



LOS ANGELES

C A P I T A L

INVESTMENT GLOSSARY

Factor Definitions



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 considering the revisions of peer companies and by measuring 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.

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 which are then also considered relative to peers.

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.

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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 (where 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 rates 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 from 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 Year Momentum and Peer Momentum.

One Year Momentum

A stock's one year momentum is its 12-month return excluding the most recent month.

Peer Momentum

Identifies economic linkages between companies, not captured by traditional industry categorization, which support the co-movement of their returns. Overlaps in analyst coverage, words used in analyst 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.

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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, 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.

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 and operating successfully relative to peers. 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 proprietary modeling (i) of emissions intensity to gauge leadership relative to peers and expand upon the definition of materiality and (ii) to capture good governance practices. 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.