

# RAFI™ Multi-Factor Climate Transition Index Series

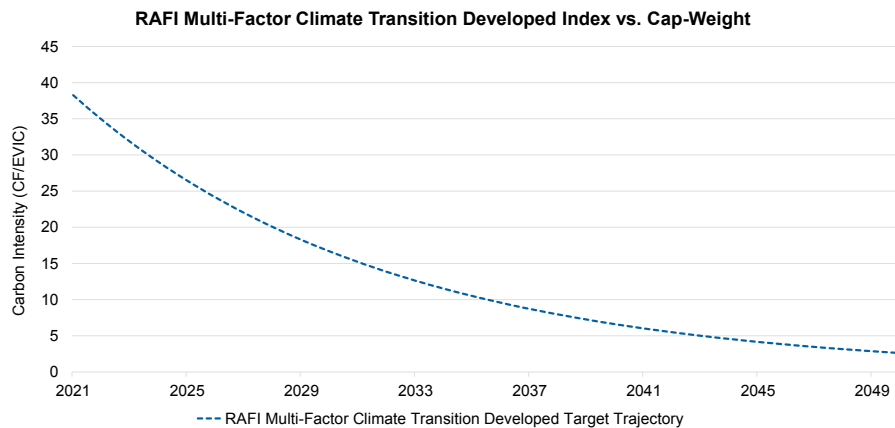
## BENEFITS OF FACTOR INVESTING WITH A DECARBONIZATION PATHWAY

The RAFI Multi-Factor Climate Transition Developed Index strategy aims to provide diversified exposures through allocations to value, low volatility, quality, and momentum while simultaneously incorporating specific objectives related to greenhouse gas (GHG) emission reductions and the transition to a low-carbon economy.

## NEXT GENERATION IN CLIMATE-FOCUSED STRATEGIES

- Integrates objectives related to GHG emission reductions
- Diversifies exposure to robust factors
- Incorporates thoughtful design and implementation

## RAFI MULTI-FACTOR CLIMATE TRANSITION DEVELOPED INDEX



For illustrative purposes only. This chart represents a simulated RAFI Multi-Factor Climate Transition Developed Index strategy from to illustrate the carbon intensity reduction path over time. The data published herein are simulated. Source: Research Affiliates, LLC, based on data from ISS and FactSet.

## RELATED RESEARCH

**“The Time Is Now: Climate Transition Investing for US Investors”**

Brightman, Kalesnik, Polychronopoulos

**“Green Data or Greenwashing? Do Corporate Carbon Emissions Data Enable Investors to Mitigate Climate Change?”**

Kalesnik, Wilkens, Zink

**“Is ESG a Factor?”**

Polychronopoulos, West

## INDEX OVERVIEW

### Aligned with EU climate transition benchmarks\*

1. At index launch, 30% carbon intensity reduction
2. Minimum 7% reduction in carbon intensity per year
3. Exposure to high-impact sectors
4. Minimum exclusions align with engagement programs:
  - UN Global Compact Violators
  - Coal
  - Controversial weapons
  - Tobacco

## Additional benefits

1. Promotes emissions disclosure by penalizing companies that fail to disclose carbon emissions.
2. Reduces exposure to carbon-inefficient companies slow to adopt to a low-carbon economy.

*The RAFI Multi-Factor Climate Transition Index strategy supports the ambitions of the Paris Agreement.*

Signatory of:



\* Minimum benchmark standards per EU climate transition benchmark requirements as of March 2020.

## A DIVERSIFIED MULTI-FACTOR APPROACH

Theoretical and empirical evidence shows that factors, including value, low volatility, quality, and momentum, deliver long-term positive excess returns.

Factor	Measure	Why It Works
 Value	$\frac{\text{Fundamental weight}}{\text{Cap-Weight}}$	Performance chasers under-own value securities (preferring fast-growing glamour stocks), driving prices down, yields up, and future returns higher.
 Low Volatility	Systematic Risk <ul style="list-style-type: none"> <li>Global Beta</li> <li>Industry Beta</li> <li>Country Beta</li> </ul>	Investors' preference for gambling leads them to over-own high-volatility securities.
 Quality	High Profitability & Conservative Investment	Investors are drawn to the glamour of empire-building companies and underappreciate conservative capital allocators with wide economic moats.
 Momentum	<ul style="list-style-type: none"> <li>Standard</li> <li>Beta-Adjusted</li> <li>Reversal-Adjusted</li> </ul>	Uninformed investors are slow to react to new information about a company.

## FORECASTING TOOL



### Asset Allocation Interactive

Estimates of long-term expected returns for 130+ assets and model portfolios across five currencies with the ability to create, save, and blend customized portfolios.

Visit [researchaffiliates.com/aai](https://researchaffiliates.com/aai).

## RELATED RESEARCH

### "A Framework for Assessing Factors and Implementing Smart Beta Strategies"

Hsu, Kalesnik, Viswanathan  
July 2015 | *The Journal of Index Investing*

### "Trade-Off in Multifactor Smart Beta Investing: Factor Premium and Implementation Cost"

Li, Shim  
March 2019 | *Financial Analysts Journal*

## RESEARCH AFFILIATES

### At a Glance

**US\$147B\***

in assets managed worldwide using investment strategies developed by Research Affiliates.

### 400+ articles published

Important recognitions\*\* include:

#### Graham & Dodd Awards

"What Is Quality?"

"Reports of Value's Death May Be Greatly Exaggerated"

#### William F. Sharpe Indexing Achievement Award

"Fundamental Indexation"

"Rebalancing and the Value Effect"

#### Bernstein Fabozzi/Jacobs Levy Award

"Alice's Adventures in Factorland: Three Blunders That Plague Factor Investing"

"A Study of Low-Volatility Portfolio Construction Methods"

## 2002

Founded by Rob Arnott and based in Newport Beach, California.

## FIRM LEADERSHIP

Average of **40 years** in industry experience.



**Rob Arnott**  
Partner, Chair



**Chris Brightman, CFA**  
Partner, Chief Executive Officer & Chief Investment Officer



**Katrina Sherrerd, PhD, CFA**  
Partner, Vice Chair



**Campbell Harvey, PhD**  
Partner, Director of Research

\*As of March 31, 2024

\*\*Research Affiliates, LLC and its affiliates did not pay fees to be considered for the awards mentioned herein.

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