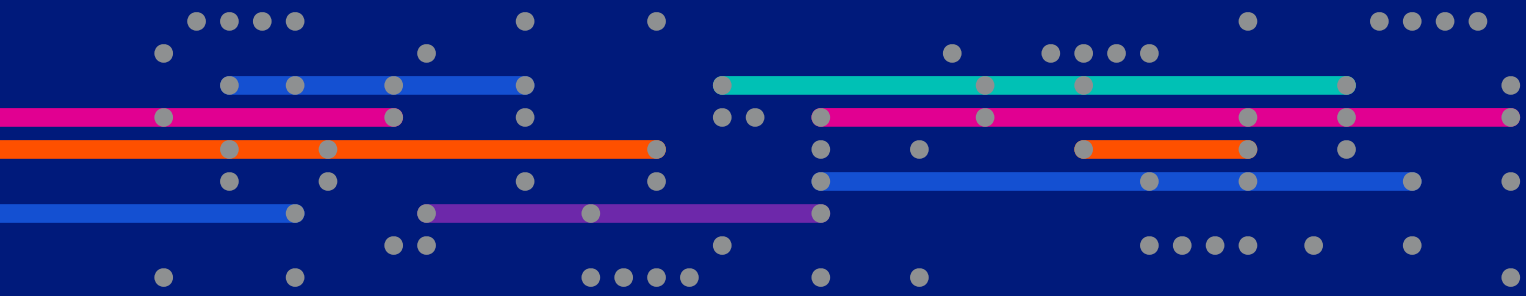
Invesco Global Factor Investing Study 2018

Executive summary

For public use in the United States and Canada.



The concept of factor investing - an investment strategy in which securities are chosen based on certain characteristics and attributes - has existed since the 1950s. However, the strategy has only gained more acceptance in recent years.

Given this increasing focus we have sought the views and opinions of factor investors globally over the past three years.

The Invesco Global Factor Investing Study 2018 pulls together insights from an expanded universe of 300 face-to-face interviews with factor investors across Europe, North America and Asia Pacific.

Based on our discussions we have identified five key themes for this year's report:

In theme 1, we address the sometimes vexed issue of the inconsistent terminology used in relation to factor investing. For investors there is a clear hierarchy of terms, with 'factor' being the preferred overarching term for the philosophy and practice of systematic strategy investing. Other terms in common usage such as 'smart beta'[1] and 'active quant'[2] are located lower in that hierarchy as product-related terms denoting different types of factor strategies.

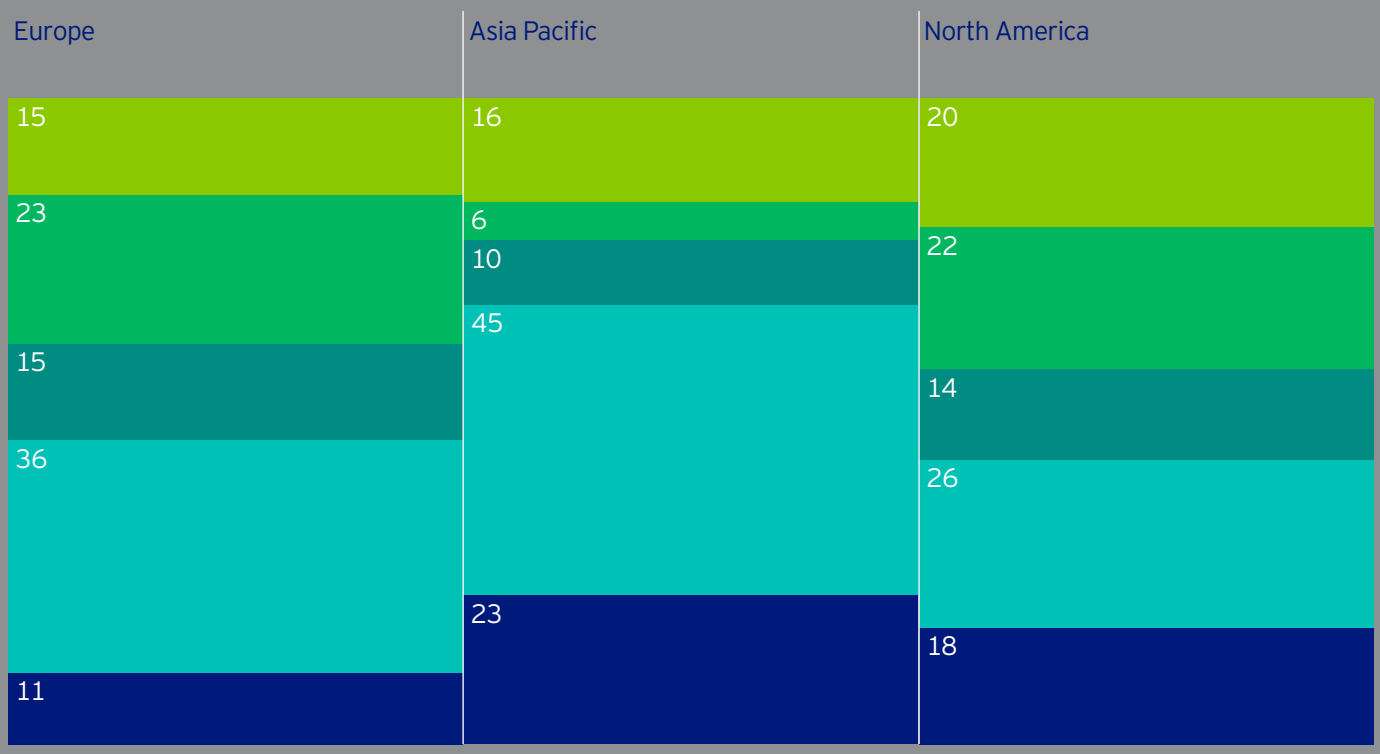
The second theme explores the progress of factor investors, which as noted above are still often relatively new (see figure 1) and gaining experience. Most are developing their factor capabilities and are in the process of gaining a better understanding of how factor strategies can be applied within their portfolio, both at a strategic level (particularly a better view of portfolio level risk) and in expressing tactical and thematic views, notably environmental, social and governance (ESG). We find that investors are not swayed by marketing and products but instead concentrate on doing their own research.

Theme 3 assesses the growth narrative of factor allocations, addressing both the reasons for expanding allocations and what's being replaced in the process. Factor adopters rarely stop after their first allocation – they increase the number of factor strategies implemented, add macro factors to style factors, and consider how to extend from equities portfolio applications to fixed income and multi-asset. (see figure 2)

[1] Beta is a measure of risk representing how a security is expected to respond to general market movements. Smart Beta represents an alternative and selection index based methodology that seeks to outperform a benchmark or reduce portfolio risk, both in active or passive vehicles. Smart beta funds may underperform cap-weighted benchmarks and increase portfolio risk.

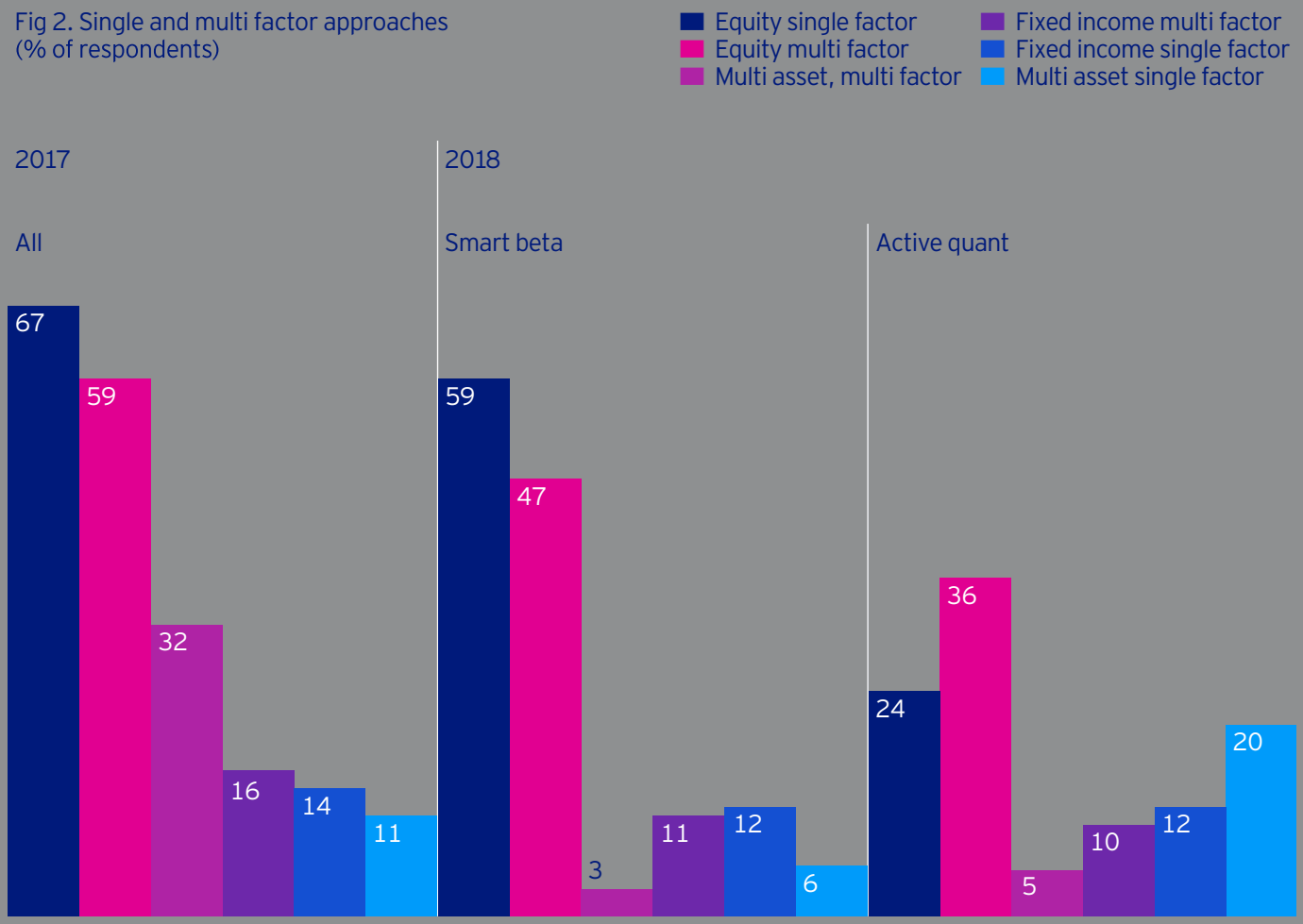
[2] Active quant investing is a form of investing that analyses fundamental data of stocks, utilising differentiated factor definitions, employing a rigorous and systematic method to build actively managed factor strategies, almost always in multi factor application.

Fig 1. Experience of factor investors; year of first adoption (%)



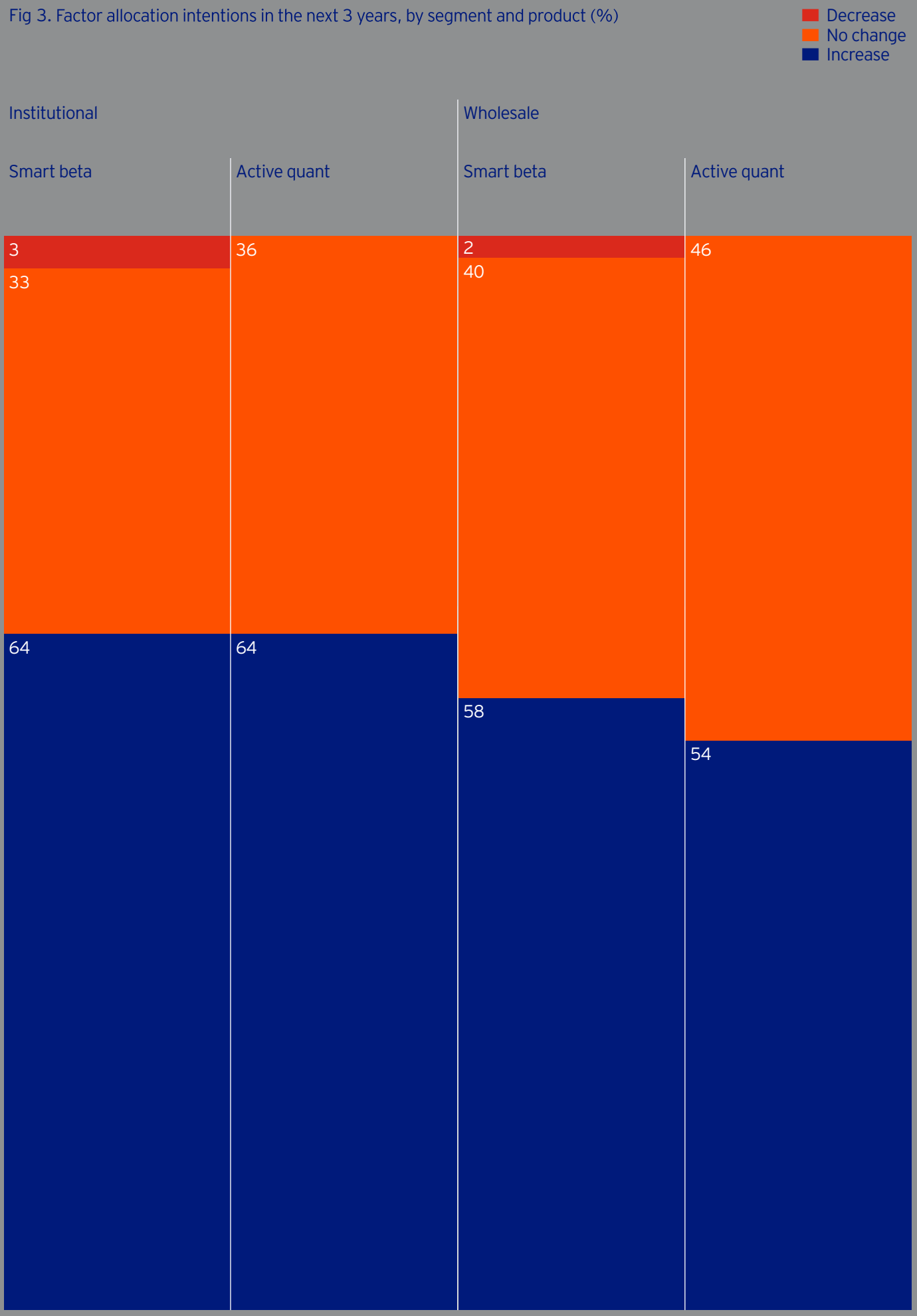
Sample: 119 (Europe), 31 (APAC), 50 (North America), 200 (total)

Fig 2. Single and multi factor approaches
(% of respondents)



Sample: 250 (2018), 97 (2017)

Fig 3. Factor allocation intentions in the next 3 years, by segment and product (%)



Sample: 102 (smart beta institutional), 83 (active quant institutional), 114 (smart beta wholesale), 92 (active quant wholesale)

We look at the practical issues of implementation in theme 4. In factor investing, investors have a broad range of implementation vehicles available, and it is notable for the frequent preference for exchange traded products (ETPs), particularly exchange traded funds (ETFs), even for institutional investors.

Our final theme discusses the factor investor experience, which has been positive for a large proportion of investors, with relatively few disappointments. This is fuelling ongoing intentions to allocate more to factor strategies (see figure 3). The results suggest factor investing is increasingly considered in its own right distinct from market-cap weighted strategies on the one hand and traditional stock-picking on the other.

Factor investing continues to expand and mature, based on broadly favourable outcomes and investor satisfaction. As noted above, the real test will come when the many relatively recent adopters take their factor strategies through a market downturn. This may prove an inflexion point in which, should factor continue to meet or exceed expectations, it jumps from the early adopters into the mainstream.

Download the full report for detailed findings, case studies and regional reports.

Sample and methodology
The fieldwork for this study was conducted by NMG Consulting's strategy consulting practice. Invesco chose to engage a specialist independent firm to ensure high quality objective results. Key components of the methodology include:

- A focus on the key decision makers within institutional investors, asset consultants, and private banks, conducting interviews using experienced consultants and offering market insights
- In-depth (typically one hour) face-to-face interviews using a structured questionnaire to ensure quantitative as well as qualitative analytics were collected
- Analysis capturing investment preferences as well as actual investment allocations with a bias toward actual allocations over stated preferences
- Results interpreted by NMG's strategy team with relevant consulting experience in the global asset management sector

In 2018, the third year of the study, we conducted interviews with 300 different asset consultants, insurers, pension funds, sovereign investors and private banks globally (up from 108 in 2017). In this year's study, all respondents were 'factor users', defined as any respondent investing in a factor product across their entire portfolio. We deliberately targeted a mix of investor profiles across multiple markets.

Survey participants experience may not be representative of others, nor does it guarantee the future performance or success of any product. The opinions expressed are those of Invesco and are based on current market conditions and are subject to change without notice. These opinions may differ from those of other Invesco investment professionals. There may be material differences in the investment goals, liquidity needs, and investment horizons of individual and institutional investors.

This document is issued in:
Canada by Invesco Canada Ltd., 5140 Yonge Street, Suite 800, Toronto, Ontario, M2N 6X7, Canada.

The United States of America by Invesco Advisers, Inc.,Two Peachtree Pointe, 1555 Peachtree Street, N.W.,Suite 1800, Atlanta, Georgia 30309, USA.

Published: Nov. 8, 2018
US12740/CA16708