
We must invest with a multi-factor mindset

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Portfolio
Construction
Forum

Objectives

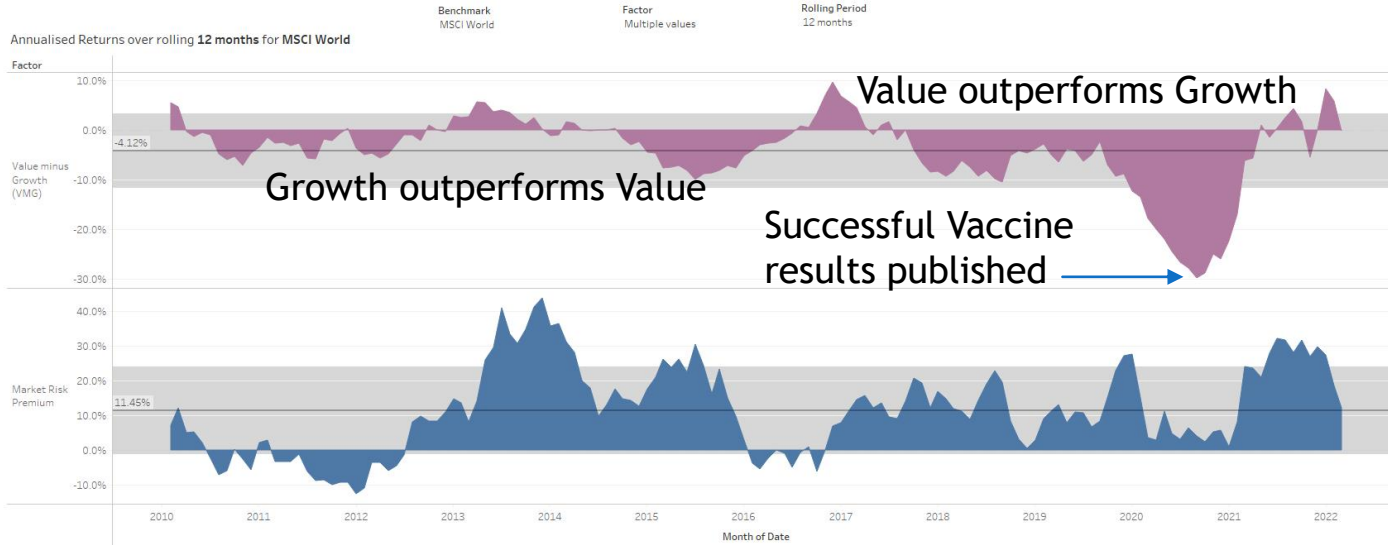
- ▶ Journey of investment selection
 - ▶ Value vs Growth across Global Equities
 - ▶ Explore historic factor performance in the context of today
 - ▶ Manager selection using a multi-factor approach

Growth vs Value - Rolling 12 months (28 Feb 2009 - 31 Mar 2022)



Delta Factors
Understanding Investment Performance Behaviour
Equity Factor Performance
Source: MSCI, Delta Research & Advisory

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Date
28/02/2010 to 31/03/2022

Average RBA Cash ~2.2%
Average ABS CPI ~2.2%

Average Fed Cash ~0.5%
Average US CPI ~2.3%



We are at an inflection point

- ▶ COVID appears to be a lesser risk
- ▶ Inflation is here and forecast to stay for the short term ... as opposed to the stubbornly low inflation since the GFC
- ▶ Cash rates are going to increase ... and have already started
- ▶ Food, Energy and Commodity Prices are high and expected to stay high
- ▶ Value has recently been outperforming Growth ... will it continue?











Source: AQR, January 1, 1990 - May 9, 2022.

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Value vs Growth since 1975 - Annualised Average Monthly Returns

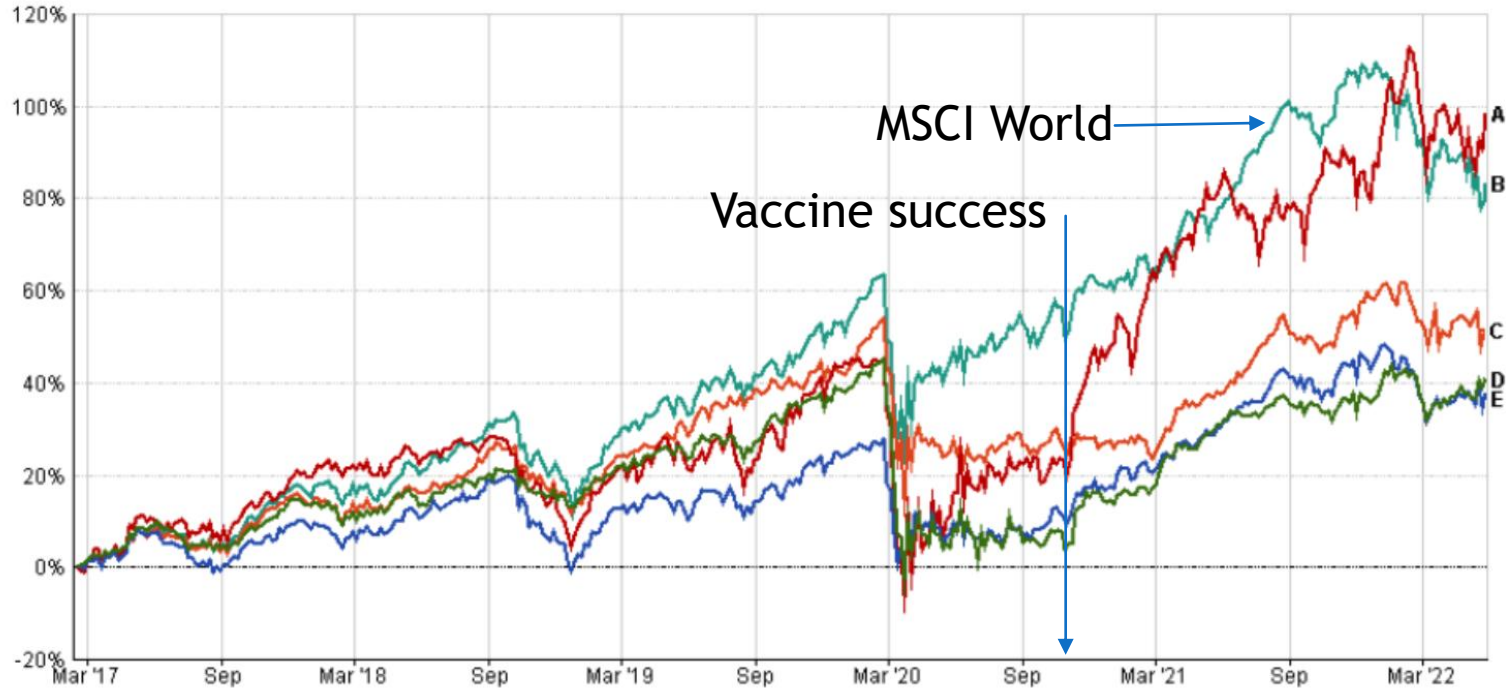
31/10/1975 to 30/4/2022	Total (%pa)	Falling US Cash Rates (%pa)	Steady US Cash Rates (%pa)	Rising US Cash Rates (%pa)
MSCI World AUD	12.2	13.8	11.3	11.9
MSCI World Value AUD	 12.7	 14.0	 11.0	 13.9
MSCI World Growth AUD	 11.7	 13.5	 11.6	 9.7

Biggest
difference

- MSCI World Growth's worst relative performance to Value was when US Cash rates increased from a level above 4.8%

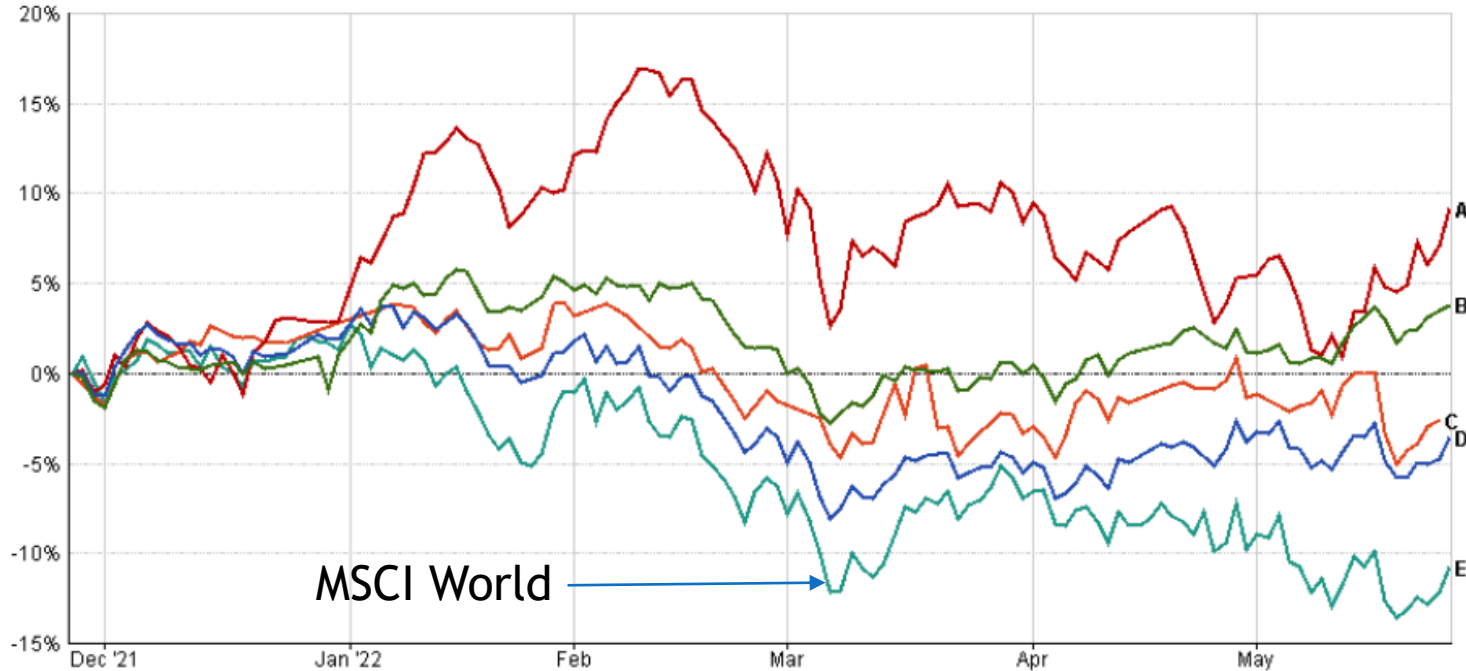
4 Value Funds .. Mostly struggling in recent years

Pricing Spread: Exit-Exit • Data Frequency: Daily • Currency: Australian Dollars



4 Value Funds .. All recently outperforming MSCI World

Pricing Spread: Exit-Exit • Data Frequency: Daily • Currency: Australian Dollars



An important Value and Growth distinction

- ▶ Generally, there may be severable types of Value securities:
 1. Boring, low growth, utility style securities
 - ▶ This is “Cheap” because it lacks growth characteristics
 2. Downgraded securities
 - ▶ Often because earnings expectations have not been met and they’ve been sold off.
 3. Cyclical securities
 - ▶ Similar to the downgraded security, the revenue or earnings of cyclical companies come and go with the business or economic cycle, and they may be cheap due to their out-of-favour earnings

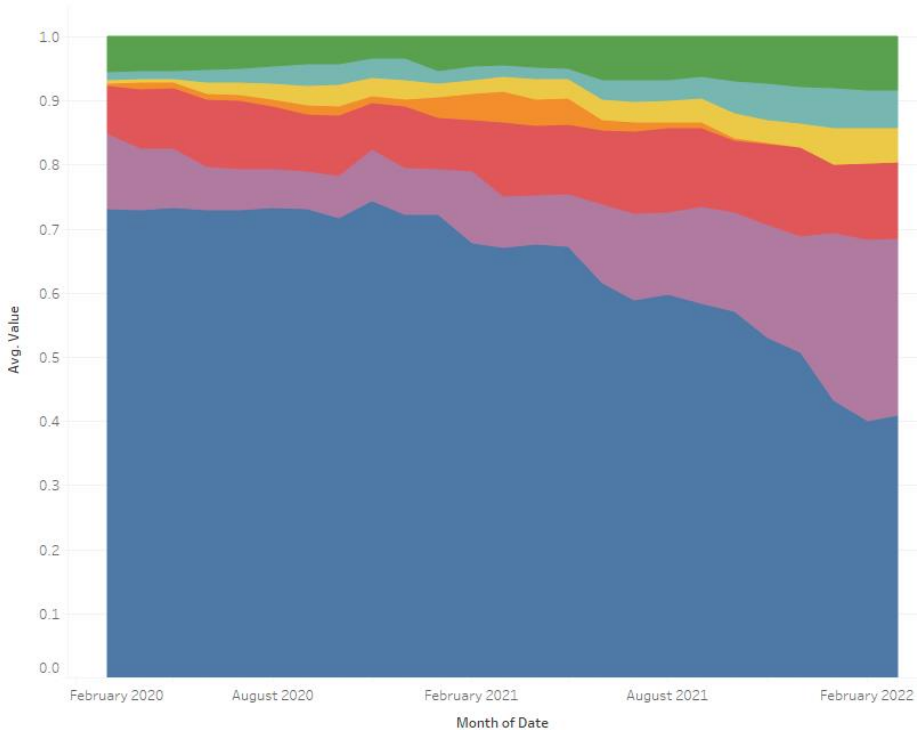
- ▶ Growth is not just Tech
 - ▶ There are multiple sectors with growth characteristics (including potentially Cyclical sectors)
 - ▶ Please read ... “Value Investing Is Not All About Tech”, Cliff Asness, www.aqr.com, 27/5/2022

RED

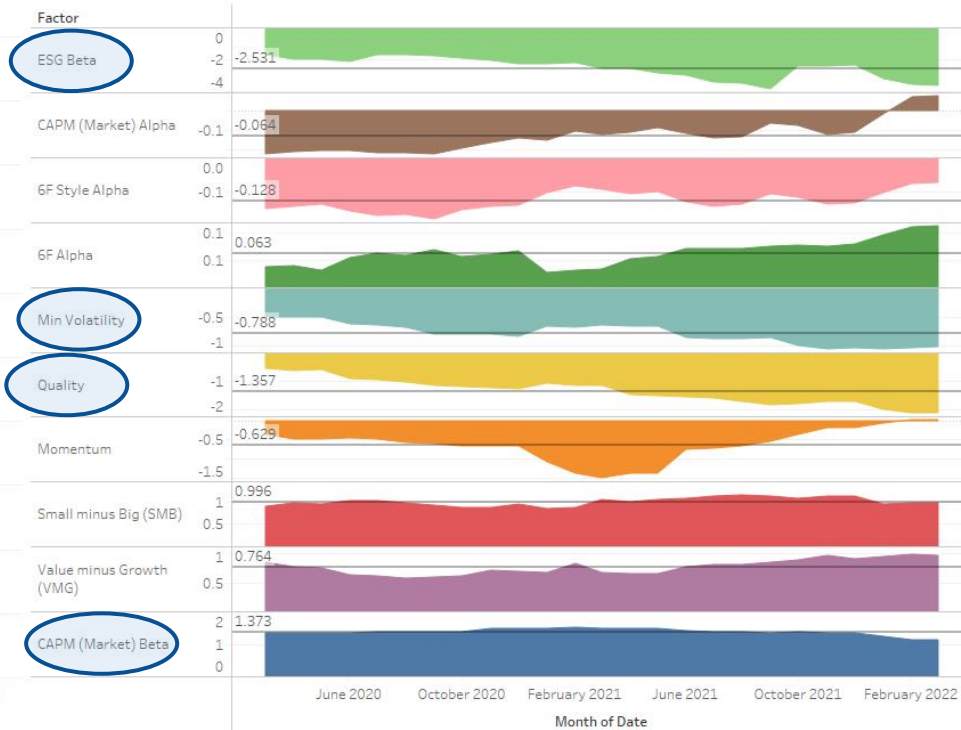
Delta Factors
 Understanding Investment Performance Behaviour
 Global Equities Benchmarks
 Rolling 36 months

Is this strategy ready
 for higher rates?

Portfolio Risk Contribution



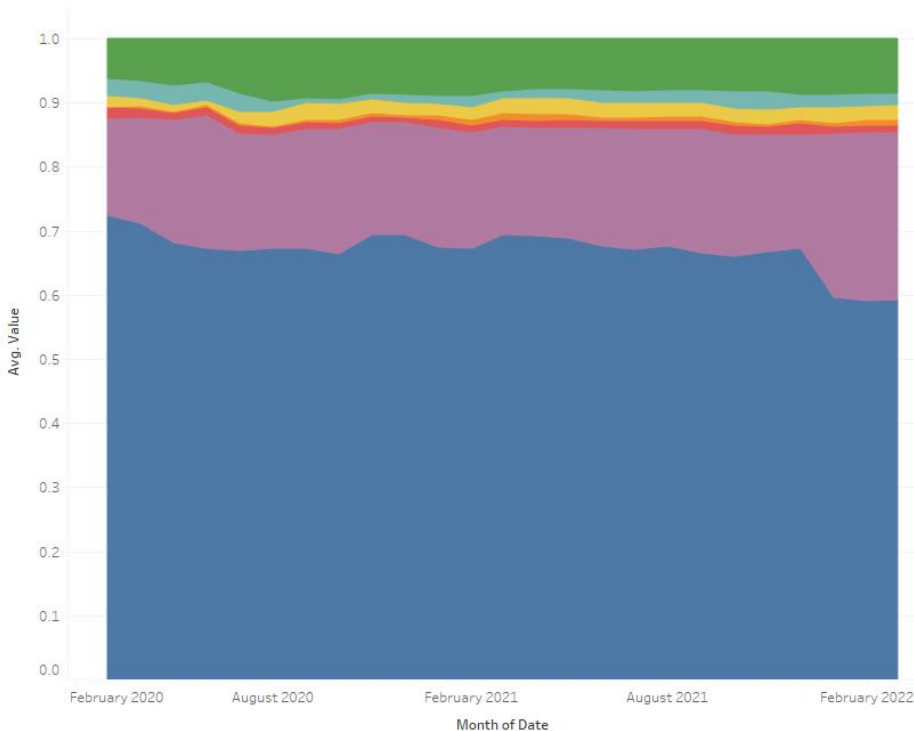
Exposures (Betas), Value-add (Alphas) & Risk (Volatility)



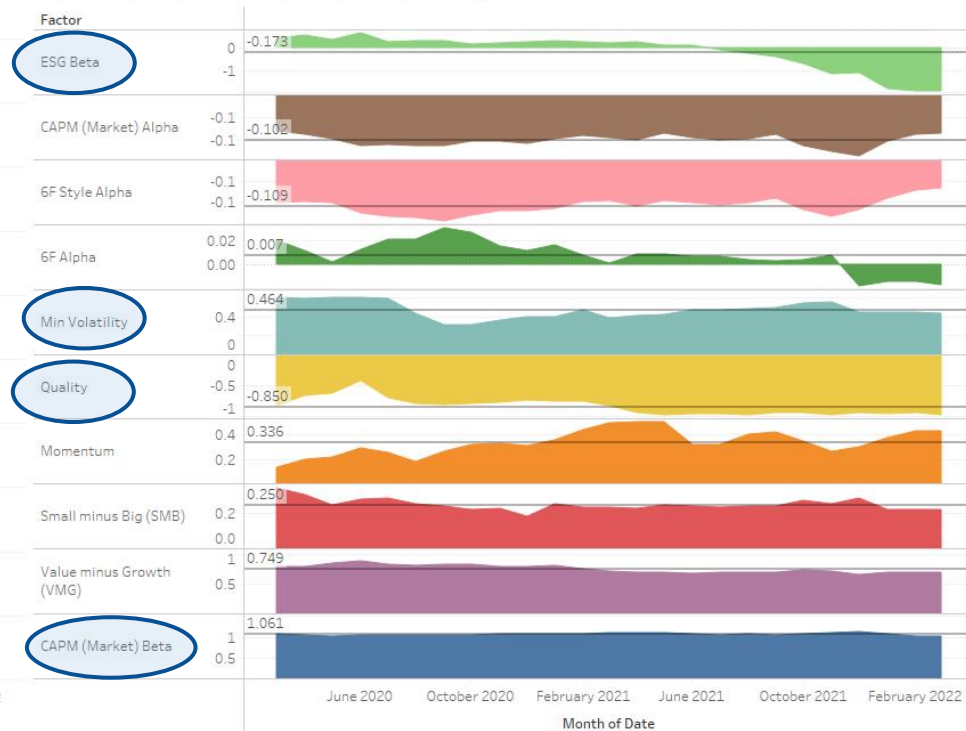
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GREEN

Portfolio Risk Contribution



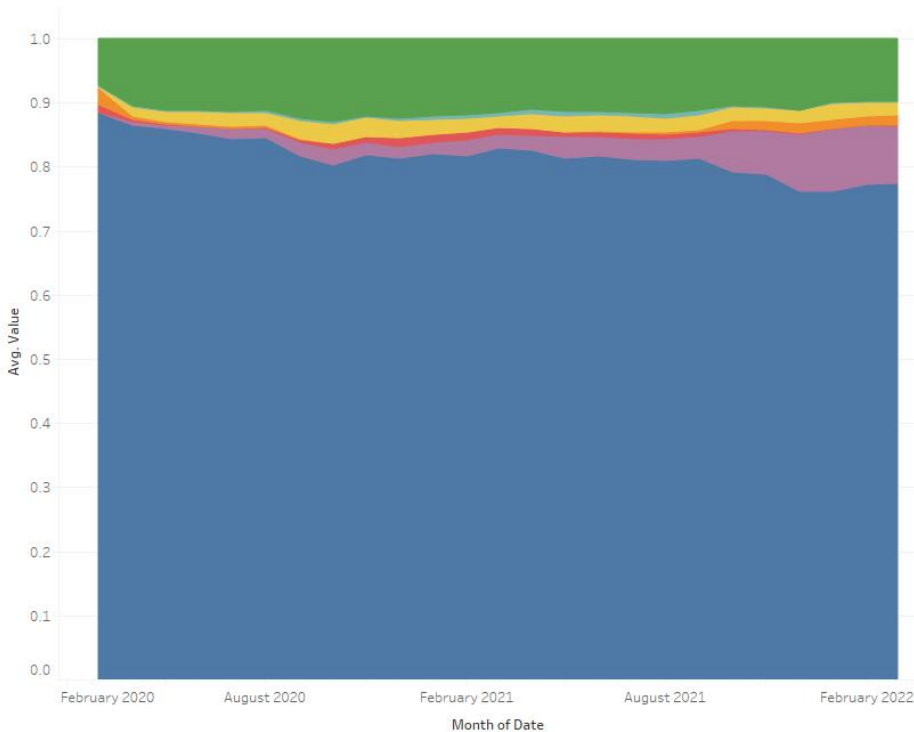
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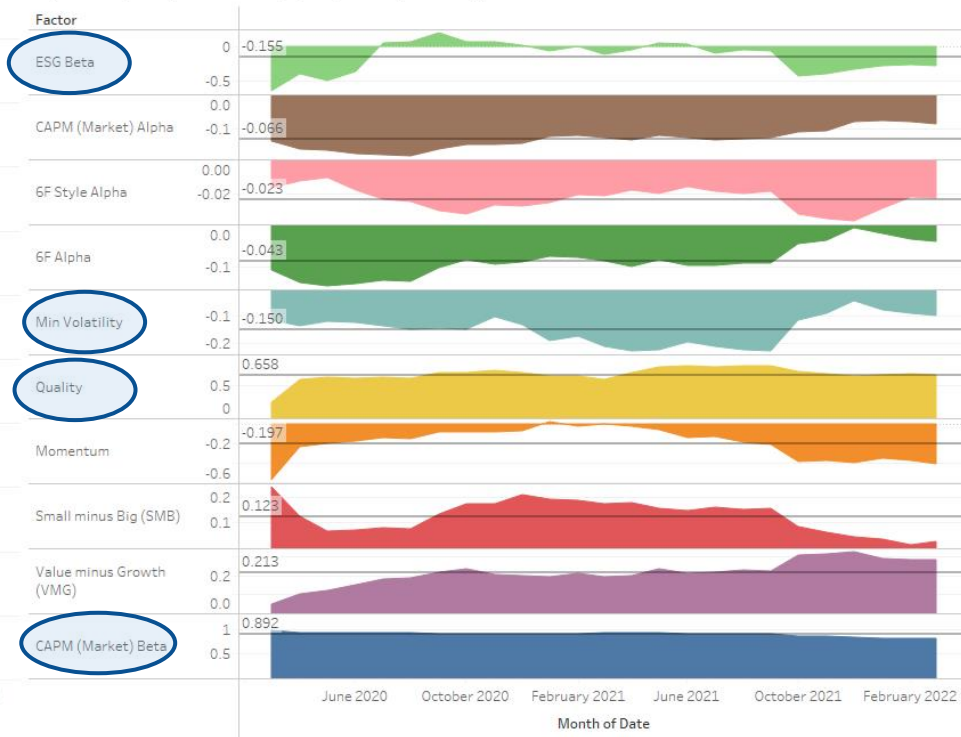
BLUE

Delta Factors Understanding Investment Performance Behaviour Global Equities Benchmarks Rolling 36 months

Portfolio Risk Contribution



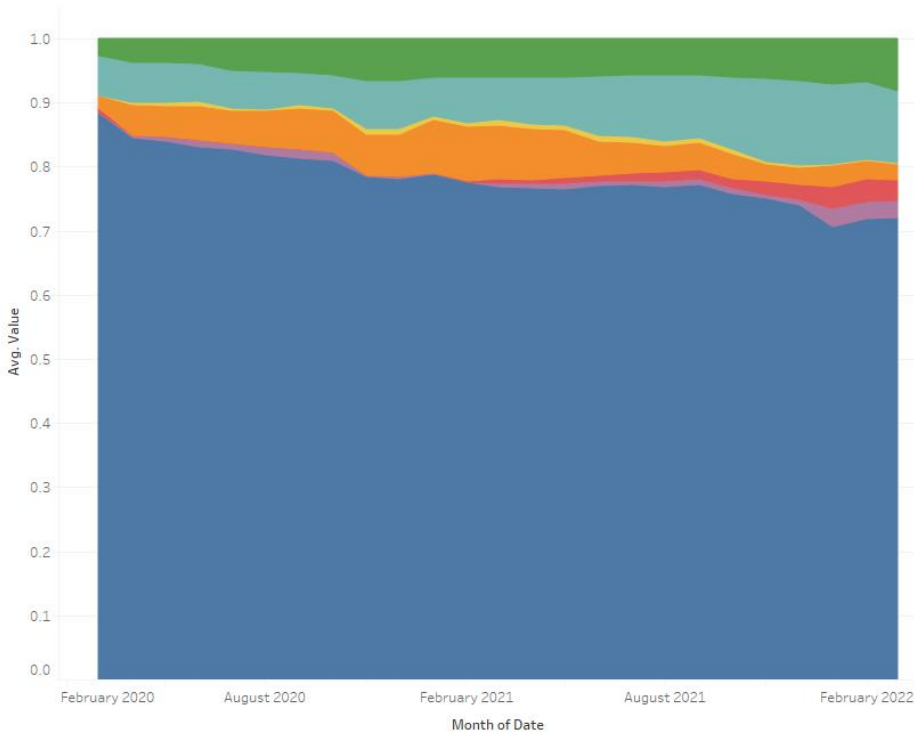
Exposures (Betas), Value-add (Alphas) & Risk (Volatility)



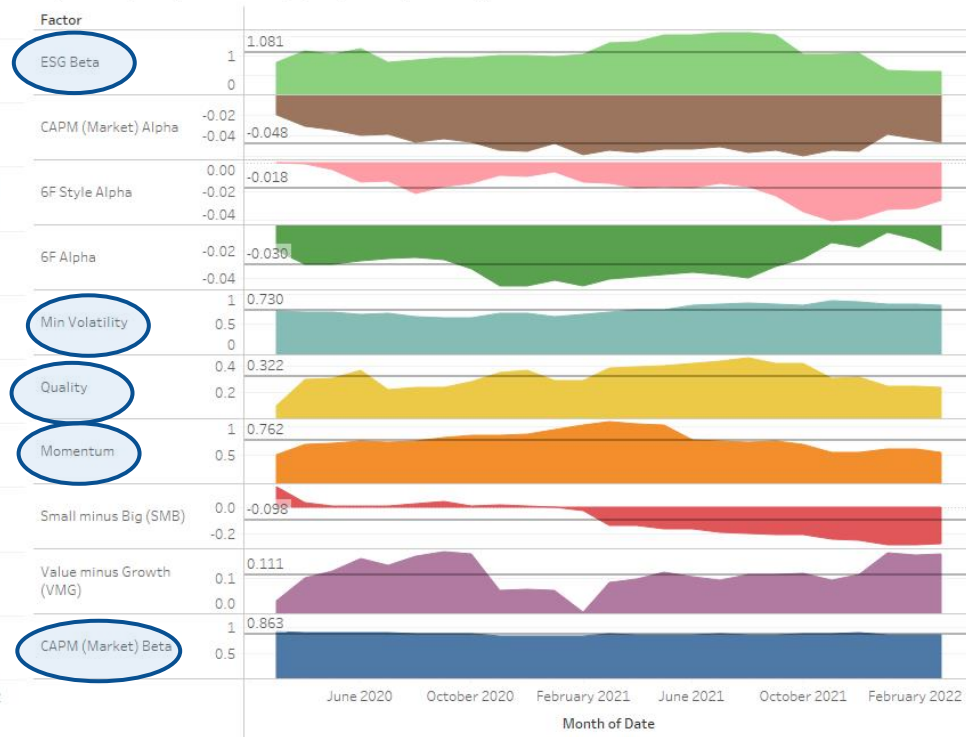
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ORANGE

Portfolio Risk Contribution



Exposures (Betas), Value-add (Alphas) & Risk (Volatility)



Choosing strategies ...

- ▶ Not all Value (& Growth) strategies are the same
- ▶ With rising interest rates, if we believe Value outperformance will continue, should we:
 - ▶ Ensure Balance Sheet strength with Quality
 - ▶ Increase defensiveness to equity markets, with Low Volatility Securities
 - ▶ Large Cap vs Small Cap?
 - ▶ ESG?
- ▶ But to invest with these considerations means ...
 - ▶ WE MUST INVEST WITH A MULTI-FACTOR MINDSET
 - ▶ But how will you do this?

Thank you

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