

# Factor Investing

UNLOCKING THE REAL  
DRIVERS OF RETURN

**BLACKROCK**<sup>®</sup>



# Factor Investing Unlocks the Real Drivers of Return

Investing is harder than ever today.

The good news is that **factor investing**—a time-tested concept now taken to new levels by advances in data and technology—**is empowering investors by identifying and precisely targeting broad, persistent and long-recognized drivers of return.**

BlackRock **draws on industry-leading data, analytics and trading capabilities to unleash the power of factors** across a range of strategies and asset classes.

BlackRock created the first factor fund—innovation and leadership that continues to this day.<sup>1</sup>

<sup>1</sup> Wells Fargo, a BlackRock predecessor firm, created the first factor fund, an equal-weighted index strategy based on the S&P 500 Index, in 1971.

## *Enlighten*

your understanding of what's inside—and really driving the performance of—your portfolio.

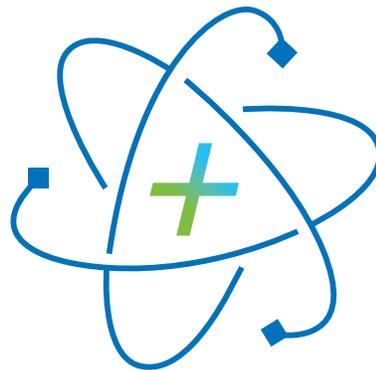


## *Unlock*

the potential of your investments with intuitive sources of return to help build a truly diversified portfolio.

## *Enhance*

your portfolio by leveraging these drivers to pursue higher returns and reduced risk.



# A Factor Revolution Decades in the Making

**The concept of factors isn't new.  
But their use is being revolutionized by technology.**

Since the 1930s, **factors have been researched and analyzed by academics—and have rewarded investors who tapped into their potential.**<sup>2</sup>

But until recently, gathering the vast amount of information required was an inexact science, and largely the provenance of institutional investors and active fund managers.

**Today, advances in technology are forefront—creating the potential for deeper understanding of these return drivers.**

Factor insights are now captured digitally and screened with blinding speed. The widespread availability of data allows investment managers to isolate, surface, combine and calibrate information with greater precision and sophistication, and offer them in new types of strategies.

**Factor-based strategies have taken information that was once accessible only to large institutions and put it within reach of all investors.**

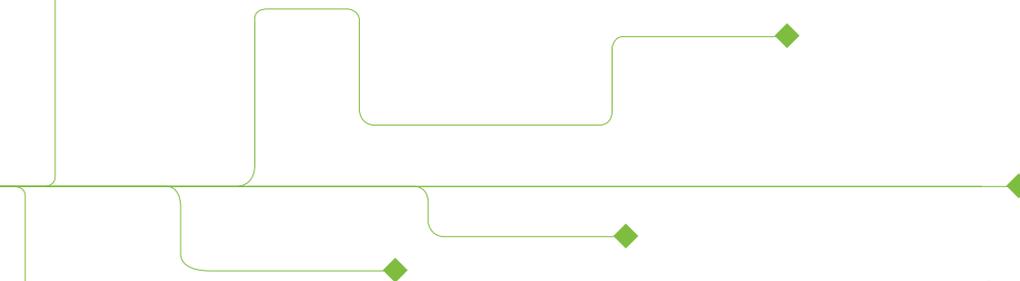
<sup>2</sup> See BlackRock paper “Factors: What Are They, Why They’ve Worked, Ways to Get Started,” Andrew Ang, 2016.



## What Are Factors?

**Factors are the foundation of all portfolios—the broad, persistent forces that ultimately drive returns of stocks, bonds, currencies and other assets.**

Think of them like “nutrients” that fuel your portfolio. Just as you need to know the right mix of nutrients to best support your body’s needs, understanding which factors drive returns in your portfolio can help you choose the right mix of assets and strategies for your investment needs.



## Why Can Factors Work?

Factors potentially earn long-term returns by allowing investors to take advantage of specific opportunities in the market:

**Rewarded risk:** Certain factors can help zero in on assets that earn higher long-term returns because they bear higher risks.

**Structural impediments:** Market rules or restrictions make some investments off-limits to certain investors, creating opportunities for others who can invest.

**Behavioral biases:** Investors often act irrationally, for example, chasing high-priced and risky stocks. Factors can help uncover opportunities for those who can take a contrarian view.



# The Different Types of Factors

## MACROECONOMIC FACTORS

**Macroeconomic factors capture broad risks that exist across asset classes.**

Our research suggests that risks associated with economic growth, real rates, inflation, credit, liquidity, and emerging market factors explain over 90% of asset class variation.

**Potential reward for:**

### ECONOMIC GROWTH

Bearing exposure to the business cycle



### CREDIT

Lending to companies, as opposed to governments



### REAL RATES

Bearing risk of rising rates



### EMERGING MARKETS

Absorbing the additional political and economic risk from investing in emerging markets



### INFLATION

Assuming exposure to changes in prices



### LIQUIDITY

Holding illiquid assets



## COMBINING FACTORS



Combining multiple factors into impact, potentially helping smooth

## STYLE FACTORS

**Style factors explain risks and returns within asset classes**, including not just equities but also fixed income, commodities, currencies, and even private markets like private equity and real estate.



### MINIMUM VOLATILITY

Stable stocks can potentially outperform more volatile stocks on a risk-adjusted basis



### QUALITY

Financially healthy firms have typically performed better over time



### MOMENTUM

Stocks with strong recent performance have tended to maintain higher returns



### SIZE

Small, high-growth companies have tended to outperform their larger counterparts



### CARRY

Additional income to incentivize investing in riskier assets



### CURVE

Structural demand for longer-dated bonds means shorter-dated bonds can be relatively undervalued



### VALUE

Inexpensive stocks relative to fundamentals such as price-to-earnings have tended to outperform

a holistic, diversified solution can have an even more powerful out returns through business and economic cycles.

# BlackRock Offers Two Key Ways to Access Factors

## ◆ Smart Beta Strategies:

**Smart beta strategies are the “gateway” to factor investing**—designed to harvest broad, persistent drivers of returns by taking advantage of economic insights, diversification and efficient trading execution.

Smart beta strategies **screen thousands of securities to capture single or multiple factors transparently and efficiently.** They seek a different outcome than a traditional index return, such as improved performance, lower risk, or both.

## ◆ Enhanced Factor Strategies:

Investors can access factors in more advanced ways with **dynamic strategies that invest across multiple asset classes** and may employ leverage and shorting. Enhanced factor strategies may allow managers to make active factor decisions to try to generate excess returns.

Investors can use these strategies to **seek absolute returns or to complement hedge fund and traditional active strategies.**

◀ Capitalizing on a research team and Aladdin analytics, BlackRock offers a range of solutions designed to **UNLOCK the power of factors** to achieve a truly diverse portfolio and **ENHANCE your investments to pursue specific objectives.** ▶

# FACTORS

TWO WAYS TO ACCESS:

## BETA

Targets returns that track broad cap-weighted market indexes

## SMART BETA

Minimum Volatility  
Multi-Factor  
Single-Factor

## ENHANCED

Style Advantage  
Market Advantage

## ALPHA

Targets returns through active security selection and other subjective decisions

# BlackRock: Built for Factor Investing

When it comes to capturing the power of factors, expertise matters.

BlackRock can **bring together the global reach, breadth of products, integrated technology and investment brainpower needed to harness the insights at the heart of factor investing**—and provide potential solutions to help investors act on them.

We pursue a prudent approach that aims to identify those factors that have been rewarded over the long term and demonstrate:

- + Strong economic rationale
- + Potential diversification benefits
- + Opportunity to create value
- + Ability to be captured in a transparent and repeatable way

# PIONEER:

**BlackRock is a leader in factor investing,** launching the first factor fund in 1971 and driving innovation in the category for over 40 years.<sup>3</sup>



BlackRock created the  
*FIRST FACTOR FUND*  
and has  
*40+ YEARS*  
of factor investing  
experience

# EXPERT:

**Your dedicated factor-based strategies team is focused on designing the next generation of offerings,** leveraging decades of experience in investment research, implementation and trading execution.

Through our Aladdin technology platform, we are leading the way in using advances in data and technology to help investors broaden their factor insights.

# PARTNER:

**We come alongside our clients to offer customized analytics tools that illuminate portfolios through a factor-based lens.**

This helps us advise them on the strength of their current allocations or partner with them on allocation decisions and strategy design.

<sup>3</sup> The fund was created by a predecessor firm.

To learn more about the factor revolution,  
please visit us at:



[blackrock.com/factors](http://blackrock.com/factors)

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