

Smart beta: 2015 global survey findings from asset owners



**FTSE
Russell**

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Introduction

The first iteration of “smart beta” can be traced to the 1980s through cap and style distinctions, there is no denying that as an investment tool, the smart beta approach has arrived and will continue to transform and impact the investment landscape. Today, “smart beta” is a term often used to define a broad range of investment strategies that are generally categorized by two types of exposures: strategy-based and factor-based.

Strategy-based exposures have gained a lot in popularity over the past few years. They are typically non-cap weighted, such as equal-weight or fundamental-weight indexes. Factor-based exposures seek to achieve a systematic source of return by capturing similar factor characteristics, such as momentum or low volatility. Passively managed products based on these smart beta indexes offer investors new ways to tailor their exposures to specific market segments, portfolio risk and investment beliefs.

As a follow-up to the well-received 2014 survey, FTSE Russell conducted a second survey of institutional asset owners in 2015, in order to better understand the progression in perceptions and adoption of smart beta globally. As in the 2014 survey, we intentionally recruited equity decision makers from across a broad spectrum of AUM size and at a variety of stages in their evaluation of smart beta. We have prepared this report to offer further insights into the growing acceptance of smart beta and key considerations for investors as they evaluate these strategies and incorporate them in their portfolios.

One set of questions we did not repeat this year concerned the preferred name for what is called “smart beta.”

A number of alternative names have been suggested, but none have been broadly embraced. One problem with the proposed alternatives is that they tend to be too narrowly defined, such as “factor indexes” or “non-price-weighted indexes.” “Smart beta” encompasses a wide and growing range of systematic strategies and exposures that call for a broad label. To address one common objection to the name, we should all agree that the “smart” in “smart beta” does not imply that investors in traditional cap-weighted index funds are doing something ill-advised. We should also agree that the naming debate distracts from the real need for investor education. Our focus should be on the substance of these strategies, not the name.

While we need to be cautious about inferring meaningful trends, there were some interesting differences in the results of the 2015 survey versus the 2014 version. In 2014, 40% of the survey respondents with an allocation to smart beta had allocated 5% or less. In 2015, only 24% have allocated 5% or less; 55% have allocated more than 10% to smart beta strategies. Another interesting difference is in the number of asset owners using multiple smart beta strategies. In 2014, 59% of the

asset owners responding to our survey were using more than one strategy; in 2015, 71% are using more than one strategy, and 22% of those respondents are using four or more strategies. These differences highlight not only a growing allocation to smart beta strategies, but also a movement toward combining multiple factor and strategy indexes.

The results of our new survey demonstrate increased interest in and adoption of smart beta strategies among institutional asset owners and underline the need for further education, information and advice. Smart beta indexes have given asset owners and their consultants more choice and greater flexibility in the construction of portfolios with an outcome-oriented focus. But increases in choice and flexibility mean that investors require all the more information as they work to make the right decisions. We hope the results of this survey provide some measure of insight for all investors evaluating smart beta strategies.

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Summary of key themes

Smart beta adoption and outlook are driven primarily by region and secondarily by asset size.

\$10B+

European asset owners with \$10B or more in AUM are leading the adoption of smart beta.



Asset owners who currently have a smart beta strategy are making varying-size investments as part of their active and passive equity allocations.

\$1B – \$10B

The asset owners most likely to evaluate smart beta for the first time over the next 18 months are those in North America with between \$1B and \$10B in AUM.



Smart beta users report being “Satisfied” or “Very satisfied” with their smart beta strategies. The majority of users intend to increase their allocation, and none intend to decrease it.

92%

For asset owners who have evaluated smart beta but have not made an allocation, the top reasons were “Difficulty determining the best strategy or combinations of strategies,” “Limited track record” and “Concern regarding investment merit.” Of these asset owners, 92% report that they plan to continue to monitor and evaluate smart beta again.



Among asset owners who are currently evaluating smart beta, essentially half believe they will make an allocation and half “Don’t know yet.”

Smart beta strategies are not being used in isolation, and most asset owners are focused on the combination of these strategies.

4

On average, asset owners are evaluating four different smart beta strategies.



Of asset owners evaluating more than one smart beta strategy, very few intended to select a single strategy.

70%

Asset owners are not just evaluating multiple smart beta strategies; more than 70% are using a combination of smart beta strategies.



Asset owners currently evaluating smart beta strategies are more focused on multi-factor combinations and defensive strategies than are their peers who have already adopted smart beta.



Low Volatility and Value are the most-used strategies as part of a smart beta combination.



“Fundamental” is the strategy most often favored by an asset owner using a single smart beta strategy.

External asset managers are influential to smart beta evaluation, while a combination of the internal investment manager, CIO and consultant is responsible for making decisions and monitoring allocation.



External asset managers are initiating smart beta discussions – providing credible information about smart beta strategies that asset owners are looking for.



The internal investment manager and CIO are more involved in the evaluation of smart beta strategies, and, in most cases, the CIO is the primary decision maker.



The responsibility for monitoring and adjusting smart beta allocations varies, depending on a respondent’s AUM, resting either with the consultant, the internal investment manager or the CIO.

There are clear distinctions between the strategic and tactical applications of smart beta among asset owners¹.

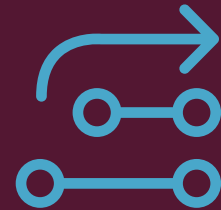


Asset owners are focused on longer-term (five or more years) strategic applications of smart beta.

¹ At FTSE Russell, strategic implementation is viewed as a long-term allocation while tactical implementation is viewed as a short-term adjustment to a portfolio.

1/3

A third of asset owners are using or evaluating smart beta for tactical applications, in addition to strategic applications.



For strategic allocations of smart beta, ETFs are in demand among respondents with less than \$1B in AUM, and managing assets internally is of interest to those with more than \$10B in AUM.



For the tactical use of smart beta strategies, ETFs are preferred by nearly half of all respondents.



Suitable benchmarks for smart beta strategies are needed to better support the smart beta investment process.

Survey background

This survey was conducted in January and February 2015. The 214 asset owners included in the study were drawn from North America (61%), Europe (26%), and Other Regions (13%). Almost 90% of the respondents either have direct responsibility for selecting equity investments or play roles in teams that perform this function. The sample crosses a wide mix of organization types – corporation or private business (23%), government organization (22%), non-profit or university (14%), union or industry-wide pension scheme (13%) – and the rest is a mix of health-care organizations, insurance companies, family offices and sovereign wealth funds. Sixty-five percent of survey respondents manage defined benefit plan assets, 38% manage defined contribution plan assets and 17% manage endowment or foundation assets. Respondents also include asset owners with insurance general accounts, sovereign wealth funds and other types of institutional entities. By AUM, the respondents were almost evenly distributed across the tiers evaluated; 29% under \$1B, 33% between \$1B and \$10B, and 38% \$10B or more. Total AUM of the survey participants is estimated to be over \$2 trillion. Full detail on the sample demographics can be found in the appendix.

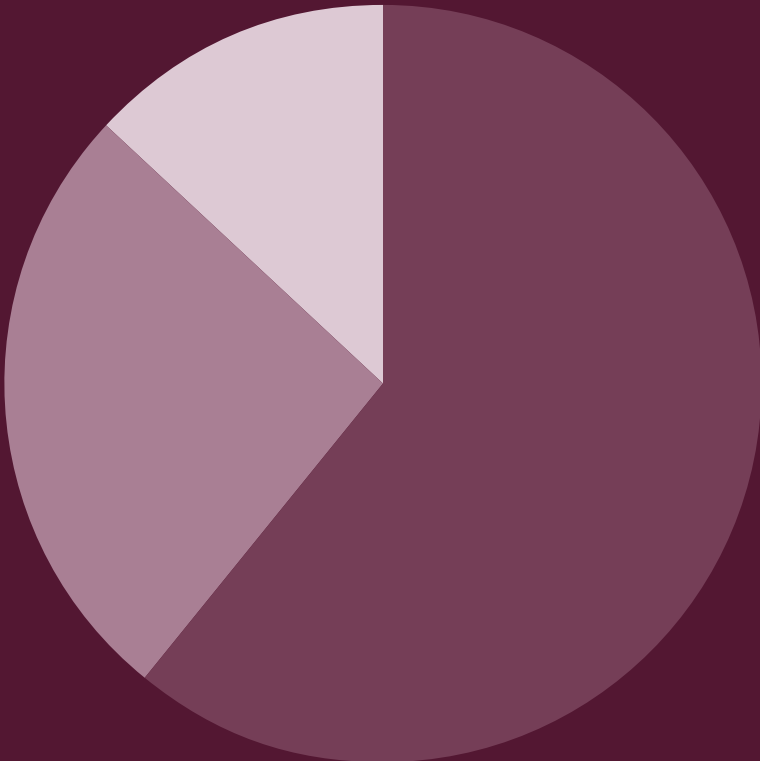
This is the second year we have conducted this study, and this year we made the decision not to focus on year-over-year changes until we have three years of survey data, to increase the confidence in trend reporting.

Compared to last year's study, the sample has more North American respondents, and more with under \$1B in AUM.

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

For a sample size of 214, the margin of error is +/- 7% at a 95% confidence margin. Throughout the report, percentages may not total 100, because of rounding, and/or because some questions allowed multiple responses. Questions with multiple responses are noted in each chart footer.

The 214 asset owners included in the study were drawn from:



61%
North America

26%
Europe

13%
Other Regions

1

Smart beta adoption and outlook are driven primarily by region and secondarily by asset size.

European respondents with \$10B or more in AUM are leading the adoption of smart beta.

This year's survey reveals about 70% of respondents in Europe with \$10B or more in AUM reported having a smart beta allocation, compared with approximately 25% of respondents in North America.

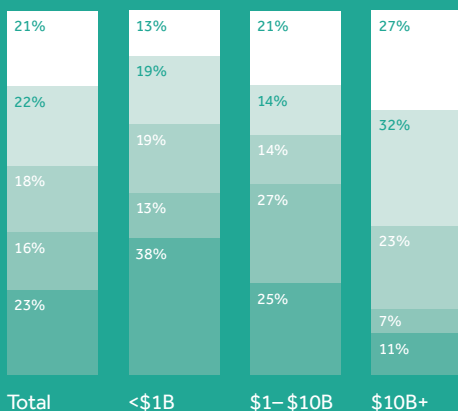
European survey respondents with less than \$10B in AUM have an adoption distribution similar to that of North American respondents with \$10B or more in AUM. In both groups, close to

a quarter have a smart beta allocation, a third have evaluated smart beta but have not made an implementation and a fifth are currently evaluating smart beta.

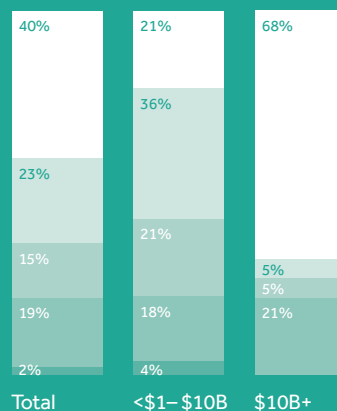
Exhibit 1

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

North America



Europe



- Have smart beta allocation
- Evaluated and decided not to implement
- Currently evaluating smart beta
- Anticipate evaluating smart beta in the next 18 months
- Do not anticipate evaluating smart beta in the next 18 months

Sample size for \$10B+ for Europe is 19 and below preferred threshold of 30

Those most likely to evaluate smart beta for the first time during the next 18 months are the respondents in North America with between \$1B and \$10B in AUM.

The majority of asset owners have either already evaluated or are currently evaluating smart beta. In Europe, only 21% of asset owners have not evaluated smart beta, and only 2% did not anticipate evaluating smart beta strategies in the next 18 months – while

in North America, 39% of asset owners have not evaluated smart beta, and 23% do not expect to evaluate it in the next 18 months. The respondents with the highest likelihood of evaluating smart beta for the first time in the next 18 months are those in North America with between \$1B and \$10B in AUM.

Among survey respondents who do not plan to evaluate smart beta in the next 18 months, the number-one reason is “Consultant has not recommended this option.” While asset owners who plan to evaluate smart beta in the next 18 months cited lack of resources as the primary reason they have not yet done an evaluation.

Exhibit 2

What are the primary reasons you have not yet evaluated smart beta strategies?	Anticipate evaluating smart beta in the next 18 months	Do not anticipate evaluating smart beta in the next 18 months
Do not believe they have investment merit	7%	21%
Consultant has not recommended this option	22%	45%
AUM is too small for this type of strategy	15%	12%
Lack of investment resources to make the evaluation	44%	18%
Do not believe in passive allocations	0%	15%
Other	26%	9%

Multi-pick; Segment = Do not anticipate evaluating smart beta in the next 18 months, Anticipate evaluating smart beta in the next 18 months

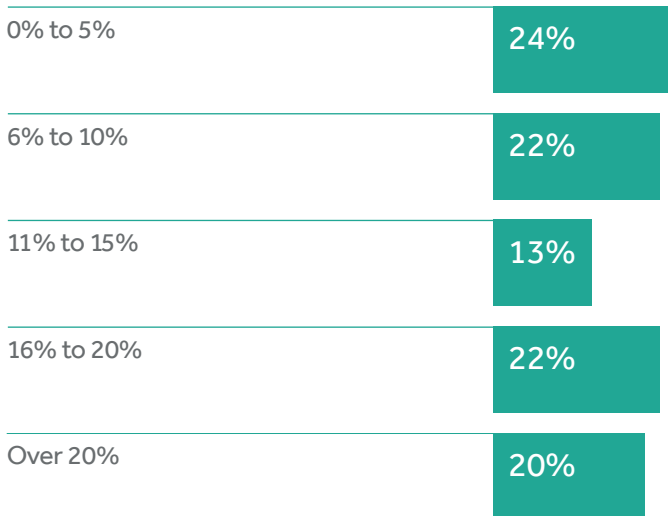
Asset owners who currently have a smart beta strategy are making varying-size investments as part of their active and passive equity allocations.

Approximately half the asset owners have invested 10% or less of their organization's equity portfolio, and

the other half report having allocated 11% or more to smart beta strategies.

Exhibit 3

What % of your organization's equity portfolio is invested in smart beta strategies?



Segment = Have smart beta allocation

Close to 50% of asset owners are using or evaluating both active and passive allocations for smart beta. Notably, asset owners currently evaluating smart beta are more likely to be using

smart beta strategies as part of their active and passive allocations – and are much less likely to be using only a passive allocation.

Exhibit 4

Which allocations are you evaluating for use, or using smart beta strategies as part of?	Total	Have smart beta allocation	Currently evaluating smart beta
Active equity allocation	22%	24%	19%
Passive equity allocation	21%	29%	10%
Active and passive equity allocation	47%	40%	58%
Neither; it should be considered a new asset class	9%	7%	13%

Segment = Have smart beta allocation, Currently evaluating smart beta

Smart beta users are “Satisfied” or “Very satisfied” with their smart beta strategies. The majority of users intend to increase their allocation, and none intend to decrease it.

Among current users of smart beta, 61% reported being “Satisfied” and or “Very satisfied” with the ability of their smart

beta strategy to deliver on its intended investment outcome, and 27% reported it was too soon to assess the outcome.

In comparison, only 2% reported being “Dissatisfied” and none said they were “Very dissatisfied.”

Exhibit 5

How satisfied are you with your smart beta strategies’ ability to deliver on intended investment outcome?	Have smart beta allocation
Very dissatisfied	0%
Dissatisfied	2%
Neutral	9%
Satisfied	43%
Very satisfied	18%
Too soon to rate / Don’t know	27%

Segment = Have smart beta allocation

This satisfaction level is also evident in the outlook on increased smart beta usage. None of the asset

owners with a smart beta allocation indicated an intention to reduce it, and 61% plan to increase it.

Exhibit 6

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



61%

Increase % allocation

39%

Maintain current allocation

0%

Reduce % allocation

Segment = Have smart beta allocation

Among asset owners who are currently evaluating smart beta, essentially half believe they will make an allocation, and half “Don’t know” yet.

Only 6% of asset owners who are currently evaluating smart beta do not expect to make an allocation,

and the remaining are split between “Expect to make an allocation” and “Don’t know” yet.

Exhibit 7

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



47%

Expect to make an allocation

47%

Don't know

6%

Do not expect to make an allocation

Segment = Currently evaluating smart beta

For asset owners who have evaluated smart beta but did not make an allocation, the top reasons were “Difficulty determining the best strategy or combination of strategies for my portfolio,” “Limited track record” and “Do not believe they have investment merit.”

A fifth of asset owners have evaluated smart beta but have not made an allocation, for a variety of reasons. The top three reasons cited were

“Do not believe they have investment merit,” “Difficulty determining the best strategy or combination of strategies for my portfolio” and “Limited track record.”

Exhibit 8

What are the top three reasons you did not implement a smart beta strategy?

Do not believe they have investment merit	24%
Limited track record	24%
Difficulty determining the best strategy or combination of strategies for my portfolio	21%
Unintended sector biases	17%
Difficulty determining how to time the implementation of the strategy	14%
Tracking error to benchmark	12%
Unintended factor biases	12%
Cost of implementation	12%
Recommendation did not pass investment committee vote	10%
Underperforming the benchmark index	7%
Consultant did not endorse the concept	7%
Turnover	5%
Difficulty determining the percentage of portfolio to allocate	5%
Lack of transparency	2%
Lack of off-the-shelf product availability	2%
Other	19%

Multi-pick; Segment = Evaluated and decided not to implement

Among asset owners who have evaluated smart beta but did not make an allocation, 92% report they plan to continue to monitor and evaluate smart beta again.

Among survey respondents who have evaluated smart beta but decided not to implement, 92% report they plan to

continue their monitoring and evaluation – i.e., the decision is not final.

Exhibit 9

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

92%

Will continue to monitor and evaluate again

8%

Will not evaluate again



Segment = Evaluated and decided not to implement

2

Smart beta strategies are not being used in isolation, and most asset owners are focused on the combination of these strategies.

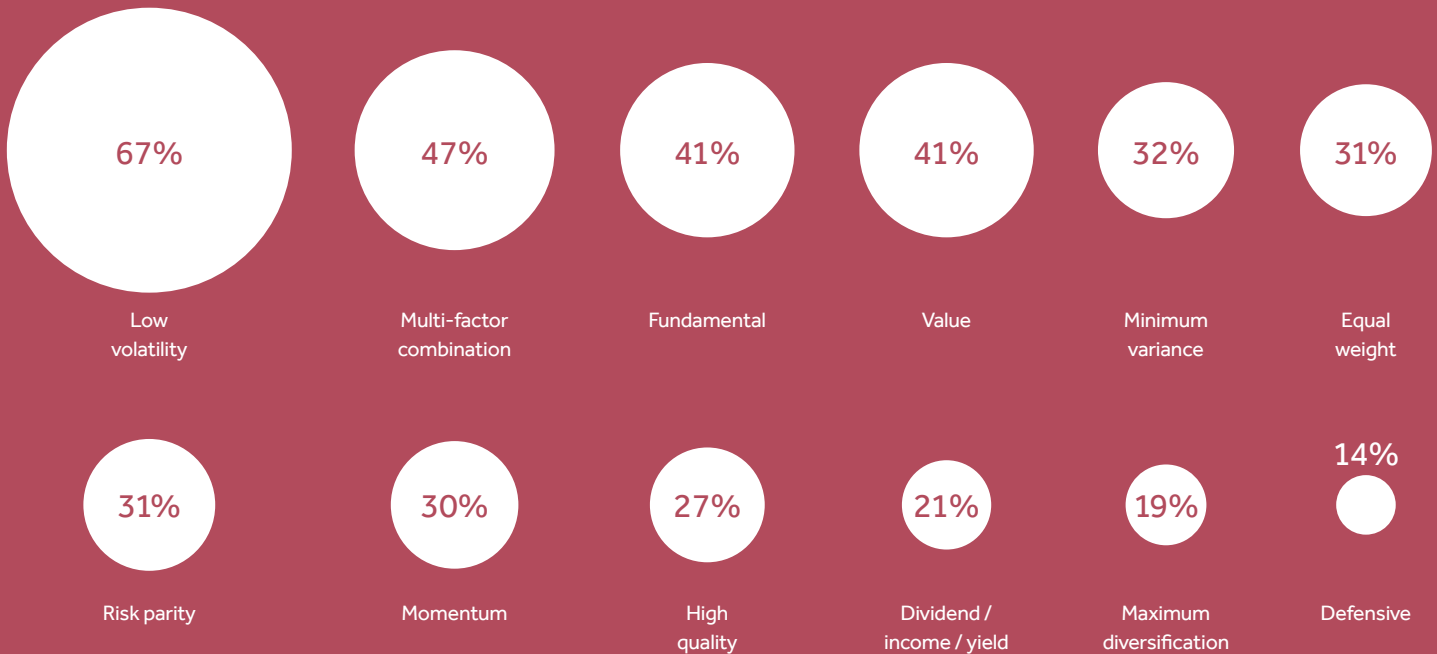
On average, respondents are evaluating four different smart beta strategies.

Asset owners are evaluating four different smart beta strategies, on average. Low Volatility,

Multi-factor Combination, Value and Fundamental are the most commonly evaluated strategies.

Exhibit 10

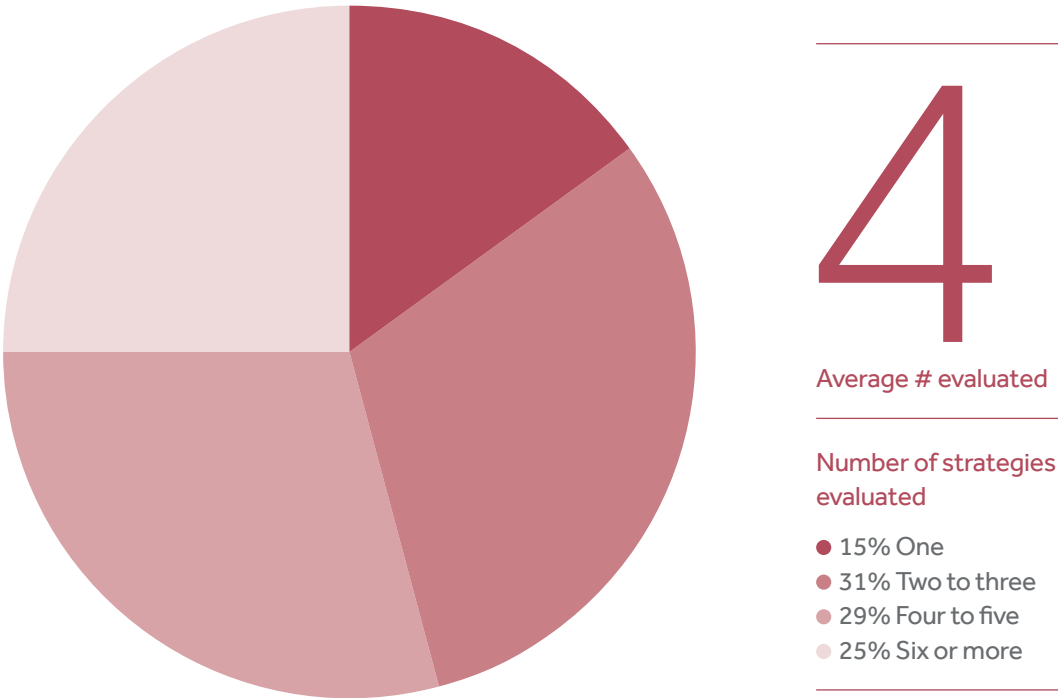
What smart beta strategies have you evaluated or are you currently evaluating?



Multi-pick; Segment = Have smart beta allocation, Evaluated and decided not to implement, Currently evaluating smart beta

Exhibit 11

Number of strategies evaluated



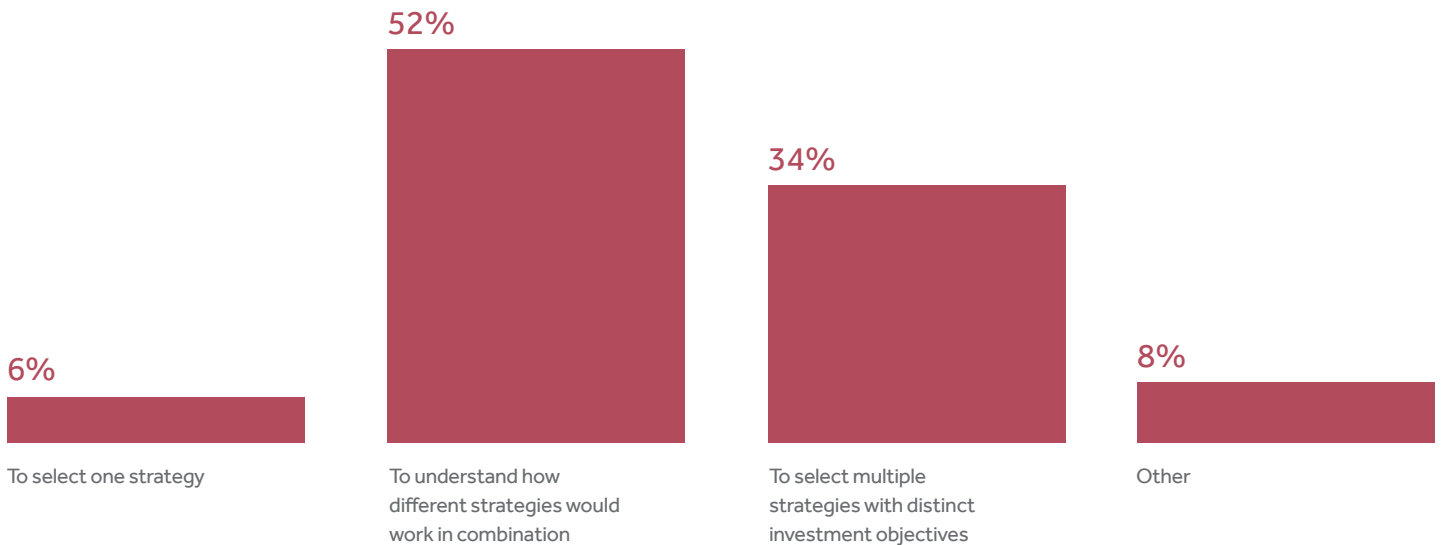
Segment = Have smart beta allocation, Evaluated and decided not to implement, Currently evaluating smart beta

Among asset owners evaluating more than one smart beta strategy, very few intended to select only a single strategy.

Among asset owners who evaluate more than one strategy, the most often stated goal was to gain understanding into how the strategies work in combination, and the goal of selecting multiple strategies with distinct investment objectives followed. Very few survey respondents intended to select a single strategy.

Exhibit 12

Which statement best reflects your objective of evaluating multiple strategies?

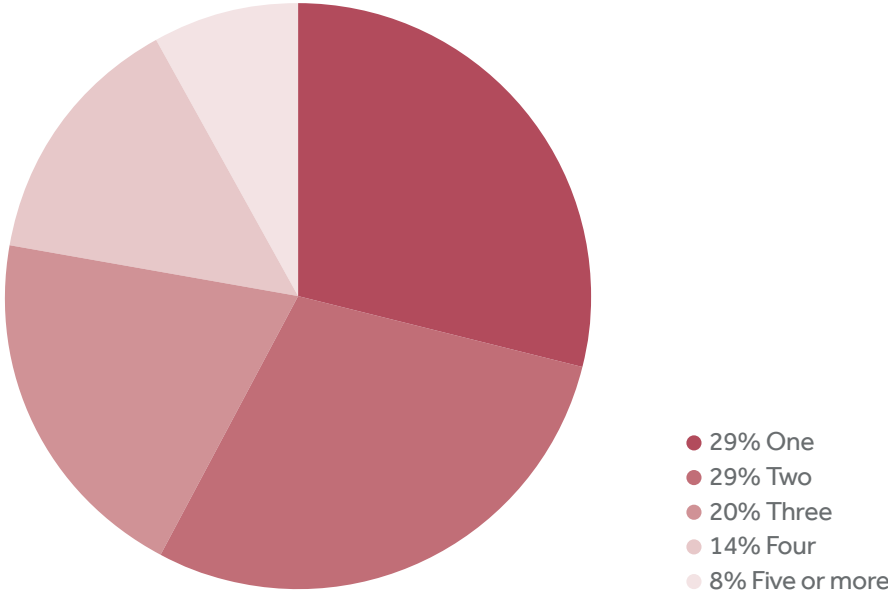


Segment = Have smart beta allocation, Evaluated and decided not to implement, Currently evaluating smart beta AND evaluating more than one strategy

Asset owners are not just evaluating multiple smart beta strategies; more than 70% are using a combination of smart beta strategies.

Exhibit 13

Number of strategies being used



Segment = Have smart beta allocation

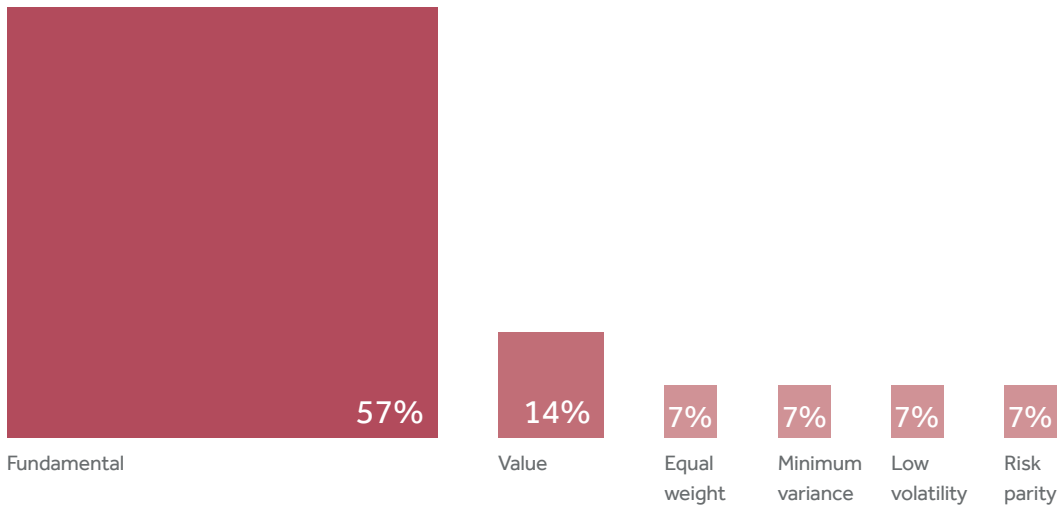
Fundamental is the strategy most often used when an asset owner is using a single smart beta strategy.

Among asset owners using only one strategy, Fundamental is also the dominant choice. Of the fundamental strategy users, approximately 40%

are using only fundamental, and 60% are using fundamental in combination with other strategies.

Exhibit 14

What type of smart beta strategies are you using?
(Single strategy)



Segment = Have smart beta allocation AND using 1 strategy. Sample size is 14 below preferred threshold of 30

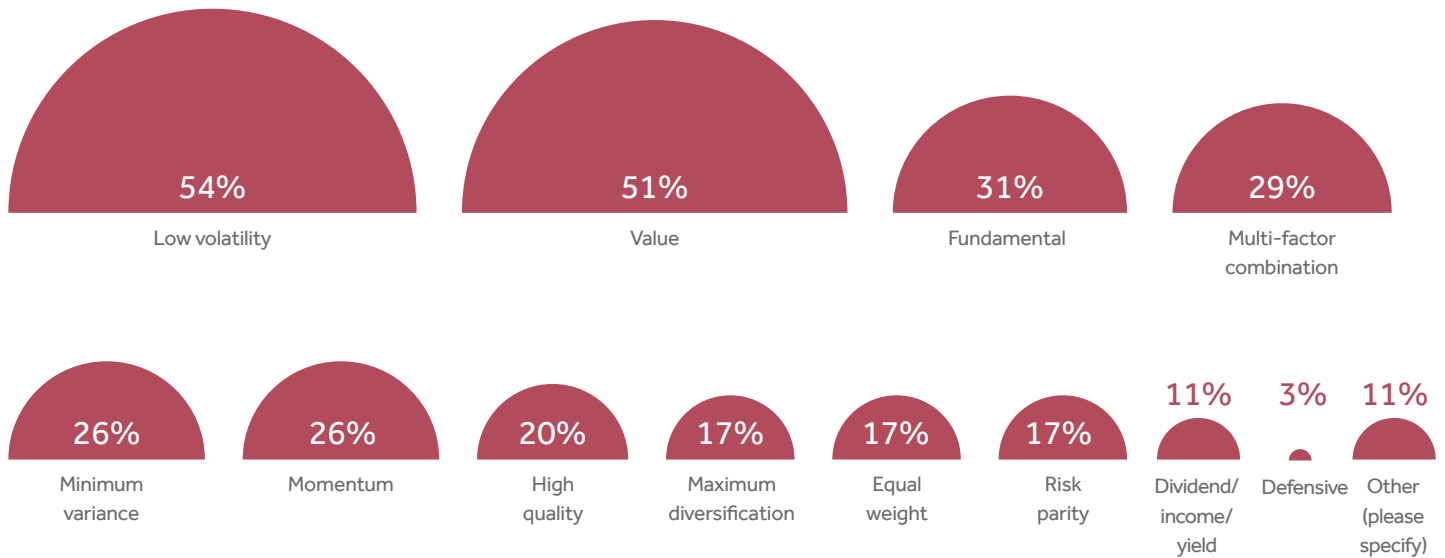
Low Volatility and Value are the most used strategies as part of a smart beta combination.

Low Volatility and Value are the strategies asset owners most often use in a combination of smart beta strategies. Low Volatility is often

combined with Value, Fundamental, Maximum Diversification or Equal Weight. Value is often combined with Low Volatility and High Quality.

Exhibit 15

What type of smart beta strategies are you using?
(Combination of strategies)

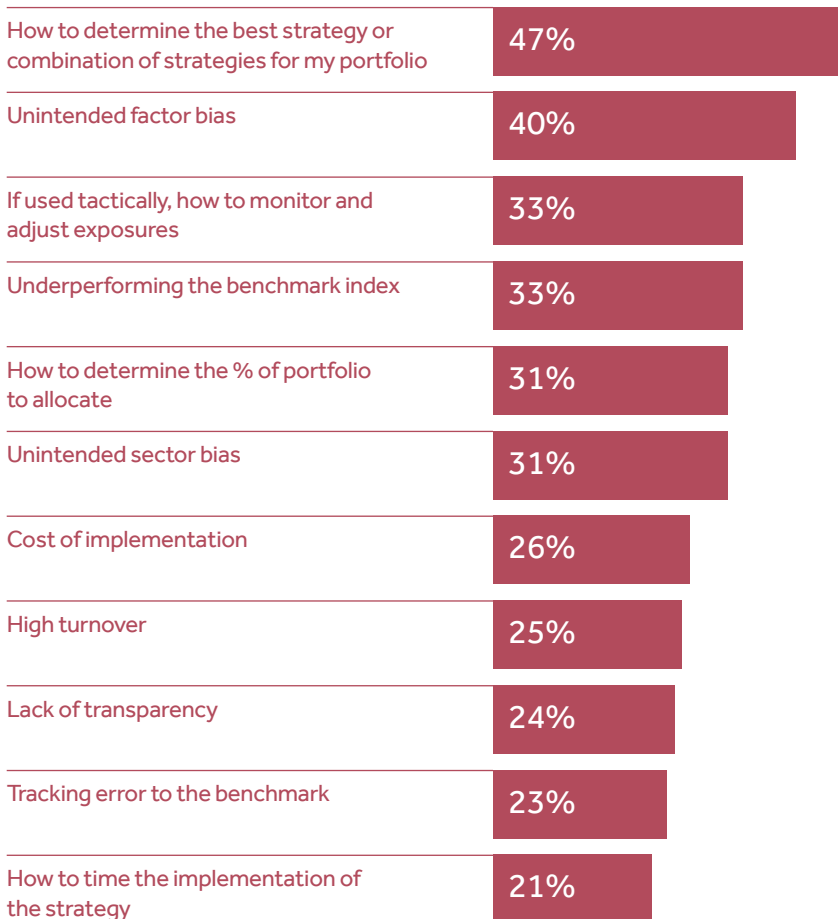


Multi pick; Segment = Have smart beta allocation AND using 2 or more strategies

The goal of using multiple smart beta strategies is also the leading challenge for smart beta implementation.

Exhibit 16

Please rate your level of concern with the following if implementing a smart beta strategy?



Scale = 1–7 where 1 is not a concern and 7 is a significant concern.

Top 2 Box = % rating 6 or 7

There are differences among asset owners relating to the strategies they are focused on, based on whether they are currently evaluating or have already adopted smart beta.

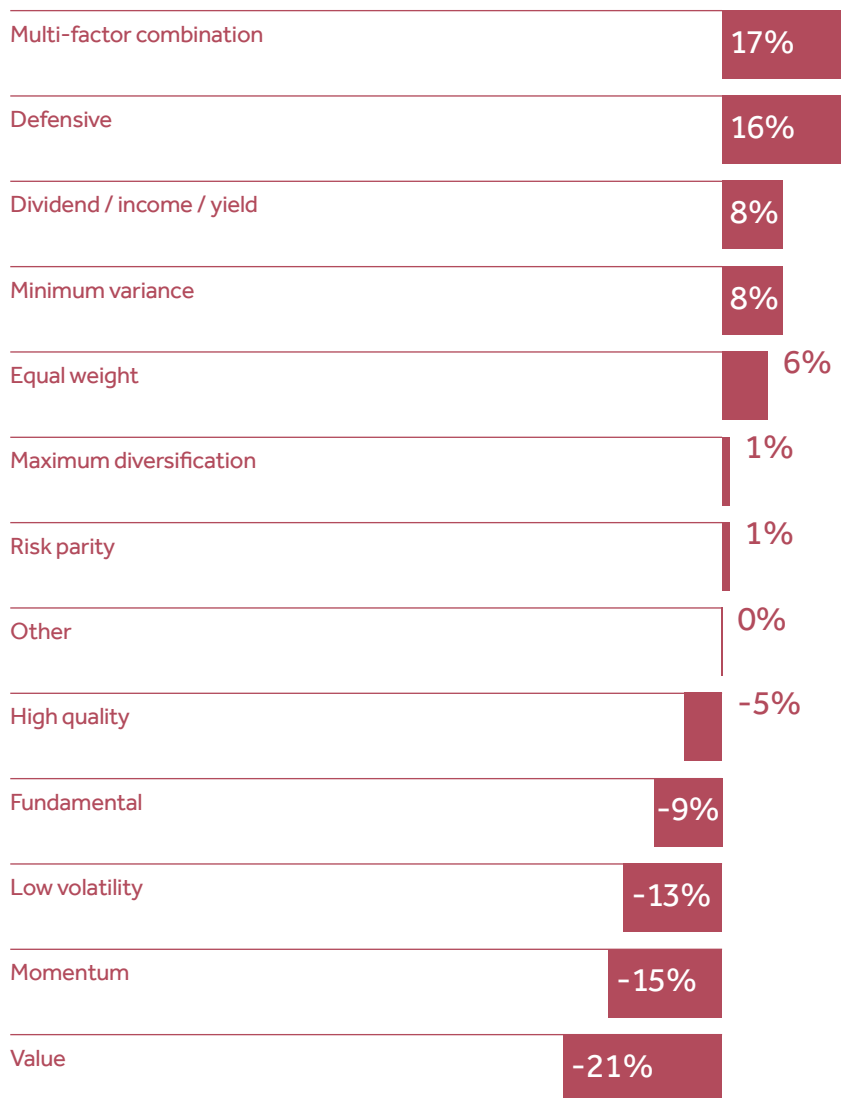
Asset owners currently evaluating smart beta strategies are more focused on multi-factor combinations and defensive strategies than their peers who have

already adopted smart beta. In contrast, fewer asset owners are evaluating the leading strategies being used now, which include Fundamental, Value and Low

Volatility. This indicates that we could see more growth among different smart beta strategies going forward.

Exhibit 17

Percent difference in strategies evaluated between asset owners "currently evaluating smart beta" and "have smart beta allocation"



Multi-pick; Segment = Have smart beta allocation, Currently evaluating smart beta

3

External asset managers are influential to smart beta evaluation, while a combination of the internal investment manager, CIO and consultant is responsible for making decisions and monitoring allocation.

External asset managers are initiating smart beta discussions – providing credible information about smart beta strategies that asset owners are looking for.

In North America, the top three sources of information on smart beta are information from external asset managers, journal publications and

consultants. In Europe, the top sources of information are industry events and symposiums, external asset managers and journal publications.

Exhibit 18

What external sources of information do you rely on most for credible information about smart beta strategies?	Total	North America	Europe
Investment managers external to organization	53%	58%	44%
Journal publications	49%	46%	42%
Industry events / symposiums	48%	43%	60%
Consultant	39%	45%	33%
Index providers	36%	39%	37%
Peers	31%	32%	33%
General financial / investment news media	26%	28%	21%
Trade financial news media	23%	25%	27%
Online industry forums and groups	11%	10%	13%
Other	6%	4%	8%

Multi pick

Across markets, external asset managers are initiating the evaluation of smart beta strategies. The evaluation of smart beta

is also being initiated by the review of academic research and information from index providers.

Exhibit 19

What event(s) initiated the evaluation of smart beta strategies?

Academic research	46%
Information from investment manager(s) external to organization	42%
Information from index providers	30%
Recent press	18%
Board member of member advisory committee interest	17%
Consultant recommendation	16%
A peer-implemented smart beta strategy	7%
Other	6%

Multi pick; Segment = Have smart beta allocation, Evaluated and decided not to implement, Currently evaluating smart beta

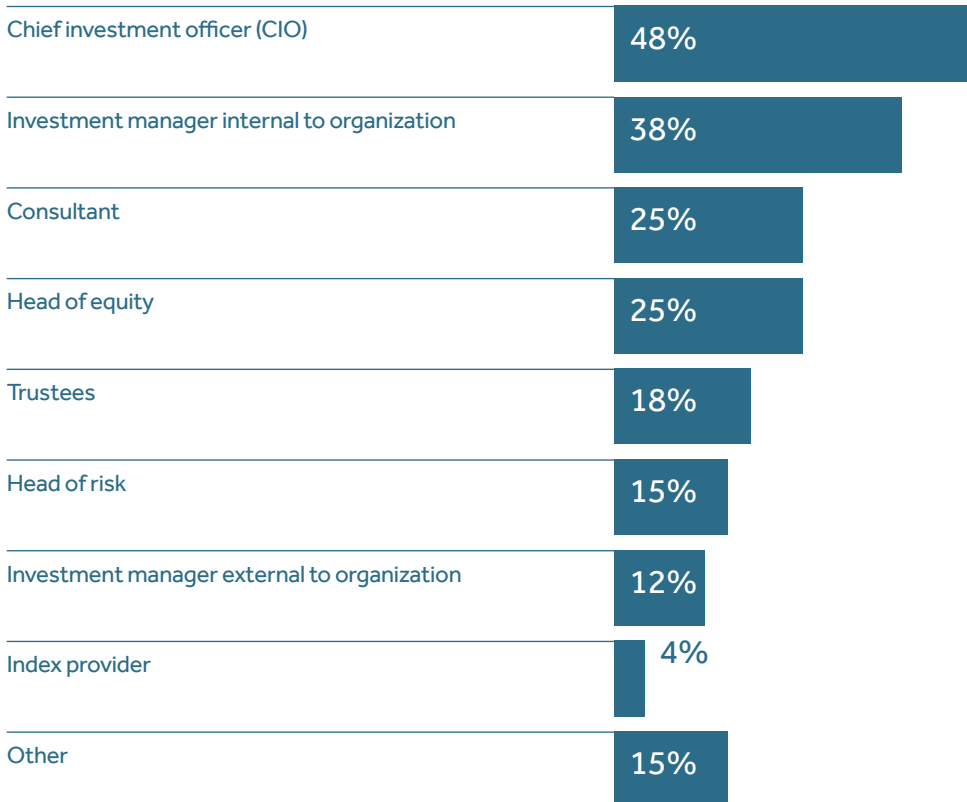
The internal investment manager and CIO are more involved with the evaluation of smart beta strategies and in most cases, the CIO is the primary decision maker.

The CIO and the internal investment managers are mainly engaged in the evaluation of smart beta strategies, and the CIO is the primary decision

maker in most cases. When it comes to the team evaluating smart beta strategies, the external asset manager is not a key player.

Exhibit 20a

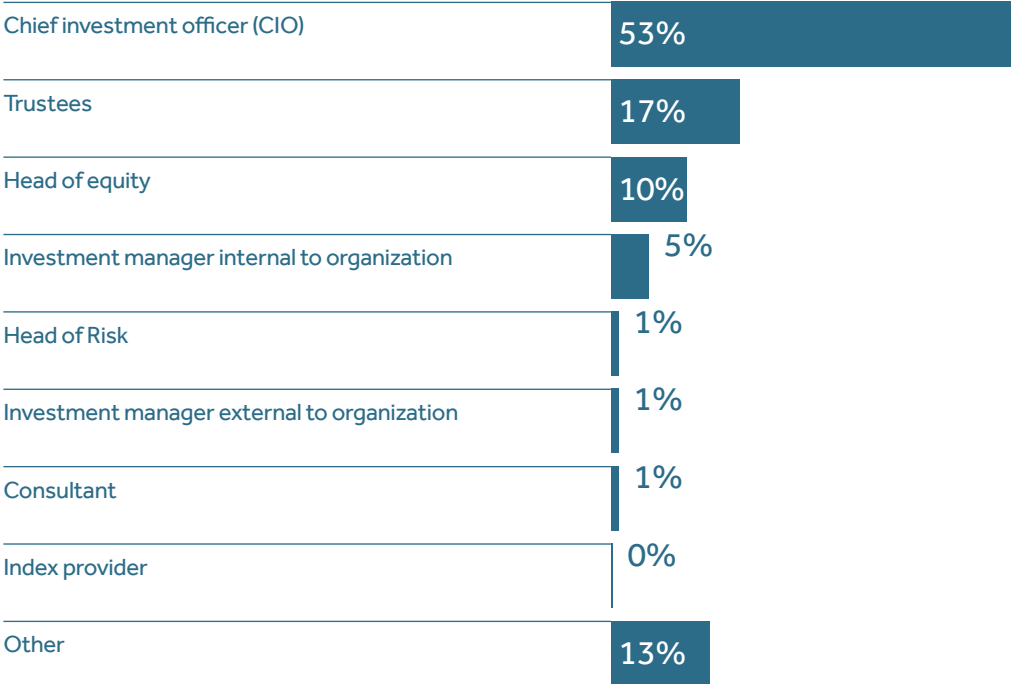
Who is involved in evaluation of smart beta strategies within or on behalf of your firm?



Multi pick; Segment = Have smart beta allocation, Evaluated and decided not to implement, Currently evaluating smart beta

Exhibit 20b

Who is the primary decision maker?



Segment: Have smart beta allocation, Evaluated and decided not to implement, Currently evaluating smart beta

The responsibility for monitoring and adjusting smart beta allocations varies, depending on the respondents' AUM, resting with either the consultant, the internal investment manager or the CIO.

For respondents with under \$1B in AUM, the consultant or internal investment manager is expected to monitor and adjust smart beta allocations. For respondents with between \$1B and \$10B in AUM, the responsibility falls to the CIO, and for those with \$10B or more in AUM, the CIO and the investment manager within the organization are responsible.

Exhibit 21

Who is or will be responsible for monitoring and adjusting smart beta allocations?	Total	<\$1B	\$1-\$10B	\$10B+
Chief investment officer (CIO)	34%	12%	55%	34%
Investment manager internal to organization	33%	24%	20%	42%
Consultant	16%	41%	20%	3%
Head of equity	8%	0%	0%	16%
Investment manager external to organization	5%	12%	5%	3%
Head of risk	1%	6%	0%	0%
Other	3%	6%	0%	3%

Segment = Have smart beta allocation, Currently evaluating smart beta.

Sample size for <\$1B is 17 and \$1-\$10B is 20, both below preferred threshold of 30

4

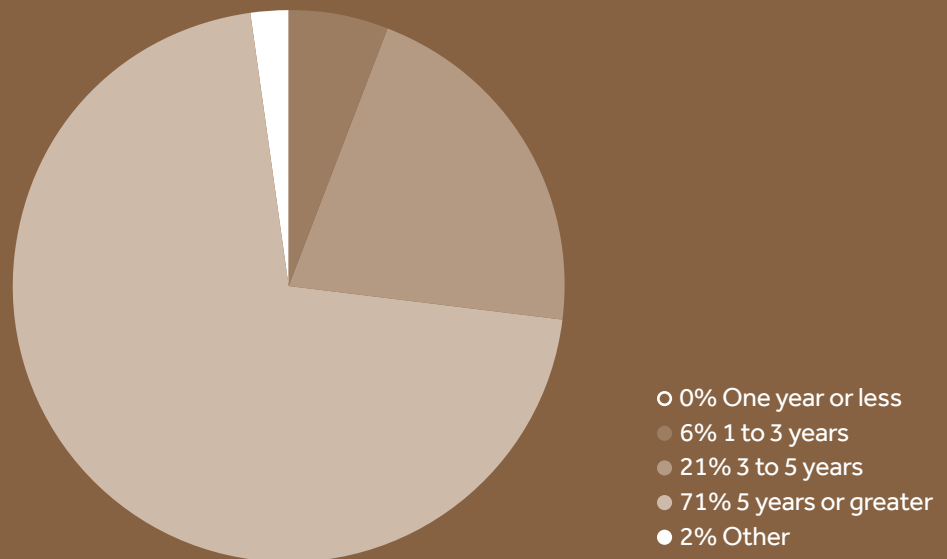
There are clear distinctions between the strategic and tactical applications of smart beta among asset owners.

Asset owners are focused on longer-term (5-plus years) strategic applications of smart beta.

The majority of asset owners anticipate holding smart beta strategies for five years, or longer, to achieve their investment objectives.

Exhibit 22

How long do you expect to hold your smart beta strategies to achieve your investment objectives?



Segment = Have smart beta allocation, Currently evaluating smart beta

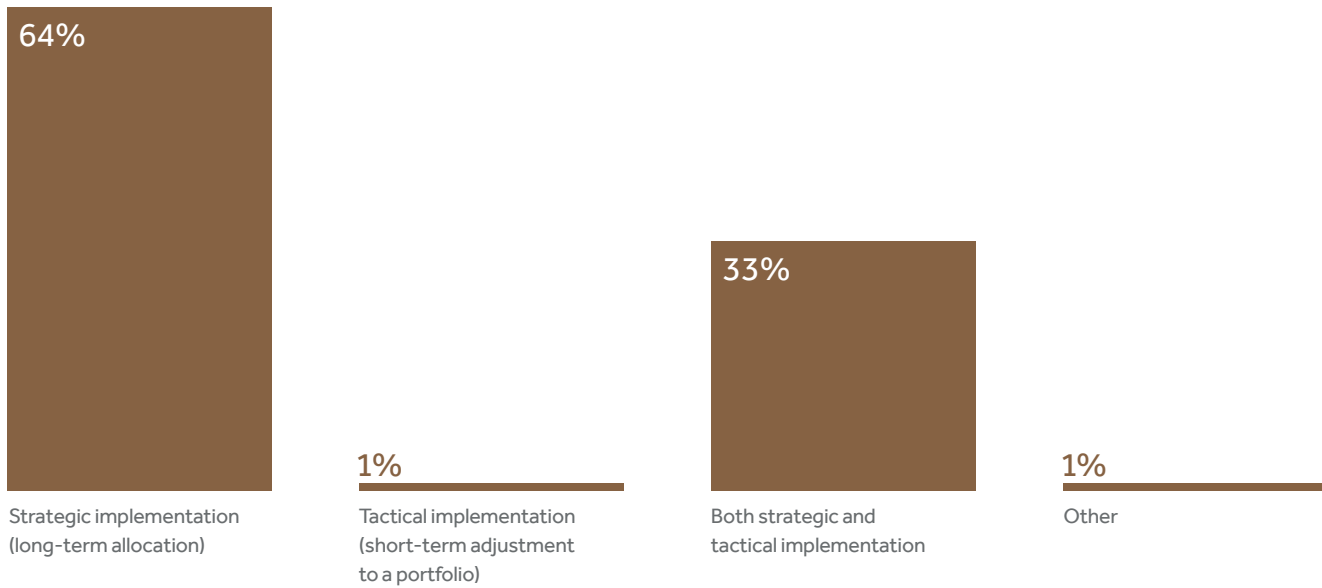
A third of asset owners are using or evaluating smart beta for tactical applications, in addition to strategic applications.

The majority of asset owners, 64%, are using or evaluating smart beta for strategic implementation.

A third are using or expect to use smart beta for both strategic and tactical implementation.

Exhibit 23

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



Segment = Have smart beta allocation, Currently evaluating smart beta

For strategic allocations of smart beta, ETFs are in demand among survey respondents with under \$1B in AUM, and managing assets internally is of interest to those with \$10B or more in AUM.

For strategic use of smart beta, the preferred investment vehicle is dependent on the AUM of the asset owner. Respondents with less than

\$1B in AUM are looking for ETFs and CITs. Those with \$10B or more in AUM are most interested in managing the strategy internally or through

a separate account, and those with AUM in between are looking at separate accounts and CITs.

Exhibit 24

For strategic uses of smart beta strategies, which vehicle type would you prefer?	Total	<\$1B	\$1-\$10B	\$10B+
Manage internally	26%	6%	6%	44%
ETF	11%	31%	0%	8%
Mutual fund	10%	13%	18%	6%
Separate account	36%	19%	35%	42%
Collective investment trust (CIT)	14%	25%	35%	0%
Derivatives	3%	6%	6%	0%

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

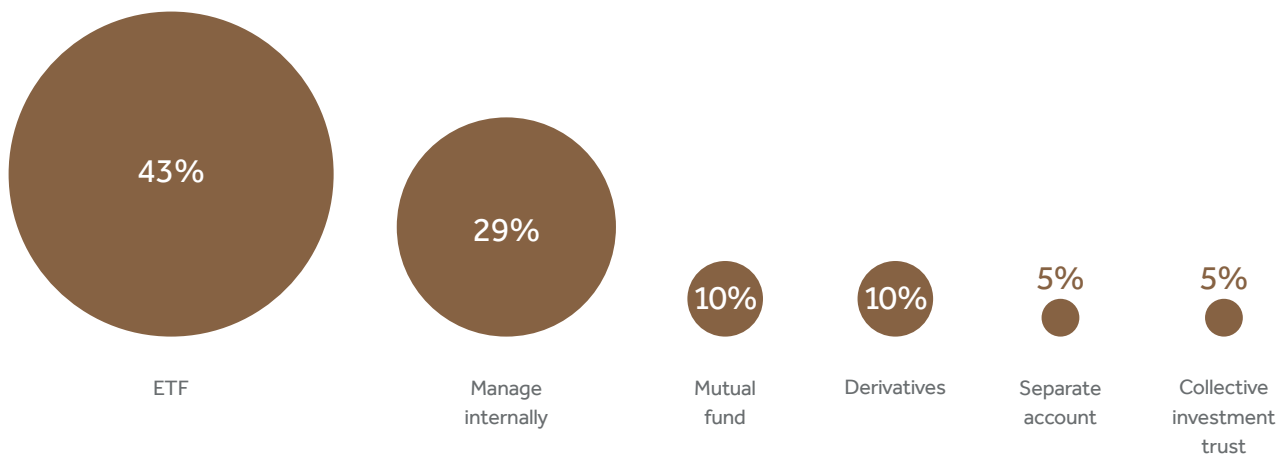
For the tactical use of smart beta strategies,
ETFs are preferred by nearly half of all respondents.

For the tactical use of smart beta strategies, the most preferred vehicle type is ETF, followed by internal

management, which is being driven exclusively by respondents with \$10B or more in AUM.

Exhibit 25

For tactical uses of smart beta strategies which vehicle type would you prefer?



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

Suitable benchmarks for smart beta strategies are needed to better support the smart beta investment process.

Asset owners currently evaluating smart beta could use more educational resources and suitable benchmarks. Asset owners who evaluated but did

not implement smart beta reported the greatest need for pre-trade and post-trade tools to help with the monitoring of smart beta strategies.

Exhibit 26

What tools or resources are needed to better support the smart beta investment processes?	Have a smart beta allocation	Currently evaluating smart beta	Evaluated and decided not to implement	Total
More internal staff	4%	10%	18%	10%
Changes to investment policy	32%	43%	18%	30%
Suitable benchmark	40%	57%	20%	38%
Pre-trade tools (e.g., scenario modeling or portfolio building tools)	21%	30%	40%	30%
Post-trade tools (e.g., style analysis, risk exposure, return attribution)	32%	37%	50%	39%
More educational resources	26%	47%	30%	32%
Other	4%	10%	15%	9%

Multi-pick; Segment = Have smart beta allocation, Evaluated and decided not to implement, Currently evaluating smart beta

Feedback from survey participants on other smart beta topics that need to be addressed

Need for a better framework of smart beta strategies

"'Smart beta' is just a label to group a wide variety of non-cap-weighted approaches and is too generic. We employ our small cap/value, fundamental, volatility capture and low volatility mandates separately, each with its own purpose in the overall portfolio."

Asset Owner, Government

"Standardized definitions and templates within the industry would be helpful."

Asset Owner, Corporation or Private Business

"We have risk parity and hadn't considered it to be smart beta. But I guess you could make an argument."

Asset Owner, Corporation or Private Business

Asset owner preference for ESG driving new types of strategies

"Asset owner policies on voting and stewardship and ESG integration are also driving interest in a smarter passive approach, due to the resource burden of thousands of holdings and the lack of flexibility in applying ESG or long-run themes, e.g., low carbon."

Asset Owner, Sovereign Wealth Fund

Global factors versus country specific factors

"Country allocation vs. worldwide."

Asset Owner, Union or Industry Wide Pension Scheme

Retirement plan participant communications

"Issues related to participant communications."

Asset Owner, Corporation or Private Business

Overlap between active management and smart beta

"Overlap between unconstrained active managers and smart beta passive managers, where many are benchmark-agnostic."

Asset Owner, Family Office

"We would like to explore factor tilts as part of upcoming asset liability management study."

Asset Owner, Corporation or Private Business

Smart beta in other asset classes

"Smart beta is not exclusive to equity, so it seems silly to ignore other implementations."

Asset Owner, Government

Lack of track record

"The difficulty in smart beta is comparing different bank offerings compared to investment managers, as most do not have track records long enough; hence, you need to understand the modeling, rebalancing of the portfolios, costs of such a structure, and if actively managed – proof of how that active manager is adding value and the cost benefit of that active management."

Asset Owner, College / University

More smart beta options for DC plans

"Would like both institutional and retail multi-factor funds, so that DC can go to and through retirement."

Asset Owner, Corporate or Private Business

Post-tax returns

"Yes! The post-tax returns resulting from higher turnover render smart beta significantly less attractive for the accumulation assets of Australian superannuation funds. This factor appears to be frequently overlooked/ ignored."

Asset Owner, Union or Industry Wide Pension Scheme

Skepticism does exist

"Feels like the next product that the industry is pushing, a bit like portable alpha and 130/30 strategies were a few years back ... just because the industry has created a buzz about it does not make it something that plans should seriously consider, much less implement."

Asset Owner, Corporate or Private Business

"Concern that smart beta is repackaged sales hype, but not sure; there might be something here."

Asset Owner, Government

"Why a strategy that has been around for over 30 years keeps popping up whenever there is a major down market."

Asset Owner, Corporation or Private Business

Appendix

Which of the following best describes your general industry or organization type?



- 23% Corporation or private business
- 22% Government
- 14% Non-profit, university
- 13% Union or industry-wide pension scheme
- 28% Other

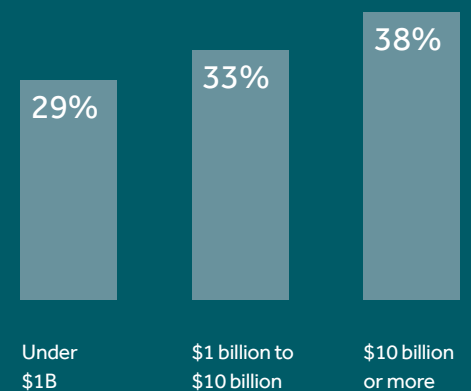
Which of the following is closest to your title?

Executive (CEO, CFO, CIO, EVP)	23%
Portfolio Manager	15%
Analyst	15%
Trustee, Board or Investment Committee	10%
Investment Officer or Director	8%
Associate/Assistant Portfolio Manager	4%
Risk Manager	2%
Human Resources/Employee Benefits Manager	2%
Compliance Officer/Legal	1%
Other	17%

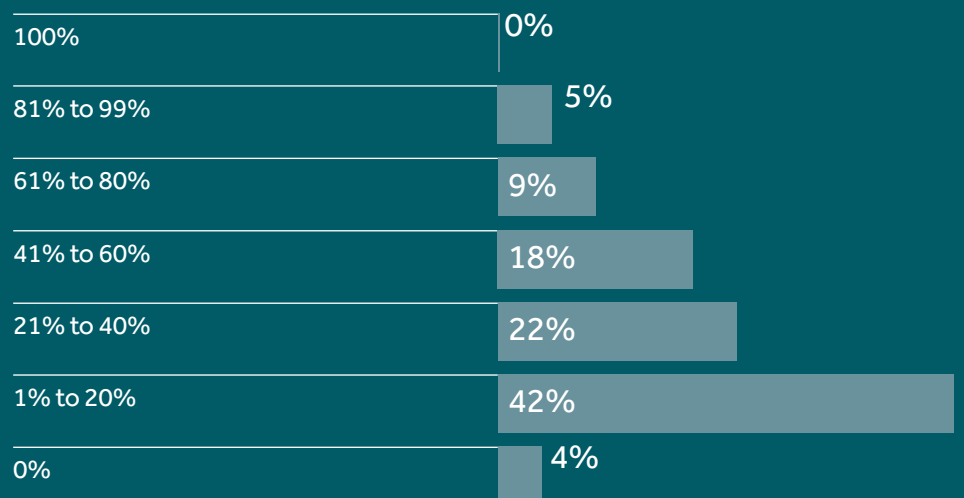
Country

US	47%
Canada	14%
UK	10%
Australia	4%
Netherlands	3%
Middle East	3%
Germany	2%
Denmark	1%
France	1%
Ireland	1%
Sweden	1%
Switzerland	1%
Other	11%

Total AUM



What % of your organization's equity portfolio is invested in a cap-weighted passive strategy?



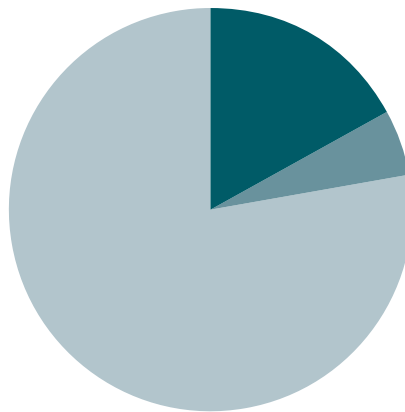
Plan Type - Select all that apply

DB	65%
DC	38%
E/F	17%

In your view what are appropriate applications for smart beta indexes?

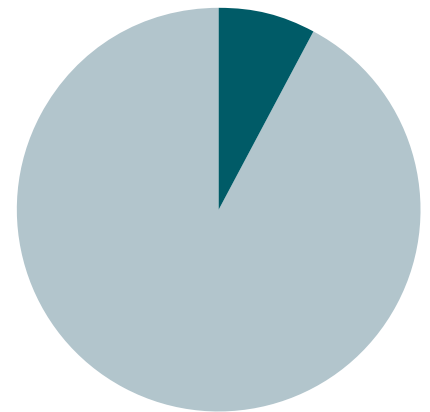
Investment strategy	70%
Tool to control unwanted exposures or introduce wanted exposures	54%
Benchmark	39%
Research and analysis	27%
Other	3%

Which of the following strategies do you use in your equity allocation?



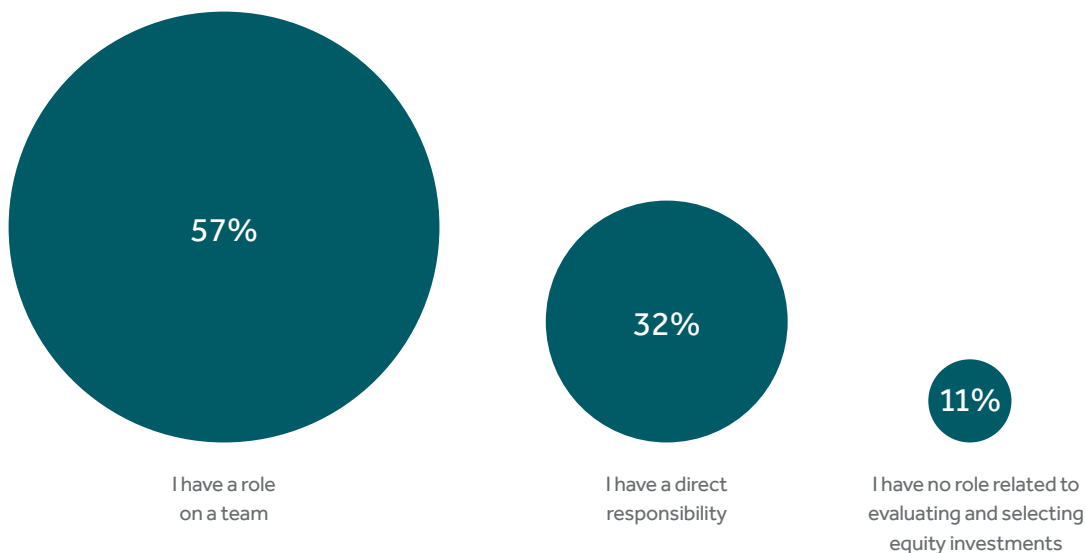
- 17% Active funds
- 5% Passive funds
- 77% Both active and passive strategies

Have you heard the term smart beta before?

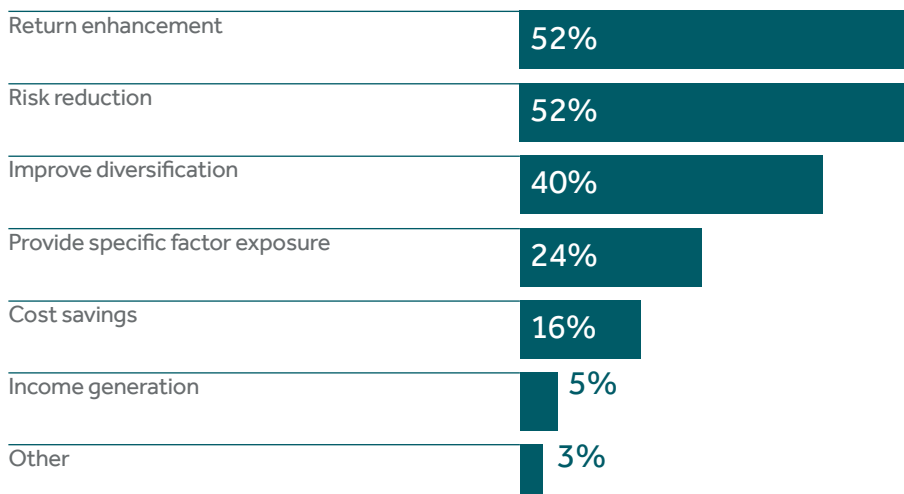


- 8% No
- 92% Yes

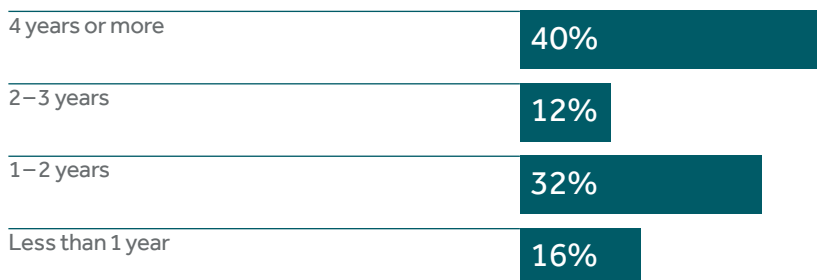
Which of the following statements best describes your role in evaluating and selecting equity investments for your organization?



What investment objective initiated the evaluation of smart beta strategies?



How long have you had a smart beta strategy allocation?



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