

Smart beta in China - more than meets the eye

Speaking at Hubbis' Investment Solutions Forum 2017 in HK – Aleksey Mironenko of Premia Partners looks at smart beta strategies as a different approach to investing.

Smart beta strategies are the intersection of active and index investing, according to Aleksey Mironenko, partner and chief distribution officer for Premia Partners.

They are generally low cost and transparent – like index strategies, and can be a source of incremental return or a way to adjust risk like traditional active strategies. They can also help achieve a desired portfolio tilt or outcome.

The ultimate goal, explains Mironenko, is to deviate from market cap, potentially through factor investing, to deliver excess return in a more systematic, transparent and low-cost way.

This is a welcome evolution for an industry that has gotten used to market cap for decades. But while a lot of strategies are based on investment insights that are old, the technology is new, he adds. He believes that new technology and data, via computing power and combined with a broader range of tools, expands the range of

potential outcomes. This will then enable investors to capture proven drivers of return, adds Mironenko.

He explains that factor strategies are simply intuitive screens which use familiar metrics – lower-risk stocks, companies with healthy balance sheets, stocks that are cheap versus fundamentals, stocks on an upswing, and smaller and more nimble companies.

When applying this to Chinese A-Shares, Mironenko says it shows that traditional stock-picking is not the only way to invest in China. He advocates an approach to avoid some of the common pitfalls and challenges when investing in A-Shares. He focuses on: recognising ways in which data limitations affect the interpretation of back-tests; economic thinking, to create a deep understanding of the market's features that drive performance; and tailoring signal construction/implementation to the features that make A-Shares unique. ■



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