ALPHA CENTAURI
Riskpremia – Made in Germany

Low Beta – 10 years in retrospect

Bear markets inevitably lead to **renewed interest in Low Beta/Low Risk equity strategies** and this time is not different. But as in most cases – it´s too late to think about this type of strategies once the damage already happened. Unfortunately, most **investors evaluate factor- and risk premia strategies with a similar toolkit as they select other active strategies and managers**. The typical "**three-year track record**" is still a preferred measure for many investors but with respect to factors, it **is a recipe for failure** in many cases. That´s why most alternative risk premia practitioners recommend holding a diversified portfolio of factors or risk premia for the long run as a strategic investment – like investors do with traditional diversified multi asset portfolios.

Alpha Centauri started into Low Beta space in 2012 and we celebrate our 10-year anniversary with this type of factors. Everything started with a market neutral Low Beta strategy on the US market in July 2012, followed by a strategy in UK in early 2013. Both strategies morphed into iSTOXX factor indices later in 2015 – US merely 1:1 and UK into the broader European universe, before they finally went live in 2016.

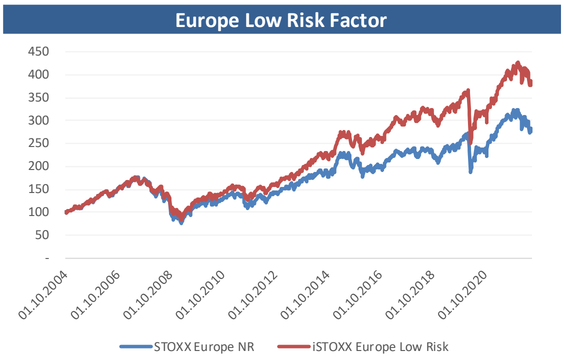
Live performance US Low Risk

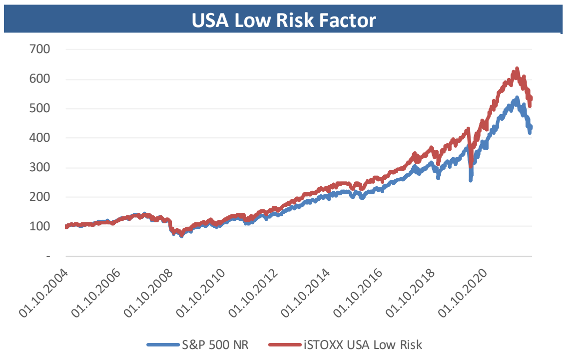
Live performance UK Low Risk

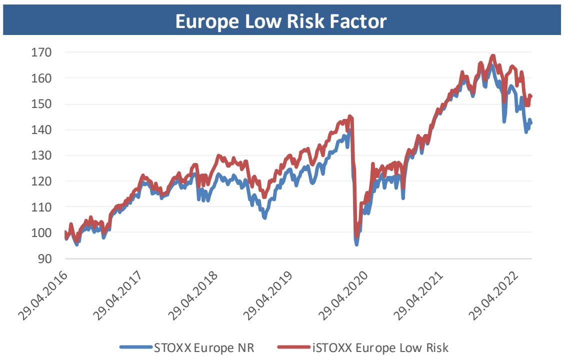
Since we started in 2012 a lot of new research came out with respect to Low Risk investing, with Frazzini and Pedersen´s 2013 study Betting Against Beta probably the most prominent. In 2014 Fama and French contributed to the discussion with Dissecting Anomalies with a Five-Factor Model and Novy-Marx in Understanding Defensive Equity found, that "*in conjunction with the well documented inability of the Fama and French three-factor model to price small growth stocks, especially unprofitable small growth stocks, these tilts also drive the abnormal performance of defensive equity (i.e., low volatility and/or low beta strategies).*"

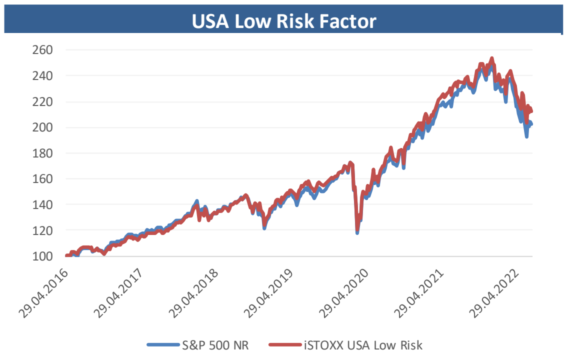
In 2016, we published an article entitled Factor investing – is there a rational explanation for Low Volatility? as an excerpt of a broader paper, which was published in Germany´s leading alternative investor magazine Absolut Report. In this paper **we looked at the low volatility factor through an option lens**, because we believe, that all equity factors as well as other alternative risk premia replicate options in the sense of the well-known Black/Scholes/Merton – like traditional asset classes. **If traditional asset classes replicate options, one should expect that to be true for alternative risk premia**, embedded in or extracted from these asset classes, as well.

Looking at performance and risk of the iSTOXX Low Beta factors, it becomes clear why a strategic investment in factors makes sense. **Factors - as most other investments - develop their potential over longer time frames**, especially in equities, which are long duration assets.
Graphs on the left show the performance of Low Risk in Europe vs. STOXX 600 Europe (net return) and graphs on the right of Low Risk in the US vs. S&P 500 (net return) for the full period (upper) and since going live in 2016 (lower).
On both sides of the Atlantic, Low Risk made new relative performance highs recently or is quite close to former highs.









Analysis				
	Full period		since April 2016	
	Return	Volatility	Return	Volatility
STOXX Europe NR	5,9%	18,4%	5,80%	16,7%
iSTOXX Europe Low Risk	7,8%	16,2%	6,96%	15,6%
Excess p.a.	1,9%	-2,2%	1,2%	-1,1%
S&P 500 NR	8,5%	17,7%	11,88%	17,9%
iSTOXX USA Low Risk	9,7%	16,4%	12,69%	17,0%
Excess p.a.	1,2%	-1,4%	0,8%	-0,9%

Excess Returns in Europe have been slightly better than in the USA, but we think, that´s partially a result of the differences in overall market structure and the risk profile of the leading stocks in both markets. Compared to all other factors, **Low Risk exhibits the highest loading**

on large caps, which is line with many research findings like the one from Novy-Marx, mentioned above. But there are major differences between the top 50 stocks in Europe compared to US.

While the Top 50 stocks within the S&P are Low Beta themselves – the average beta is 0,87 and the market cap weighted beta 0,92 – the opposite is true in Europe. The average beta of the 50 largest stocks compared to benchmark is 1,41 and the market cap weighted beta is 1,51. With respect to the "**fundamental law of active management"**, the opportunity set within the S&P seems smaller than within STOXX Europe, which makes it harder to achieve excess performance in US compared to Europe.

The following tables show the beta results of the top 50 stocks for both markets.

Europe

Name	**Weight**	Asset Beta (Market)	Top 50 Weight	Asset Beta (Top 50)	Top 50 Beta
NESTLE SA	3,57%	0,86	7,41%	0,75	1,51
ROCHE HOLDING PAR AG	2,55%	1,94	5,29%	1,23	
NOVARTIS AG	2,18%	5,20	4,53%	3,93	
ASTRAZENECA PLC	2,17%	0,79	4,51%	0,51	
ASML HOLDING NV	1,99%	2,47	4,13%	1,52	
NOVO NORDISK CLASS B	1,96%	0,47	4,08%	0,41	
SHELL PLC	1,87%	0,45	3,89%	0,39	
LVMH	1,76%	2,36	3,65%	1,44	
LINDE PLC	1,47%	1,69	3,06%	1,01	
HSBC HOLDINGS PLC	1,36%	0,33	2,83%	0,28	
TOTALENERGIES	1,32%	2,95	2,75%	1,82	
UNILEVER PLC	1,32%	0,32	2,75%	0,28	
SANOFI SA	1,25%	3,08	2,59%	1,87	
GSK	1,11%	0,79	2,30%	0,49	

USA

Name	**Weight**	Asset Beta (Market)	Top 50 Weight	Asset Beta (Top 50)	Top 50 Beta
APPLE INC	7,14%	1,02	13,17%	1,22	0,92
MICROSOFT CORP	5,94%	0,82	10,96%	0,95	
AMAZON COM INC	3,03%	0,90	5,58%	1,10	
ALPHABET INC CLASS A	2,08%	1,03	3,83%	1,16	
ALPHABET INC CLASS C	1,92%	1,01	3,55%	1,14	
TESLA INC	1,88%	2,27	3,46%	2,54	
BERKSHIRE HATHAWAY INC CLASS B	1,55%	0,10	2,86%	0,21	
UNITEDHEALTH GROUP INC	1,47%	0,87	2,72%	0,88	
JOHNSON & JOHNSON	1,45%	0,32	2,67%	0,37	
NVIDIA CORP	1,20%	1,68	2,22%	1,86	
META PLATFORMS INC CLASS A	1,13%	1,22	2,09%	1,35	
EXXON MOBIL CORP	1,09%	1,28	2,02%	1,17	
PROCTER & GAMBLE	1,09%	0,26	2,01%	0,32	
VISA INC CLASS A	1,06%	1,05	1,95%	1,03	

Our arguments seem to be even more true when looking at the differences in realized volatility in the table above. One thing to consider is, that the **iSTOXX factor indices aim to capture the different factor premia "as pure as possible"**, which means, that all indices are constructed with an ex-ante beta of 1. As a result, volatility reduction is typically smaller than in families from other providers. Nevertheless, reduction in Europe is larger than in the US.

Conclusion:

Low Beta shouldn´t be considered only during times of market stress but as a strategic investment within an equity allocation. Moreover, investing based on three-year historical outperformance after the general market has been in drawdown, seems to be a less fruitful option. Investors looking for risk mitigation strategies should consider spread trades between iSTOXX Low Risk and STOXX Europe 600 via EUREX futures as a replacement for holding credit risk free government bonds, because these spread trades continued to act as a diversifier even through the first half of 2022, while government bonds did not.

Factor performance Q.II

As the overall equity market posted a hefty negative result of – 9,52% in Europe, it doesn´t come as a surprise, that defensive factors outperformed. Low Risk lead the table with an excess return of 2,06%, followed by Quality outperforming by 1,22%. Value even underperformed the overall market by -2,22%, which seems to be quite normal to us during times, where the economic as well as the earnings outlook is under severe pressure.

Alpha Centauri Indexing - Data as of 30.06.2022

Description:

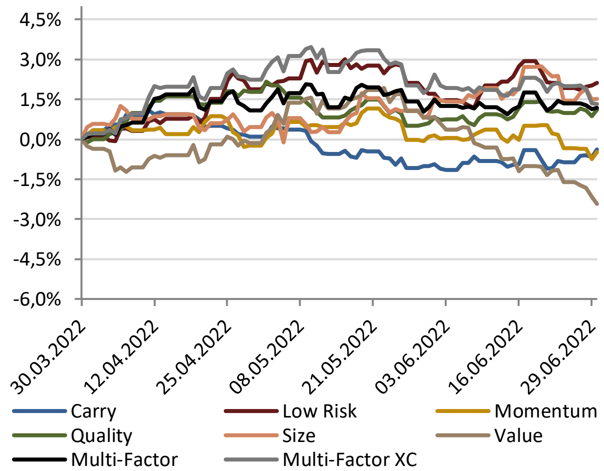
The iSTOXX Europe Single Factor index family developed by STOXX in collaboration with Alpha Centauri offers investors a unique and very innovative way to target and capture premia.
It consists of six single factors that aim to capture well-known risk premia and one multi-factor that aims at simultaneously capturing premia from the aggregate of all single factors rather than from just one source of risk alone.
All indices are constructed to maximize the exposure to their particular factor and minimize unwanted risks.
While constructing the final indices the FIS APT risk model is used to measure and restrict risk.

For more information go to **www.alpha-centauri.com** or **www.stoxx.com**

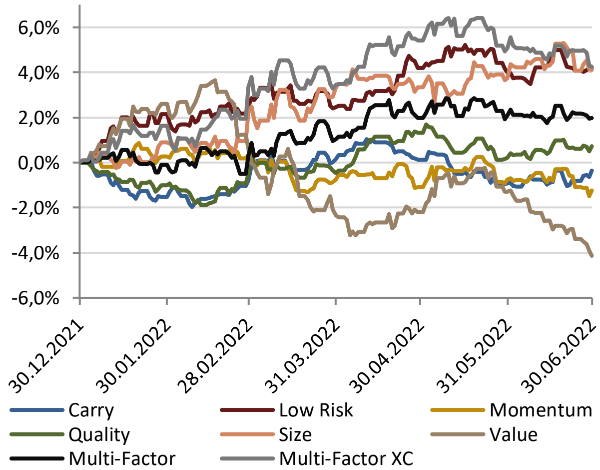
Performance and Volatility Breakdown

Name	Ticker	Return 3 Months	Return 6 Months	Return 12 Months	Return Live (1.4.)	Vola pa	Vola pa Live (1.4.)
Carry	ISECFER Index	-10,7%	-15,5%	-7,5%	55,6%	14,3%	14,0%
Low Risk	ISERRER Index	-8,2%	-10,9%	-2,6%	54,4%	13,4%	13,1%
Momentum	ISEMFER Index	-10,8%	-16,4%	-11,3%	39,0%	14,1%	13,8%
Quality	ISEQFER Index	-9,3%	-14,4%	-8,2%	44,1%	14,0%	13,7%
Size	ISEZFER Index	-8,8%	-11,0%	-6,5%	45,6%	13,9%	13,6%
Value	ISEVFER Index	-12,8%	-19,3%	-18,4%	2,7%	15,2%	14,9%
Multi-Factor	ISEXFER Index	-9,2%	-13,1%	-5,5%	35,6%	13,5%	13,1%
Multi-Factor XC	ISEXFCR Index	-9,0%	-10,9%	-5,9%	38,2%	13,6%	13,2%
Benchmark	SXXR Index	-10,4%	-15,1%	-7,8%	44,5%	14,5%	14,2%

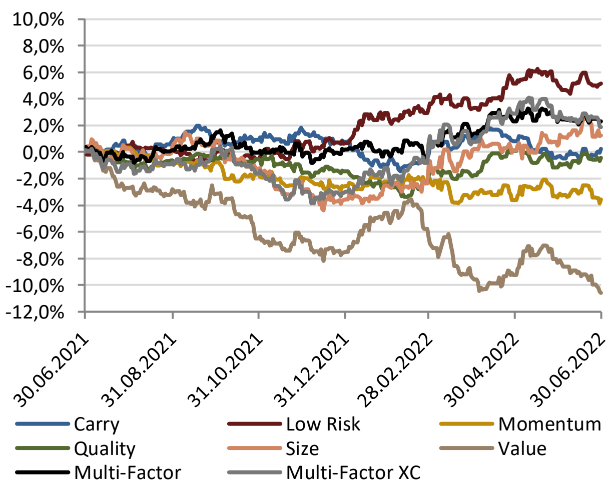
Excess Return 3 Months



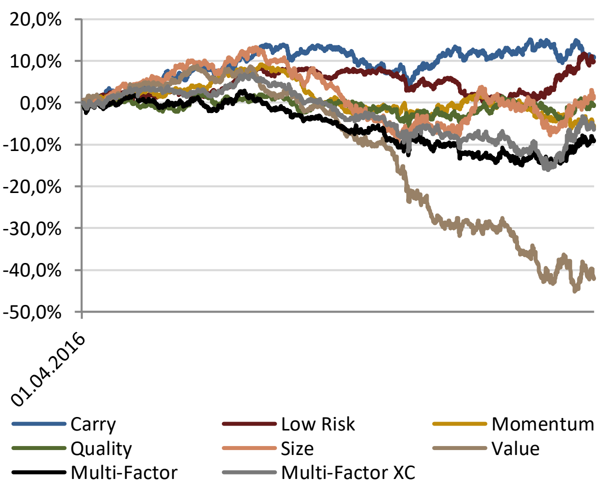
Excess Return 6 Months



Excess Return 12 Months



Excess Return since going Live (1.4.2016)



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