

# Using strategic beta effectively

*In a video interview, Dan Lefkovitz of Morningstar highlights the key features and benefits of strategic beta strategies, and looks at the global nature of its applicability to investor portfolios.*

Strategic beta sits somewhere between active and passive management – it is active in its design, but passive in its implementation.

This provides a different type of market exposure from a risk-return perspective, via a rules-based, systematic approach, explains Dan Lefkovitz, indexes strategist at Morningstar.

The firm's focus in this space is to apply the fundamental equity ratings generated by its global analysts team to a rules-based format, adds Lefkovitz.

So from the work the analysts do when following companies worldwide, his team uses the signals to create rules-based indices designed to deliver certain outcomes for investors, he says.

## USING STRATEGIC BETA PRODUCTS IN PRACTISE

In a similar way to an investor buying an active strategy, they might buy a strategic beta strategy to create market-

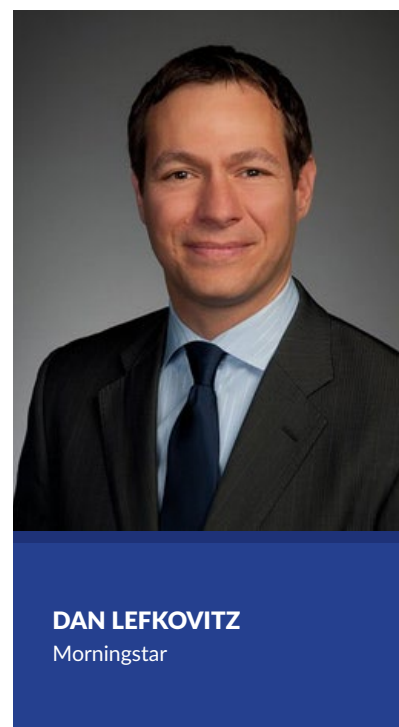
beating returns or to strive for lower-risk profile outcomes, according to Lefkovitz. Being quite early to the game in this area, in 2007, Morningstar created the Wide Moat Focus Index.

This takes its analyst ratings for economic moat, in addition to fair value, and rebalances these on a regular basis to find the stocks with sustainable competitive advantages that are trading at discounts to their intrinsic value.

## INVESTOR APPETITE GROWING

Lefkovitz sees the trend towards strategic beta investing as being global in nature – given the transparent, systematic and disciplined process that can be implemented at low cost, but also with the best of active management.

Yet while demand transcends geographies, appetite to date has been most pronounced in the US, he adds. This is in line with the shift from traditional high-cost mutual funds to low-cost passive and strategic beta strategies.



**DAN LEFKOVITZ**  
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The move towards fee-based advice has also brought with it more interest in exchange-traded products and rules-based strategies generally, says Lefkovitz. ■