



FACTOR DEFINITIONS

SEPTEMBER
2023

LOS ANGELES CAPITAL MANAGEMENT (LACM)



Los Angeles Capital incorporates a suite of equity factors into the Firm's Dynamic Alpha Stock Selection Model[®]. This paper highlights factors used across the regional models that generate stock alphas for regional or global portfolios[^]. Los Angeles Capital may modify the definition of factors or may add or delete factors from time to time. Furthermore, the actual importance of a factor in a stock's alpha may change over time as investor's preference for the factor changes to the current market environment.

Analyst Insight

The factor seeks to measure whether the sell-side analyst community is optimistic or pessimistic regarding a particular company's prospects. The factor includes proprietary modeling of earnings, revenue and EBITDA revisions as well as buy/hold/sell recommendations and price targets in order to capture a comprehensive assessment of analyst sentiment for companies in our coverage universe. The factor is further enhanced by a measure of a company's news sentiment including specific flags for ESG controversies.

Appraisal

A break-up factor which seeks to value every issuer by assigning prices to each item on an issuer's balance sheet while controlling for differences in the level of profitability among issuers.

Bad Momentum

The portion of stock returns which are residual to systematic drivers and hence, are considered unsustainable. Bad Momentum captures return movements not justified by fundamentals or news events and is found to mean revert on a forward basis.

Balance Sheet Risk*

A composite factor used in ex-post attribution only. The composite comprises a linear combination of Leverage, Distress and Pension Risk in all stock universes, with the exception of Emerging Markets (EM) and Small Cap assets. In the case of EM and Small Caps the factor is a combination of Leverage and Distress only.

Balance Sheet Value*

A composite factor used in ex-post attribution only. The composite comprises a linear combination of Book to Price and Appraisal.

Book-to-Price

Quarterly tangible book value of equity divided by Market Capitalization. Tangible book value is equal to book value minus intangible assets.

Business Risk*

A composite factor used in ex-post attribution only. The composite comprises a linear combination of Volatility and a categorical variable (0 or 1) identifying profitable and unprofitable companies within the US. Outside of the US the factor is equal to Volatility only.

[^]Not all factors are included in regional models.

Cash Flow Value*

A composite factor used in ex-post attribution only. The composite comprises a linear combination of Earnings Yield, DDR, Yield and Relative Value.

Change in Shares

Compares an issuer's number of shares outstanding today to its shares outstanding from one year ago. This measure captures information about share repurchasers versus share issuers.

Climate Opportunities

Developed from a combination of various ESG and climate-specific data sources, the Climate Opportunities factor seeks to identify issuers that should both be robust to a transition to a low carbon economy and offer competitive advantages within that same economy given exposure to emergent green technologies. Machine learning techniques are utilized to identify companies showing leadership as it relates to climate risks and opportunities and spans companies transforming business models to become more carbon efficient, as well as companies directly exposed to low carbon technological innovation.

Climate Resilience

The factor captures the extent that companies are resilient to physical risk, such as those companies with assets and businesses that are insensitive to extreme weather events, or those likely to suffer losses and restrictions on normal business in the face of worsening environmental conditions.

Cyclical Growth

An estimate of a company's earnings growth rate in two years relative to the next fiscal year period based on consensus estimates.

DDR

Utilizing a three-stage dividend discount model, DDRs reflect the discount rate which equates projected dividends with today's market price. To minimize errors associated with outliers, discount rates are factor adjusted through the Firm's Forward Attribution® model which solves for the long-term price of risk of various factors. These prices are combined with an issuer's exposure to the relevant factors to compute enhanced discount rates.

Distress

Measures balance sheet riskiness within the non-investment grade credit universe using estimated Credit Default Swap (CDS) prices.

Earnings Quality

Measures management's ability to convert earnings into cash flow by emphasizing cash earnings over accrued earnings. Issuers that produce large accounting profits, yet generate little cash, are more likely to be manipulating earnings than companies that generate cash profits.

Earnings Yield

Defined as EBIT-to-EV or reported Operating Profit divided by Total Debt plus Market Capitalization.

ESG Composite*

A composite ESG factor used in ex-post attribution only. The composite comprises a linear combination of ESG Sentiment, Climate Opportunities, and Climate Resilience.

ESG Sentiment

The factor rates a company between 0 and 10, on an industry-neutral basis, by measuring a company's impact on issues related to the three pillars of ESG investing, which are environmental, social, and governance. A third-party vendor score is utilized in order to capture capital flows associated with ESG as well as sentiment for ESG in the market on a forward-looking basis.

Estimate Dispersion

Seeks to assess the uncertainty associated with expected earnings by measuring the level of dispersion across analysts' EPS estimates. (Emerging Markets only)

Financial Risk

A composite factor taken from two Dynamic Alpha Model factors, Leverage and Distress. Leverage focuses on an issuer's financial structure while distress measures an issuer's ongoing viability.

Foreign Revenue

Percentage of company sales generated outside the issuer's home region/country.

Good Momentum

The portion of the past 12 month return of a stock which is attributable to its systematic characteristics, including fundamentals and news events. Good Momentum is found to persist on a forward basis and behaves in a superior manner compared to traditional time-horizon based momentum metrics.

Insider Buying

A measure of whether executives are buying shares in their own company. If executives are optimistic about the outlook for the company, this should be a good sign for investors.

Leverage

The Leverage factor measures the financial health of issuers within the investment grade credit universe using estimated Credit Default Swap (CDS) prices.

Long Term Growth

Proprietary modeling is used to develop a blended growth rate based on analyst estimates (when available) and the predicted growth rate from an in-house attribution model. The predicted growth rate is derived by attributing analyst-provided long term EPS growth rates against various growth metrics related to short-term EPS and Sales growth.

Market Capitalization

The natural logarithm of an issuer's total market capitalization.



Margin Surprise

The difference between the actual profit margin and the consensus estimated profit margin following the latest earnings announcement. The factor combines both gross and net margin in the calculation of surprise.

Momentum Composite*

A composite factor used in ex-post attribution only. The composite comprises a linear combination of 1 Year Momentum and Peer Momentum.

One Year Momentum

A stock's one year momentum is its 12-month return excluding the most recent month (disentangled into good and bad momentum components over various periods).

Peer Momentum

Identifies economic linkages between companies, not captured by traditional industry categorizations, which support the co-movement of their returns. Overlaps in analyst coverage, words used in earnings calls and ESG key issues are utilized to develop a unique peer group for each stock. Momentum for the peer group is then calculated to seek to identify whether the company is likely to face headwinds or tailwinds to performance.

Pension Risk

Pension Plan Assets divided by Market Capitalization.

Profitability

A measure of operating efficiency, the Profitability factor is calculated as Net Income divided by Sales. Within the US, a non-linear adjustment is incorporated for companies with no profits to capture stocks that perform well during speculative market environments.

Quality Composite*

A composite quality factor used in ex-post attribution only. The composite comprises a linear combination of Success, Transparency and Profit Margin, and Margin Surprise.

Relative Value

Seeks to assess a stock's value relative to its recent history by comparing its dividend discount rate today against weekly history of that discount rate over the prior year.

Sales Growth

Last 12 months sales divided by the previous year's sales.

Short Sentiment

Active utilization defined as shares lent for the purpose of shorting divided by lendable supply. A high exposure to short sentiment indicates bearish sentiment amongst short sellers, who are generally classified as informed investors.

Short Sentiment

Active utilization defined as shares lent for the purpose of shorting divided by lendable supply. A high exposure to short sentiment indicates bearish sentiment amongst short sellers, who are generally classified as informed investors.

State Owned Enterprises (SOEs)

Defined for Chinese securities only. The factor identifies Chinese firms with a significant proportion of equity (greater than 10%) owned by the state. (China Only)

Success

Proprietary modeling seeks to identify companies with strong and resourceful management teams that are efficiently growing their company. The factor incorporates considerations for quality, organic and long-term growth, and sustainability, and employs machine learning techniques to identify industry-specific metrics based on a database of over 200 factors.

Sustainability

The Firm's dedicated, multi-factor ESG Model seeks to gauge long-term value creation prospects specifically through the lens of sustainability. The ESG Model emphasizes the material ESG issues for each sub-industry and includes raw carbon emissions data as well as proprietary modeling of emissions intensity to gauge leadership relative to peers, and to expand upon the definition of materiality. This factor is utilized within our assessment of management Success as described above.

Torpedo

A measure of expected short-term earnings growth, Torpedo is defined as next 12 months earnings per share ("EPS") consensus estimate versus trailing 12 month EPS, scaled by price.

Transparency

Utilizing financial dictionaries and Natural Language Processors, transcripts of an issuer's earnings call are analyzed to gauge management's sentiment, objectivity, and transparency.

Volatility

The variance of 26 one-week total returns.

Yield

Indicated dividend divided by Price. Special dividends are excluded.

**Factor or composite factor used in ex-post attribution model only and not utilized in Firm's stock selection model.*



LEGAL DISCLOSURES

This publication is for general information purposes only and does not constitute an offer to sell any security. The investment processes described herein are illustrative only and are subject to change. This document is intended for sophisticated institutional and professional investors only and is delivered on an individual basis to the recipient and should not be passed on, used by any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation, or otherwise distributed by the recipient to any other person or organization.

The Firm. Los Angeles Capital Management LLC (“Los Angeles Capital”) is an independent investment advisory firm founded in 2002, that is employee owned through its parent entities, and registered under the Investment Advisors Act of 1940 with the US Securities and Exchange Commission. Registration does not imply a certain level of skill or training. Los Angeles Capital is an institutional adviser that offers global equity active management in both developed and emerging markets.

LACM Global. LACM Global, Ltd. (“LACM Global”) is authorized and regulated by the Financial Conduct Authority (FRN: 731034) and is a wholly-owned subsidiary of Los Angeles Capital. This promotional material is approved for issue by LACM Global.

Opinions and Statements. Any opinions expressed in this publication are current only as of the time made and are subject to change without notice. The Firm assumes no duty to update any such statements. There is no assurance that the investment objectives and/or trends will come to pass or be maintained. While information and statistical data in this publication are based on sources believed to be reliable, Los Angeles Capital and its affiliates (collectively, the “Firm”), does not represent that it is accurate or complete and should not be relied on as such or be the basis for an investment decision.

ESG Implementation. Environmental, social, and corporate governance (ESG) data is integrated into the Los Angeles Capital Dynamic Alpha Stock Selection Model®. The Firm’s quantitative investment model technology allows the Firm to offer customized solutions to its clients. Furthermore, a client may elect to incorporate additional ESG considerations into their portfolio. As an example, the Firm can incorporate specific ESG information on a customized basis into its investment process. Accounts that employ a responsible investing tilt will also hold securities that were not selected due to their ESG characteristics and as result the portfolio may hold securities that have a negative ESG profile.

Country Specific Disclosures

Australia. Los Angeles Capital is exempt from the requirement to hold an Australian financial services license under the Corporations Act 2001 (Cth) in respect of the financial services it provides to wholesale clients in Australia and is regulated by the US Securities and Exchange Commission under US laws which differ from Australian laws.

Denmark. These materials are provided solely for use in a private meeting and are intended for informational and discussion purposes only. The views expressed herein represent the opinions of LACM Global and Los Angeles Capital and are not intended as a forecast or guarantee of future results for any product or service. Los Angeles Capital has not been approved to provide investment management services by the Danish Financial Supervisory Authority.

China. Investment management services will be provided in the United States.

Hong Kong. Los Angeles Capital does not carry on a regulated activity business in Hong Kong and is not licensed by the Hong Kong Securities and Futures Commission. This document is issued for information purposes only. It is not to be construed as an offer or solicitation for the purchase or sale of any financial instruments. It has not been reviewed by the Securities and Futures Commission. Any prices referred to herein are indicative only and dependent upon market conditions. Past performance is not indicative of future results. Unless otherwise specified, investments are not bank deposits or other obligations of a bank and the repayment of principal is not insured or guaranteed. They are subject to investment risks, including the possibility that the value of any investment (an income derived thereof (if any)) can increase, decrease or in some cases, be entirely lost and investors may not get back the amount originally invested. The contents of this document have not been reviewed by any regulatory authority in the countries in which it is distributed. Los Angeles Capital accepts no liability whatsoever for any direct, indirect or consequential loss arising from or in connection with any use of, or reliance on, this document which does not have any regard to the particular needs of any person. The Adviser takes no responsibility whatsoever for any use, reliance or reference by persons other than the intended recipient of this document. The opinions and views herein do not take into account your individual circumstances, objectives or needs and are not intended to be recommendations of particular financial instruments or strategies to you. This document does not identify all the risks (direct or indirect) or other considerations which might be material to you when entering any financial transactions. You are advised to exercise caution in relation to any information in this document. If you are in doubt about any of the contents of this document, you should seek independent professional advice. Opinions and views expressed constitute Los Angeles Capital’s judgment as of the date of this document, may involve a number of assumptions which may not be valid and are subject to change without notice. Although the information and any opinions or views given have been obtained from or based on sources believed to be reliable, no warranty or representation is made as to their correctness, completeness or accuracy by Los Angeles Capital or its affiliates and/or subsidiaries.

New Zealand. This presentation and the information contained herein does not constitute and is not intended to constitute an offer of securities and accordingly should not be construed as such. The investment vehicle and any other products or services referenced in this presentation may not be licensed in all jurisdictions, and unless otherwise indicated, no regulator or government authority has reviewed this document or the merits of the products and services referenced herein. This presentation and the information contained herein has been made available in accordance with the restrictions and/or limitations implemented by any applicable laws and regulations. This presentation is directed at and intended for Wholesale investors (as such term is defined in each jurisdiction in which the investment vehicle is marketed). This presentation is provided on a confidential basis for informational purposes only and may not be reproduced in any form. Before acting on any information in this presentation prospective investors should inform themselves of and observe all applicable laws, rules and regulations of any relevant jurisdictions and obtain independent advice if required. This presentation is for the use of the named addressee only and should not be given, forwarded or shown to any other person (other than employees, agents or consultants in connection with the addressee’s consideration thereof).

South Korea. Los Angeles Capital is registered in accordance with the FSCMA as a cross border discretionary investment management business.

