

FACE TO FACE KATRINA SHERRERD

Welcome the godmother of smart beta and diversity

INTERVIEW

New CEO comes out of Rob Arnott’s shadow to take the wheel at Research Affiliates

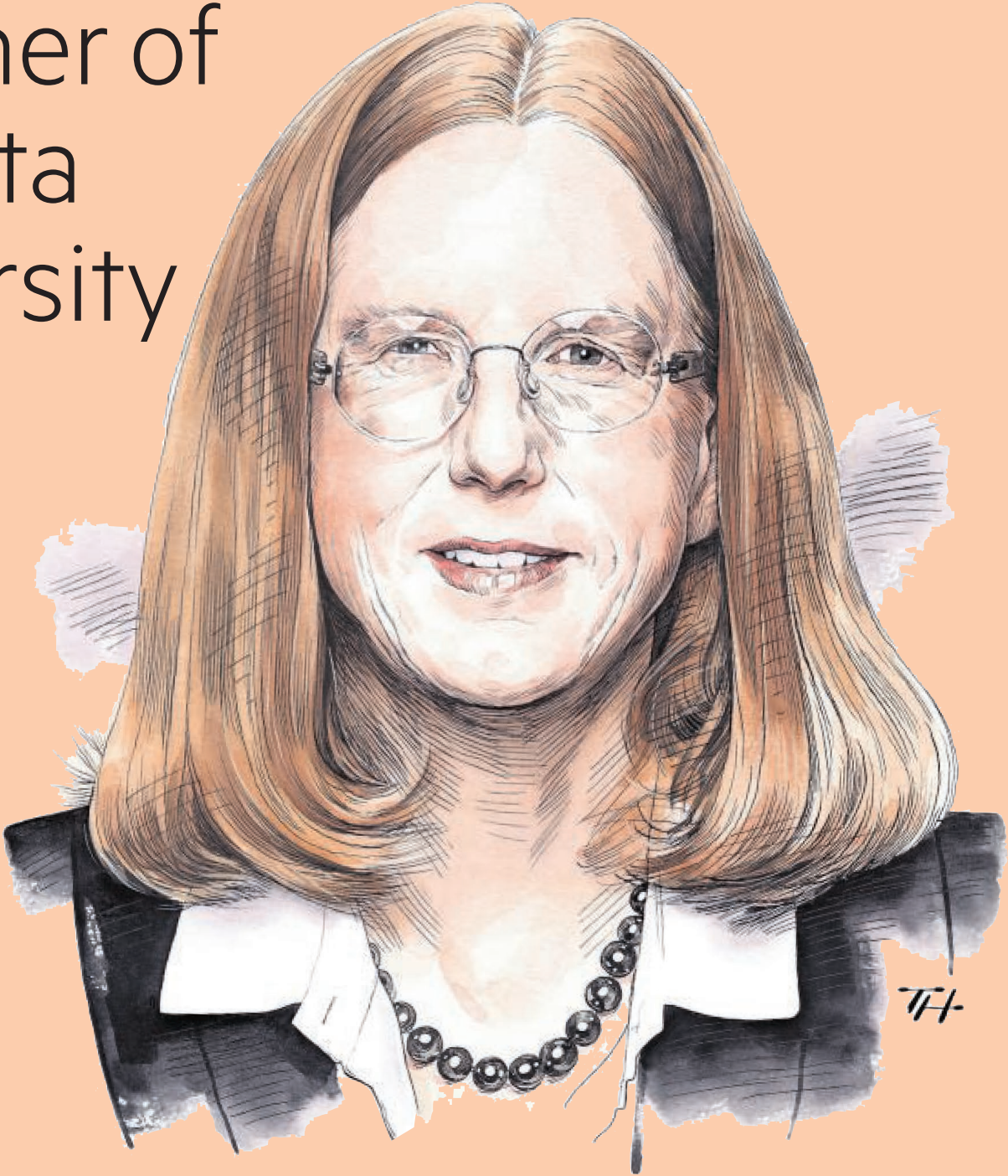
JENNIFER THOMPSON

Katrina Sherrerd has big shoes to fill. Rob Arnott, the previous chief executive at Research Affiliates, founded and headed the business for 16 years and was dubbed “the godfather” for his approach to investing. Californian Ms Sherrerd is undaunted. “You’ll see me writing more and speaking more [but] I was pretty much running the firm anyway,” she says. Her promotion in August followed a dozen years as president of the Newport Beach-based provider of indices and data analytics.

Mr Arnott remains as chairman of the company. Ms Sherrerd says this will give him more time to share his theories with clients. “He likes to get his ideas out there – that’s what energises Rob.” Those ideas have been influential. Research Affiliates developed some of the first smart beta indices in the early 2000s; the company is still an important name and \$182bn in assets is linked to its ideas.

Smart beta is a hybrid investment approach that takes a basic passive strategy and tweaks it to try to generate above-market returns, for example by excluding stocks that have shown the most volatility. It proved a hit as managers looked for cheaper alternatives to expensively managed funds and assets under management in smart beta strategies ballooned from \$143bn in 2009 to \$1.1tn at the end of May, according to Morningstar, the data provider.

Smart beta indices developed by Research Affiliates are used by groups including Pimco, Invesco and FTSE Russell. Mr Arnott’s name is so connected to the approach that he is known as the “godfather of smart beta”. Ms Sherrerd, however, is also a company veteran. She joined Research Affiliates in 2006 following a career in academia and close to two



Born 1957

Salary Not disclosed

**Education**  
1979 BS finance and management information systems, University of Virginia  
1983 MS, MIT  
1987 PhD in finance, Darden School, University of Virginia

**Career**  
1979-80 Financial analyst, DuPont  
1980-83 Consultant, Anistics  
1983-92 Finance lecturer, University of Virginia  
1987-2006 Various roles, CFA Institute  
2005-06 Visiting professor, University of Virginia  
2006-18 President, Research Affiliates  
2018-present Chief executive, Research Affiliates

decades at the CFA Institute, the professional body for investment professionals.

Research Affiliates prizes the intellect of its employees and wants them to be free to express opinions. It is easy to see why the former academic, who prefers a two-way discussion to holding court, has remained there.

Succession planning at founder-led companies is often sensitive but Ms Sherrerd is blunt about the need for the group to look beyond the Arnott era. “We want him to stay involved forever but he won’t live forever,” she says, speaking at the group’s London office in Mayfair. “We want to move the firm to be successful post-Rob. We have to transition from a superstar-led firm.”

“One of my core objectives is the next generation,” she says. “Skill alone is not enough. We don’t want a highly skilled jerk.”

Ms Sherrerd wants to boost mid-level employees by giving them more responsibility and she emphasises the need to include colleagues from different backgrounds. “The research shows pretty clearly that when you bring together a cognitively diverse team they make smarter decisions.”

Research Affiliates specialises in designing indices and investment strategies. Close to \$140bn is linked to its RAFI strategies, the group’s most popular licensed suite of indices, where it takes a standard index and reweights it according to various factors.

The company manages some portfolios and is a subadviser on some strategies but its focus is not managing assets but guiding others. Pimco, for whom it provides equity strategies, is a longstanding client. She says the economics “are reasonably good in the US” but uncertainty is high and greater volatility likely.

Like Mr Arnott, Ms Sherrerd predicts a comeback for value investing, an approach that favours stocks trading at low valuations compared to book value. “We are on the verge of seeing value coming back,” she says.

A recent push into offering environment, social and governance-related products is yet to capture much investor interest.

About 15 months ago Research Affiliates launched its first ESG indices. None has assets linked to them yet but Ms Sherrerd expects they will within a few months. “In the US the

Research Affiliates
Assets \$182bn is linked to its ideas
Established 2002
Headquarters Newport Beach, California
Employees 88
Ownership: Partners

entities we’ve talked to are still trying to figure out if there’s demand,” Ms Sherrerd says, adding that some investors remain unconvinced about potential returns. “This is a big education effort.”

One threat to Research Affiliates, which does not disclose its financial performance, comes from fund managers creating their own indices. “There’s an aspect of self-indexing that I respect,” Ms Sherrerd says but she argues that the complexity of developing indices is underestimated. “[We] won’t satisfy everyone. There will always be someone who wants a cheaper product.”

Ms Sherrerd, who likes powerboating in her free time, is one of the few female chief executives in the investment industry. Others include Mary Callahan Erdoes, chief executive of asset and wealth management at JPMorgan, and Michelle Seitz at Russell Investments.

On her flight to London, she watched the Hollywood biopic about US Supreme Court judge Ruth Bader Ginsburg. It causes her to reflect on the slow pace of change when it comes to gender diversity.

“I’m a huge believer in lots more transparency,” she says. “I love what you did in the UK in requiring companies to report the gender pay gap. Those kinds of initiatives are going to get people’s attention.”

Research Affiliates could not provide a gender breakdown of its own workforce but Ms Sherrerd believes a third are women.

Of its 18 partners, three, including Ms Sherrerd, are women. Despite the imbalance she is opposed to quotas as a way to increase diversity.

California introduced quotas last year. “It’s going to be extremely difficult,” she says of the shake-up. “Many boards would require board members [to] have CEO experience.”

She believes the rate at which women are represented at the highest echelons of finance will pick up, driven by wider cultural changes including the #MeToo movement.

“I’m ever the optimist. I believe it’s going to be different this time,” she says. “I believe #MeToo has brought a lot of these uncomfortable issues to the public [attention].”



# Performance as of June 30, 2019

Average Annual Total Returns %

Index	1 Year	3 Year	5 Year	10 Year
Equities – Europe				
RAFI Fundamental Europe Index	-0.6%	10.7%	1.5%	7.4%
RAFI ESG Europe Index	1.8%	10.1%	1.7%	7.9%
MSCI Europe Benchmark	1.6%	11.1%	2.9%	6.2%
Equities – Emerging Markets				
RAFI Multi-Factor Emerging Markets Index	5.0%	10.7%	1.5%	7.4%
RAFI Fundamental Emerging Markets Index	1.8%	10.1%	1.7%	7.9%
MSCI Emerging Markets Benchmark	2.5%	9.8%	1.9%	7.6%

Source: Research Affiliates, LLC based on data from Bloomberg and FactSet. All returns greater than one year are annualized. Index returns prior to inception are simulated. All returns are total returns unless otherwise indicated. It is not possible to invest directly in any of the indexes above. Annualized returns are geometrically linked returns, calculated using monthly data.

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