

Dear Clients

**CoreShares Scientific Beta Multi-Factor Fund**

**15 November 2018**

CoreShares follows an Evidence-Based Investment (EBI) philosophy. This form of investing harnesses the irrefutable evidence available to investment professionals aiming to achieve improved investor outcomes with the highest possible level of certainty. Factor investing is one of the key tenets of EBI. In 2017 CoreShares, in partnership with the highly reputable ERI Scientific Beta launched a Multi-Factor Fund. The aim of the fund is to provide investors with improved risk adjusted returns relative to market beta with a high level of consistency. This is achieved through a two-step framework of:

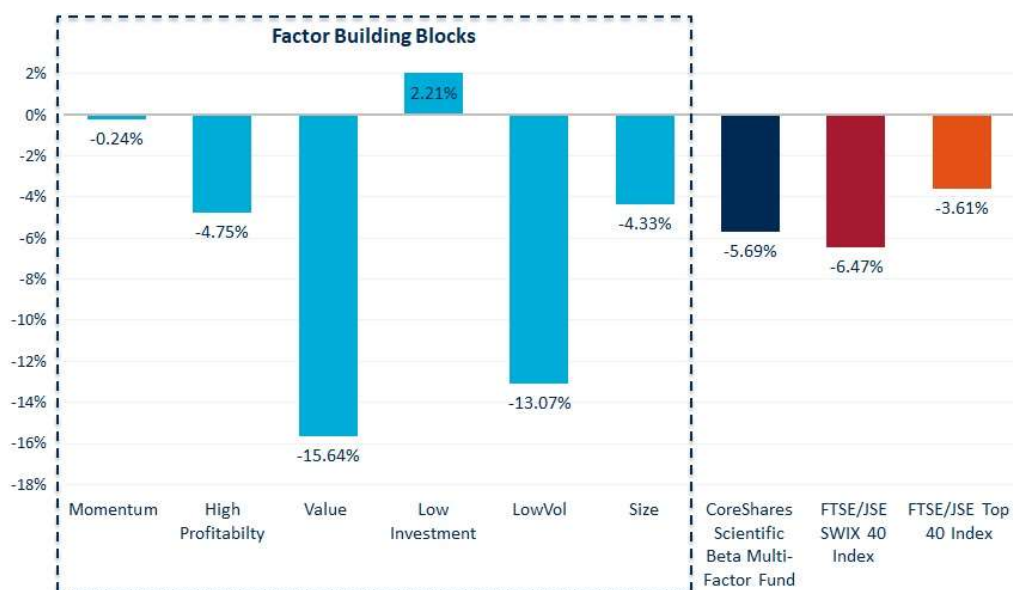
1. Harvesting the proven sources of return, the Factors, through stock selection, and
2. Diversifying away undesired risks through risk management and portfolio construction.

Update Since Inception:

Since inception (October 2017) the CoreShares Scientific Beta Multi-Factor Fund (the Fund) has cumulatively performed 0.78% ahead of the FTSE/JSE SWIX 40 Index and 2.08% behind the FTSE/JSE Top 40 Index.

While cumulatively the Fund has produced what appears to be a similar return profile relative to the market beta, the six underlying factor building blocks have delivered vastly differing returns over the period. The highest divergence in returns between the six factors is 17.85%, where Value returned -15.64% and Low Investment/Quality returned +2.21%. This variance in return of the underlying factor building blocks highlights the cyclical nature and timing challenges associated with investing in individual factors, or single style active managers. Naturally a key value proposition of the Multi-Factor approach is to reduce the timing risk that is associated with both factor-based and/or active investment strategies.

**Figure 1: CoreShares Scientific Beta Multi-Factor Fund since inception <sup>(1)</sup>**



1. Inception Date 01 October 2017 to current 31 October 2018

As there is no conclusive evidence that exists suggesting investors can persistently time individual factors, we believe the best approach to factor investing is holding all the rewarded factors in equal weight. This approach gives an investor the best opportunity to harvest the returns where they are achieved without running the risk of missing upside opportunities as well as diversifying across the return drivers to deliver a smoother outcome.

In addition to achieving smoother return outcomes, another source of the Fund's differentiation is in its diversification, which is achieved through risk management and portfolio construction. This can be observed when looking at the two highlighted monthly return snapshots in Figure 2 below.

Typically, a Multi Factor strategy can be expected to lag the general market in periods when the market's performance is driven by the mega cap shares. This characteristic is a function of having a high effective share exposure<sup>(2)</sup>, where in contrast the market beta and benchmark cognisant funds tend to have low effective share exposure, with most of the exposure driven by a few large shares. October 2017 in the figure below is an example of such a scenario wherein the largest five shares (who combined make up 50% of the market beta) increased in value on average by 9.2% leading to the Fund lagging the market beta. This outcome is intuitive as the intention of the CoreShares Scientific Beta Multi-Factor strategy is to provide exposure to well-rewarded factors and to minimize undesired, idiosyncratic (single stock) risk. Consequently, following the same logic, investors can expect to perform ahead of the market when there is a broad market drawdown. This characteristic can be seen below in the October 2018 period, the most significant broad market sell off since the Funds inception. It is worth noting that the high level of diversification is not simply a downside protection mechanism as it also contributes to the smoother outperformance potential by consistently harvesting the differing sources of return in the market. Since 2002 the CoreShares Scientific Beta Multi-Factor Index has outperformed market beta on 5-year rolling periods 90% of the time.

*Figure 2: CoreShares Scientific Beta Multi-Factor's downside protection*



The CoreShares Scientific Beta Multi-Factor strategy has a robust methodology of harvesting proven sources of return through a portfolio construction process that is centred around risk management and the diversifying away of undesired risks. We believe that this will result in improved risk-adjusted return outcomes for investors.

2. *Effective share exposure is measured using the Herfindahl index, where, Effective number of Shares =  $(\sum(w)^2) - 1$  and Nominal number of Shares = Total Shares in Index*