

Global smart beta adoption reaches record high of 58%

- 2019 FTSE Russell sixth annual smart beta survey finds 58% of institutional investors surveyed have implemented smart beta strategies, up 10% from 2018
- Multi-factor strategy usage proved most popular, increasing to 71% globally this year, up 22%
- Adoption of these strategies increased to 60%, in North America, up 18% from 2018 to 2019
- For asset owners with AUM greater than \$10 billion, 58% expect to increase their allocation to smart beta and ESG
- Governance (74%) Carbon (66%) and Social (64%) are the key issues for those who anticipate adding ESG considerations to their smart beta strategies
- 77% of European respondents expressed interest in applying ESG considerations into smart beta allocation - up 22% from 2018

FTSE Russell, the global index, data and analytics provider, has published results for its sixth [annual global institutional asset owner smart beta survey](#) and its inaugural report; ESG and Smart Beta: 2019 global survey findings from asset owners.

Rolf Agather, Managing Director, Research & innovation, FTSE Russell said: “Risk reduction, return enhancement and improved diversification continue to drive smart beta adoption among institutional investors globally. Within smart beta, multi-factor index-based strategies have undoubtedly been the market’s favoured choice, with uptake more than tripling since 2015. We expect sustained growth in smart beta, especially when it comes to multi-factor combination strategies.”

David Harris, Head of Sustainable Investing, FTSE Russell said: “Integrating or looking to integrate ESG into smart beta strategies is rapidly becoming the norm, especially in Europe, where over three-quarters of asset owners have already applied or intend to apply ESG into smart beta allocations. We call this integration ‘Smart Sustainability’ and these trends are reflected in our experience of working with clients in new smart beta mandates.”

Global growth continues

Global smart beta adoption rates have reached a record high of 58% in 2019, 10% higher than 2018. Notably, in 2019 nearly eight in 10 (78%) asset owners have implemented, are evaluating or plan to evaluate a smart beta index-based strategy. In addition, adoption rates increased in Europe, North America and the Asia Pacific region, with growth also recorded in all AUM tiers: less than \$1 billion, between \$1-10 billion and more than \$10 billion.

European asset owners maintain the highest rate of smart beta adoption, with 65% of survey respondents in Europe reporting an existing allocation to smart beta. North American asset owners are now not far behind, with 60% reporting an existing allocation in 2019, an 18% rise since [2018]. The survey shows that asset owners are becoming increasingly comfortable with smart-beta strategies and there is less uncertainty about their longer-term track records. Respondents are also viewing smart-beta allocation strategies as more similar to traditional active rather than passive strategies. Moreover, the number of institutions adopting smart beta for cost savings objectives has more than doubled between 2014 (15%) and 2019 (31%).



Multi-Factor strategies retain dominance

Multi-factor index-based strategies continue to drive adoption rates, with users of the strategy increasing from 49% in 2018 to 71% in 2019. Uptake has more than tripled since 2015 and has significantly outpaced adoptions of low volatility (35%) and value (28%) strategies. Moreover, 69% of those who have implemented a smart beta strategy for the first time within the last two years use a multi-factor combination.

Europe leads in ESG smart beta

Among European asset owners evaluating or using smart beta, those expecting to apply ESG considerations to a smart beta strategy increased from 55% in 2018 to 77% in 2019. Adoption of ESG considerations into smart beta strategies remained flat in North America, with lack of stakeholder demand cited by respondents as the main reason for lack of growth in this area. Among those who anticipate applying ESG considerations to a smart beta strategy, over three quarters are motivated by avoiding long term risk, compared to a little over half last year.

The 2019 survey was conducted in January and February. 178 global asset owners participated in the survey. The majority of participants were located in North America (46%) and Europe (29%), Asia Pacific (19%). A wide mix of organization types are represented, including government organizations (31%), corporations or private businesses (16%), unions or industry-wide pension schemes (15%), and non-profit organizations or universities (14%). The rest is a mix of insurance companies, sovereign wealth funds, health-care organizations and family offices.

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