FUTURE OF INVESTMENT RESEARCH

Multi-factor funds: A profitable strategy?

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To mitigate the slowdown in asset growth for single-factor funds, firms are moving towards multi-factor funds to maintain the level of fees they are able to charge and improve profits. What are the benefits of multi-factor ETFs, and how can QA Point Powered by Elsen help firms navigate the corresponding challenges?

1. Following the recent decline in single-factor funds, both in terms of uptake and performance, asset owners are increasingly turning to multi-factor funds as an alternative.
2. Multi-factor funds appeal to investors because they reduce risks, and to firms because of potentially higher profits. However, they require costly computing infrastructure and need more highly skilled engineers and data scientists.
3. To counter these challenges, QA Point Powered by Elsen enables firms to quickly, simply and efficiently deploy multi-factor quantitative investment strategies.

In the past year, investment firms have been witnessing a steady decline in investment capital and investors' passion earmarked for smart-beta ETFs that focus on a specific factor, such as volatility, liquidity, size, or momentum.

While these funds remain a popular investment vehicle for many, year-on-year asset growth has dipped below the five-year average.

Single-factor funds are packaged as differentiated products. To this point, they have been a way to balance losses because they allow firms to charge higher fees. But the slowdown in asset growth is affecting the bottom line.

This decline in popularity has led firms to get creative with another differentiated class of smart-beta products: multi-factor funds. By pushing multi-factor investing — funds that group many factors in an investment vehicle — firms can realize the higher fees they've grown fond of through traditional factor investing.

If firms can find a way to make multi-factor strategies easier to develop, they have an opportunity to improve profitability exponentially.

Benefits and challenges of multi-factor funds

By the numbers, there is no doubt that investment firms are bullish on selling multi-factor ETFs. The latest annual ESG & Smart Beta survey from FTSE Russell found that the number of asset owners adopting multi-factor fund strategies grew from 49 percent in 2018 to 71 percent in 2019.

For investors, they offer an attractive strategy for reducing risks as the market fluctuates. And for firms, they can be much more profitable than other funds, including traditional, single-factor smart-beta ETFs.

According to a report from April 2019, multi-factor stock products saw an average fee of $4.70 for every $1,000 invested, compared to the 20 cents in fees for the cheapest overall U.S. ETF and smart-beta ETFs overall.

However, on the downside, multi-factor fund strategies require much more — profit-eating — resources than other ETFs. For instance, the computing infrastructure alone required to take a multi-factor approach is expensive to purchase and upkeep.

More costly still are the resources and time that need to be shifted to the upskilled investment engineers and data scientists required for the quantitative analysis to embark on a multi-factor strategy. And on top of that, you have to find and hire these people first — another very difficult task.

The resources required to design multi-factor funds more than justify the increasing fees. And while these fees contribute to top-line growth, the bottom line isn't keeping up.

But firms that figure out how to research and build multi-factor fund strategies more efficiently — before the competition — will be in a unique position to increase profits. They'll have options to either cut costs, or pass the savings to customers and sell more by offering fees that are attractive to investors and lower than others in the industry.

Aiding quants' multi-factor fund mission

The potential profit strain caused by resource allocation can be mitigated by smartly leveraging modern quantitative modeling and analysis technologies.

One solution is QA Point Powered by Elsen, a product developed on the Elsen nPlatform through a partnership between Refinitiv and Elsen, which makes it possible for quantitative analysts to add nearly unlimited factors to their research and get results in minutes.

Instead of forcing quants to piecemeal data and technology together in a time-consuming and tedious process, QA Point simplifies workflows and makes it easy to construct, validate, and deploy multi-factor quantitative investment strategies.

Work that would take days using traditional quant tools can be completed in a fraction of the time. Through a simple point-and-click interface, any user can research multi-factor strategies.

With QA Point, you don't need to have a PhD in data science – or have any knowledge of programming or scripting languages for that matter – to take advantage of advanced quantitative investment strategies and data science.

In only a few minutes, any user can create unique custom factors and build complex multi-factor models. And the ease of use, combined with the fast and powerful technology it's built upon allows for models with nearly unlimited factors to be tested just as quickly.

As multi-factor investing continues to attract more investment dollars, QA Point makes it exponentially more profitable for investment firms.

Learn more about how QA Point Powered by Elsen can empower quants to make multi-factor investment strategies in a matter of minutes.

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