



## abrdn Enhanced Index Equity Funds - Strategy Review – February 2026

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This document provides a comprehensive review of the abrdn Enhanced Index Equity Funds, drawing on fund factsheets, presentations and due-diligence responses to assess the strategy, philosophy, performance and role within a diversified portfolio.

### Executive Overview

The abrdn Enhanced Index Equity range is designed to deliver incremental outperformance versus benchmark while maintaining tight risk control and competitive cost.

The aim is not unconstrained stock picking.

It is not smart beta marketing.

It is systematic, multi-factor index enhancement, delivered within a strict tracking error budget.

Each fund seeks to:

*Achieve a return in excess of its benchmark over rolling five-year periods (after charges).*

With AMCs from 10bps on institutional share classes and tracking error typically around 1%, this range positions itself as a cost-efficient core equity building block.

## Investment Philosophy

The core belief is that:

- Markets are broadly efficient.
- Persistent factor premia exist.
- Alpha should be harvested systematically.
- Risk must be controlled explicitly.

The strategy is built around three enhanced factors:

### Value (Enhanced)

Not simply book-to-price. The model incorporates:

- Forward earnings yield
- Dividend yield
- EBITDA/EV
- Free cash flow yield

This broadens valuation assessment and reduces dependence on a single accounting metric.

### Quality (Redefined Post-2020)

Quality includes:

- Profitability
- Accounting quality
- Investment discipline
- Capital structure strength

Importantly, Quality was redesigned following the 2018–2020 stress period to:

- Reduce overlap with Value
- Avoid value traps
- Improve regional robustness

## Momentum (Multi-Dimensional)

Momentum is not limited to price trend:

- Stock momentum
- Industry momentum
- Earnings sentiment

This aims to capture behavioural and informational drift effects.

## Research & Model Infrastructure

The strategy is supported by:

- Proprietary factor research platform
- Internal risk model (QUARKS)
- Dynamic unintended risk identification
- Optimisation engine that maximises alpha under risk constraints

From the December 2025 capability data:

- Average excess return (3yrs): 1.3%
- Average tracking error: 1.0%
- Average information ratio: 1.24

Regional 3-year excess returns:

Region	Excess Return	TE	IR
UK	1.6%	0.8%	1.88
Europe ex UK	0.8%	0.8%	0.95
North America	-0.2%	1.0%	-0.23
Japan	1.7%	1.0%	1.77
Asia Pacific ex Japan	1.6%	1.2%	1.25
Emerging Markets	2.2%	1.3%	1.65
World	1.5%	1.1%	1.41

North America remains the more challenging region, reflecting narrow mega-cap dominance.

## Portfolio Characteristics

These are diversified portfolios with controlled deviation.

Example – World Enhanced Index:

- 555 holdings
- Beta 0.99
- Tracking error 1.03%
- Alpha (3yr p.a.) 1.29%

Example – Emerging Markets:

- 601 holdings
- Beta 0.97
- Tracking error 1.34%
- Alpha (3yr p.a.) 2.20%

Sector and country deviations are typically modest.

This is enhancement not style drift.

## The Stress Test: 2018–2020 Quant Winter

The most important test of a systematic strategy is not a benign regime it is a factor shock.

Between mid-2018 and 2020:

- Value underperformed sharply
- Market leadership narrowed dramatically
- Mega-cap US growth dominated
- Covid dislocation added volatility

As a diversified multi-factor strategy with meaningful Value exposure, the range experienced a material but controlled drawdown in relative performance.

Crucially:

- Tracking error constraints held.
- Beta neutrality was maintained.
- Risk budgets were respected.

This was a factor regime stress, not structural risk failure.

### Process Evolution Post-2020

The team did not abandon the philosophy.

They refined the implementation.

### Quality Factor Redesign

Expanded and rebalanced Quality themes to improve robustness and reduce Value overlap.

### Reduced Value Risk Weight

Value exposure retained but with lower risk contribution.

### Enhanced Dynamic Risk Management

Improved identification of unintended macro, thematic and crowding exposures.

### Equalised Factor Risk Contribution

Value, Quality and Momentum now contribute more equally to ex-ante portfolio risk. The goal: prevent any single factor dominating performance during extreme regimes. Since these changes, performance recovery has been strong, with revised Quality and Momentum driving returns.

## Team & Governance

Managed by abrdn's Quantitative Investment Solutions team:

- 21 investment professionals
- £112bn managed in QIS strategies
- Average tenure 15+ years

There have been personnel changes across 2023–2025. However, the strategy is team-based and model-governed, reducing key person dependency.

Governance includes:

- Independent oversight
- Structured model review

- Continuous research refinement

## Costs

Institutional B Acc share classes:

- AMC: 10bps
- OCF typically 14–31bps depending on region

At institutional pricing, this sits meaningfully below traditional active equity.

## Strengths

- Institutional research depth
- Multi-factor diversification
- Controlled tracking error
- Demonstrated stress-test evolution
- Competitive pricing
- Consistent long-term IR (information ratio) profile

## Key Risks

- Factor cyclicality
- US mega-cap concentration impact
- Model dependency
- Crowding risk in enhanced beta
- Incremental, not transformational, alpha

## Role in a Portfolio

This range works well as:

- Core equity building blocks
- Passive replacement strategies
- CRP foundations
- Trustee mandates seeking efficiency

It is less suited for:

- High conviction mandates
- Thematic strategies
- Income-focused allocations

## Comparison: abrden vs Dimensional, BlackRock & LGIM

Enhanced index strategies sit within a growing part of the market often described as:

- Systematic active
- Enhanced beta
- Factor-tilted indexing
- Quantitative equity

However, the implementation styles differ meaningfully across managers.

Below is a structured comparison.

### abrden Enhanced Index

**Style:** Benchmark-constrained multi-factor enhancement

**Tracking error:** 1%

**Objective:** Incremental alpha with tight risk control

**Cost (B share class):** 10–20bps

#### **Characteristics:**

- Strict benchmark constraints
- Balanced exposure to Value, Quality, Momentum
- Dynamic unintended risk management
- Ex-ante risk budgeting
- Designed to behave very similarly to the index

**Philosophy:**

Enhance index exposure while maintaining beta neutrality and low deviation.

This is a controlled, risk-budgeted enhancement approach.

**Dimensional Fund Advisors (DFA)**

**Style:** Systematic factor investing with looser benchmark constraints

**Tracking error:** Typically 2–4%

**Objective:** Capture long-term factor premia (Size, Value, Profitability)

**Cost:** Typically higher than enhanced index but lower than traditional active

**Characteristics:**

- Structural tilts toward smaller and cheaper stocks
- Broader deviation from benchmark weights
- Less focus on tracking error
- Long-term factor exposure over short-term enhancement

**Philosophy:**

Markets are efficient, but persistent factor premia exist and should be harvested with structural tilts.

**Key difference:**

Dimensional is willing to accept larger relative volatility for deeper factor exposure. abrdn is more benchmark-constrained and lower tracking error.

## BlackRock (Enhanced Index / Systematic Active Equity)

**Style:** Large-scale quant enhancement

**Tracking error:** Typically 1–2%

**Objective:** Risk-controlled alpha

**Cost:** Competitive, varies by mandate

### **Characteristics:**

- Strong infrastructure and scale
- Broad factor library
- Institutional mandate heritage
- Often more complex optimisation

### **Philosophy:**

Industrialised systematic alpha generation at scale.

### **Key difference:**

BlackRock tends to operate at larger scale with more global infrastructure. abrdn's offering is slightly more focused in factor definition and risk balancing post-2020 refinements.

## LGIM (L&G)

**Style:** Primarily passive with smart beta options

**Tracking error:** Very low (pure index) or moderate (smart beta variants)

**Objective:** Low-cost exposure

### **Characteristics:**

- Strong passive capability
- Some factor ETFs
- Typically less dynamic risk management
- Often rules-based rather than optimisation-heavy

### **Philosophy:**

Deliver cost-efficient beta; offer factor variants for specific tilts.

## Key difference:

LGIM smart beta products are often more rules-based and single-factor tilted. abrdn's approach blends multiple enhanced factors and actively manages unintended risk.

## Structural Differences Summary

Manager	TE Range	Factor Depth	Risk Control	Deviation	Philosophy
abrdn	1%	Multi-factor enhanced	Tight	Low	Incremental alpha
Dimensional	2–4%	Structural tilts	Moderate	Moderate	Factor premia capture
BlackRock	1–2%	Broad systematic	Institutional	Moderate	Scaled quant
LGIM	Low	Rules-based tilts	Limited	Very low	Cost beta

## Where abrdn Sits

abrdn sits:

- More active than passive.
- More controlled than DFA.
- Slightly more focused and lower TE than some BlackRock systematic mandates.
- More research-driven and dynamic than rules-based smart beta.

It is firmly in the “incremental alpha, tightly budgeted risk” camp.

## Strategic Implications for Advisers

The choice between these managers is not about who is “better.”

It is about:

- How much tracking error you are willing to accept.
- Whether you want structural factor tilts (DFA).
- Whether you want industrial-scale quant infrastructure (BlackRock).
- Whether you want low-cost enhancement with tight index alignment (abrdn).
- Whether you prefer pure passive with optional tilts (LGIM).

For centralised investment propositions, the distinction is important.

abrdn offers:

- Predictable behaviour
- Incremental excess return target
- Strong risk discipline
- Competitive pricing

## Money Wise View

The critical question is not:

“Has it beaten the index?”

The better question is:

“Does it add incremental alpha, with discipline, at low cost, without taking unintended risk?”

The 2018–2020 regime was the stress test.

The response refinement without philosophy drift strengthens credibility.

In the enhanced index landscape:

- It is more deliberate than pure passive.
- More benchmark-aware than Dimensional.
- Lower tracking error than many systematic mandates.
- More dynamically risk-managed than rules-based smart beta.

For advisers who want:

- Incremental alpha rather than structural factor tilts
- Controlled benchmark deviation
- Institutional research depth
- Competitive cost efficiency
- Clear risk budgeting

...this is a credible enhanced beta solution.

It will not deliver dramatic divergence from the index.

It will not win every regime.

It is not designed to.

But as a disciplined core building block, it is:

- Measured.
- Institutional.
- And structurally sound.

## Disclaimer

Past performance is not a reliable guide to future results. The value of investments can fall as well as rise, and investors may not get back the amount originally invested.

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