



Focus: Value



VALUE



SIZE



MOMENTUM



QUALITY



YIELD



VOLATILITY



GROWTH



LIQUIDITY

Factor focus:

Value

In the realm of investing, a factor is any characteristic that helps explain the long-term risk and return performance of an asset. MSCI Factor Indexes are designed to capture the return of factors which have historically demonstrated excess market returns over the long run.

MSCI Factor Indexes are rules-based, transparent indexes targeting stocks with favorable factor characteristics – as backed by robust academic findings and empirical results – and are designed for simple implementation, replicability, and use for both traditional indexed and active mandates.

Defining Value

The foundation of value investing is the notion that cheaply priced stocks outperform pricier stocks in the long term. Value is categorized as a “pro-cyclical” factor, meaning it has tended to benefit during periods of economic expansion (see “Performance and Implementation”).

Value has several dimensions: the stock price as a multiple of company earnings, price as a multiple of dividends paid, price

as a multiple of book value, and other such “ratio descriptors.” Academics and investors differ on which best represents a value company, creating opportunity in the marketplace for a variety of investment products.

The MSCI Enhanced Value Index applies three valuation ratio descriptors on a sector relative basis:

- Forward price to earnings (Fwd P/E);
- Enterprise value/operating cash flows (EV/CFO); and
- Price to book value (P/B).¹

The index aims to address the pitfalls of value investing, among them “value traps” – stocks that appear cheap but which in fact do not appreciate. Our analysis shows that using forward earnings has helped provide protection against value traps, and that whole-

firm valuation measures, such as enterprise value, have reduced concentration in highly leveraged companies, meaning those that have borrowed heavily.

Why investors have used value strategies

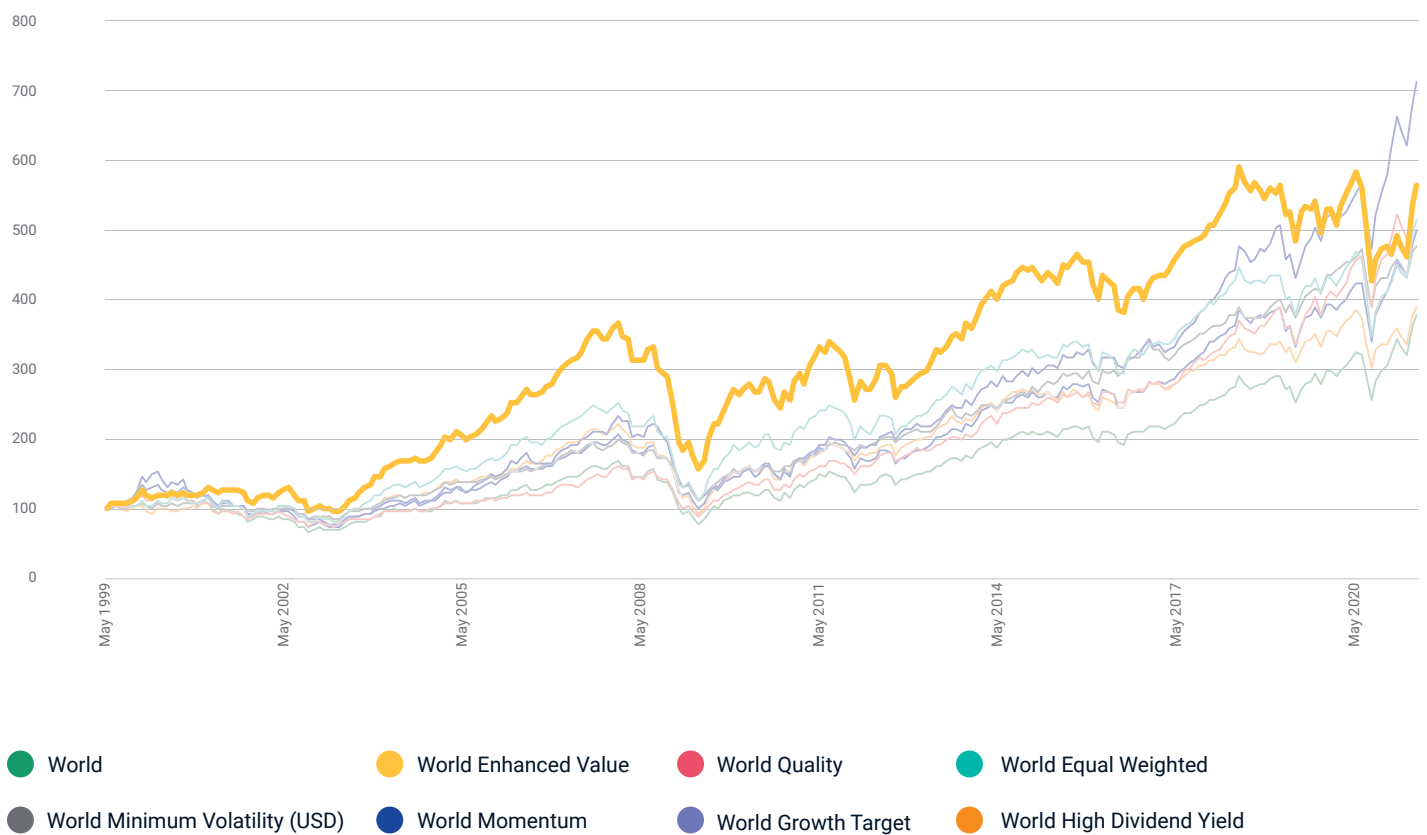
Many investors use this approach in identifying assets that they expect the market to revalue.

The concept of value was first popularized in the 1930s by economists Benjamin Graham and David Dodd, who advocated owning companies that provide a “margin of safety” – meaning the current stock price is less than it is expected to be under conservative projections of the firm’s future earnings.²

Performance & --- implementation

MSCI World Factor Indexes

Over time, individual factors have delivered outperformance relative to the market.



The MSCI World Enhanced Value Index has historically generated excess returns over the long run with a 1.99% annual return over the MSCI World Index since 1999 as represented above.

Long-term performance: May 1999 – December 2020



Although factor strategies have exhibited long-term outperformance, in the short-term, factor performance has been cyclical and has generated periods of underperformance.

At the core of value investing is the belief that “cheaply” valued assets tend to outperform “richly” valued assets over a long horizon.

How factors have performed:

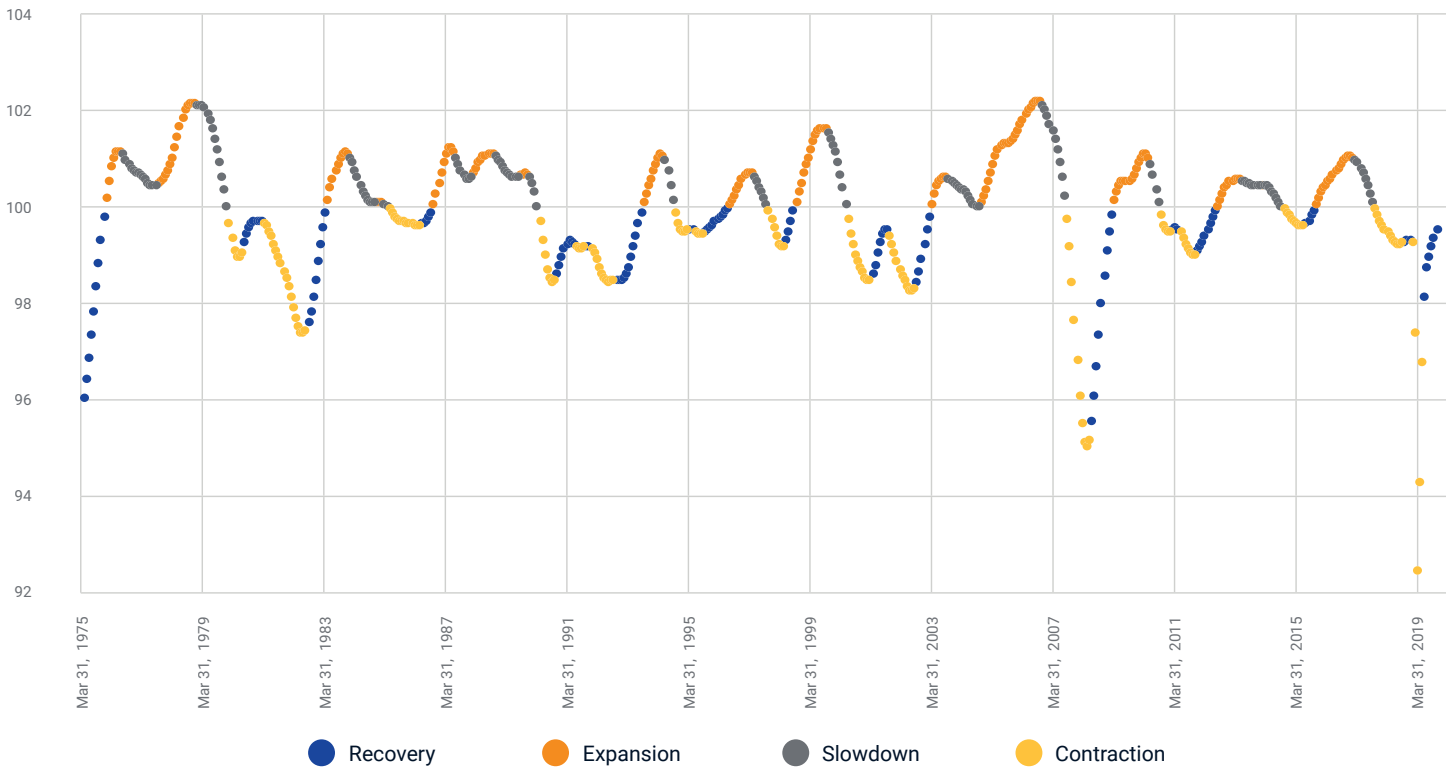
Value

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
1.5%	-4.5%	-9.6%	56.7%	28.6%	28.4%	31.0%	19.9%	-29.2%	42.0%	18.2%	8.0%	16.7%	32.7%	12.1%	5.8%	10.3%	32.6%	-1.4%	36.7%	28.7%
1.2%	-8.0%	-9.8%	50.4%	24.1%	17.2%	28.9%	16.8%	-33.5%	41.9%	9.1%	4.8%	16.5%	30.7%	9.0%	4.5%	9.4%	26.6%	-2.4%	28.4%	22.7%
0.3%	-10.0%	-13.6%	40.1%	21.3%	15.2%	22.1%	11.4%	-37.8%	33.8%	7.2%	4.8%	15.0%	30.3%	7.0%	4.2%	8.9%	26.6%	-5.1%	28.3%	18.1%
-2.1%	-11.5%	-14.4%	33.8%	20.8%	12.5%	21.8%	10.3%	-39.9%	33.5%	11.4%	4.4%	14.8%	27.7%	5.5%	1.2%	8.9%	23.9%	-6.7%	27.4%	16.5%
-10.2%	-12.1%	-15.1%	30.5%	20.0%	10.0%	21.2%	9.6%	-40.3%	31.9%	9.3%	-5.0%	14.7%	27.4%	4.6%	-0.3%	8.2%	23.1%	-8.2%	24.5%	10.1%
-12.5%	-16.5%	-16.5%	26.0%	19.3%	8.5%	20.7%	7.3%	-41.9%	30.8%	12.3%	-5.4%	13.7%	26.5%	4.6%	-1.0%	8.2%	22.9%	-8.5%	24.3%	3.3%
-12.9%	-19.4%	-19.4%	25.9%	15.2%	8.3%	19.1%	6.4%	-42.4%	17.2%	12.8%	-9.3%	13.3%	22.9%	3.4%	-2.4%	5.1%	19.2%	-11.8%	24.0%	1.0%
-18.9%	-20.5%	-19.5%	22.0%	12.7%	6.0%	16.8%	6.1%	-42.6%	14.8%	16.5%	-11.0%	8.9%	19.4%	3.3%	-2.7%	4.7%	18.0%	-13.4%	19.8%	-3.3%

- World
- World Enhanced Value
- World Quality
- World Equal Weighted
- World Minimum Volatility (USD)
- World Momentum
- World Growth Target
- World High Dividend Yield

The analysis and observations in this report are limited solely to the period of the relevant historical data, backtest or simulation. Past performance – whether actual, back tested or simulated – is no indication or guarantee of future performance. None of the information or analysis herein is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision or asset allocation and should not be relied on as such. The time periods covered in the charts in this paper were dictated by the data available when we conducted the simulations which produced them. There are frequently material differences between backtested or simulated performance results and actual results subsequently achieved by any investment strategy.

Macro effects on factor performance



In general, factor performance has been cyclical in nature. Individual factors have been shown to outperform during different macroeconomic environments.

Conclusion _____

Value investing is premised on identifying stocks whose prices seem to understate their intrinsic value. While many institutional investors may agree with that premise, implementation of value-index strategies differs widely. MSCI Enhanced Value Indexes are based on research that has found that combining value ratio descriptors has captured the value factor better than using any individual ratio descriptor alone.

Footnotes _____

1. Exceptions are Financials: Forward P/E and P/B, Real Estate: EV/CFO
2. Graham, B., D. Dodd, S. Cottle, R. Murray and F. Block. (1989). Graham and Dodd's Security Analysis, McGraw-Hill.



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