

# Beyond Market Cap: Factor Investing for the Future

May 2026  
ASX Financial Advisor Day

# Factor Investing Perspectives

**“Don’t look for the needle in the haystack. Just buy the haystack”**

John C. Bogle, Vanguard Founder

**“A growing base of research raises the question of whether even the greatest investment managers in history were really active investing geniuses, or were simply rewarded for investing in a unique form of risk factor that just hadn’t been identified as such at the time”**

Michael Kitces, Financial Planner, Commentator and Entrepreneur

**“Only when the tide goes out do you discover who’s been swimming naked.”**

Warren Buffet, Berkshire Hathaway

**“Markets are efficient, but there are different dimensions of risk and those lead to different dimensions of expected returns.”**

Eugene Fama

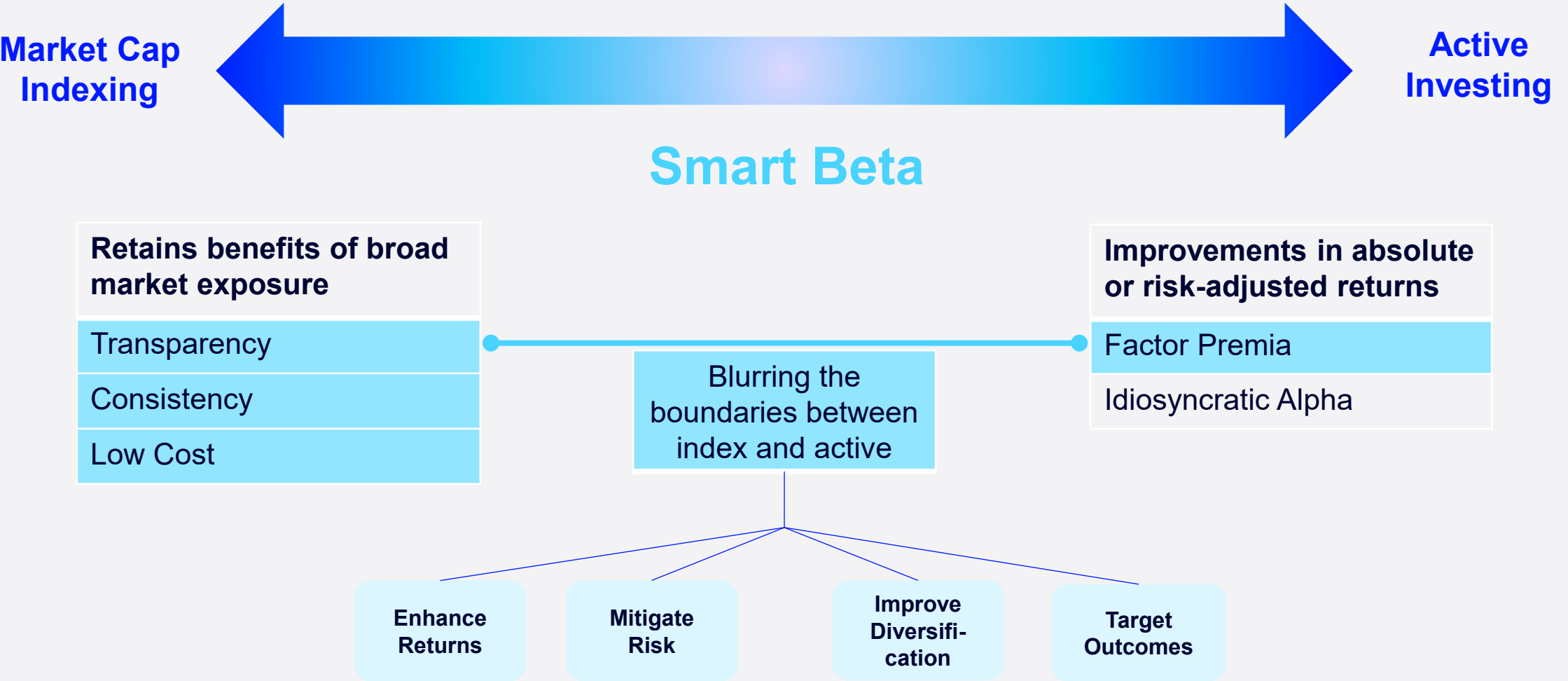
**“What was once considered manager skill is now often explained by exposure to systematic risk factors”**

Larry Swedroe, Author, Financial Researcher, Evidence-Based Investing Pioneer

**“We have a zoo of new factors, each with its own pet theory.”**

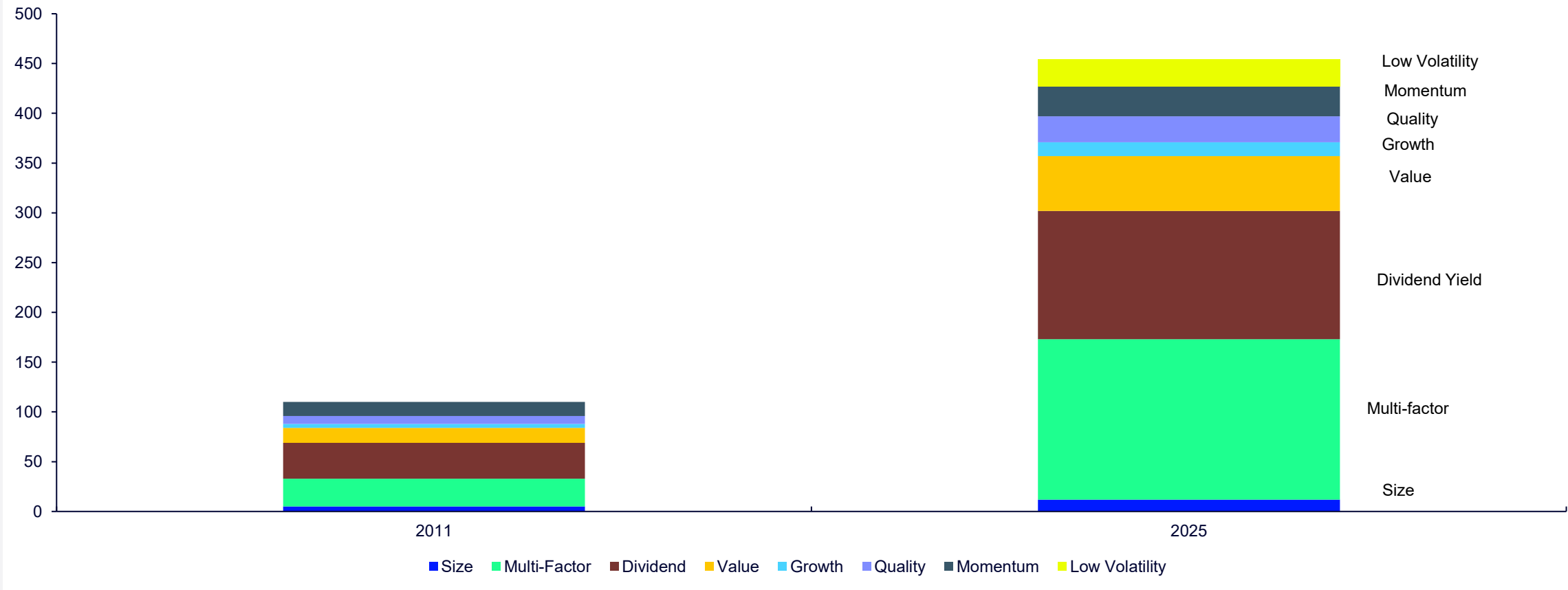
John Cochrane, AFA Presidential Address

# The Rise of “Smart Beta”



# Smart Beta Product Landscape has Become Larger and More Diverse

# Smart Beta ETFs Available in 2011 versus 2025



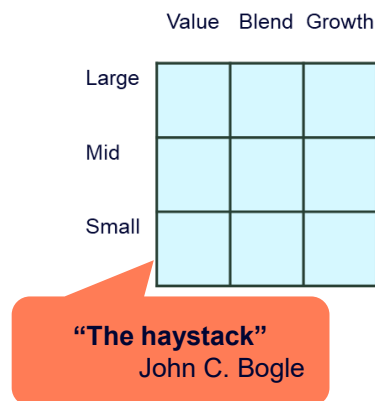
Source: SPDR Americas Research, Bloomberg Finance L.P., as of 06/30/2025.

# Factor Investing ≠ Smart Beta

Smart Beta is a broad umbrella term for any rules-based, non-market capitalization index strategy; factor investing is the narrower subset targeting well-established, empirically verified long term return drivers.

## Style-Box Investing

- Classifies stocks or funds by style and size.
- Disaggregates the universe
- Originally used for active manager benchmarking.



## Factor Investing

- Targets broad, proven drivers of return by systematically tilting towards those characteristics to capture long-term premia
- E.g. Single or multi-factor, static or dynamic approaches

## Alternatively Weighted

- Rules based approaches that depart from market-cap weighting to emphasize specific stock characteristics or diversification goals
- E.g. equal weight, fundamental, dividend, diversity, equal risk

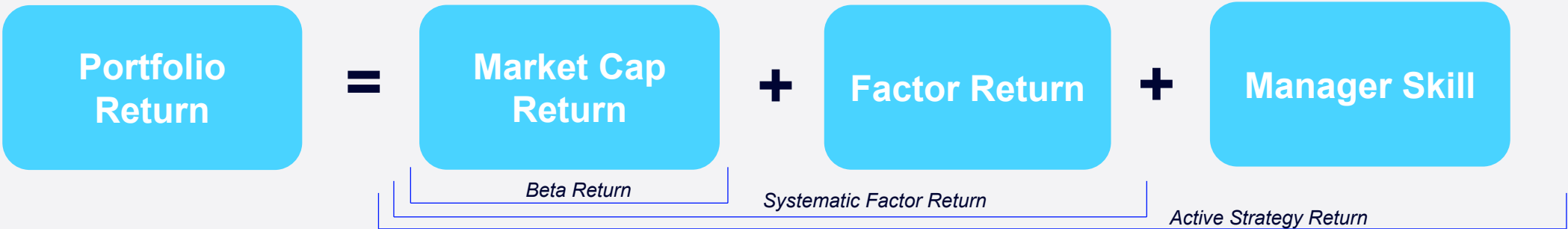
## Thematic

- Focuses on specific trends or themes by grouping companies tied to a common narrative (not a risk premium)
- E.g. AI, Robotics, Green Energy, Cybersecurity

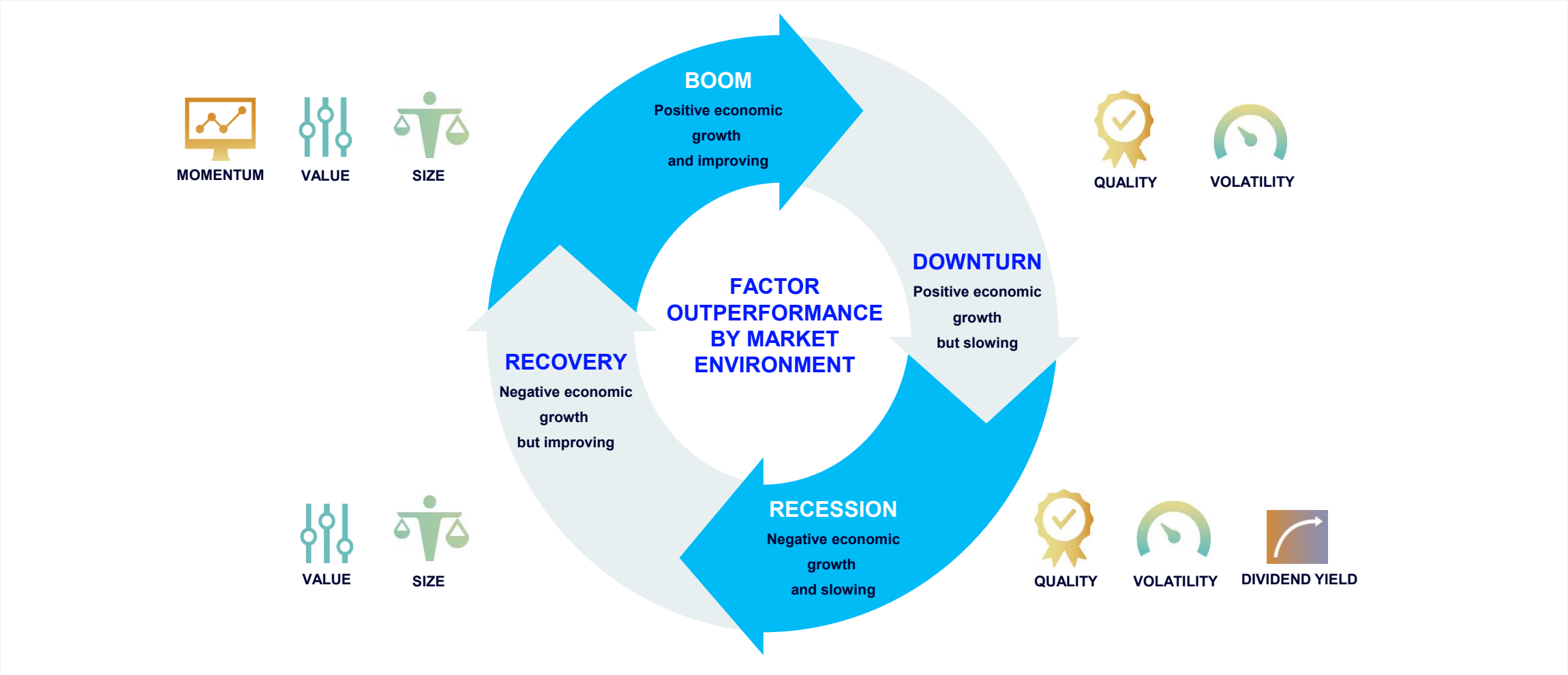


# What are Factors and How do we Identify/Measure Them?

Decomposing portfolio returns into market, factors and skill.

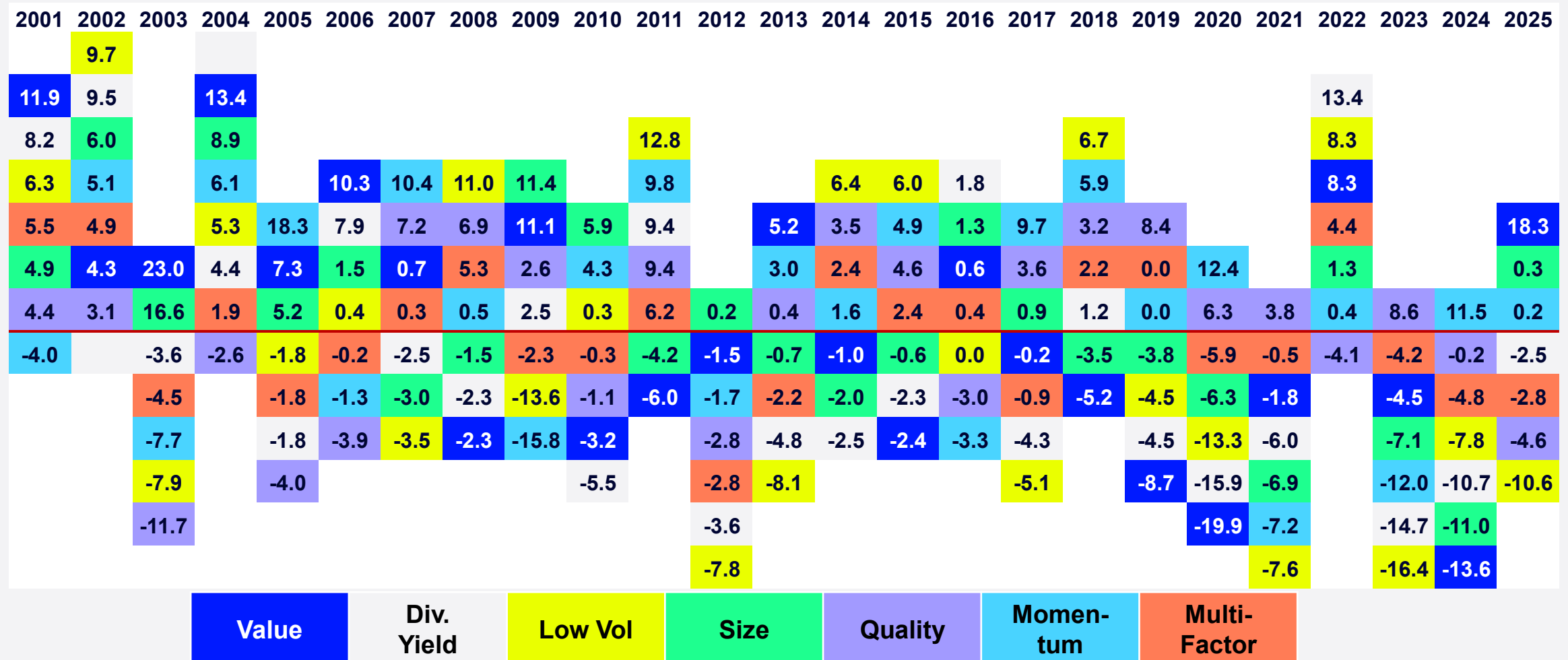


# Factors May Outperform over the Long Term, but Performance Varies over the Economic Cycle



## Single Factor Cyclicity: The Case for Diversification

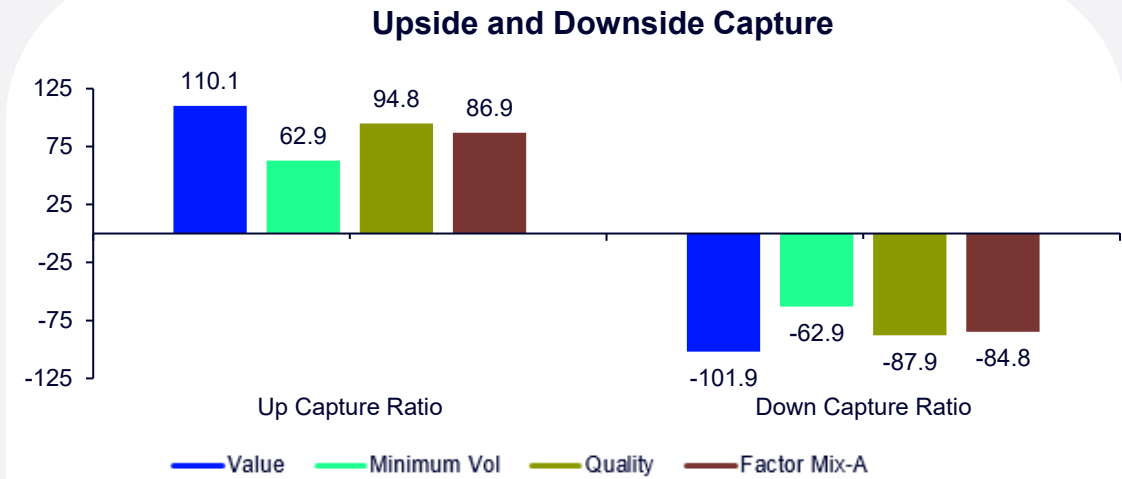
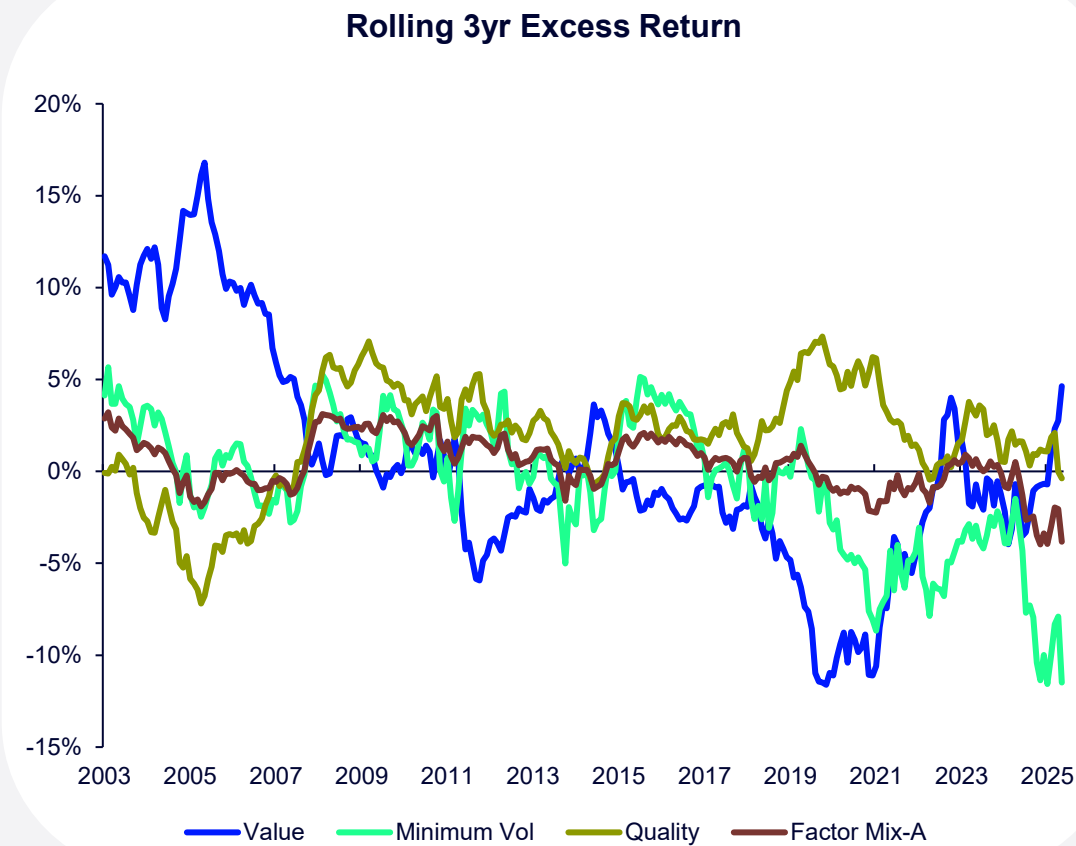
## MSCI World Factor Indices: Calendar Year Excess Returns(vs MSCI World Index)



Source: MSCI, as at 31 December 2025. Factor index returns are represented by the following indices (in USD terms); Value; MSCI World Enhanced Value Index, Yield; MSCI World High Dividend Yield Index, Low Vol; MSCI World Minimum Volatility (USD) Index, Size; MSCI World Equal Weighted Index, Quality; MSCI World Quality Index; Momentum; MSCI World Momentum Index, Multi-Factor; MSCI World Factor Mix A-Series Index. Past performance is not a guarantee of future returns.



# Multi-Factor Strategies Seek to Smooth Investment Outcomes Through Different Business Cycles

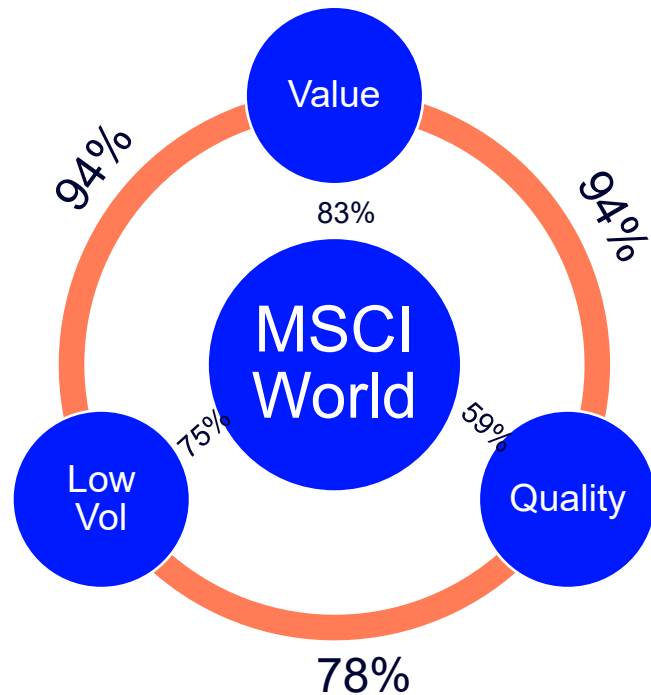


- Multi-Factor Index:**
- 0.61% annualised excess return
  - 13% lower volatility
  - Maintains meaningful participation in upside, and defensive factors have limited downside

Source: MSCI, as at 31 December 2025. Factor index returns are represented by the following indices (in USD terms); Value; MSCI World Enhanced Value Index, Yield; MSCI World High Dividend Yield Index, Low Vol; MSCI World Minimum Volatility (USD) Index, Size; MSCI World Equal Weighted Index, Quality; MSCI World Quality Index; Momentum; MSCI World Momentum Index, Multi-Factor; MSCI World Factor Mix A-Series Index. Past performance is not a guarantee of future returns.

# Factors May Outperform over the Long Term, but Performance Varies over the Economic Cycle

## Active Share MSCI World Index vs MSCI World Factor Indexes



## Positioning

### VALUE

- Overweight Information Technology (Communications Equipment and Semiconductors)
- **Top Positions:** Micron Technology, Intel Corporation, Cisco Systems

### QUALITY

- Overweight Health Care (Pharmaceuticals), Underweight Financials (Banks)
- **Top Positions:** Meta Platforms, Visa, ASML Holding, Eli Lilly, Johnson and Johnson

### LOW VOLATILITY

- Overweight Consumer Staples, Health Care and Utilities, Underweight IT (Semiconductors), Industrials, Consumer Discretionary
- **Top Positions:** Duke Energy, Cisco Systems, Southern Company, Cencora

Source: MSCI, as at 30 April 2026. Factor index holdings are represented by the following indices; Value; MSCI World Enhanced Value Index, Yield; MSCI World High Dividend Yield Index, Low Vol: MSCI World Minimum Volatility (USD) Index, Size; MSCI World Equal Weighted Index, Quality; MSCI World Quality Index; Momentum; MSCI World Momentum Index, Multi-Factor; MSCI World Factor Mix A-Series Index. Past performance is not a guarantee of future results.

# Factors May Outperform over the Long Term, but Performance Varies over the Economic Cycle

## QMIX

Multi-factor targeting Value, Quality & Low Volatility to enhance and smooth investment outcomes.  
Reduce single factor cyclicalty.  
Avoid factor timing.  
Transparent and low fee relative to active management.

## Lower risk core holding

Potential for enhanced risk-adjusted returns versus traditional market-cap index

## Fee reductions

By consolidating active manager allocations that target similar factor exposures

## WDIV & SYI

A diversified exposure targeting sustainable, high dividend exposure

## Income sleeve

Sustainable, quality dividend exposure to support retirement portfolios or income seeking mandates.

## Diversification

Country caps allow for a more diversified (less US-concentrated), income-orientated portfolio.

# Thank You & Questions

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Equity securities may fluctuate in value in response to the activities of individual companies and general market and economic conditions.

A Smart Beta strategy does not seek to replicate the performance of a specified cap-weighted index and as such may underperform such an index. The factors to which a Smart Beta strategy seeks to deliver exposure may themselves undergo cyclical performance. As such, a Smart Beta strategy may underperform the market or other Smart Beta strategies exposed to similar or other targeted factors. In fact, we believe that factor premia accrue over the long term (5-10 years), and investors must keep that long time horizon in mind when investing.

A "low volatility" style of investing can exhibit relative low volatility and excess returns compared to the Index over the long term; both portfolio investments and returns may differ from those of the Index. The fund may not experience lower volatility or provide returns in excess of the Index and may provide lower returns in periods of a rapidly rising market.

A "quality" style of investing emphasizes companies with high returns, stable earnings, and low financial leverage. This style of investing is subject to the risk that the past performance of these companies does not

continue or that the returns on "quality" equity securities are less than returns on other styles of investing or the overall stock market.

A "value" style of investing that emphasizes undervalued companies with characteristics for improved valuations, which may never improve and may actually have lower returns than other styles of investing or the overall stock market.

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8942464.2.1.ANZ.INST Expiry Date: 31/05/2027

