

Value and Momentum Factors win over the past 1 & 3 years – Foresight Factor Report June 2022



Foresight Analytics

●●● Unlocking your investment advantage

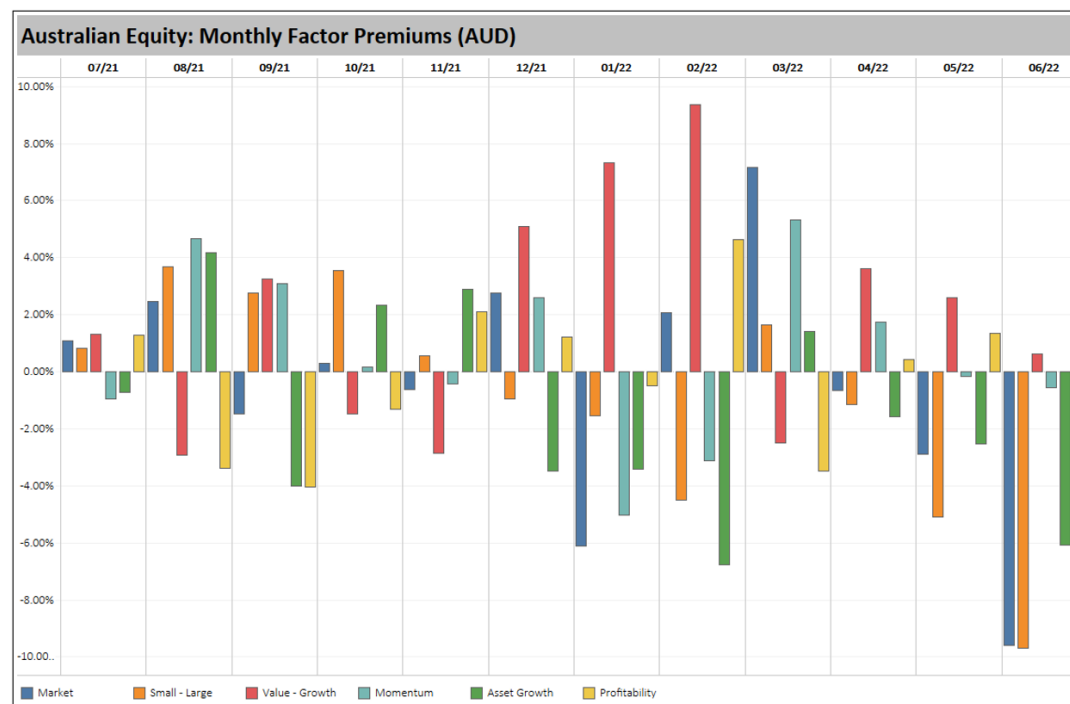
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In Foresight’s monthly Australian Equity Performance review, we look at the performance of key market factors: the various structural drivers of Australian share market. Foresight factor premiums show the returns attached to generally accepted, systematic drivers of market returns. Foresight computes long-short factor premiums to isolate the pure effect. Factor premiums can be highly useful in assessing how your portfolio biases are influencing outcomes during periods of volatility or otherwise.

I. Quality and Value Factors outperform in June 2022

Exhibit I: Quality and Value outperform in June 2022

- Exhibit I shows the Foresight monthly factor premiums. Factor premium insights are particularly valuable for putting your ETF or Active fund performance in the context of structural drivers of market return.
- Quality and Value were the best performing factors in June 2022 returning 4.20% and 1%, respectively. On the other hand, size had the worst returns of -9%.
- For 3-month period, Value and Quality were the best performers. Value factor also delivered strong premiums over a longer window of 6 months.
- On the above basis, active funds & ETFs with Quality & Value biases are expected to benefit in the shorter term.

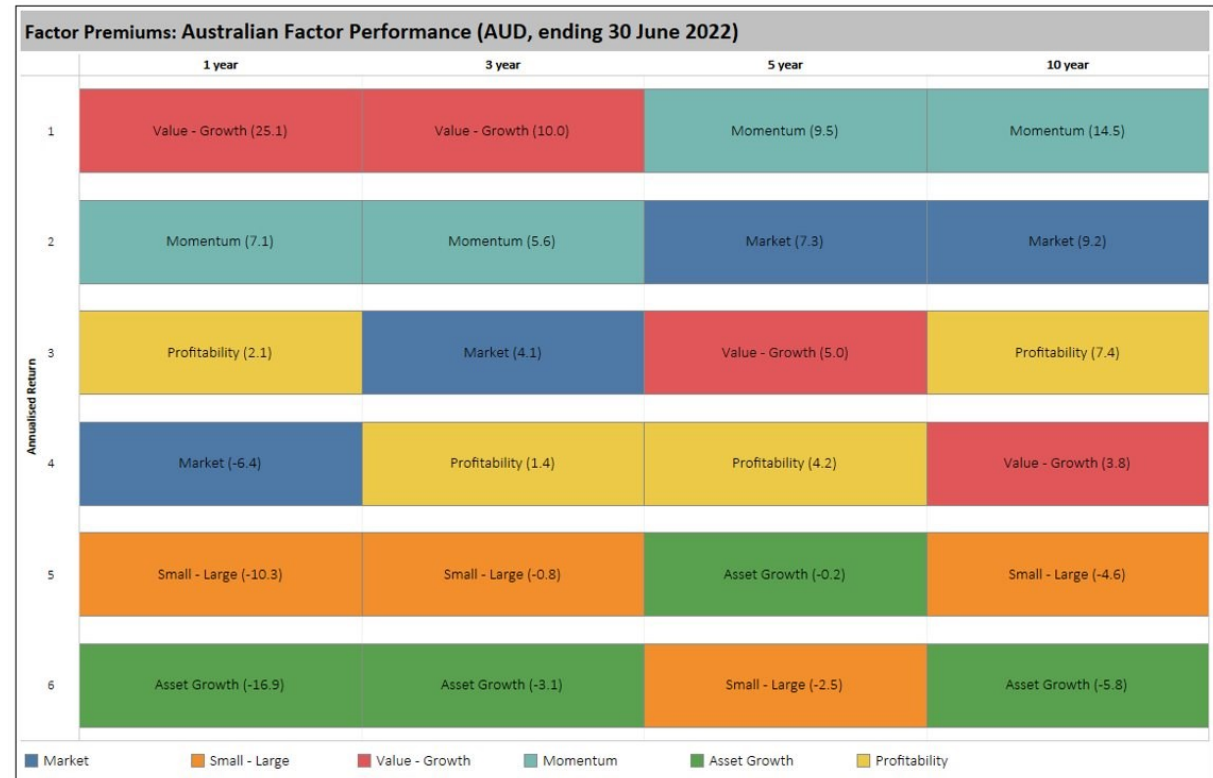


Source: Foresight Analytics Multi-factor Attribution System (Foresight MFAS) - Datasource: Foresight Analytics and Refinitiv Datastream
 Factor Multiple values

2. Momentum and Market Factors outperforms over long term

- Exhibit 2 shows the rankings of factor premiums across 1-, 3-, 5- and 10-year periods.
- Highest annualised returns over the last year (year ending 30 June 2022) were experienced by Value, Momentum and Quality. Size and Asset Growth were the worst performing.
- Over a medium- and long-term period (5 and 10 years), Momentum was the best performing followed by the Market factor.
- Asset Growth was the worst delivering a negative return of -5.8% over 10 years followed by Size (-4.6%).

Exhibit 2: Momentum and Market prove highly rewarding in the long term

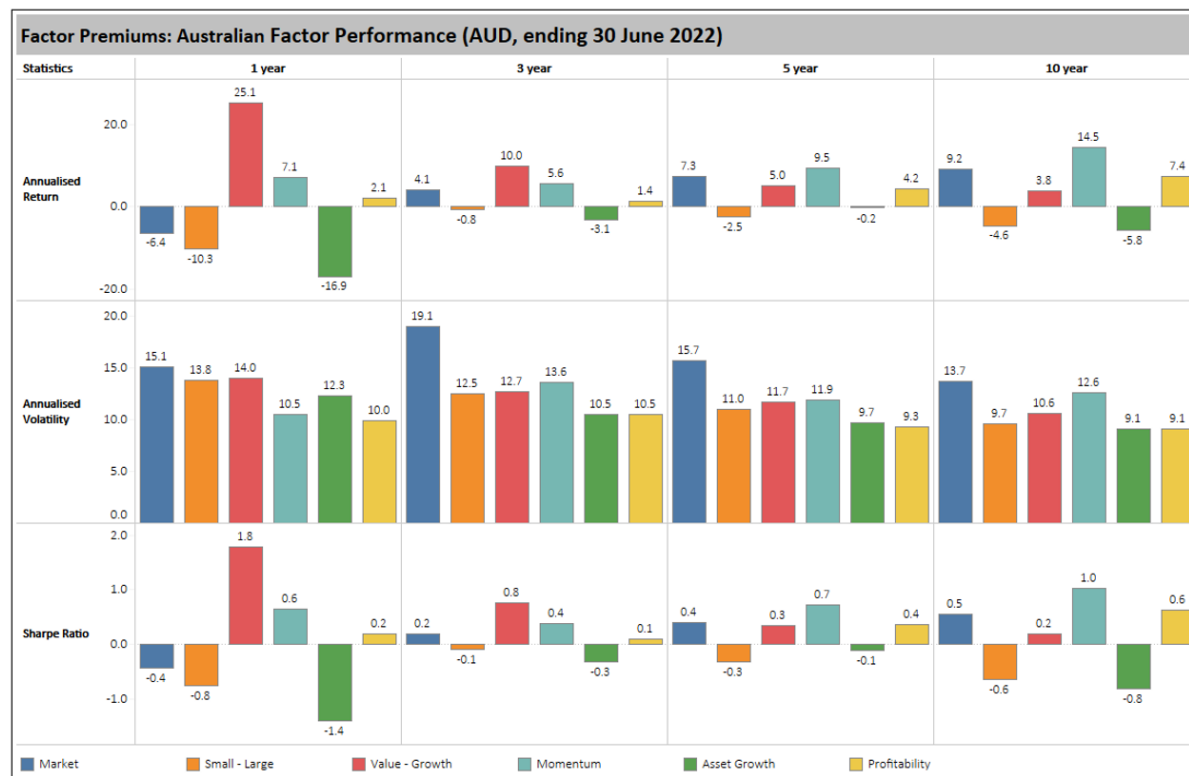


Source: Foresight Analytics Multi-factor Attribution System (Foresight MFAS) - Datasource: Foresight Analytics and Refinitiv Datastream
 Factor Multiple values Period Multiple values Statistics Annualised Return

3. Momentum and Value factors stand out over historical risk-adjusted returns

- Exhibit 3 shows the annualised returns, annualised volatilities and sharpe ratios of the factor premiums across 1, 3, 5 and 10 year periods.
- Over all time period Value (over Growth) factor and Momentum (over Contrarian) delivered positive returns consistently. Moreover, Value was the best performing factor over the last 1 year.
- Market has been the most volatile factor over all time period. The least volatile was Quality.
- Over the past year, Value had the highest Sharpe Ratio due to having the highest return and comparable volatility. The Value factor was followed by Momentum and Quality in Sharpe Ratios.
- Momentum, market and value factors stand out in the longer term on a risk-adjusted basis.
- Momentum had the highest Sharpe ratio (risk adjusted return) over the long-term period (5 and 10 years).

Exhibit 3: Market and Momentum factors are most volatile whilst Quality is the least



Source: Foresight Analytics Multi-factor Attribution System (Foresight MFAS) - Datasource: Foresight Analytics and Refinitiv Datastream
 Factor Multiple values Statistics Multiple values Period Multiple values

Foresight Analytics - Multi-Factor Attribution System**What is our methodology?**

The Foresight factor premiums are computed quarterly using **proprietary** methodology and security level price and fundamental data. This methodology is applied to Australian, Developed Market and Emerging Market Equities.

The factors presented by Foresight meet its stringent vetting criteria of being **pronounced, pervasive and persistent across global markets/countries**. The factors need to be supported by strong academic research and widely accepted by investment practitioners.

The Foresight factor premiums are computed using **long-short** methodology that is generally adopted in academic/practitioner research.

In addition to factor premiums, Foresight also computes and rebalances style-based **sub-factor portfolios** that are designed to provide more granular context to understanding market and manager strategy performance.

What specific factors does Foresight assess?

Factor	Methodology
Market	Broad market, long only - performance
Small-Large	Market cap, 90-10, long-short spread
Value-Growth	Price-to-book, 30-40-30, 90-10, long-short spread
Momentum	12-1-month momentum, 30-40-30, long-short spread
Asset Growth	Low minus high AG, 30-40-30, long-short spread
Profitability	Low minus high ROE, 30-40-30, long-short spread

Foresight Analytics – Illuminating Investment Decisions using Connected Insights

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Foresight's fiduciary solutions include quality- and risk-based investment research, operational and ESG diligence, global economic and market analyses, asset allocation, portfolio implementation and investment monitoring.

Foresight's fund strategy solutions include competitive advantage analysis, peer benchmarking, sustainability analytics as well as strategic investment process review and forensic validation.

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