

# RAFI™ Multi-Factor Index Series

## BENEFITS OF FACTOR INVESTING WITH INCREASED DIVERSIFICATION

The RAFI Multi-Factor Index strategy offers diversified factor exposures through equally weighted allocations to value, low volatility, quality, momentum, and size. By combining multiple factor exposures, investors can achieve increased diversification and lower tracking error, resulting in a smoother path to outperformance relative to a single-factor approach.

- Uses empirically robust single-factor strategies
- Diversifies factor exposures for a smoother ride
- Implements a rules-based, transparent index construct

Theoretical and empirical evidence shows that factors, including value, low volatility, quality, momentum, and size, deliver long-term positive excess returns.

Factor	Measure	Why It Works
 <b>Value</b>	$\frac{\text{Fundamental weight}}{\text{Cap-Weight}}$	Performance chasers under-own value securities (preferring fast-growing glamour stocks), driving prices down, yields up, and future returns higher.
 <b>Low Volatility</b>	Systematic Risk <ul style="list-style-type: none"> <li>• Global Beta</li> <li>• Industry Beta</li> <li>• Country Beta</li> </ul>	Investors' preference for gambling leads them to over-own high-volatility securities, similar to holding a lottery ticket.
 <b>Quality</b>	High Profitability & Conservative Investment	Investors are drawn to the glamour of empire-building companies and underappreciate conservative capital allocators with wide economic moats.
 <b>Momentum</b>	<ul style="list-style-type: none"> <li>• Standard</li> <li>• Beta-adjusted</li> <li>• Reversal-adjusted</li> </ul>	Uninformed investors are slow to react to new information about a company.
 <b>Size</b>	Average of value, low volatility, quality, and momentum	The other four factors tend to work better in small-cap markets, because these markets are typically less efficient and experience larger pricing errors.

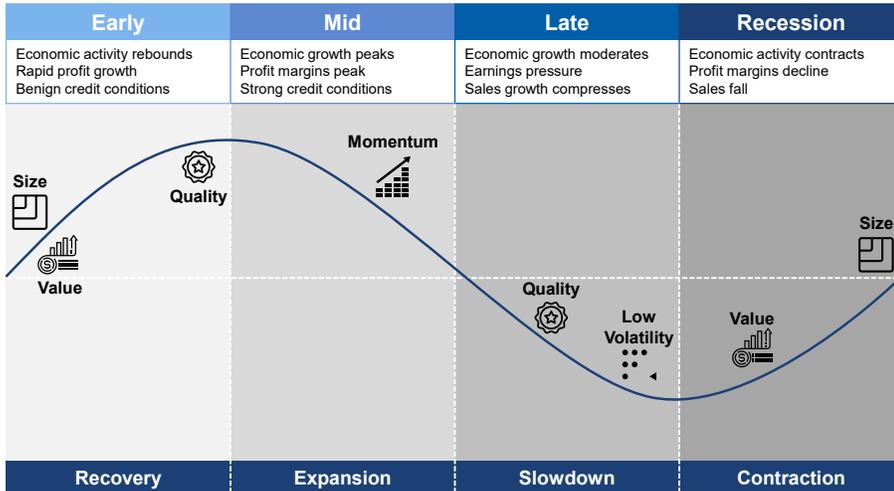
## INDEX OVERVIEW

### Expected Outcomes and Benefits

1. The RAFI Multi-Factor Indices combine five theoretically and empirically robust single-factor strategies, offering investors the potential to earn a return premium relative to a market-cap index.
2. The strategy incorporates thoughtful design and low-cost implementation, which allows for straightforward performance measurement and governance.
3. By diversifying the factors in a portfolio, substantially lowering tracking error, and providing shorter periods of underperformance, the strategy offers a favorable risk/return profile compared to a single-factor strategy.
4. By preserving the positives of traditional passive investing—simple, transparent, and low cost—the strategy also uses regular periodic rebalancing to help capture excess return from long-term mean reversion.

*The RAFI Multi-Factor is a smart beta equity strategy that offers diversified factor exposures for investors seeking a rules-based, transparent multi-factor strategy.*

## FACTOR BEHAVIOR THROUGH THE BUSINESS CYCLE



For illustrative purposes only.

## OUR INTERACTIVE TOOLS



### Asset Allocation Interactive

Estimates of long-term expected returns for 130+ assets and model portfolios across five currencies with the ability to create, save, and blend customized portfolios.

Visit [researchaffiliates.com/aai](https://researchaffiliates.com/aai).



### Smart Beta Interactive

Estimates of expected excess returns over popular benchmarks for 25+ strategies and 15 factor variations with ability to analyze expected excess returns, historical returns, and various risk measures and markets.

Visit [researchaffiliates.com/sbi](https://researchaffiliates.com/sbi).

## RELATED RESEARCH

### "A Framework for Assessing Factors and Implementing Smart Beta Strategies"

Hsu, Kalesnik, Viswanathan

July 2015 | *The Journal of Index Investing*



### "Trade-Off in Multifactor Smart Beta Investing: Factor Premium and Implementation Cost"

Li, Shim

March 2019 | *Financial Analysts Journal*

The material contained in this document is for informational purposes only. Nothing contained in this material is intended to constitute legal, tax, securities or investment advice, nor an opinion regarding the appropriateness of any investment, nor a solicitation of any type. RAFI Indices, LLC, its affiliates, agents, and each of their respective officers, directors, employees, agents, representatives and licensors (collectively "RAI") does not make any warranties, express or implied, to anyone regarding the information provided herein, including, without limitation, any warranties with respect to the timeliness, sequence, accuracy, completeness, currentness, merchantability, quality or fitness for a particular purpose or any warranties as to the results to be obtained by any third-party in connection with the use of the information. Certain performance information presented represents simulated performance or performance based on combined simulated index data (pre-index launch) and live index data (post-index launch). Past simulated performance is no guarantee of future performance and does not represent actual performance of an investment product based on an index. No allowance has been made for trading costs, management fees, or other costs associated with asset management, as the information provided relates only to the index itself. Actual investment results will differ. The trademarks Fundamental Index™, RAFI™, Research Affiliates Equity™, RAE™ and the Research Affiliates™ trademark and corporate name and all related logos are the exclusive intellectual property of Research Affiliates, LLC ("RA") and in some cases are registered trademarks in the U.S. and other countries. Various features of the Fundamental Index methodology, including an accounting data-based noncapitalization data processing system and method for creating and weighting an index of securities, are protected by various patents of RA. (See applicable US Patents, Patent Publications and protected trademarks located at <https://www.researchaffiliates.com/legal/disclosures#patent-trademarks-and-copyrights>, which are fully incorporated herein.) Any use of these trademarks, logos, or patented methodologies without the prior written permission of RA, is expressly prohibited. RA reserves the right to take any and all necessary action to preserve all of its rights, title, and interest in and to these marks and patents. RAFI Indices, LLC does not offer or provide investment advice or offer or sell any securities, commodities or derivative instruments or products.

© 2022 RAFI Indices, LLC. All rights reserved. Duplication or dissemination prohibited without prior written permission.

## RESEARCH AFFILIATES

### At a Glance

**US\$138B\***

in assets managed worldwide using investment strategies developed by Research Affiliates.

### 425+ articles published

Important recognitions include:

#### Graham & Dodd Awards

"What Is Quality?"

"Reports of Value's Death May Be Greatly Exaggerated"

#### William F. Sharpe Indexing Achievement Award

"Fundamental Indexation"

"Rebalancing and the Value Effect"

#### Bernstein Fabozzi/Jacobs Levy Award

"Alice's Adventures in Factorland: Three Blunders That Plague Factor Investing"

"A Study of Low-Volatility Portfolio Construction Methods"

## 2002

Founded by Rob Arnott and based in Newport Beach, California.

## FIRM LEADERSHIP

Average of **40 years** in industry experience.



### Rob Arnott

Partner, Chair



### Chris Brightman, CFA

Partner, Chief Executive Officer & Chief Investment Officer



### Katrina Sherrerd, PhD, CFA

Partner, Vice Chair



### Campbell Harvey, PhD

Partner, Head of Research

\*As of Sep 30, 2022