INTECH

A JANUS CAPITAL Group Company

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INTECH'S RESEARCH DISCUSSES SOME OF THE UNINTENDED RISKS OF SMART BETA

Smart Alpha Goes One Step Further Toward Eliminating These Risks

West Palm Beach, Florida – INTECH Investment Management LLC (INTECH) has published a report titled "Understanding the Risks of Smart Beta and the Need for Smart Alpha," which discusses some of the unintended risks associated with smart-beta strategies. In the same report, INTECH emphasizes why investors should, instead, focus on smart alpha – an integrated framework that targets a more optimal tradeoff between return, risk and transaction costs than traditional smart beta strategies.

In discussing why INTECH believes that smart alpha is a more-effective methodology for constructing portfolios than smart beta, Richard Yasenchak, CFA, senior vice president and client portfolio manager said "At INTECH, we take smart beta a step further. By systematically and periodically rebalancing our portfolios, we seek to capture stock-price volatility in the form of a rebalancing premium. We believe it makes sense to pursue this potential source of outperformance more directly and efficiently than a single-factor strategy. The result – smart alpha – attempts to create a more diversified portfolio across various industries and factors, while effectively managing exposure risk and improving consistency of returns."

At INTECH, smart alpha also means the ability to customize solutions to meet investors' specific risk budgets and return targets; the deep understanding of when and why reweighting a cap-weighted portfolio improves efficiency and then using this understanding, together with portfolio risk controls, to increase efficiency further. Yasenchak also noted that smart alpha tends to provide better risk controls that potentially lead to higher returns at comparable or reduced risk to smart-beta strategies.

When researching any investment strategy it is important for investors to have a clear understanding of the expected returns and inherent risks such as exposure risk, relative and absolute risk, and implementation risk. Smart beta is an investment term that has become popularized during the past few years. It has come to define an investment methodology used to mitigate exposure to undesirable risk factors or to gain a potential benefit by increasing exposure to desirable risk factors resulting from a tactical or strategic view on the market. Smart-beta offerings are usually rules based weighting strategies designed to provide exposure to market factors such as size, volatility, value, momentum or dividend yield, for example.

As most smart-beta strategies have an element of passive and active management, some investors have difficulty determining how to best characterize them. “In addition to low turnover and some transparency, a passive aspect of smart-beta strategies is that they do not attempt to make explicit forecasts or estimates of returns and risks for individual stocks or the overall portfolio. The active element common to all smart- beta strategies is that they do not hold the cap-weighted benchmark but rather reweight the index based on different factors i.e., size, volatility, value, momentum or dividend yield to gain a potential benefit by increasing portfolio exposure to desirable risk factors resulting from a tactical or strategic view of the market. They are not buy-and-hold strategies like an index.”

About INTECH

For more than 25 years, INTECH, an active, global equity manager, has focused on delivering long-term returns in excess of the target benchmark, while attempting to reduce relative risk. Using the same disciplined and mathematical investment process, INTECH also offers strategies (low and managed volatility), which, over time, seek market-like or above-market returns with less absolute risk. The company’s global headquarters is located in West Palm Beach, Florida, with its research headquarters in Princeton, New Jersey, and an international headquarters in London. As of December 31, 2014, INTECH had approximately $51.0 billion under management and 83 employees worldwide. INTECH has been named a “Best Places to Work in Money Management” company by *Pensions & Investments* in 2013 and 2014. INTECH is an independently managed subsidiary of Janus Capital Group Inc. (NYSE: JNS), based in Denver.

About Janus Capital Group Inc.

Janus Capital Group Inc. (JCG) is a global investment firm dedicated to delivering better outcomes for clients through a broad range of actively managed investment solutions, including fixed income, equity, alternative and multi-asset class strategies. It does so through a number of distinct investment platforms, including investment teams within Janus Capital Management LLC (Janus), as well as INTECH Investment Management LLC (INTECH) and Perkins Investment Management LLC (Perkins), in addition to certain exchange-traded products under the VelocityShares brand. Each team brings distinct asset class experience, perspective, style-specific experience and a disciplined approach to risk. Investment strategies are offered through open-end funds domiciled in both the U.S. and offshore, as well as through separately managed accounts, collective investment trusts and exchange-traded products.

At the end of December 2014, JCG managed approximately $183.1 billion in assets for shareholders, clients and institutions around the globe. Based in Denver, Colorado, JCG also has offices in London, Milan, Munich, Singapore, Hong Kong, Tokyo, Melbourne, Paris, The Hague, Zurich, Frankfurt, Dubai and Taipei.

$$\gamma_{\pi}^{*} = \frac{1}{2}\left(\sum_{i}\pi_i\sigma_i^2 - \sum_{ij}\pi_i\pi_j\sigma_{ij}\right)$$

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