

# European Pension Scheme chooses Russell Investments' to manage momentum factor exposure

A multi-billion pound European Pension scheme has chosen Russell Investments to manage a €882m<sup>1</sup> momentum exposure as one of a range of smart beta strategies used to create its factor-driven investment approach. The pension scheme aims to increase control over return drivers by differentiating between beta and alpha more effectively across its portfolio. Using factor investment has also reduced complexity in the scheme, lowered fees and increased value to members.

## Situation

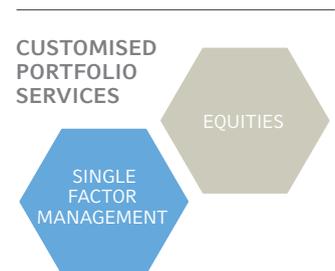
As a shared-cost scheme, with multiple product divisions – many of which are still open to new members – the pension fund is strongly focused on long-term affordability. Like many Australian investors the fund's investors need to generate growth and simply can't afford to stay in a low risk, conservative return product. The drive for an efficient risk-managed series of funds has led the scheme to transform its investment approach, reorganising its fund range, concentrating on risk premia – rather than asset classes – and overhauling how it uses external fund managers.

This has sparked a move away from using a large stable of active managers for asset management to a much more factor-based approach, run by a largely in-house team partnering with a small pool of external managers.

One of the factor exposures the in-house team wanted to manage directly was equity momentum. The fund was in search of an investment manager with the ability to access momentum as a discrete source of return and deliver a customised quantitative solution that reflected the scheme's high-risk appetite.

## Solution

In its search for these skills, the pension scheme approached Russell Investments to create the exact momentum factor exposure required for its portfolio to meet its target. The client selected us based on our transparent and intuitive approach to rules-based quantitative investment and its long history of delivering strong performance when capturing factors. The pension scheme was also impressed by our willingness to conduct research to refine the underlying factors it uses as standard for momentum.



1. Calculated based on the currency rate of UK British pounds to Euro of 1.3568.

We provided the fund with research that identified the benefit in accessing the 'stable' momentum characteristics.

Momentum strategies work well through time, however they are prone to severe performance crashes. These crashes occur when there is a large shift in market sentiment (both positive and negative). Russell Investments' Stable Momentum factor portfolio is specifically designed to mitigate the severity of these 'momentum crashes'. This is achieved by looking beyond the regular 12 month return and identifying those stocks that have not only strong returns but have also achieved these returns with a higher level of consistency. By identifying companies with a consistently strong return pattern it increases the likelihood of those returns persisting in the future.

Our team created a Global Large Cap Momentum strategy using a custom algorithm that puts the factor exposure at the centre of the portfolio construction process. To customise its portfolio to meet the client's high risk tolerance and sophisticated underlying factors, the team drew on a methodology that provides flexibility to dial up or dial down the active risk of the portfolio. This enabled multiple simulations, expanding and dampening tracking error and volatility to appropriately match the pension scheme's investment beliefs.

## Results

Our comprehensive research, proprietary trading platforms and expertise in managing the underlying factor exposure within a portfolio provided a customised, discrete momentum exposure to meet the scheme's specific risk profile and desired return drivers.

The pension scheme appreciated our flexibility and the efforts taken to deliver the precise exposure the in-house team was seeking.

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**For more information please contact your financial adviser.**

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