Invesco

A proven, systematic approach to active investing

April 2026

Chris Mellor
Head of EMEA ETF Equity Product Management

Erhard Radatz
Global Head of Portfolio Management, Invesco Quantitative Strategies

Key takeaways

- Systematic active strategies are positioned between pure beta (index trackers) and traditional active (high conviction, stock-picking)
- Enhanced equity strategies aim to outperform their respective index over the long term while offering a "benchmark-like" experience
- ETFs with enhanced equity strategies typically use a systematic approach to generate alpha, by optimising exposure to three factors: quality, value, and momentum

What are active ETFs?
While active management has a long history in the mutual fund world, active strategies are a relatively new concept within the ETF market. The evolution of active ETFs would not be that surprising, however, when you consider that asset managers are responding to the growing demand and broad adoption of the ETF structure. As the range of strategies expands, active ETFs could be seen as a natural extension to existing passive and smart beta approaches.

The term "active ETFs" encompasses a wide range of strategies, but the simplest way to think about this category of ETF is that they don't aim to replicate a benchmark but instead are designed to meet specific objectives such as alpha generation, risk management or income enhancement.

"Beta plus" active strategies fit between pure beta funds that aim to track market-cap-weighted benchmarks and traditional active funds that try to outperform them. There are a variety of "beta plus" strategies along this scale, each potentially using different inputs to generate the alpha and different performance objectives and risk tolerance levels.

What are enhanced equity strategies?
Enhanced equity ETFs typically aim to outperform their respective regional and single country equity markets, without deviating too far from the reference benchmarks. The ETFs do this by using systematic active inputs to generate alpha, while constraining active positions relative to the benchmark. This systematic "beta plus" approach could be a compelling alternative to traditional core beta exposures.

These strategies aim to combine the best of the pure beta and traditional active worlds, offering a high degree of diversification, a similar risk profile and low tracking versus a standard benchmark, along with targeted outperformance over the long term.

Invesco's Quantitative Strategies (IQS) team has been managing the enhanced equity strategies for over 20 years and has sought to deliver a benchmark-aware experience, with strategies that aim to outperform equity markets over the long term.

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Enhanced equity strategies can offer efficient exposure to factor returns
Relative performance since common inception
Enhanced equity strategies aim to deliver an excess return over equity markets while constraining sector and country exposures compared to those of the wider geographical universe. Unlike a traditional passive ETF the strategies do not aim to track a benchmark but do use reference indices to constrain the portfolio and to measure performance.

Example: The process behind a global enhanced strategy
Enhanced equity ETFs are typically built around the same systematic investment approach. To illustrate how the strategy works in practice, we can consider a global enhanced UCITS ETF that references the MSCI World index for performance comparison purposes.

When considering this ETF, a proprietary model could be used to assess and rank the attractiveness of equities in a global universe of liquid large- and mid-capitalization developed market securities. Comparisons could then be conducted within industry groups in each region to ensure comparability. The starting universe could comprise around 3,000 stocks, twice the MSCI World index, providing a greater opportunity set for selecting the model portfolio.

An optimisation process could then be applied, looking for the best trade-off between the fund's exposure to value, quality and momentum factors, risk considerations and transaction costs. This proprietary model can ensure a broad diversified portfolio both in terms of risk contribution from individual stocks as well as from the three factors. The final portfolio could comprise around 400-500 stocks and this entire process could then be repeated monthly.

Why target these three factors?
Value, quality, and momentum factors are robustly supported by more than four decades of research into factor portfolios by quantitative strategy teams. Moreover, an active strategy allows for the continual refinement and improvement of these proprietary factor models, which can incorporate signals that were impossible to source in the past, such as big data approaches like credit card spending, and other modern techniques such as natural language processing.

But while the factor definitions and the data sets that support them have become more sophisticated, the underlying financial motivations for each factor remain as simple as ever:

Value: Favouring stocks that are inexpensive relative to their peers in expectation that cheap stocks will outperform expensive ones

Momentum: Favouring stocks exhibiting strong price performance in expectation that trends will persist for a while

Quality: Favouring stocks of companies with strong balance sheets in expectation that high quality stocks will outperform low quality

All factors are typically sector and industry neutral and designed to have a neutral beta to the equity market.

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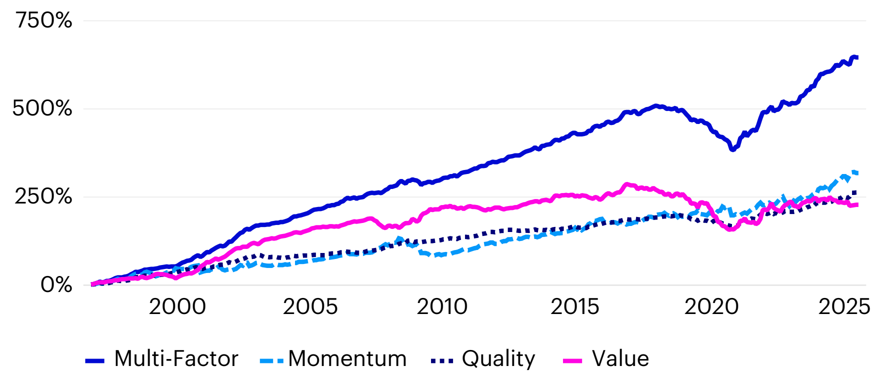
Combining factors has improved returns from any individual factor over time
Certain equity risk factors have demonstrated the potential to outperform the broad market over the long term but individually can be volatile especially over shorter time periods. Enhanced equity ETF strategies aim to reduce that volatility by combining factors with an optimised approach.

Figure 1 – Historic factor performance



Source: Invesco, as at 31 August 2025, chart shows a comparison of single-and multi-factor approaches, multi-factor here combines quality, value and momentum. **Past performance does not predict future returns.**

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Investment risks

The value of investments and any income will fluctuate (this may partly be the result of exchange rate fluctuations) and investors may not get back the full amount invested.

Investments focused in a particular sector, such as technology, are subject to greater risk, and are more greatly impacted by market volatility, than more diversified investments.

There are risks involved with investing in Exchange-traded Funds ("ETFs"), including possible loss of money. Index-based ETFs are not actively managed, and the return of index-based ETFs may not match the return of the Underlying index. Actively managed ETFs do not necessarily seek to replicate the performance of a specific index. Both index-based and actively managed ETFs are subject to risks similar to those of stocks, including those related to short selling and margin maintenance requirements. Ordinary brokerage commissions apply. Equity risk is the risk that the value of equity securities, including common stocks, may fail due to both changes in general economic and political conditions that impact the market as a whole, as well as factors that directly related to a specific company or its industry.

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