



Fifty Shades of Gr..(owth)

The ongoing **underperformance of Value and Size directly implies outperformance for Large Cap Growth** for many investors and market observers. With respect to Size, this seems to be obvious when looking at the performance of the “Magnificent 7” in the US or the largest 50 stocks in Europe over the last couple of years. A high concentration in the top ten percent of all major regional benchmarks in US, Europe and Japan made it difficult for factor investors and active managers alike to realize excess returns beyond benchmarks.

But “Growth” seems to be a different story. Looking at the history of index based growth-investing, Russell started in 1987 ([details here](#)), even several years before Fama/French published their seminal paper “The Cross-Section of Expected Stock Returns” in 1993. MSCI followed in 1997 with versions of Value and Growth ([details here](#)).

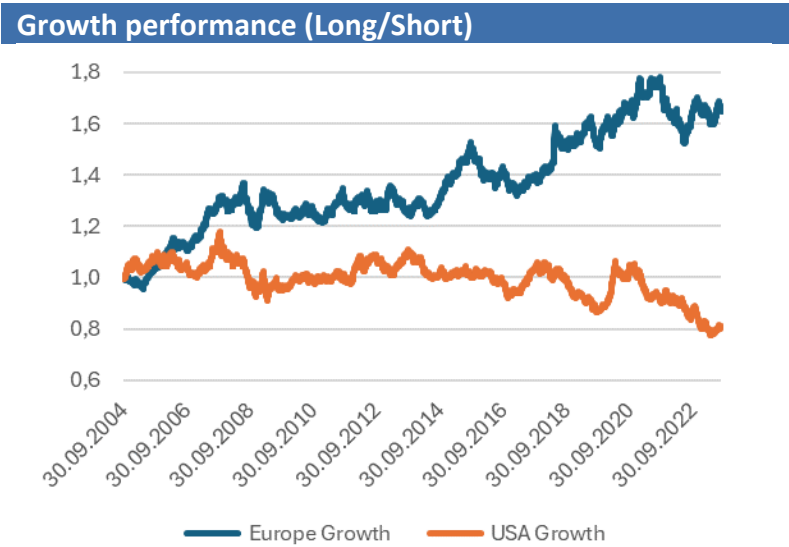
From the beginning, Price/Book has been the single sorting metric and 50% of the names in a universe have been associated with either Value or Growth. Later, both providers changed their methodology and integrated more metrics into their framework but the way to build both factor portfolios didn’t change. The result can be seen, if one compares the performance of Value, Growth and benchmark over the last five years – in our example MSCI Europe and USA. **Out-/Underperformance versus benchmark still follow a symmetrical pattern.**

Europe	Performance	Excess +/-	USA	Performance	Excess +/-
Value	38%	-14%	Value	55%	-41%
MSCI Europe NR	52%		MSCI USA NR	96%	
Growth	65%	+13%	Growth	136%	+40%

In this setup, Growth and Value span the performance of the whole market, which is similar to sectors – but different to how factor portfolios are build today. On a first view, the **results imply, that underperformance of Value is always associated with Outperformance of Growth.**

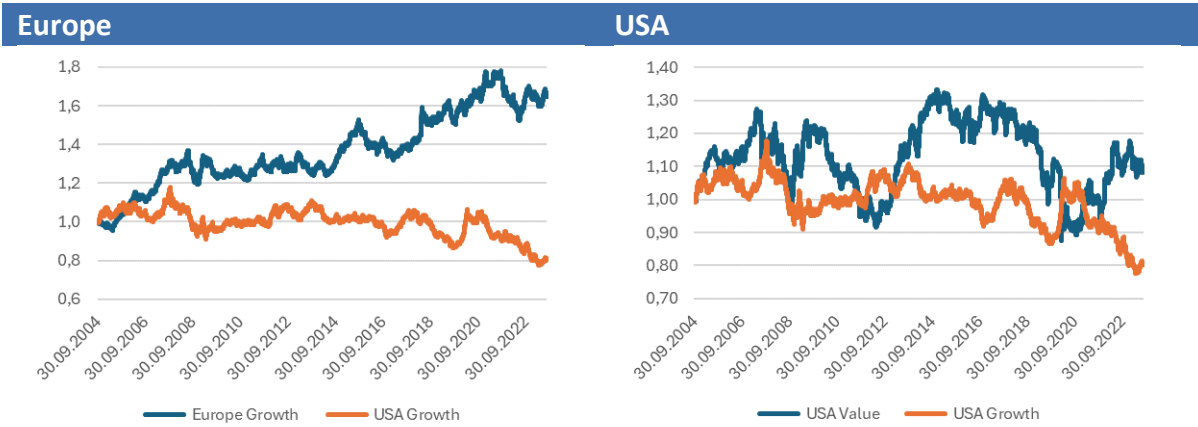
But – not so fast. Factor investors as well as many active managers are using different growth metrics and different data sources (realized historical numbers, analyst forecasts, company guidance etc.) to sort or evaluate stocks. So, we took a **closer look at “Growth numbers” along the corporate financial chain down from sales to dividends** to find differences within and across regions. Universe is always 600 largest stocks in a region, ranking/scoring along an individual metric and systematic/risk neutral (sectors, beta, etc. pp) Long/Short portfolio construction with a target volatility of 5%.

Growth:



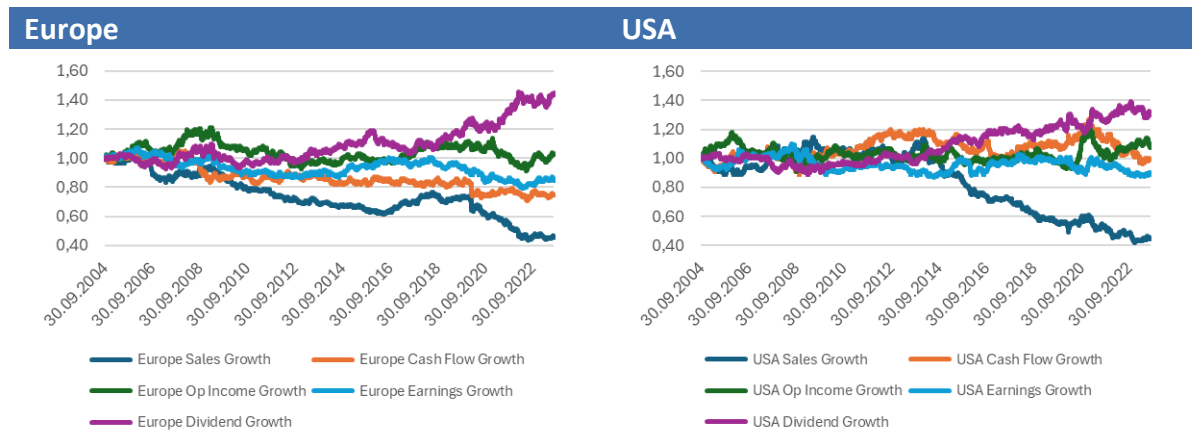
Our aggregate Growth factor did materially better in Europe than in the US – in contrast to results from the MSCI indices mentioned above. And this is what an investor should expect in an economic environment like what we have seen on both sides of the Atlantic since 2004. As an example, STOXX 600 Europe earnings grew by 100 % while S&P 500 earnings quadrupled since then. And if growth is scarce, growth stocks should do better compared to an environment where growth is abundant.

Growth vs. Value



Interplays of negative correlation from time to time in Europe until 2020 like the symmetrical behaviour of the MSCI indices and both factors made money over time. Since then, both factors lost performance. Different picture within US where Growth hovered around zero before finally collapsing since 2020, while Value lost all 2004-2014 performance from 2016 until 2020 before bouncing back in 2021/2022.

Growth subfactors/metrics:



On both sides of the Atlantic, only Dividend growth was able to deliver material Long/Short performance since 2004. In Europe, Operating Income was merely flat and all other single subfactors lost money in the cross section, especially sales growth. Similar picture within US, where Cash Flow and Operating Income were flat and Earnings-/Sales growth lost money. Interestingly, a similar subfactor performance led to different performance pathways for Growth on an aggregate top-level basis.

Conclusion:

Underperformance of Value is not necessarily associated with symmetrical outperformance of Growth - provided a different setup in portfolio construction compared to early versions of index providers. Performance differences over time across regions offer **diversification benefits or tactical factor rotation opportunities** for investors. Moreover, Growth outperformance shouldn't lead investors to believe, that individual metrics associated with "Growth" are uniformly successful when selecting stocks.



Alpha Centauri Indexing - Data as of 31.03.2024

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.

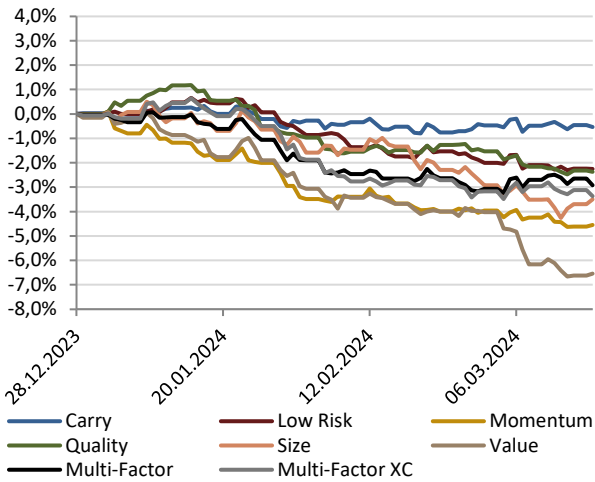
All indices are constructed to maximize the exposure to their particular factor and minimize unwanted risks. While constructing the final indices the FIS APT risk model is used to measure and restrict risk.

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

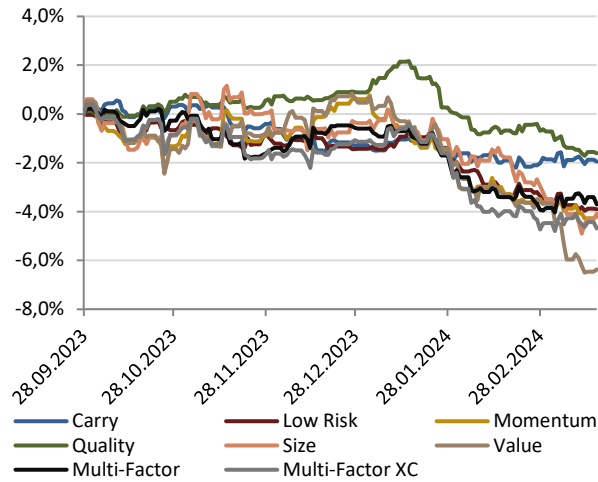
Performance and Volatility Breakdown

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	7,5%	13,6%	17,9%	96,7%	13,6%	13,3%
Low Risk	ISERRER Index	6,0%	11,8%	15,1%	93,1%	12,7%	12,4%
Momentum	ISEMFER Index	3,8%	11,6%	14,6%	72,4%	13,6%	13,3%
Quality	ISEQFER Index	6,0%	14,3%	18,0%	82,1%	13,4%	13,1%
Size	ISEZFER Index	4,2%	11,0%	13,3%	61,4%	13,4%	13,1%
Value	ISEVFER Index	2,4%	10,2%	14,4%	18,4%	14,6%	14,3%
Multi-Factor	ISEXFER Index	5,4%	12,1%	15,9%	69,4%	12,9%	12,6%
Multi-Factor XC	ISEXFCR Index	5,4%	11,5%	15,3%	71,0%	13,0%	12,7%
Benchmark	SXXR Index	7,9%	15,3%	18,5%	89,4%	13,8%	13,5%

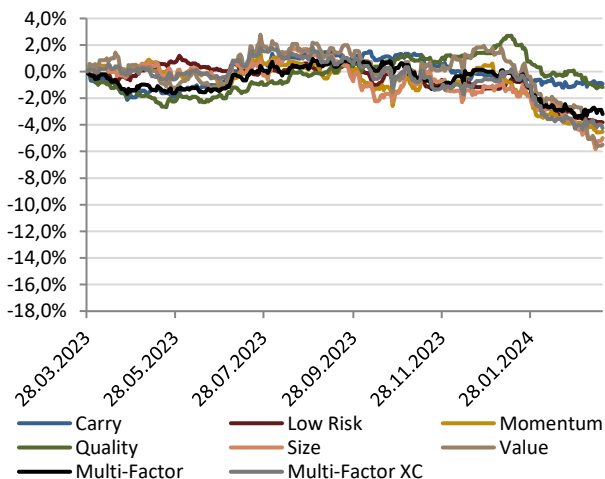
Excess Return 3 Months



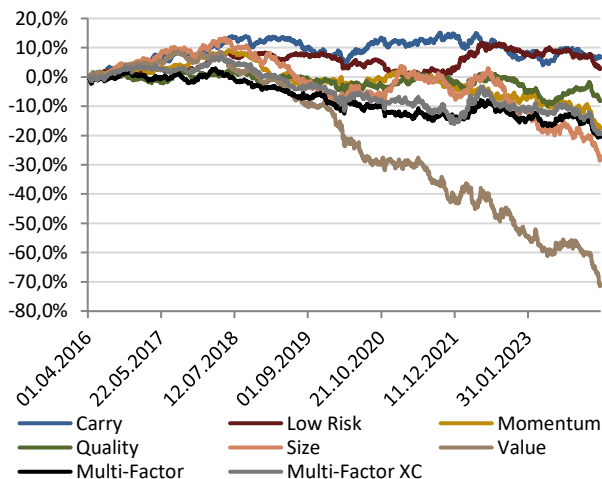
Excess Return 6 Months



Excess Return 12 Months



Excess Return since going Live (1.4.2016)



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