September 2018

Factor-based investing

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If you pass white light through a prism, the light separates and you can see that white light is made up of many different colours. I like to picture rock band Pink Floyd's album cover for *The Dark Side of the Moon*. Now, think about your portfolio as white light. If you pass the "white light" of your portfolio through a factor lens, you'll see that your portfolio is made up of many different factor exposures.

Factors are one of the underlying drivers of portfolio returns. For example, a portfolio with stocks that exhibit positive momentum in earnings and price is exposed to the momentum factor. Portfolios with stocks that have low price-to-earnings ratios are exposed to the value factor. A large range of other factors have also been analyzed and debated in academic literature. Factor-based investing simply means considering factor exposures when constructing portfolios.

Today, exchange-traded funds (ETFs) can be effective tools to gain exposure to different factors. To meet changing investor needs, ETFs have evolved from their original purpose of replicating the performance of a market capitalization-weighted index to factor-based ETFs that seek to replicate the performance of various factor-weighted indexes. Well-known market capitalization-based indexes, such as the S&P 500 Index, are weighted according to size. This means they are concentrated in large established companies. Low-risk weighted indexes such as the MSCI World Risk Weighted Top 200 Index, an example of a factor product, are weighted according to risk, so larger weightings are given to lower-risk stocks. This approach may include high-volatility stocks found within the index, but these holdings have lower weightings. The result is lower volatility than the market capitalization weighted-index.

While they can increase risk if used improperly, factor-based ETFs can be highly useful investment tools for multi-asset portfolio managers when used within a robust asset allocation framework. They can help to enhance precision and efficiency in asset allocation as well as address overweightings or underweightings to certain portfolio exposures. They can also expand the portfolio's risk management tool kit. We expect to utilize factor-based ETFs selectively going forward as we continually seek to enhance returns, manage risk, and improve efficiencies.

Multi-Asset Management remains committed to actively managing all the variables that affect an investor's total return, including factor exposures.

Combined top 15 equity holdings as of August 31, 2018 of a representative balanced Private Client Managed Portfolio with alpha-style equity exposure:*

1. AltaGas	6. CIBC	11. E-L Financial
2. SNC-Lavalin	7. Canadian Natural Resources	12. Enbridge
3. Atco	8. ICICI Bank	13. HeidelbergCement
4. Loblaw Companies	9. Industrial Alliance	14. Sinopharm
5. Canadian Utilities	10. Mullen Group	15. Kunlun Energy

Combined top 15 equity holdings as of August 31, 2018 of a representative balanced Private Client Managed Portfolio with value-style equity exposure*

1. Toronto-Dominion Bank	6. Gilead Sciences	11. DowDuPont
2. Royal Bank of Canada	7. Magna International	12. CCL Industries
3. Bank of Nova Scotia	8. Microsoft	13. Astellas Pharma
4. Brookfield	9. TMX Group	14. Chubb
5. Alimentation Couche-Tard	10. Canadian Pacific Railway	15. KLA-Tencor

Combined top 15 equity holdings as of August 31, 2018 of a representative balanced Private Client Managed Portfolio with growth-style equity exposure*

1. CSX	6. Anthem	11. Magna International
2. Athene Holding	7. Emera	12. Walgreens Boots Alliance
3. Verizon Communications	8. Tourmaline Oil	13. Melrose Industries
4. Canadian Pacific Railway	9. Praxair	14. Hydro One
5. Gilead Sciences	10. Intact Financial	15. Keyera

*Approximately 33% fixed-income, 10% enhanced income, 49% equities, and 7% global real estate.

To see the top 15 holdings of the individual pools or the equity alpha mandates, please contact your Stonegate advisor.