

For professional clients only

The Aon Factor Service

A multi-factor solution

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AON
Empower Results®

Aon has designed and launched a multi-factor equity solution based on detailed research, reflecting our best ideas and beliefs.

This gives our clients great potential for long-term return enhancement and risk reduction at low cost and in a low governance framework.





Client-driven innovation

Our multi-factor solution

With investors increasingly looking towards factor investing to diversify and improve the investment efficiency of their equity portfolios, we put our ideas on factors into practice. We launched a customised multi-factor index in August 2018.

Evolving the factor service to meet client needs

To support clients with changing views on responsible investing, our solution includes a low carbon tilt, filtering the investment universe to tilt away from companies with a high carbon footprint, as well as including a series of exclusions from the most controversial companies and sectors.

All this is done while preserving the underlying factor exposure and diversification as well as our assessment of the potential long-term performance. These changes reduce the weighted average carbon intensity of the fund by more than 40% compared to a market-cap index.

Our philosophy

Long-term client-driven innovation is core to our developments in factor investing. We believe clients can do better than passively tracking a market-cap weighted global equity index that contains hidden concentration risks.

We offer practical solutions to the issues of limited governance resources and value for money while still giving clients access to best ideas. Our new solution delivers some of the best active management strategies at index tracking fee levels in a governance-light product.

"It has been a great initiative to partner with Aon to create this multi-factor fund for its clients. As part of an academic institution, we are particularly pleased that there has been a meeting of minds on investment beliefs and research philosophy – and on our shared goal of demystifying smart beta and improving outcomes for investors."

Akshay Kapoor,
Executive Director,
Edhec Institute

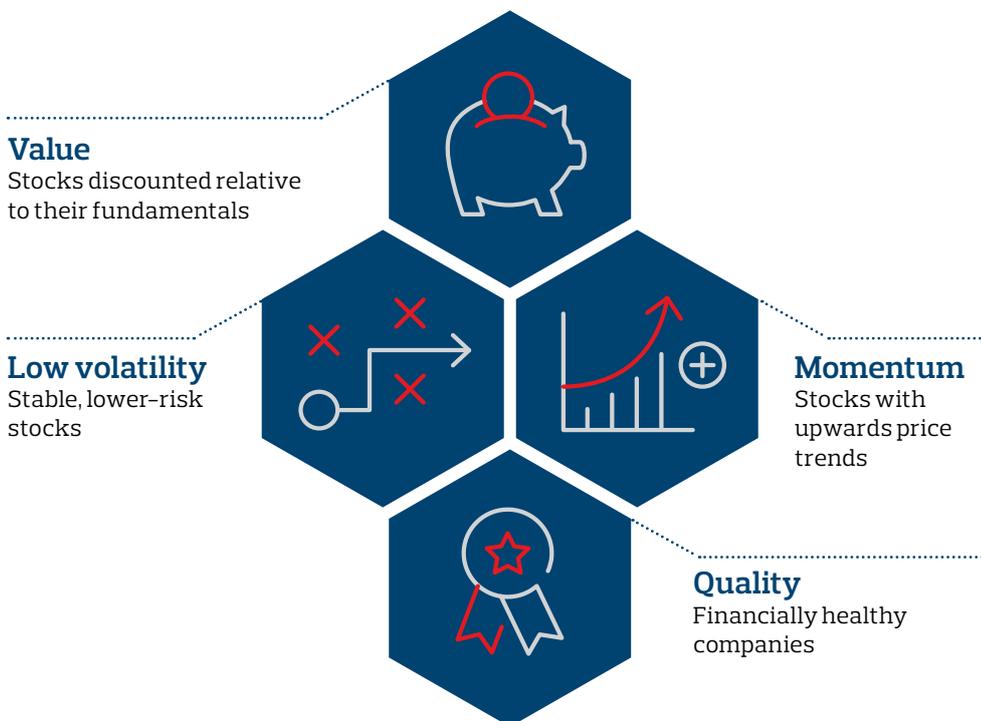
Innovative research

In 2013, we partnered with Cass Business School. This research identified that alternative weighting schemes add value, amongst them indices that targeted specific risk ‘factors’ based on sound economic rationale.

We did an extensive review of the academic literature, carrying out analysis on the ‘factor zoo’ (comprising of over 400 factors). We narrowed the universe down to those factors that were statistically significant then applied these five criteria to test factors:

- **Persistent** – evidence of long term excess returns, in different economic environments
- **Pervasive** – work across countries, universes and asset classes
- **Robust** – to changing definitions of the factor for example, ie, earnings yield instead of the book value to price ratio
- **Intuitive** – can be explained, either based on economic theory or relying on investor behaviour
- **Implementable** – it is not just a concept on paper and an investor can actually invest

We identified four factors (shown below) which have the potential to offer long-term outperformance and deliver better risk-adjusted returns than the market cap index over the long term. We believe this research stands us apart from other providers.



Creation of a multi-factor index

We used competitive tender processes to select the best providers to implement our ideas, including Scientific Beta, Edhec Institute and LGIM to create an index and investible fund.



A nighttime cityscape featuring illuminated skyscrapers and light trails from traffic on a highway. The scene is dark, with the lights from the buildings and traffic providing the primary illumination. The light trails are long and horizontal, suggesting a long exposure photograph. The buildings are multi-storied and have many windows lit up, creating a grid of light points. The overall atmosphere is one of a busy, modern urban environment at night.

"Investors around the globe are looking for ways to ensure deeper diversification of their investments and this multi-factor index will help to address challenges around the efficiency of equity portfolios. This global partnership brings together factor based investing and index expertise from Scientific Beta and Legal & General Investment Management, as well as Aon's considerable industry experience and high quality research, to provide DB and DC clients with a tailored solution that will meet specific investment objectives."

Adam Willis, Head of Index & Multi-Asset Distribution at LGIM

£1.5bn

invested in the
Aon Factor Service
since launch in
August 2018

Delivering added value

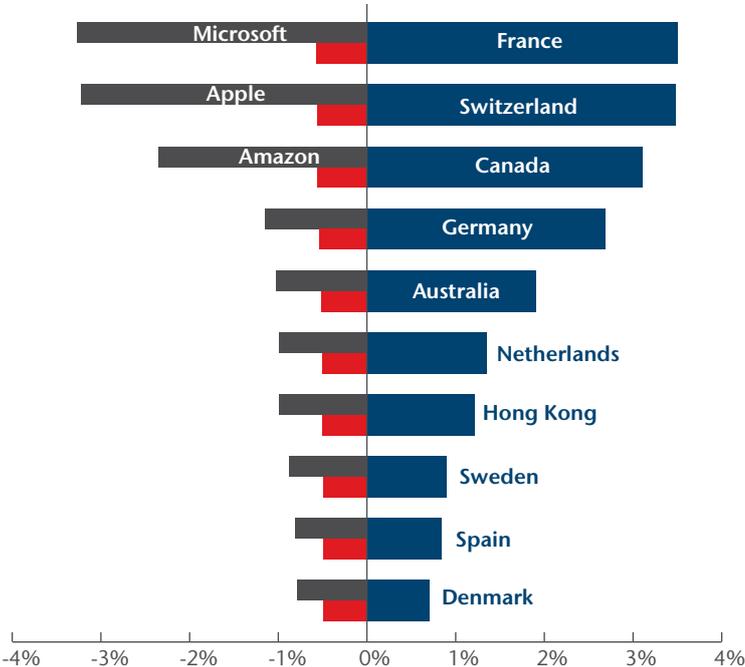
Controlling for hidden risks

Stock concentration

Market-cap indices suffer from a concentration of risk in individual companies that investors are typically unaware of. The top 10 stocks represented in the MSCI World Index are comparable in size to entire countries.

We believe that idiosyncratic risk is unrewarded and, by controlling for this within index construction, this creates a more diversified portfolio, allowing the factors, rather than individual stocks, to drive performance.

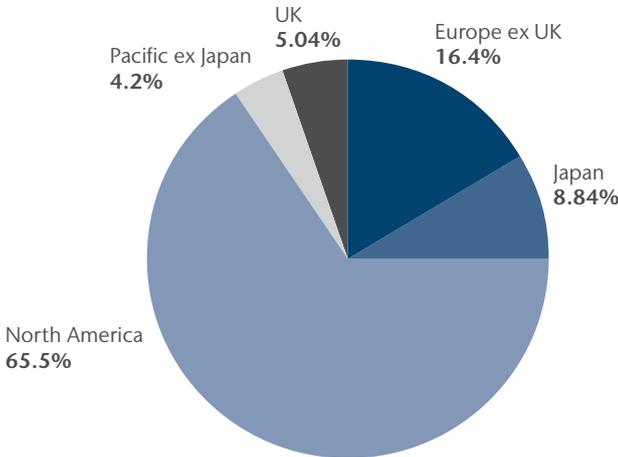
- Index weights of top 10 stocks in MSCI World Index
- Index weights of top 10 stocks in the Factor Index in our solution
- Index weights of top 10 countries in MSCI World Index



Source: MSCI. Top 10 countries in MSCI World Index exclude US, UK and Japan. Data as at 31 March 2020.

Regional allocation

To the right we show the regional allocation of our multi-factor index, controlled to remove the impact of regional biases. Sector level controls are also in place to ensure effective diversification.



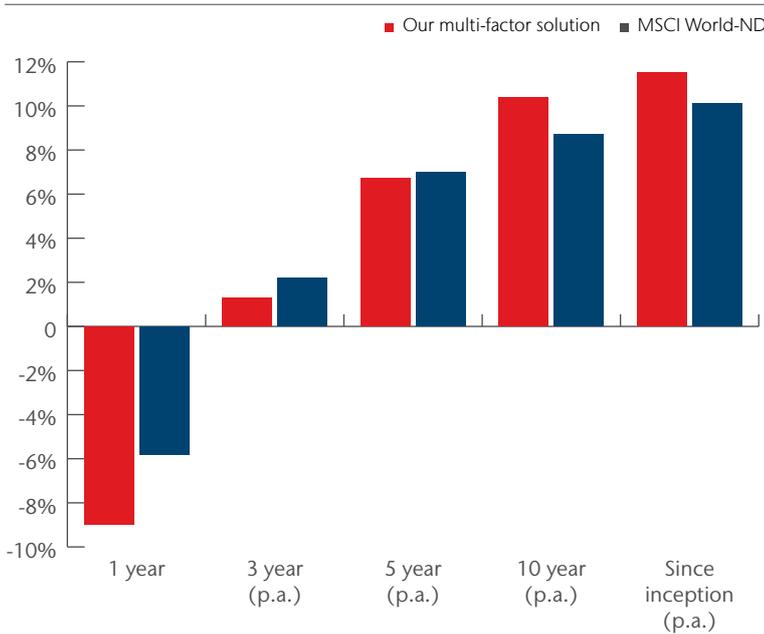
Source: eVestment. Data as at 31 March 2020.

Strong historic returns

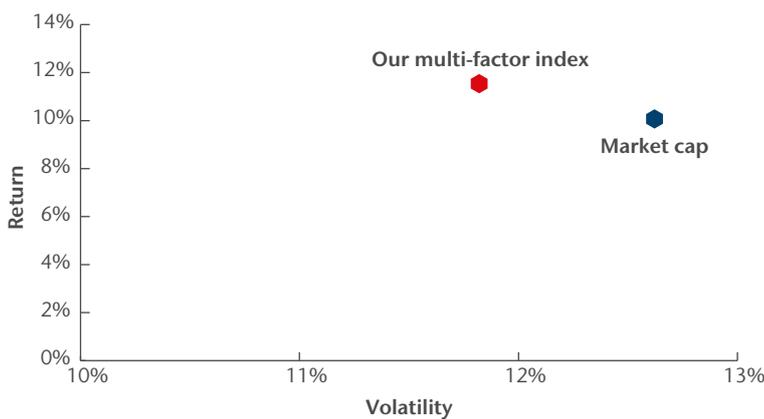
Back-test shows higher return for lower risk

Our multi-factor back-test shows better long-term returns, at a lower level of risk, versus the market cap index over more than the last 10 years.

Performance versus global index to 31 March 2020



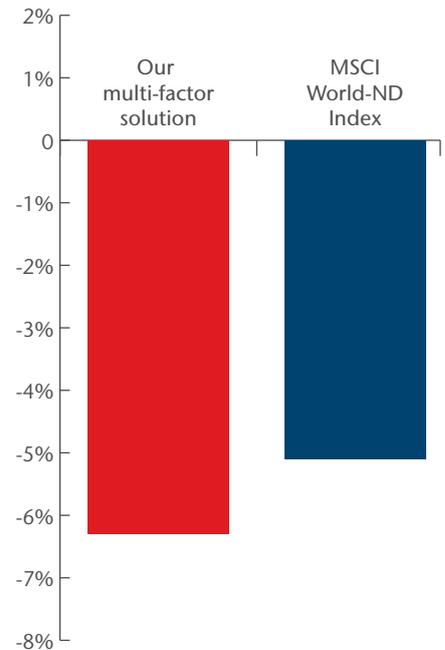
Risk/return versus global index to 31 March 2020



Source: Aon, eVestment, Scientific Beta. Performance chart uses combination of simulated returns and live data. Performance figures are based on market back testing and do not account for transaction costs. Returns in GBP. Returns shown till 31 March 2020. Since inception of the index is January 2009. The multi factor index is comprised of Value (25%), Low Volatility (25%), Momentum (25%) Quality (12.5% Profitability & 12.5% Low Investment) equally weighted indices.

Live fund performance

The Fund launched on 8 August 2018.

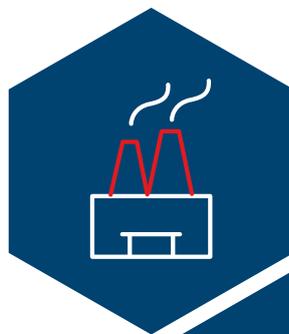


Source: LGIM, Datastream. Fund performance is shown net of fees. Returns shown to 31 March 2020. Past performance is not a guide to future returns

Incorporating Environmental, Social and Governance considerations

Providing exposure to academically robust sources of return remains our primary objective, but our solution also incorporates a number of aspects which seek to address some additional risks faced by our pension scheme clients.

What?



Carbon footprint

We filter the investment universe to tilt away from companies with a higher carbon footprint and we exclude coal producers altogether.



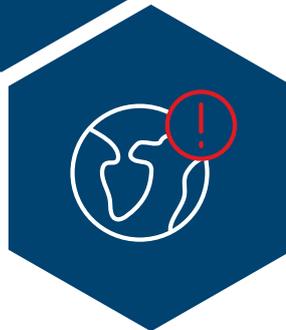
Tobacco

We exclude manufacturers of tobacco products.



Controversial weapons

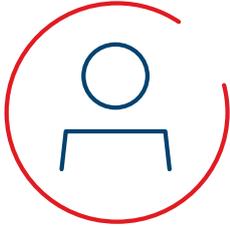
We exclude companies with involvement in controversial weapons.



UN Global Compact

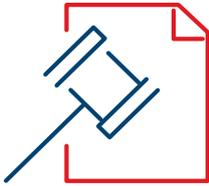
We exclude companies that violate the UN Global Compact.

Why?



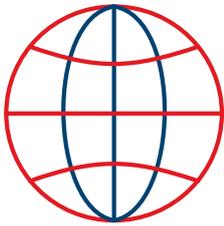
It is important to clients.

The results from Aon's Global Responsible Investment Survey suggested a growing importance of Responsible Investment for investors. In particular, when looking at what investors screen for, all investor types agreed that fossil fuels / carbon footprint ranked first amongst the various options.



Regulatory pressure is growing.

In keeping with recent legislation aimed at pension scheme trustees, the index construction process incorporates climate change considerations, but also addresses several social concerns.

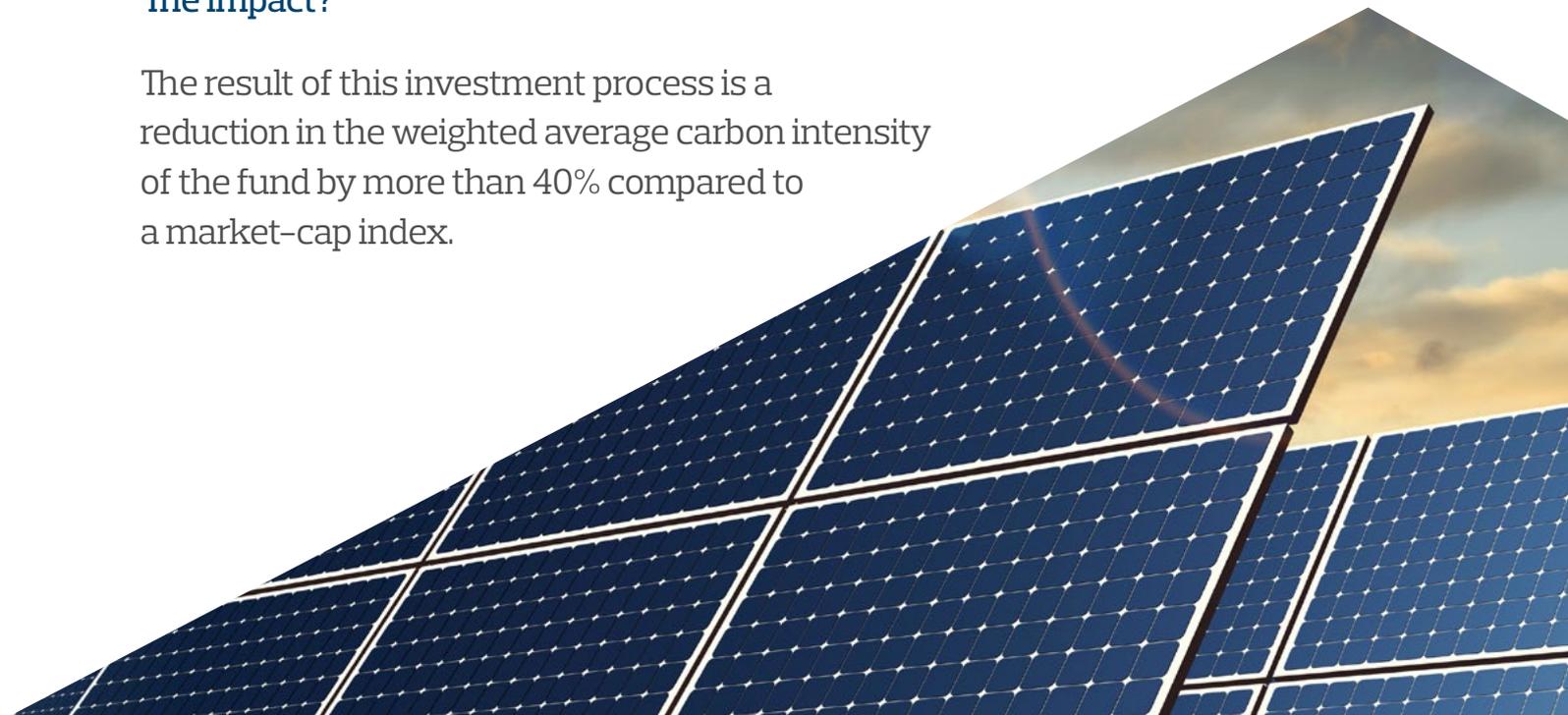


The solution considers a wider range of risks.

Our clients are typically long-term investors, allocating assets across the global economy to manage risks and deliver sustainable returns. The global economy is presenting investors with new and evolving challenges, from the environment to social and economic justice.

The impact?

The result of this investment process is a reduction in the weighted average carbon intensity of the fund by more than 40% compared to a market-cap index.



Reasons to invest in the Aon Factor Service

Target outperformance over the long-term compared to the market

Seek greater diversification of equity investments at low cost

Consider ESG risks within the investment approach

Contact

To talk to us about our multi-factor equity solution or about any of the points raised in this document, please contact your usual Aon consultant or contact us on the details below:

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**FACTOR INVESTING
OFFERING OF THE YEAR**

2020 ASSET MANAGEMENT AWARDS



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For further information on our capabilities and to learn how we empower results for clients, please visit <http://aon.mediaroom.com>.

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