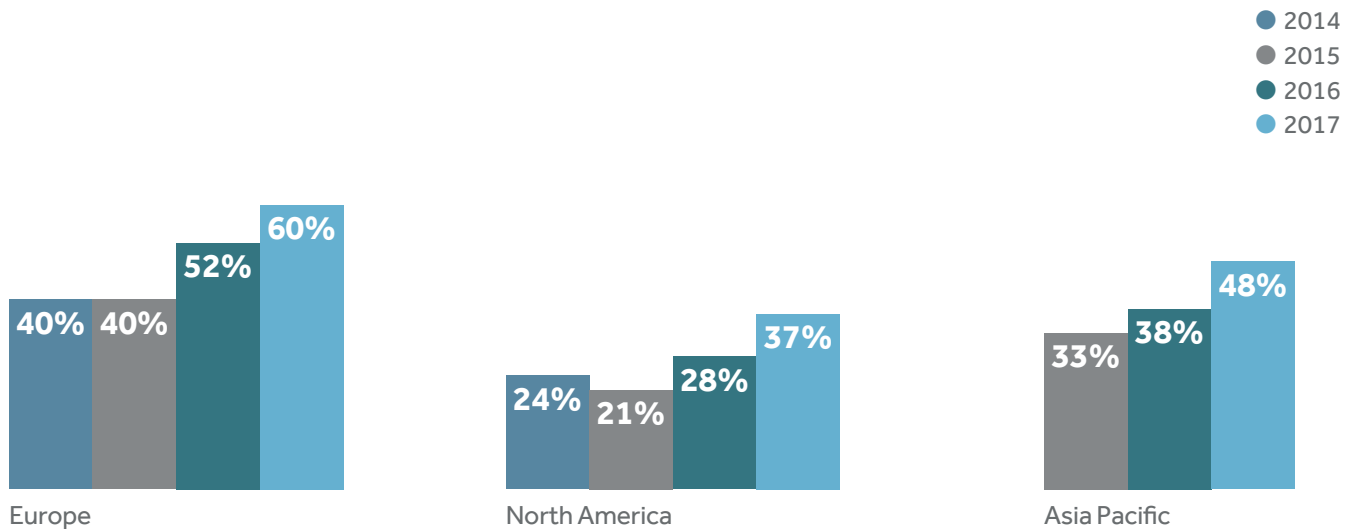
Europe still leads North America and Asia Pacific in smart beta adoption, with 60% of asset owners reporting an allocation.

2017 North American adoption rates are roughly on par with European adoption rates in 2014 to 2015, while adoption rates in Asia Pacific are between the two.

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### Exhibit 3

#### Smart beta adoption percentage by region.



Segment = Have a smart beta allocation

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## Over the past year, smart beta adoption gains are observed primarily among asset owners with \$1B to \$10B in AUM.

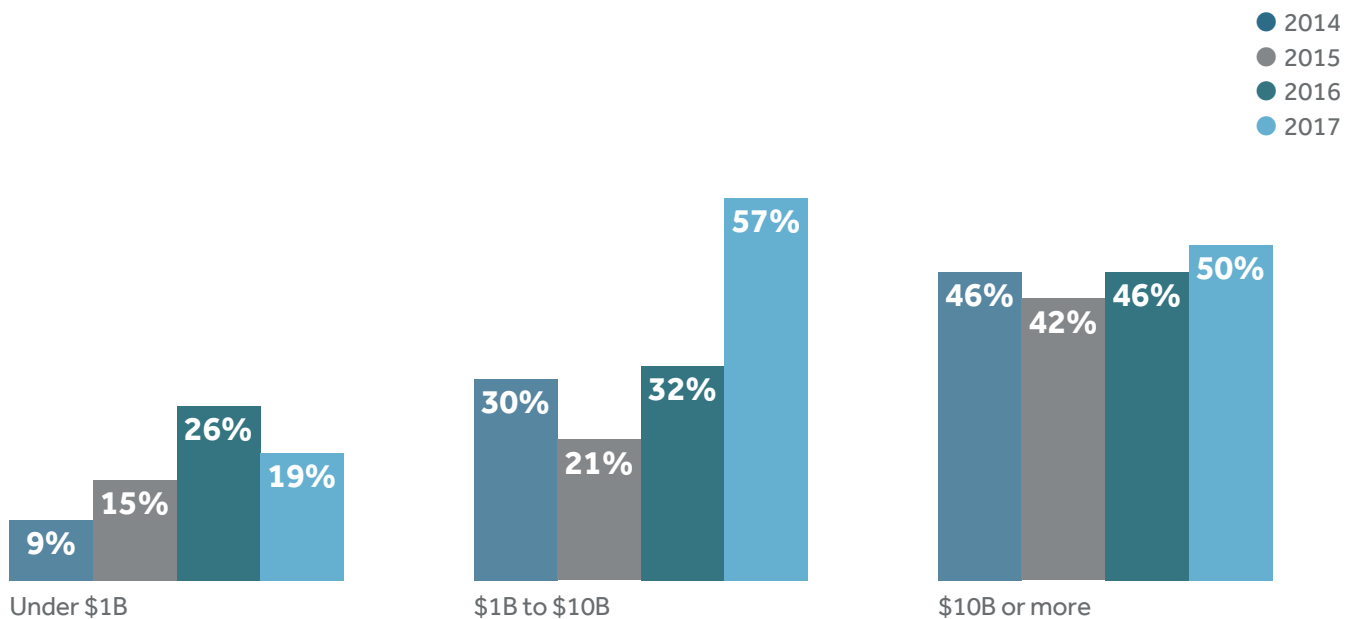
In contrast with last year, when the strongest growth in smart beta adoption came from asset owners with under \$1B in AUM, this year the largest adoption gains are observed among asset owners with \$1B to \$10B AUM. In 2017, reported smart beta adoption among \$1B to \$10B asset owners is 57%,

roughly on par with smart beta adoption rates among the largest asset owners with \$10B or more AUM. Adoption among the largest asset owners has remained steady near 45-50% over the past three years.

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### Exhibit 4

Smart beta adoption percentage by asset size.



Segment = Have a smart beta allocation

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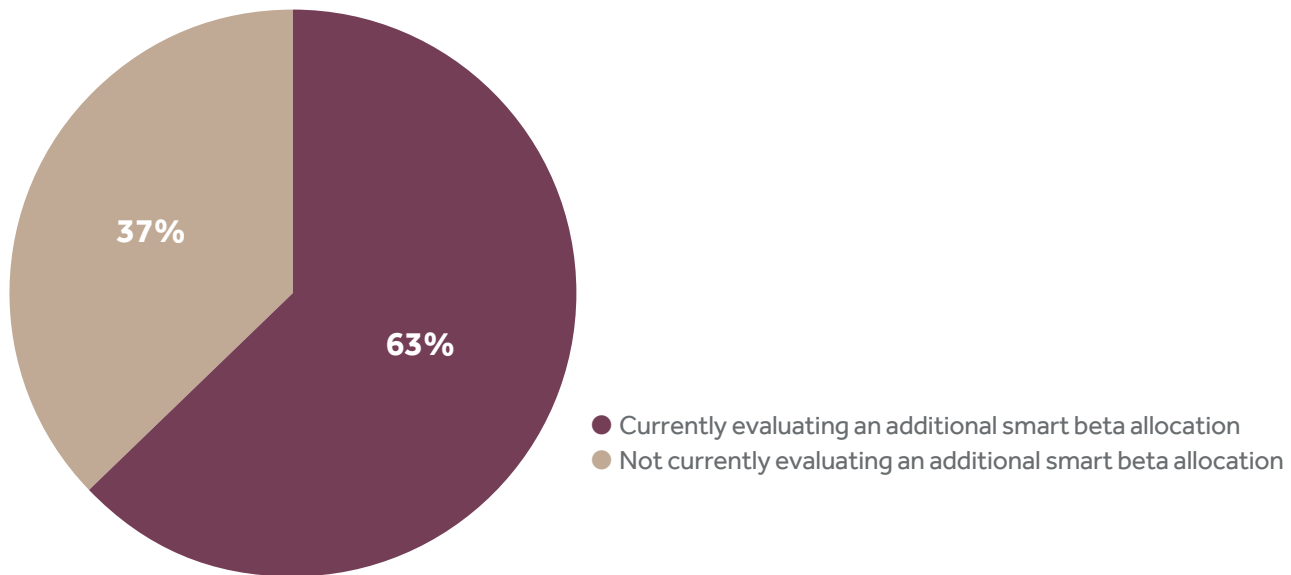
**In addition to the growing breadth of smart beta users, the depth of smart beta adoptions is also advancing as many asset owners who have already adopted smart beta strategies are evaluating additional allocations.**

Among asset owners with an existing smart beta allocation, 63% are currently evaluating additional allocations, on par with 2016.

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### **Exhibit 5**

**Evaluation of smart beta among asset owners with a current smart beta allocation.**



*Segment = Have a smart beta allocation*



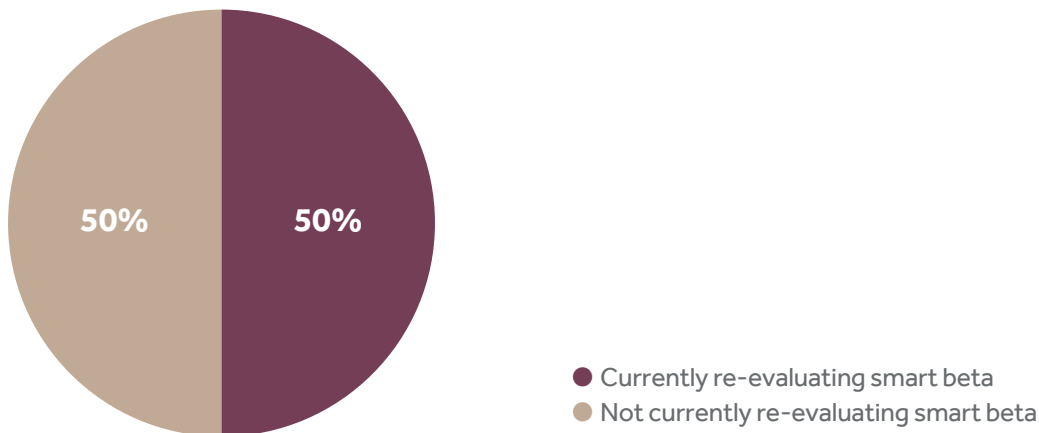
## Half of those who previously evaluated smart beta and decided not to implement are currently re-evaluating.

The top reason asset owners are evaluating smart beta again is increased understanding through new information and education, followed by the availability of new types of smart

beta strategies. Cost and off-the-shelf product availability are less influential drivers.

### Exhibit 6

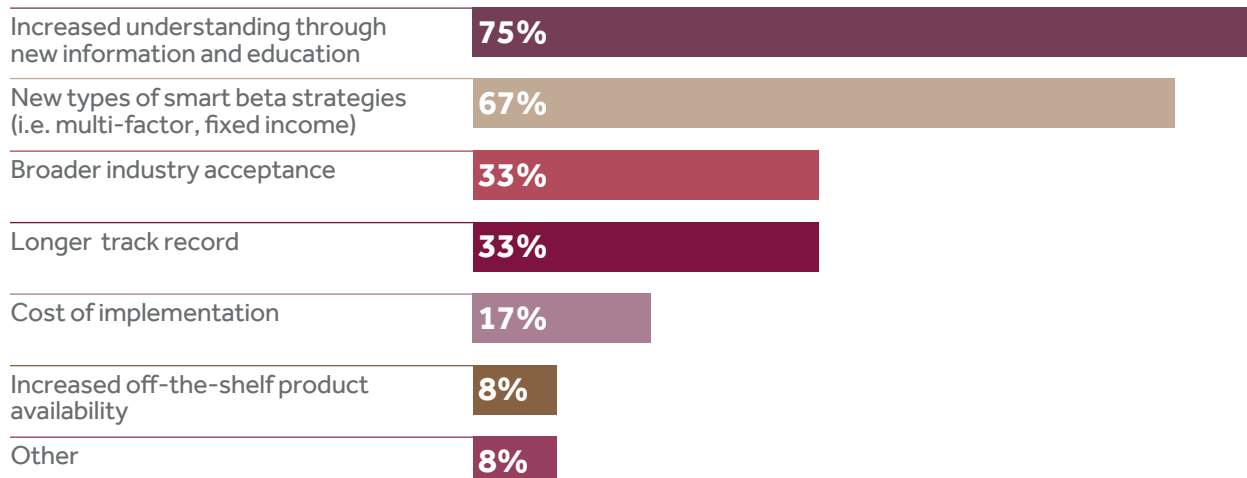
Re-evaluation of smart beta among asset owners who previously evaluated smart beta and decided not to implement.



Segment = Evaluated and decided not to implement

### Exhibit 7

What are the top reasons you are evaluating smart beta strategies again?



Segment = Evaluated and decided not to implement AND are currently re-evaluating smart beta

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## Globally, a majority of asset owners are currently evaluating an initial or additional smart beta allocation.

Among asset owners with AUM greater than \$1B AUM, 60% are currently evaluating smart beta either for an initial allocation or, most commonly, for an additional allocation.

Among smaller asset owners, roughly 40% are evaluating smart beta, most for an initial allocation.

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## Exhibit 8

### Which best describes your organization's usage of smart beta strategies?

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	<b>Under \$1B</b>	<b>\$1B to \$10B</b>	<b>\$10B or more</b>	<b>Total</b>
Have a smart beta allocation, currently evaluating additional allocation	13%	33%	35%	29%
No existing allocation, currently evaluating	22%	17%	14%	16%
No existing allocation, evaluated in the past and are currently re-evaluating	3%	10%	10%	9%
All currently evaluating	38%	60%	59%	54%

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## Corresponding with widening use of smart beta, asset owners increasingly view smart beta indexes as appropriate benchmarks for an active strategy or basis of an investable product.

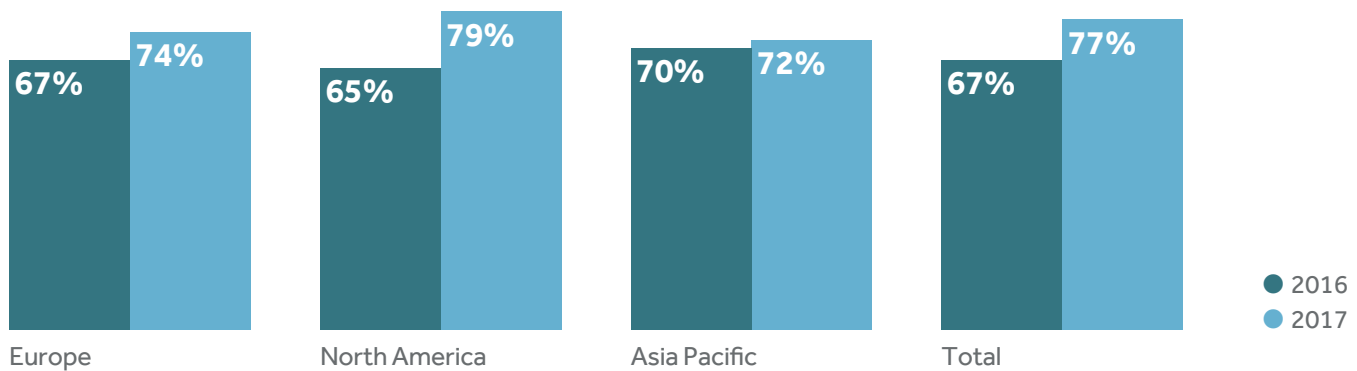
Smart beta indexes are widely accepted by asset owners as an appropriate basis of an investable product, with 77% agreeing. Roughly half of asset owners view smart beta indexes as an appropriate benchmark for an active strategy. Notable

increases in acceptance of smart beta as a benchmark for active strategies occurred in North America and Asia Pacific. North America also led the growth in perception of smart beta being an appropriate basis for an investable product.

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### Exhibit 9

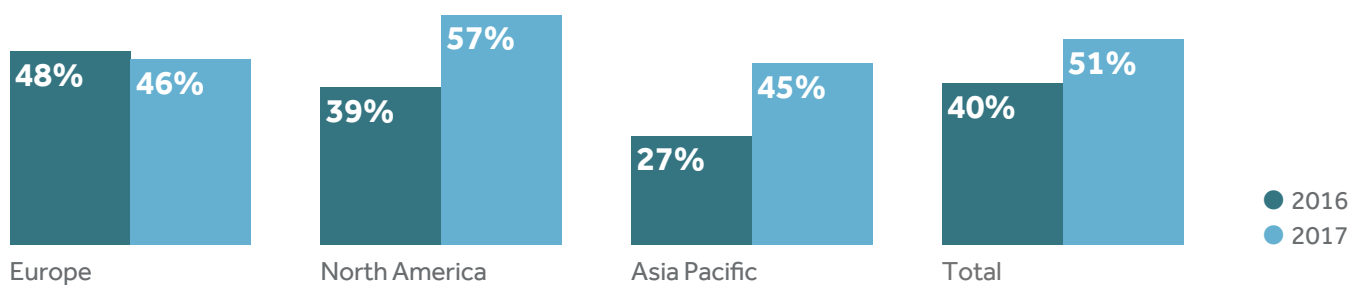
#### Appropriate applications for smart beta indexes: Basis of an investable product.



Multi-pick

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#### Appropriate applications for smart beta indexes: Benchmark for an active strategy.



Multi-pick



# 2

## Why smart beta?

**Return enhancement and risk reduction continue to be the primary objectives of smart beta. Cost savings continues to grow in importance, indicating that smart beta is increasingly being used in place of active strategies.**

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For the last four years, return enhancement and risk reduction have been the top two objectives for users of smart beta. In 2016, return enhancement was the most important driver, whereas in 2017, risk reduction is the most important driver – rebounding to levels seen in 2014 and 2015.

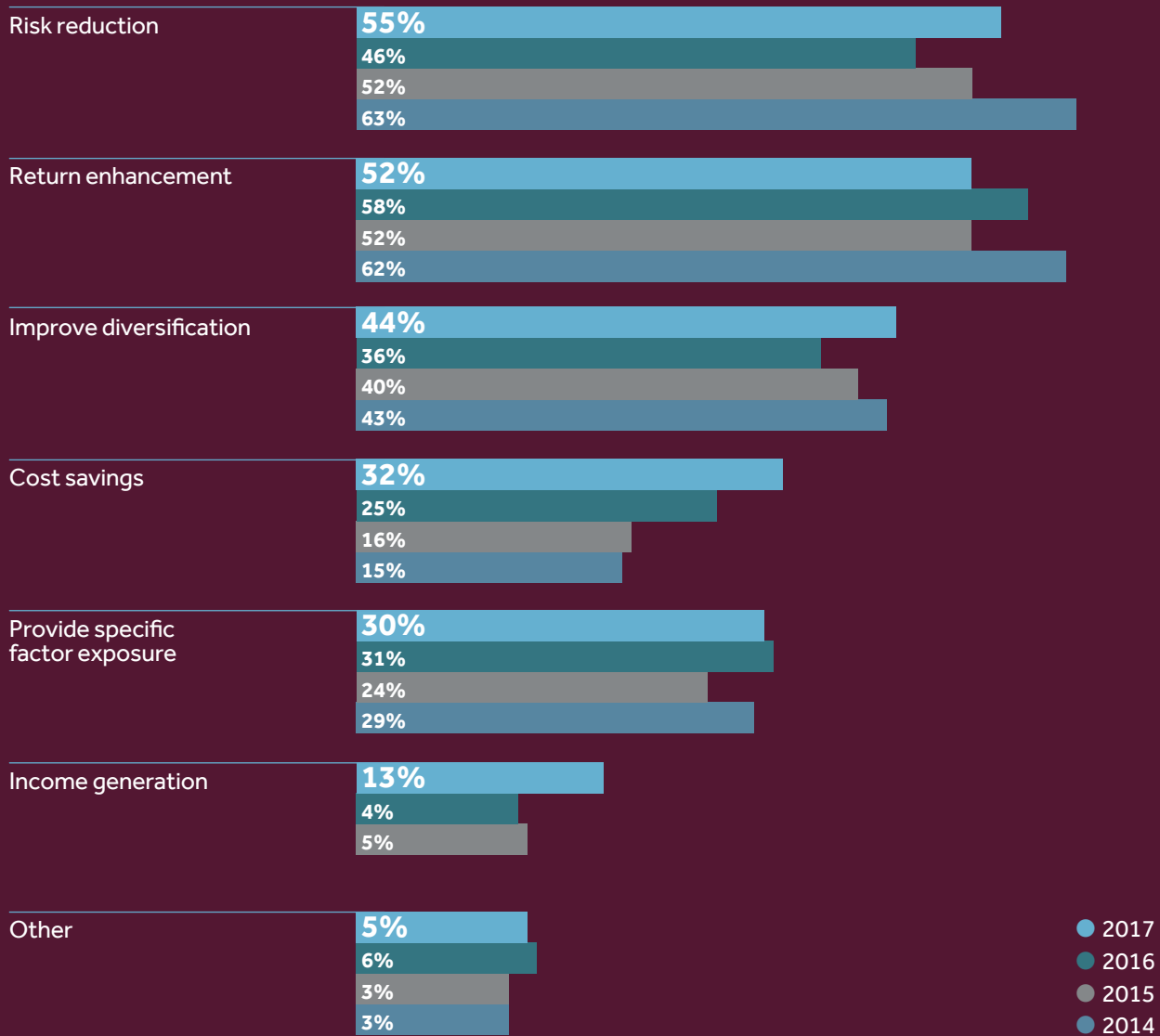
As we observed last year, cost savings is increasing in importance. This is primarily the case among asset owners

with greater than \$1B AUM. The growing importance of cost savings indicates that smart beta strategies are increasingly being used in place of active strategies by some asset owners.

Also notable in 2017 is the increased importance of income generation compared to 2015 and 2016. Those citing income generation objectives are disproportionately drawn from asset owners with under \$1B AUM.

## Exhibit 10

### What investment objectives initiated evaluation of smart beta strategies?



Multi-pick; Segment = Have a smart beta allocation, evaluated and decided not to implement, currently evaluating smart beta

"Income generation" was not asked in 2014.

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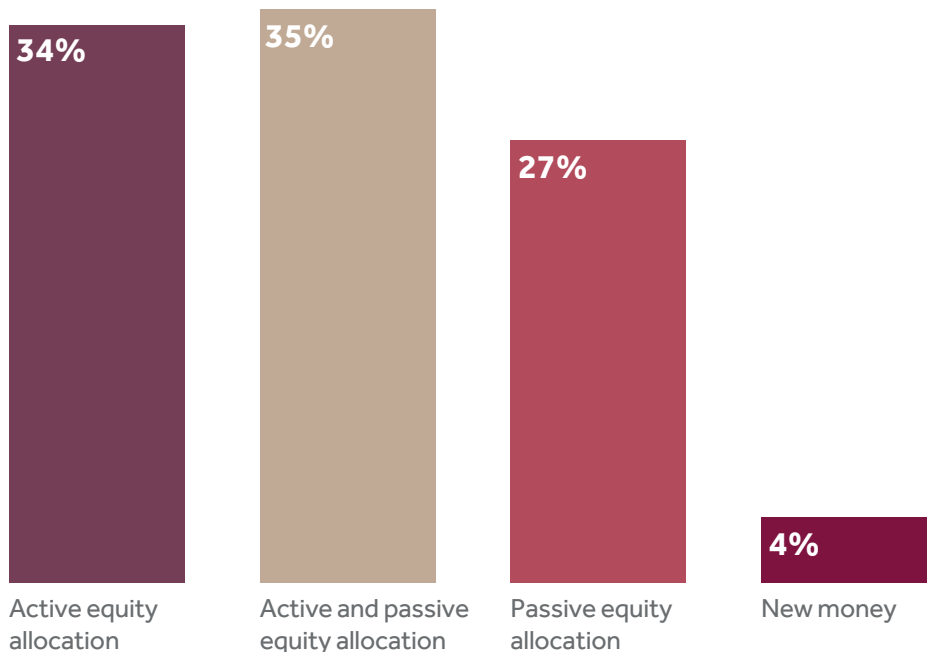
**No decisive trend is observed around where the funds for smart beta allocations come from.**

In 2017, the percentage of asset owners whose funds for smart beta are drawn primarily from active equity allocation was 34%. For 35%, funds for smart beta were drawn from both active and passive allocations.

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**Exhibit 11**

**Where are funds primarily coming from for your smart beta strategies?**



*Segment = Have a smart beta allocation, currently evaluating smart beta*



## As observed in prior years, a small minority of asset owners report tactical-only implementation of smart beta.

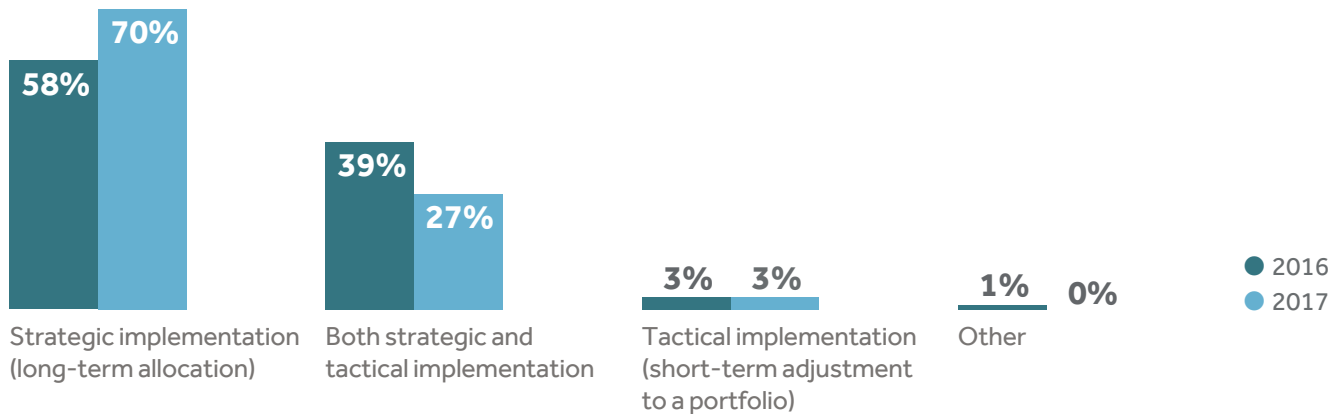
With 70% of asset owners employing a strategic-only implementation, this approach is the most common and has increased in dominance over last year.

Separate accounts remain the most preferred vehicle for strategic implementation of smart beta, followed by internal

management, CITs and mutual funds. Twenty-one percent prefer strategic implementation with ETFs and 8% with derivatives. For tactical implementation, ETFs and separate accounts are the most preferred vehicles.

### Exhibit 12

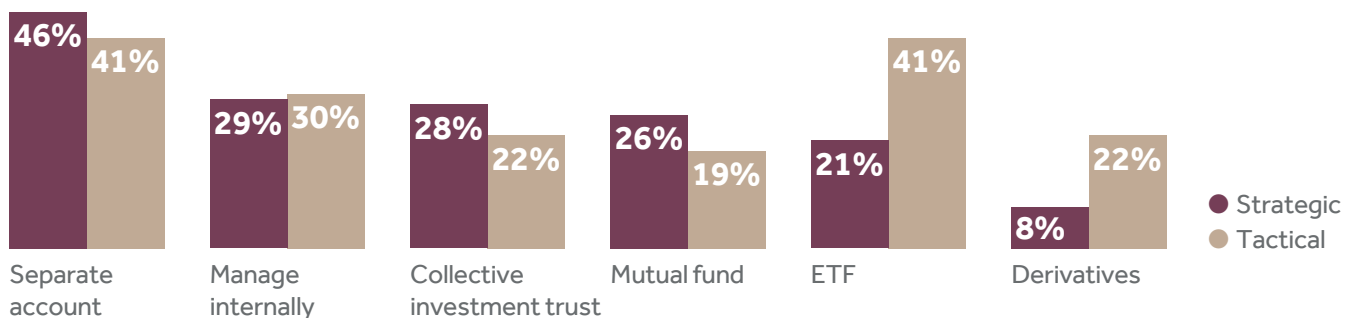
For which of the following are you using or evaluating use of smart beta strategies?



Segment = Have a smart beta allocation, currently evaluating smart beta

### Exhibit 13

For strategic/tactical uses of smart beta strategies, which vehicle type do you prefer?



Segment = Have a smart beta allocation, currently evaluating smart beta AND has or intends to have a strategic/tactical allocation

# 3

## Equity smart beta strategies

**Multi-factor combination strategies are now the most widely used and evaluated form of smart beta; the most popular single factor smart beta strategies are low volatility and value.**

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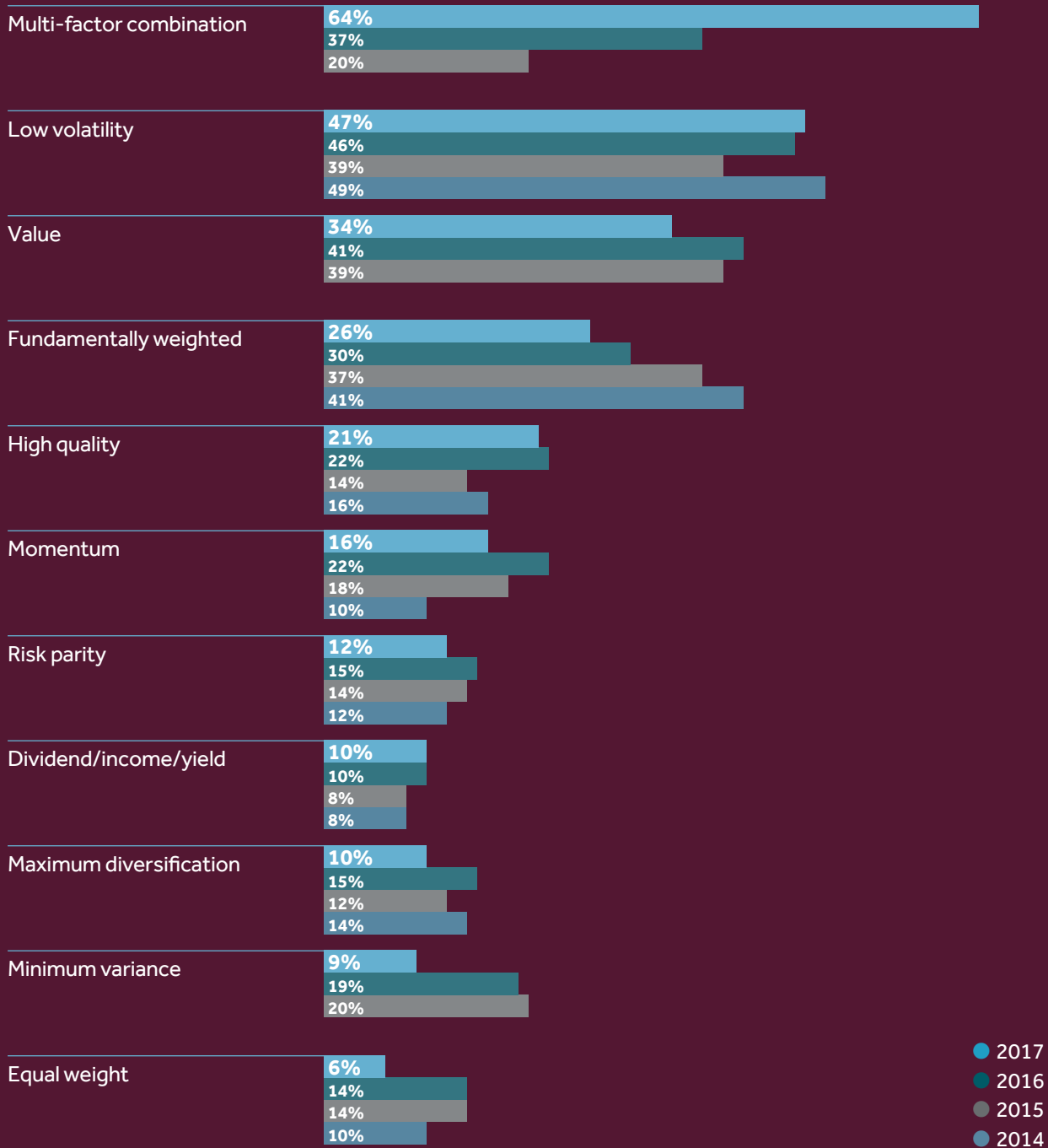
Among asset owners with a smart beta allocation, multi-factor combination strategies have grown from 20% in 2015, the first year asked, to 64% in 2017. Low volatility remains the most popular single factor strategy, followed by value.

As a percent of asset owners who are using smart beta, users of fundamentally weighted strategies declined from 41% in 2014 to 26% in 2017. While the overall proportion of asset

owners using fundamentally weighted strategies has remained steady at about 12%, the number of asset owners using smart beta strategies broadly has expanded, so the relative proportion of those using fundamentally weighted strategies has declined.

## Exhibit 14

### What type of smart beta strategies are you currently using?



Multi-pick. Segment = Have a smart beta allocation  
 "Multi-factor," "value" and "minimum variance" were not asked in 2014.

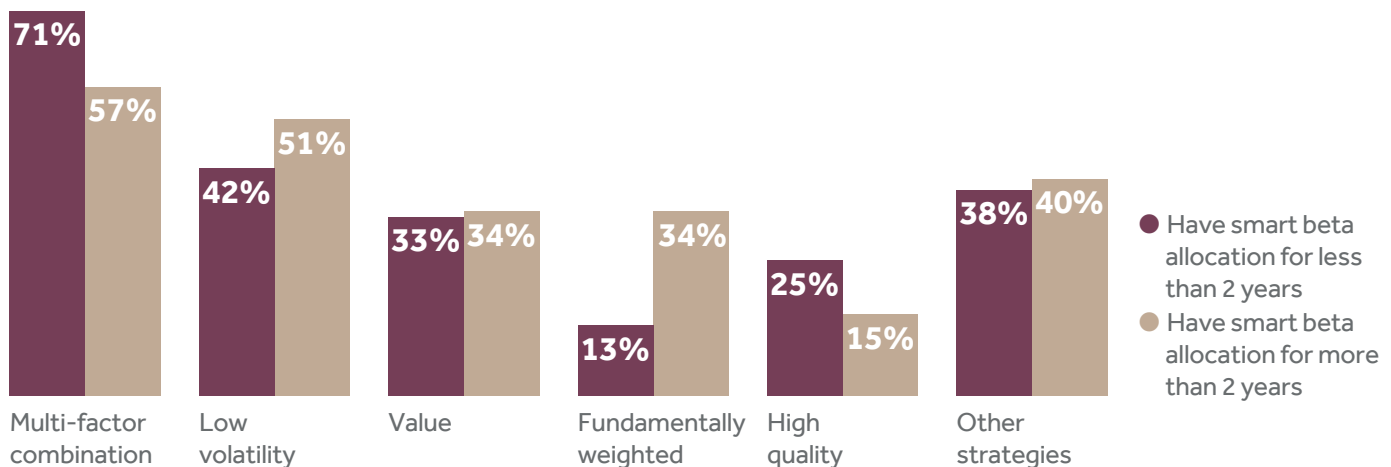
## Recent adopters have chosen multi-factor combination strategies over fundamentally weighted strategies.

Recent adopters of smart beta strategies implemented multi-factor combination and high quality strategies in greater proportions than asset owners who were early adopters

of smart beta strategies. Fundamentally weighted and low volatility strategies are not being implemented by asset owners as frequently as they previously were.

### Exhibit 15

What type of smart beta strategies are you currently using?



Multi-pick. Segment = Have a smart beta allocation

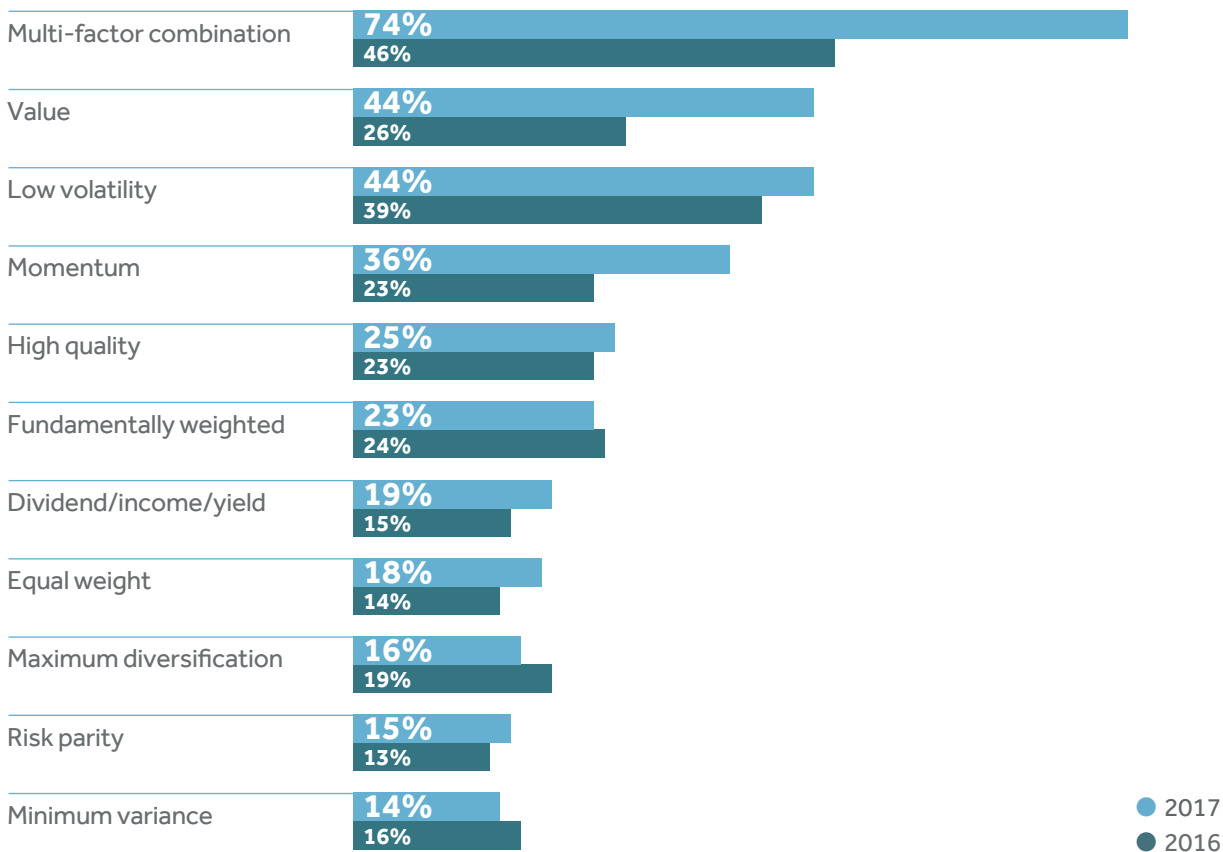
Other strategies includes momentum, risk parity, dividend/income/yield, maximum diversification, minimum variance and equal weight.

## Nearly three-quarters of asset owners who are evaluating smart beta strategies in 2017 are looking into multi-factor combination strategies.

Current evaluation of multi-factor combination strategies grew from 46% to 74%. Single factor value, low volatility and momentum showed strong and increasing levels of interest as well.

### Exhibit 16

#### What smart beta strategies are you currently evaluating?



*Multi-pick. Segment = Have a smart beta allocation AND currently evaluating smart beta, no existing smart beta allocation AND currently evaluating smart beta*

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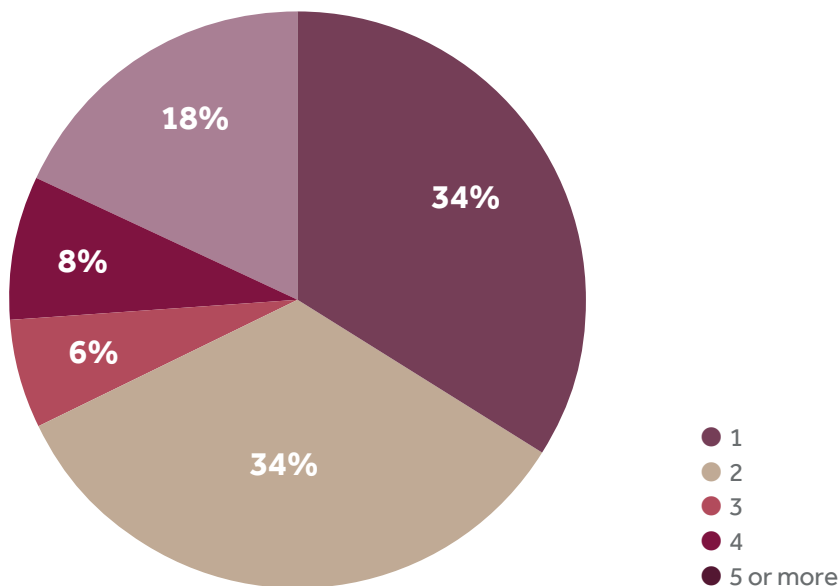
## Two-thirds of asset owners who have adopted smart beta are using one or two smart beta strategies.

Among asset owners who have implemented smart beta strategies, roughly one-third are using a single strategy, one-third are using two strategies and one-third are using more than two strategies.

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### Exhibit 17

Number of strategies used in 2017.



Segment = Have a smart beta allocation

In the 2017 questionnaire, the strategy pick list was updated to better clarify the difference between the use of individual factor strategies and multi-factor. Instead of a single picklist of strategies to choose from, of which multi-factor combinations was a choice, the question this year grouped strategies under headings (single factor, alternatively weighted, multi-factor combinations).



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## Many asset owners are selecting individual smart beta strategies for specific investment objectives.

Half of asset owners employing multiple smart beta strategies are using multiple individual strategies to target different investment objectives over the long term, while slightly more than one-third are using a single multi-factor strategy or product. A small percentage report rotating individual strategies based on perceived market opportunities.

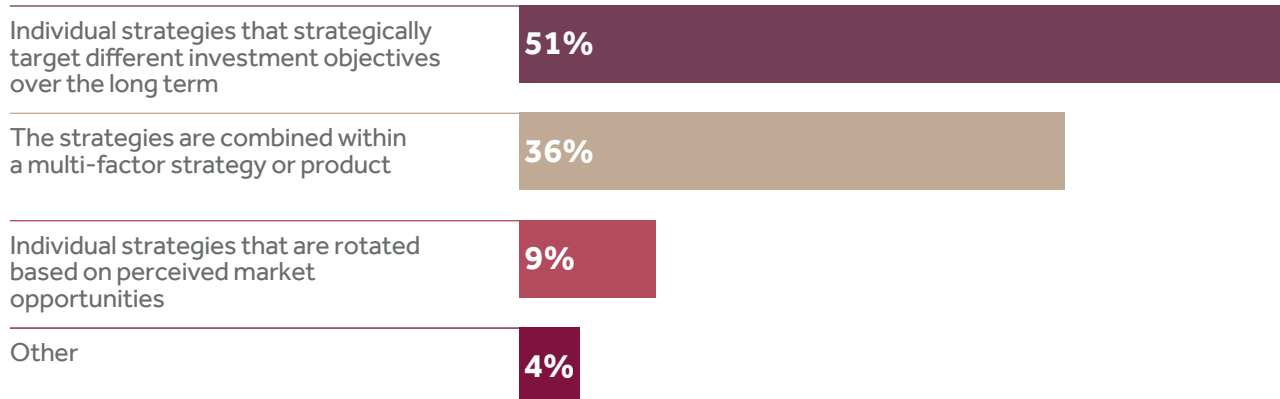
Differences on this question exist with respect to how long asset owners have had a smart beta allocation. Among asset

owners who have had a smart beta allocation for more than two years, the majority (67%) are using multiple individual strategies. But among asset owners who have adopted smart beta in the past two years, the majority (56%) are combining strategies within a single multi-factor strategy or product, which aligns with the increase we report in multi-factor combination strategy use and evaluation. In future years, we expect that asset owners will increasingly take the approach of adopting an integrated multi-factor strategy.

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### Exhibit 18

#### Which statement best reflects how you are allocating to multiple equity smart beta strategies?



Segment = Have a smart beta allocation AND are using more than one strategy



# 4

## Fixed income smart beta strategies

**Fixed income smart beta evaluation and adoption is still in the early days, with a large majority of asset owners having not yet evaluated these strategies.**

Adoption of fixed income smart beta strategies has occurred among 7% of asset owners surveyed. In addition, 20% are currently evaluating or planning to evaluate fixed income smart beta strategies in the next 18 months.

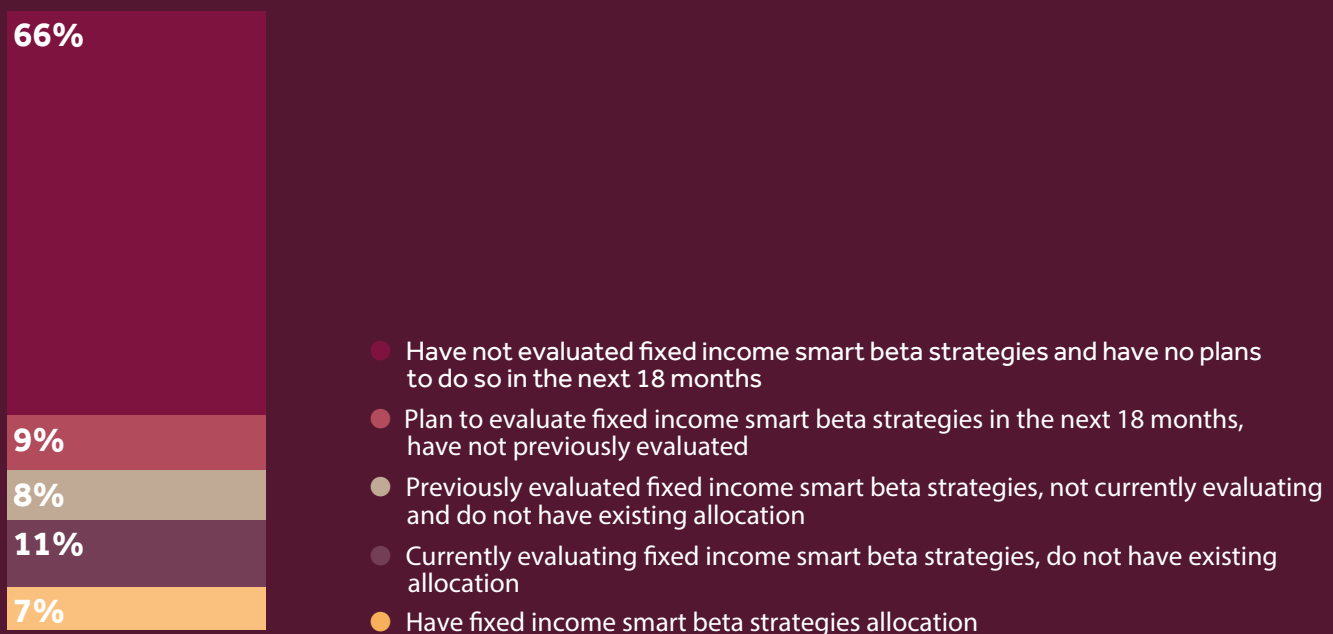
One explanation for nascent levels of fixed income smart beta adoption is the absence of established themes that have been proven over an extended periodicity to be able to deliver yield-enhanced risk-adjusted performance relative to the beta

benchmarks. While equity smart beta strategies benefit from extensive time series that have revealed a number of themes that are statistically relevant, the data and research to uncover these themes are not yet available for fixed income.

Despite the large proportion of asset owners that have not evaluated or have no plans to do so in the near term, adoption rates are likely to grow as smart beta fixed income research and product development advance.

### Exhibit 19

What best describes your organization's usage of fixed income smart beta strategies?



*Excludes respondents who stated that fixed income is not a part of their investment process.*

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## Many asset owners have not evaluated fixed income smart beta strategies, signaling a growth opportunity for this market.

Though many respondents cited lack of investment resources as the reason respondents have not evaluated fixed income smart beta strategies, many others did not indicate a rationale at all or stated that they did not believe there was merit in

the approach. This supports the notion that there is a lack of education, awareness and corresponding product offering within the fixed income community.

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## Exhibit 20

### What are the primary reasons you have not yet evaluated fixed income smart beta strategies?

Lack of investment resources to make the evaluation	23%
Don't know	21%
Do not believe in passive allocations	17%
Consultant has not recommended this option	15%
Do not believe they have investment merit	13%
AUM is too small for this type of strategy	8%
Other	14%

*Multi-pick. Segment = Do not have a fixed income smart beta allocation AND have not previously evaluated fixed income smart beta strategies AND are not currently evaluating fixed income smart beta strategies*

*Excludes respondents who stated that fixed income is not a part of their investment process.*

**For asset owners who have evaluated fixed income smart beta strategies, the most commonly evaluated strategies are yield enhancement, fundamental weighting and duration adjusted/ risk weighting.**

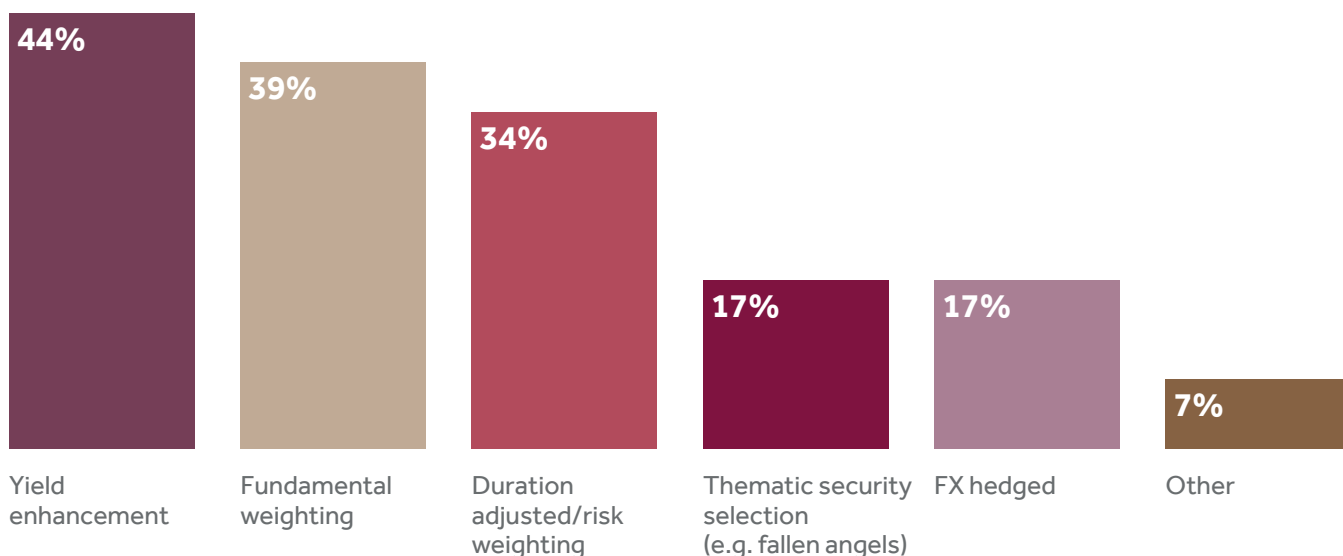
Prevailing interest rates and macro economic environments will tend to drive the types of smart beta strategies fixed income investors gravitate toward. In the current low-interest rate environment, investors are commonly evaluating strategies designed to enhance yield or adjust duration exposures in anticipation of rising rates. Also at the top of the list are fundamental weighting schemes, such as sovereign benchmarks that reallocate exposures from the most indebted issuers.

“Historically, non-market value-weighted fixed income benchmarks have used relatively straightforward techniques, such as corporate issuer caps and sovereign economic output weightings, for adjustments within credit-focused market environments. Investors are now seeking solutions that address concerns rooted in benchmark rates exposure, which is a much more complex problem to solve for with index construction.”

Nikki Stefanelli, managing director, fixed income product management, FTSE Russell

**Exhibit 21**

**What type of smart beta fixed income strategies have you evaluated or are you currently evaluating?**



*Multi-pick. Segment = Have a fixed income smart beta allocation OR have previously evaluated fixed income smart beta strategies OR are currently evaluating fixed income smart beta strategies*





# 5

## Application of ESG considerations to smart beta

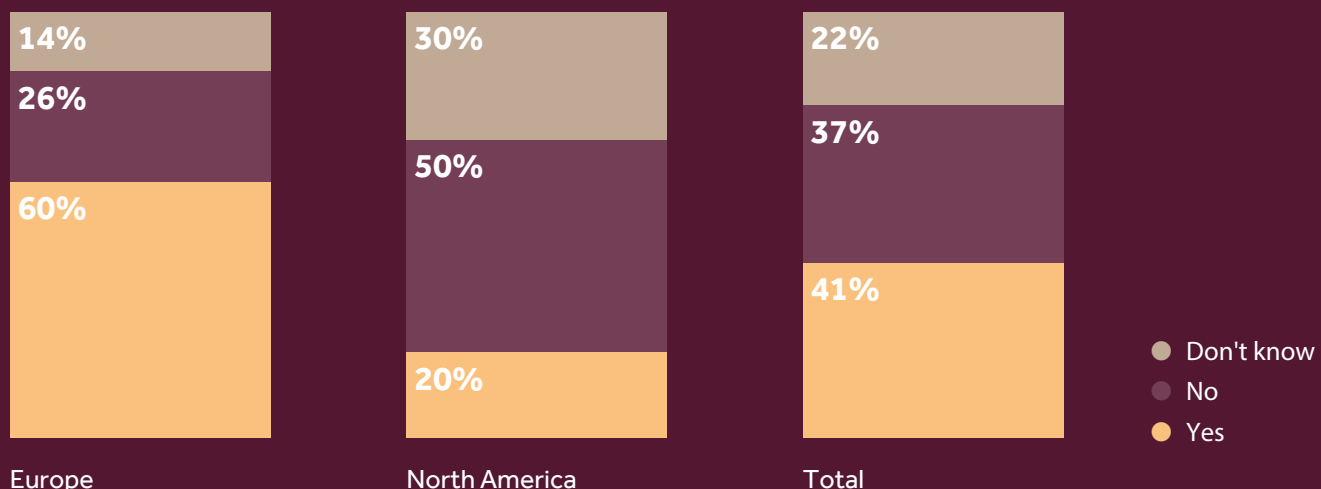
Interest in applying ESG considerations to smart beta is measurable, with the greatest interest coming from European asset owners and the largest tier of asset owners. Primary motivations for using a smart sustainability strategy are investment-led rather than regulatory or social/ethical.

Among asset owners who are using, evaluating or planning to evaluate smart beta strategies ("smart beta engaged" asset owners), 41% anticipate applying ESG considerations to a smart beta strategy. Asset owners in Europe are considering ESG smart beta applications in greater numbers than those

in North America - 60% of smart beta engaged asset owners in Europe are considering incorporating ESG screens or factors in their smart beta allocations while 20% of those in North America are.

### Exhibit 22

Do you anticipate applying ESG considerations to a smart beta strategy?



Segment = Have a smart beta allocation OR are currently evaluating smart beta strategies OR are planning to evaluate smart beta strategies in the next 18 months

Sample size for Asia Pacific and Other region not large enough to break out; respondents from these regions are included in total.

**Consideration of ESG applications to smart beta is more prevalent among the largest tier of asset owners, with AUM above \$10 billion, than asset owners with lower AUM.**

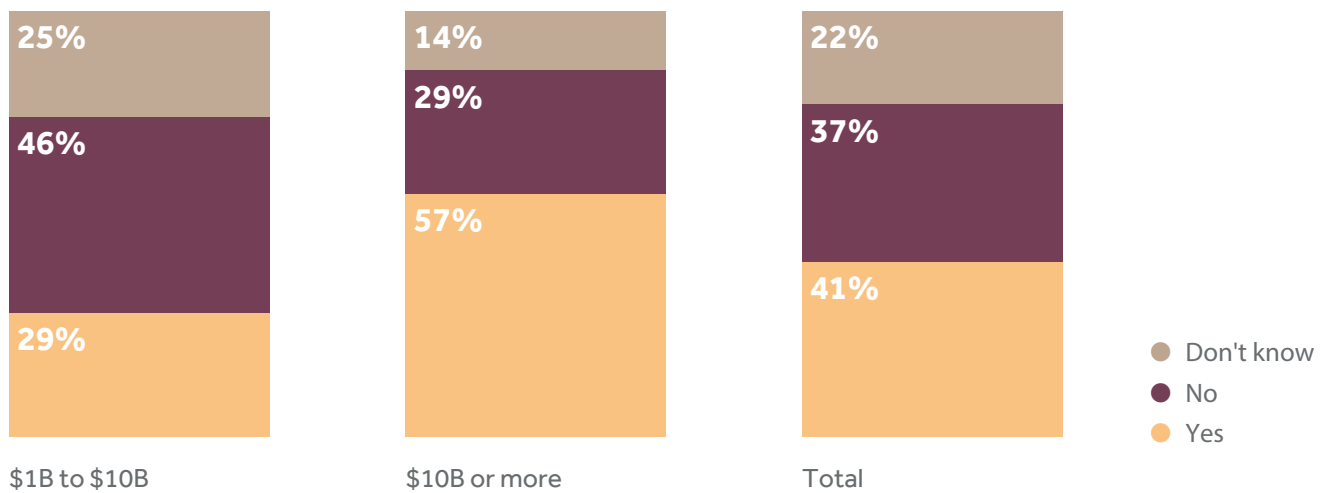
While 57% of smart beta engaged asset owners with \$10B or more AUM anticipate applying ESG considerations to a smart beta strategy, only 29% of those with \$1B to \$10B in AUM do.

In both North America and Europe, interest in smart sustainability strategies is greatest among the largest asset owners with

\$10B or more AUM. Yet regional differences persist. Within this size tier, nearly 80% of asset owners based in Europe anticipate applying ESG considerations to a smart beta strategy while 30% of asset owners based in North America do.

**Exhibit 23**

**Do you anticipate applying ESG considerations to a smart beta strategy?**



Segment = Have a smart beta allocation OR are currently evaluating smart beta strategies OR are planning to evaluate smart beta strategies in the next 18 months

Sample size for AUM segment under \$1B not large enough to break out; respondents with under \$1B AUM are included in total.

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## The top reason motivating the application of ESG considerations to a smart beta strategy is to avoid long-term risk.

Among those who anticipate applying ESG considerations to a smart beta strategy, 69% are motivated by a desire to avoid long-term risks, such as climate change.

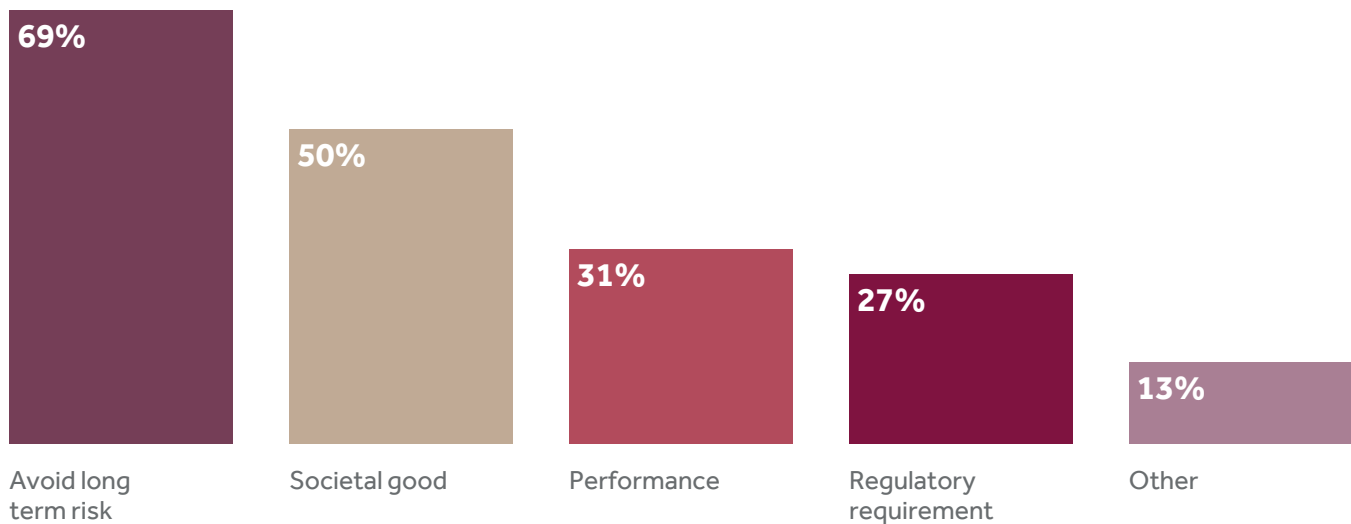
Taken together, three-quarters of those who anticipate applying ESG considerations to smart beta are motivated by one or more investment-led considerations (avoiding long-term

risk and seeking outperformance) while half are motivated by social considerations and roughly one-quarter by regulatory requirements.

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### Exhibit 24

#### What is your motivation for applying ESG considerations?



*Multi-pick. Segment = Have a smart beta allocation OR are currently evaluating smart beta strategies OR are planning to evaluate smart beta strategies in the next 18 months AND anticipate applying ESG considerations to a smart beta strategy*



# 6

## Outlook

We expect growth in smart beta to continue at a robust pace, as the adoption expectations of asset owners who are currently evaluating initial or additional smart beta allocations remains strong and satisfaction with smart beta among current users remains high.

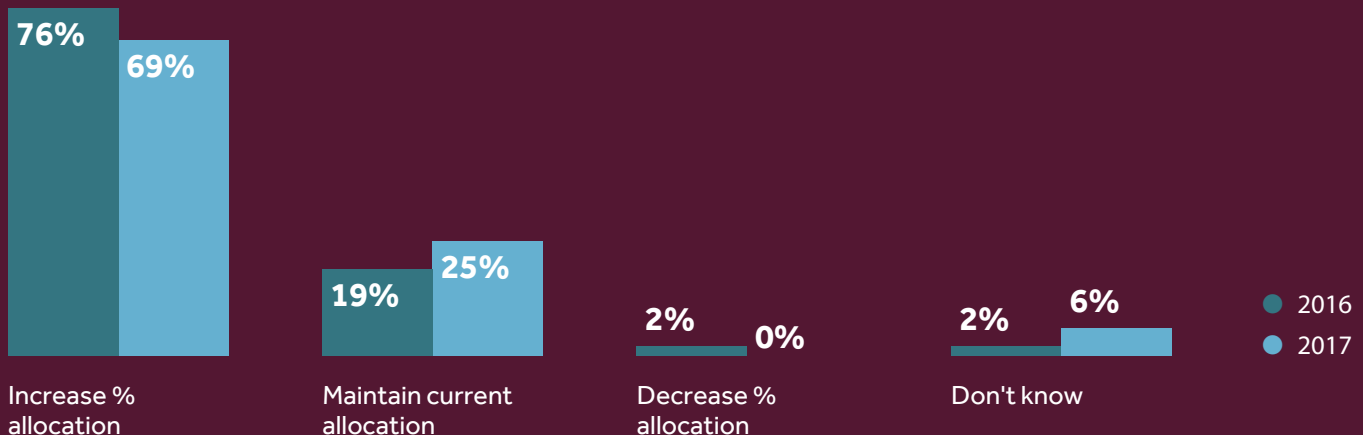
Approximately 54% of respondents are currently evaluating smart beta strategies, which includes 29% that have an existing allocation and 25% that do not have an existing allocation.

The outlook for smart beta adoption is strong and stable in both groups. Among current evaluators with an existing smart

beta allocation, nearly 70% plan to increase their allocation. Of those asset owners without existing allocations who are currently evaluating smart beta, roughly half expect to make an allocation, while only 13% do not plan to make an allocation, consistent with last year's survey results.

### Exhibit 25

What is your outlook for future usage of smart beta in your portfolio in the next 18 months?

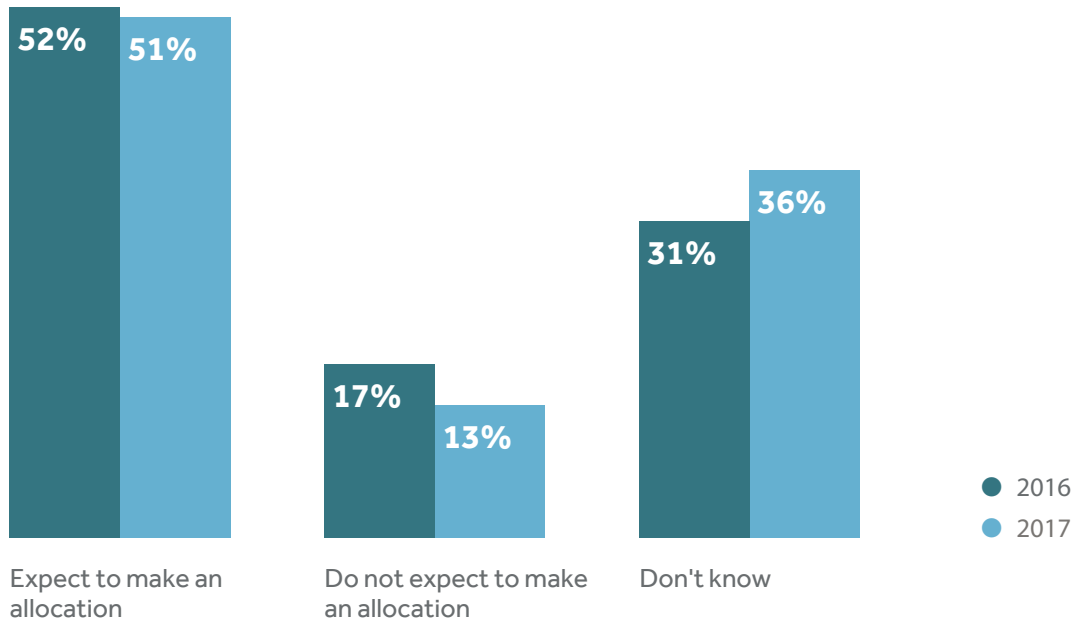


Segment = Have a smart beta allocation AND currently evaluating smart beta

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## Exhibit 26

What is your outlook for future usage of smart beta in your portfolio in the next 18 months?



Segment = Does not have smart beta allocation AND currently evaluating smart beta

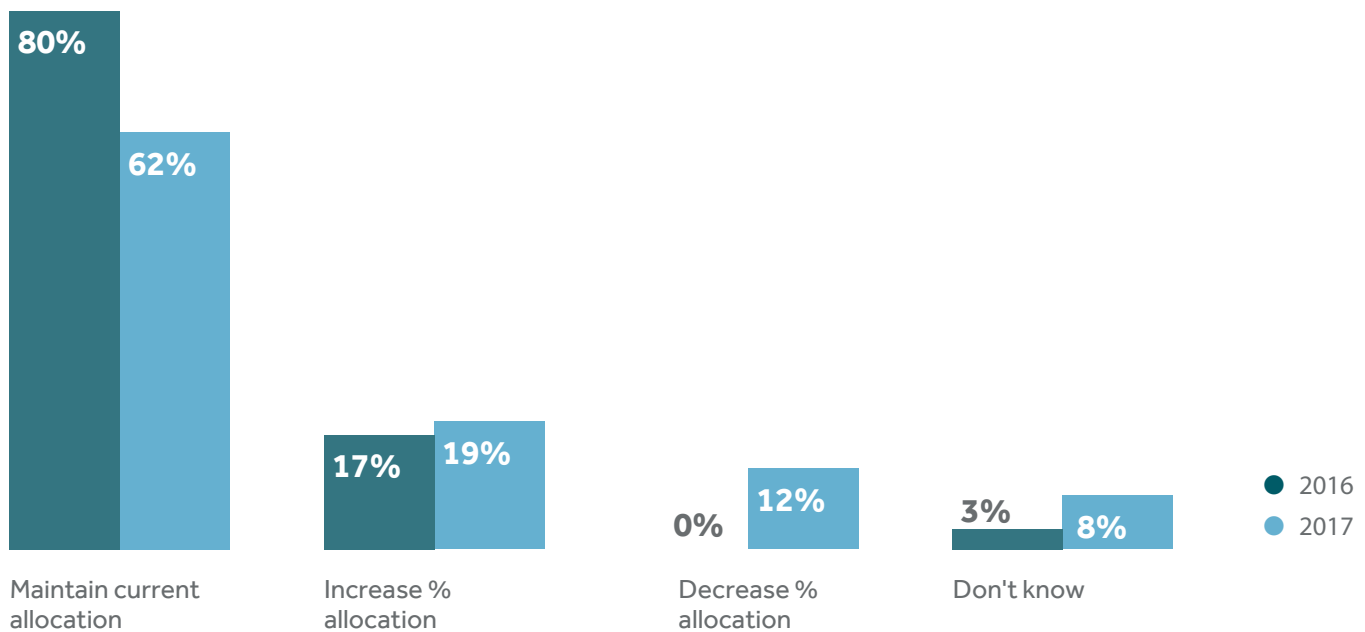


Asset owners with smart beta allocations who are not currently evaluating additional smart beta strategies (62%) generally plan to maintain their current allocations. Nearly 20% plan to increase

smart beta allocation and a minority in this group (12%) plan to decrease their allocation, possibly due to the impact of market cycles on certain smart beta strategy's performance.

## Exhibit 27

What is your outlook for future usage of smart beta in your portfolio in the next 18 months?



Segment = Have a smart beta allocation AND not currently evaluating smart beta

## The majority of asset owners remain “satisfied” or “very satisfied” with their smart beta strategies’ ability to deliver on intended outcomes.

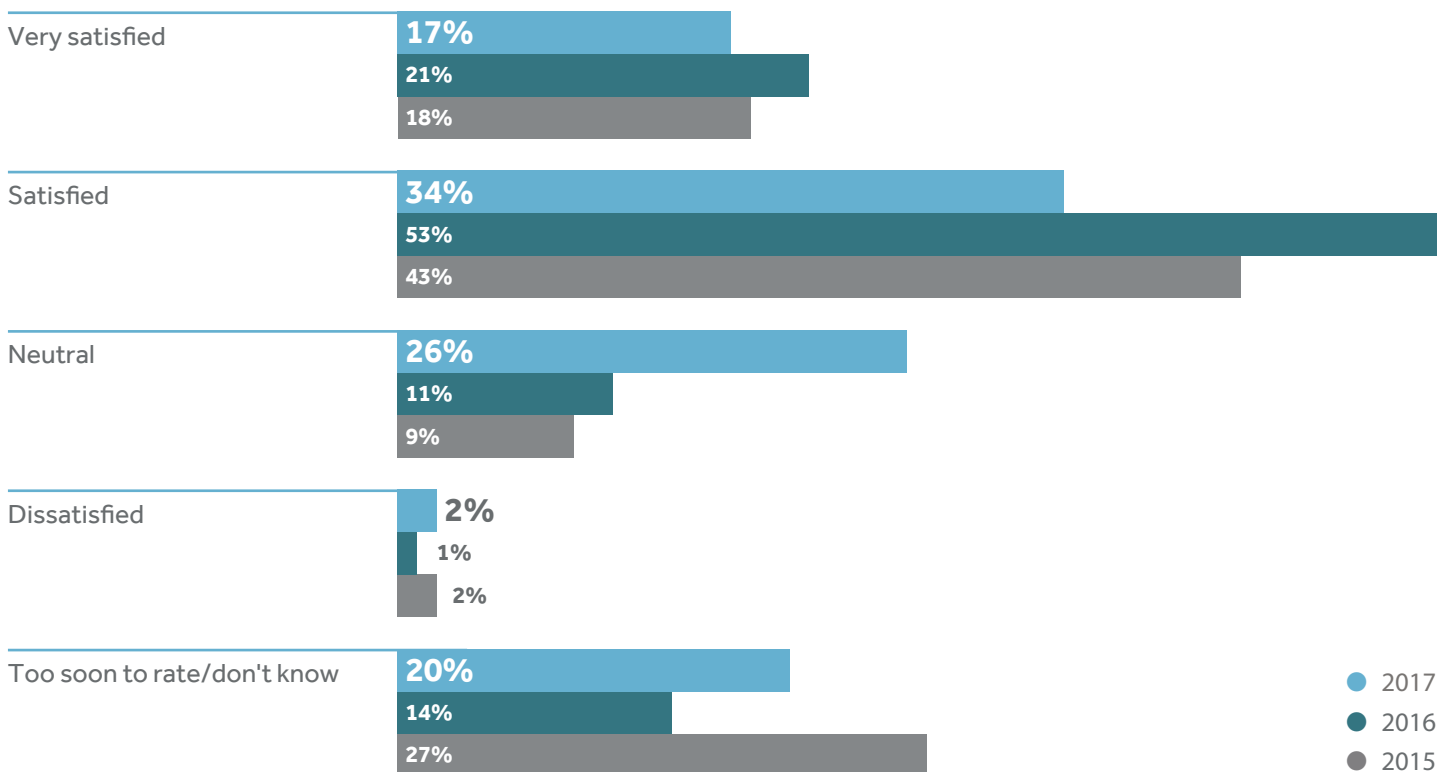
In 2017, 51% of asset owners report being “satisfied” or “very satisfied” with their smart beta strategies’ ability to deliver on intended outcomes, while 26% report neutral satisfaction, 2% report dissatisfaction and 20% say that it is too soon to rate their level of satisfaction.

This year, there are more asset owners providing neutral ratings and fewer providing “satisfied” ratings than last year. We think

this may be influenced by the widening base of asset owners with smart beta allocations, including those with relatively new allocations, who tend to rate their satisfaction as neutral or too soon to rate. Another possibility is that as certain factors have underperformed in recent cycles, satisfaction has been impacted.

### Exhibit 28

How satisfied are you with your smart beta strategies’ ability to deliver on your intended investment outcome?



Segment = Have a smart beta allocation

# Conclusion

In our 2016 survey we measured a large increase in the evaluation of multi-factor strategies and this year we have observed that multi-factor smart beta strategies are the most popular smart beta equity strategy being used. This has corresponded with an increase in the smart beta adoption rate in all regions globally, and with particularly strong growth among asset owners with AUM between \$1 billion and \$10 billion.

We expect smart beta adoption to continue to grow, as currently more than half of asset owners are evaluating an initial or additional smart beta allocation. The next growth trend we anticipate is in smart sustainability where ESG considerations are combined with smart beta strategies, particularly in Europe with the largest asset owners. We look forward to continuing this survey in the coming years to help investors of all types understand some of the most influential trends in the asset management industry.

# Appendix

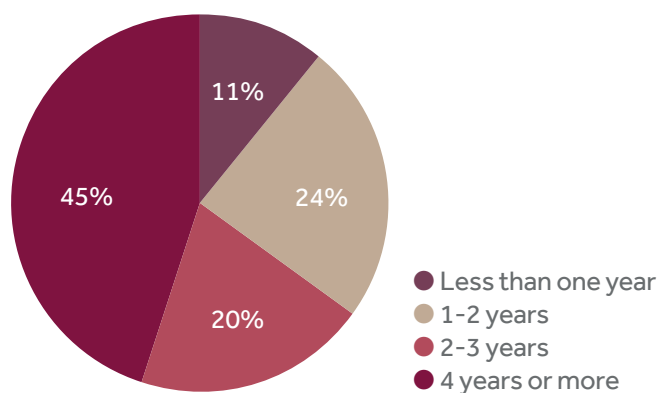
## Organization type

	2014	2015	2016	2017
Corporation or private business	46%	23%	23%	26%
Government	25%	22%	24%	23%
Non-profit, university	26%	14%	14%	13%
Union or industry-wide pension scheme	0%	13%	18%	11%
Other	3%	28%	21%	27%

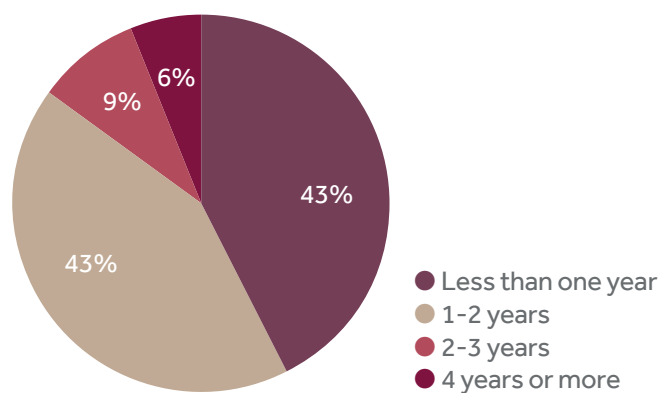
## Plan type

	2014	2015	2016	2017
DB	75%	65%	63%	55%
DC	43%	38%	45%	36%
E/F	19%	17%	14%	18%

## How long have you had a smart beta strategy allocation?



## How long did the evaluation process of smart beta take?



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