

Introducing Ascore

Provide an objective view based on rigorous methodology



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Introduction

Introduction

AlphaStream

AlphaStream takes an approach that is **systematic and research driven** by applying quantitative methods to **process information efficiently and objectively**.

AlphaStream aims to develop processes which are **robust and repeatable**, rigorously tested and based on economic theory.

A wealth of academic research findings, which provide **credible empirical evidence** are made available to our clients.

Introduction

Leading academic studies discovered that it is possible to **identify distinct factors** which can systematically **generate higher risk-adjusted returns**, furthermore they are expected to continue to be profitable in the long-term.

Return **anomalies** are explained by a **semi-efficient reaction to news** which respectively causes an over- or under-reaction to the information.

The sources of outperformance are called factors and can be referred to styles such as **value, momentum, growth** and **quality**.

Strategic allocation towards several factors is called **multi-factor investing**.

Introduction

Successful active equity strategies can often be explained by **exposures** to a set of **well-documented factors**.

Taking these factor exposures into account, active **returns** can eventually be **fully explained**.

This has led to the construction of **single factor-indices** (size, value, quality, dividend, etc.).

Introduction

But even if the factors to which these indices are exposed to are well rewarded in the long run, they often encounter **prolonged periods of underperformance**.

Hence the **reward** of exposure to individual factors has been shown to **vary over time**.

Assuming that the returns of distinct factors are not correlated, **allocation across factors** permits to diversify the sources of outperformance thus **smoothing their performance** across market cycles.

Introduction

AScore

- Provide an **objective view of all Companies** included in a specific universe
- Improve investment process via an **analytical tool** that involves the use of a **set of proprietary quantitative algorithms** that is **consistently applied** to all companies

Approach

Approach

Hypothesis

Financial markets are **temporarily inefficient**

Anomalies have been documented in financial research which **contradict the theory of efficient markets.**

Anomalies occur in equity markets because:

- Not all investors **possess all relevant information** at all times
- Institutional **constraints** prevent that investors can react to certain information
- Not all decisions are made entirely **rationally**

-> **Tendencies that lead to a slowdown of the price discovery process**

Approach

Resulting market framework

- **Divergent forces** that lead to **trends**
 - **Convergent forces** that lead to **mean-reversion**
 - Divergent and convergent strategies are **mutually dependent**
 - **Both strategies** can be **profitable** through time
- > **Strategies from both areas must be combined efficiently**

Approach

Characteristics of divergent strategies

Strategies which tend to **perform best during periods of rising volatility** and uncertainty, capitalizing on serial price movement across many stocks in a marketplace which temporarily ignores fundamental information

Characteristics of convergent strategies

Strategies which tend to **perform best during periods of relative calm** in which the market processes all available information in an effort to determine assets that are over-valued and under-valued.

Approach

Four intuitive criteria, when applied effectively, have delivered positive long-term returns with low correlation to each other and traditional markets:

- Value:** the tendency for relatively cheap assets to outperform relatively expensive ones
- Momentum:** the tendency for an asset's recent relative performance to continue in the near future
- Quality:** the tendency for higher quality assets to generate higher risk-adjusted returns
- Growth:** the tendency for assets expected to grow faster to outperform assets expected to grow slower

Mechanics

Mechanics

Return prediction

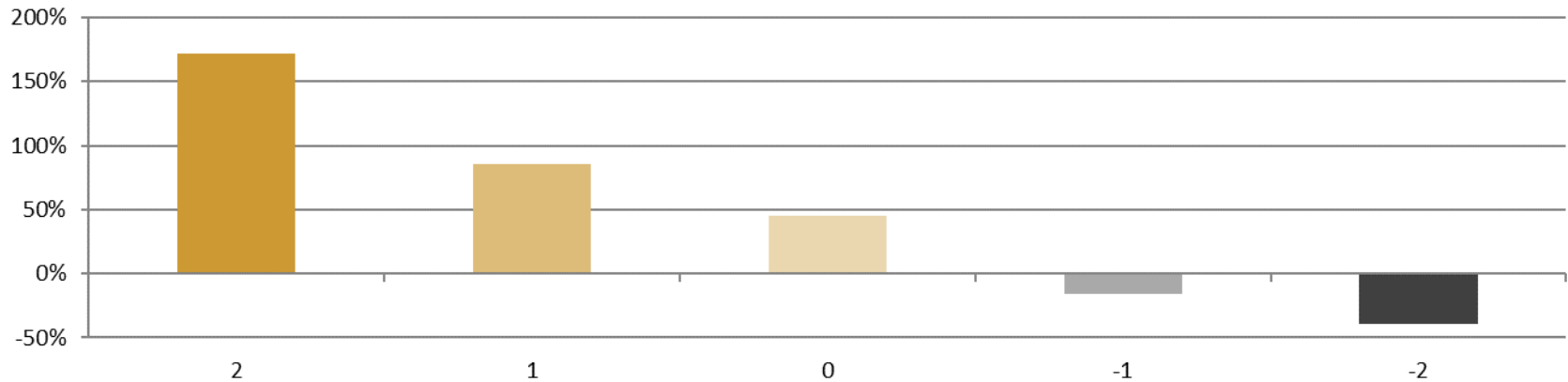
Inherent in our process is a **systematic return prediction for all instruments** based on fundamental data, pricing relationships and behavioral biases:

Name	Value	Momentum	Quality	Growth	Alpha
ABB Ltd.	0	2	0	0	0
Alcon, Inc.	-1	-1	0	-1	-2
Compagnie Financiere Richemont SA	1	1	0	0	0
Credit Suisse Group AG	1	-1	0	1	0
Geberit AG	0	2	2	1	2
Givaudan SA	0	1	0	0	-1
LafargeHolcim Ltd.	2	0	0	1	2
Lonza Group AG	-1	2	1	-1	-1
Nestle S.A.	0	-1	1	0	0
Novartis AG	1	-1	1	0	0
Partners Group Holding AG	0	1	1	0	0
Roche Holding Ltd	1	-1	2	-1	1
SGS SA	0	1	1	1	1
Sika AG	-1	2	1	1	1
Sonova Holding AG	0	1	0	0	-1
Swiss Life Holding AG	2	0	0	0	1
Swiss Re AG	0	0	0	0	-1
Swisscom AG	2	-1	1	1	2
UBS Group AG	2	1	0	0	1
Zurich Insurance Group Ltd	2	1	0	1	2

Results

The central, unifying element of a systematic approach is an **algorithm** that **relates stock movements to other market data**.

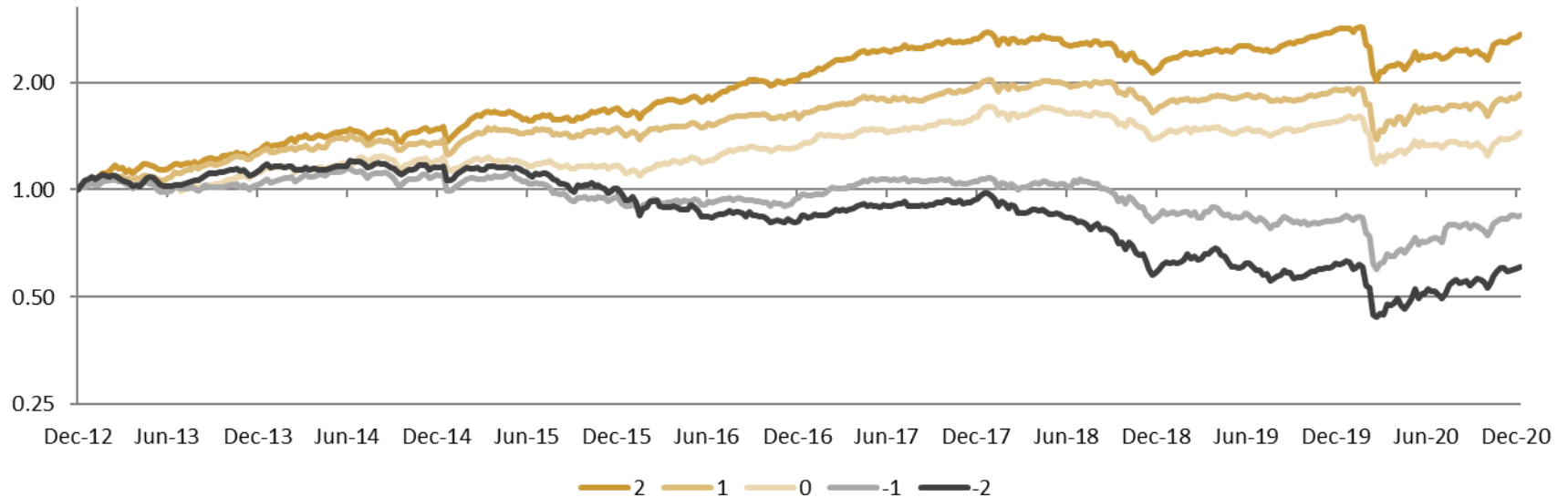
Multifactor Selection Result



CH Universe December 2012 – December 2020 (out-of-sample data)

Results

The algorithm is used to predict stock returns and these predictions form the basis for selecting stocks for the portfolio.



CH Universe December 2012 – December 2020 (out-of-sample data)

Approach

Assigning **AS-Scores** based on defined criteria to more than **6'250 stocks** in 7 universes **globally** on a **weekly** basis:

Universe	#stocks
- Switzerland	215
- USA	1500
- Europe	600
- Japan	1800
- Australia	200
- Canada	200
- Emerging Markets	1200
- Global Convertible Bonds (IG)	500

Summary

Summary

Ascore

- help investors to quickly **asses which category** a company belongs to
 - help to **generate new investment ideas**
 - help to **evaluate current positions**
 - **Consistent approach based on academic theory and empirical evidence**
- > **no assignment of ratings or price targets**

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Appendix

CV: Marco Tinnirello

Marco Tinnirello is founding partner of AlphaStream.

He is a specialist in systematic investment strategies and quantitative portfolio management with a track record of over ten years of providing investment services to institutional clients.

He graduated in quantitative finance and earned a Master of Advanced Studies in Finance, jointly delivered by the University of Zurich and the Swiss Federal Institute of Technology.