






# RAFI™ Multi-Factor Index Series

## BENEFITS OF FACTOR INVESTING WITH INCREASED DIVERSIFICATION

The RAFI Multi-Factor Index strategy offers diversified factor exposures through equally weighted allocations to value, low volatility, quality, momentum, and size. By combining multiple factor exposures, investors can achieve increased diversification and lower tracking error, resulting in a smoother path to outperformance relative to a single-factor approach.

- Uses empirically robust single-factor strategies
- Diversifies factor exposures for a smoother ride
- Implements a rules-based, transparent index construct

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

Factor	Measure	Why It Works
 <b>Value</b>	$\frac{\text{Fundamental weight}}{\text{Cap-Weight}}$	Performance chasers under-own value securities (preferring fast-growing glamour stocks), driving prices down, yields up, and future returns higher.
 <b>Low Volatility</b>	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.
 <b>Quality</b>	High Profitability & Conservative Investment	Investors are drawn to the glamour of empire-building companies and underappreciate conservative capital allocators with wide economic moats.
 <b>Momentum</b>	<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.
 <b>Size</b>	Average of value, low volatility, quality, and momentum	The other four factors tend to work better in small-cap markets, because these markets are typically less efficient and experience larger pricing errors.

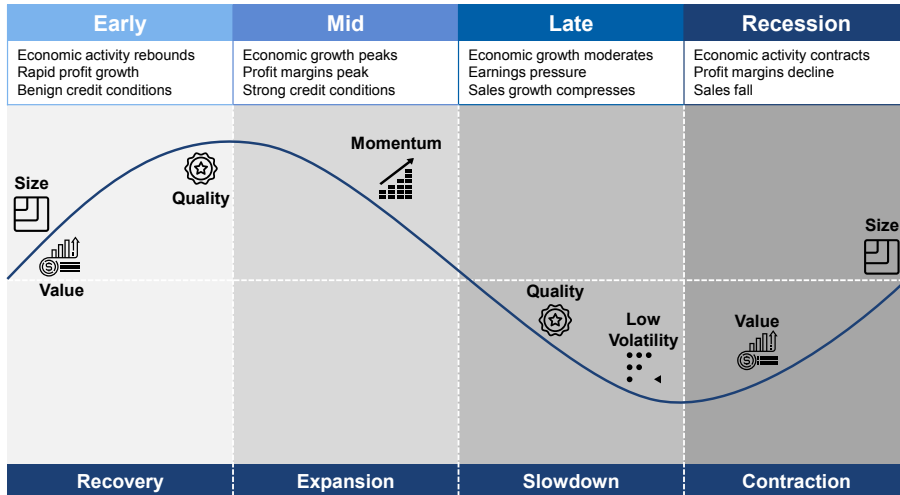
## INDEX OVERVIEW

### Expected Outcomes and Benefits

1. The RAFI Multi-Factor Indices combine five theoretically and empirically robust single-factor strategies, offering investors the potential to earn a return premium relative to a market-cap index.
2. The strategy incorporates thoughtful design and low-cost implementation, which allows for straightforward performance measurement and governance.
3. By diversifying the factors in a portfolio, substantially lowering tracking error, and providing shorter periods of underperformance, the strategy offers a favorable risk/return profile compared to a single-factor strategy.
4. By preserving the positives of traditional passive investing—simple, transparent, and low cost—the strategy also uses regular periodic rebalancing to help capture excess return from long-term mean reversion.

*The RAFI Multi-Factor is a smart beta equity strategy that offers diversified factor exposures for investors seeking a rules-based, transparent multi-factor strategy.*

## FACTOR BEHAVIOR THROUGH THE BUSINESS CYCLE



For illustrative purposes only.

## OUR 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.

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



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Partner, Chair



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



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\*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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