

December 08 ,2023

Exceptional & Rich © ADR 60 Style Simulations

AlphaBlock's "open indexing" is a systematic, scientific, and replicable method, which is based on a mathematical innovation that allows for the construction of smart beta portfolios that are less concentrated, recover faster after a market fall and improve on the limitations of the current indexing methods. The Exceptional & Rich [E&R] Indices Sandbox is a codebase that executes the following three steps. First; downloads yahoo EOD [end of day] closing price data. Second; generates relative performance rankings [detailed in the codebase]. Third; creates portfolios using these rankings. The portfolios are not rebalanced and are held for 3 holding periods [1, 2, and 3 years].

The method tests the following statistical factors. Value - if ranking is equal or below 20 i.e. bottom quintile [V]. Core - if ranking is between 20 and 80 i.e. rest quintiles ignoring top and bottom quintile [C]. Growth - if ranking is equal or above 80 i.e. top quintile [G]. The following types of portfolios are generated: Value [V], Core [C], Growth[G], Value Growth i.e. top and bottom quintile [VG], All quintiles [VCG]. Based on this data the following files are created: Summary Table, Index Drawdown, Index Draw DownCurve plot, and Daily Return. If the input type is All (VCG) the code will generate an unequal weighted portfolio with value and growth having 40% each and core only 20%.

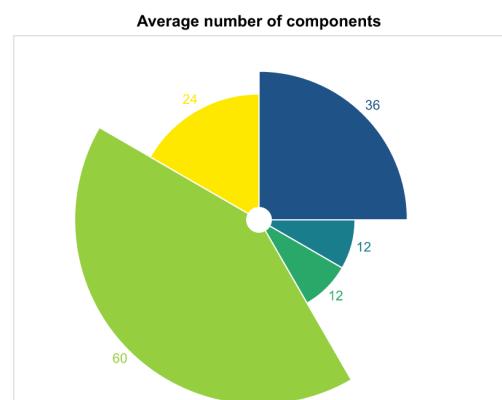
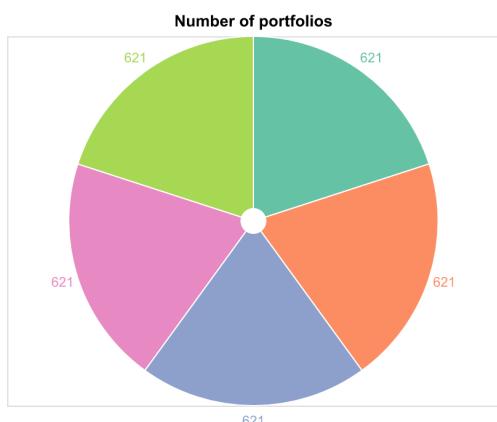
The 60 components of the ADR are screened for fundamental quality based on six parameters viz. sales growth, leverage, net profitability, free float, earnings growth and operating profitability. VCG group had the lowest average tracking error, the highest average information ratio and was the best Cartesian category that looked across various MPT statistics.

Though the behaviour of the 3N methodology is consistent across different regions and assets, the behaviour of respective styles (V, C, G, VG, VCG) may vary based on other factors like number of components, starting point of the simulation, macro economic conditions, fundamental factors etc. We use A.I. to monitor and anticipate these variations to enhance our strategy.

1. Input Data

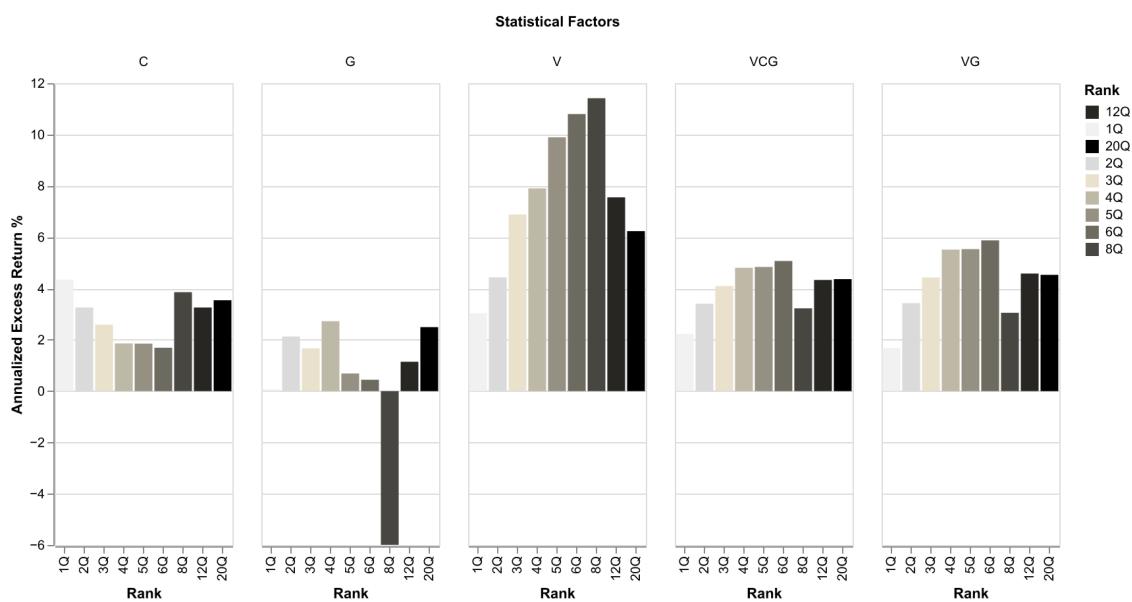
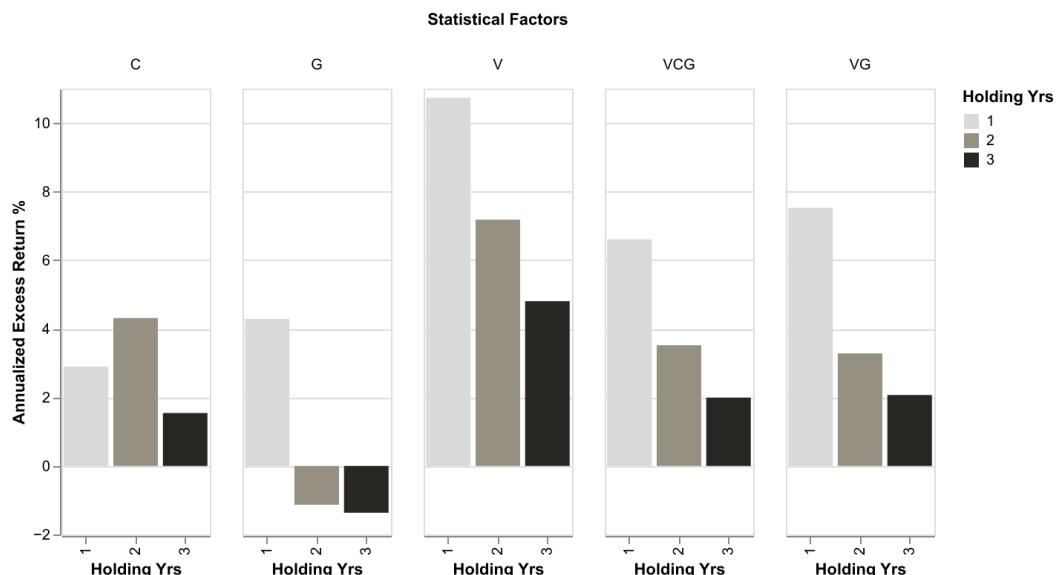
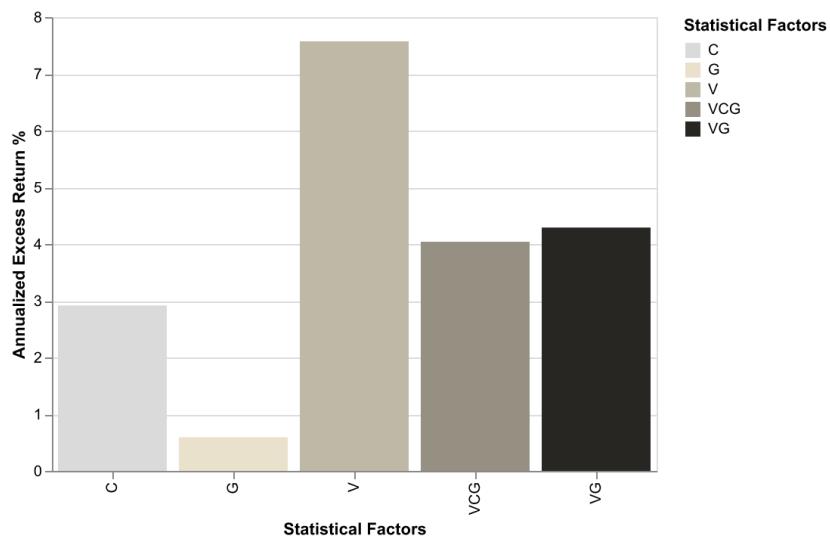
Input data defines the Exceptional & Rich Model, benchmark, inception point, number of components and the number of simulations run.

Group name	Benchmark	Total number of portfolios	Number of components	Portfolios starting year
Exceptional & Rich ADR 60	153 ADRs MCap	3105	60	2020



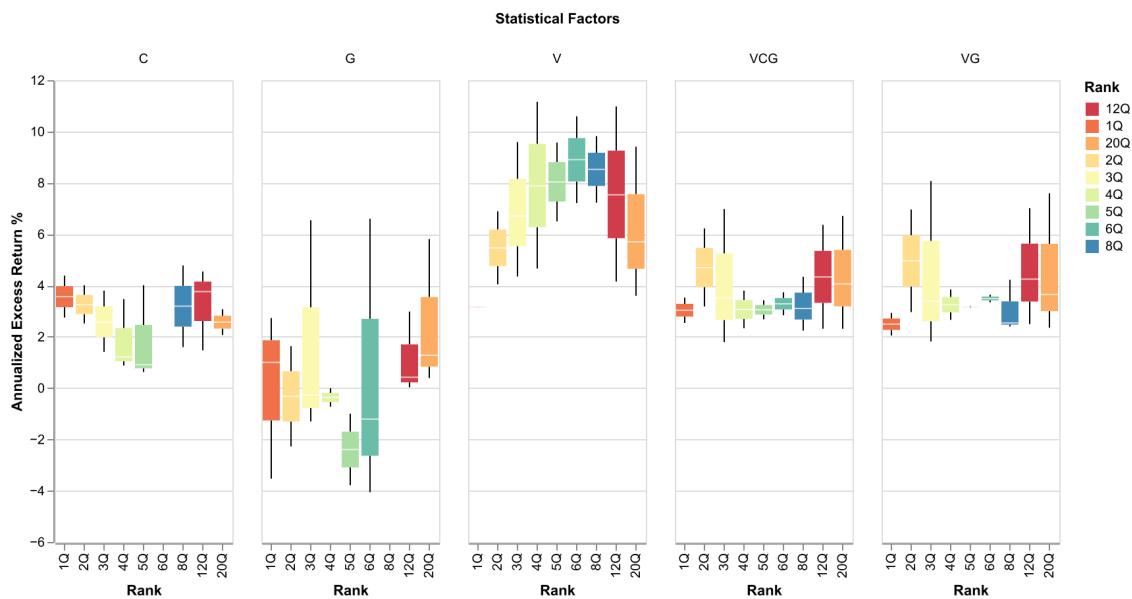
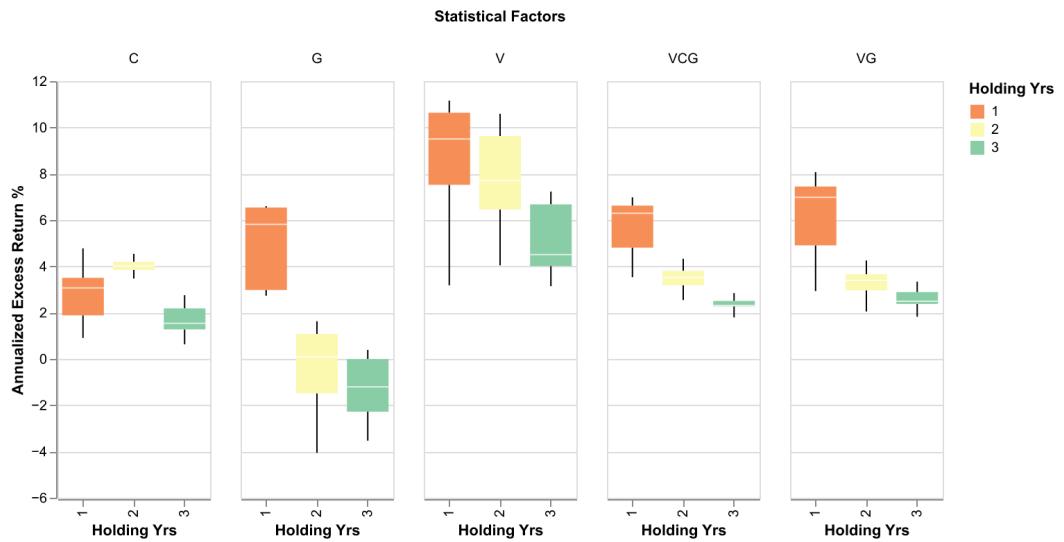
2. Average annualized excess returns histograms for various factors

The histogram illustrates the average annualized excess returns for the various statistical factors, across the three different holding periods and for the respective quarterly proxy ranking periods.



3. Quartile boxplots for annualized excess returns

The boxplots show minimum, first quartile, median, third quartile, and maximum annualized Excess Return for various statistical factors, for different holding periods, and for the respective quarterly proxy rankings. The outliers were removed from the data.

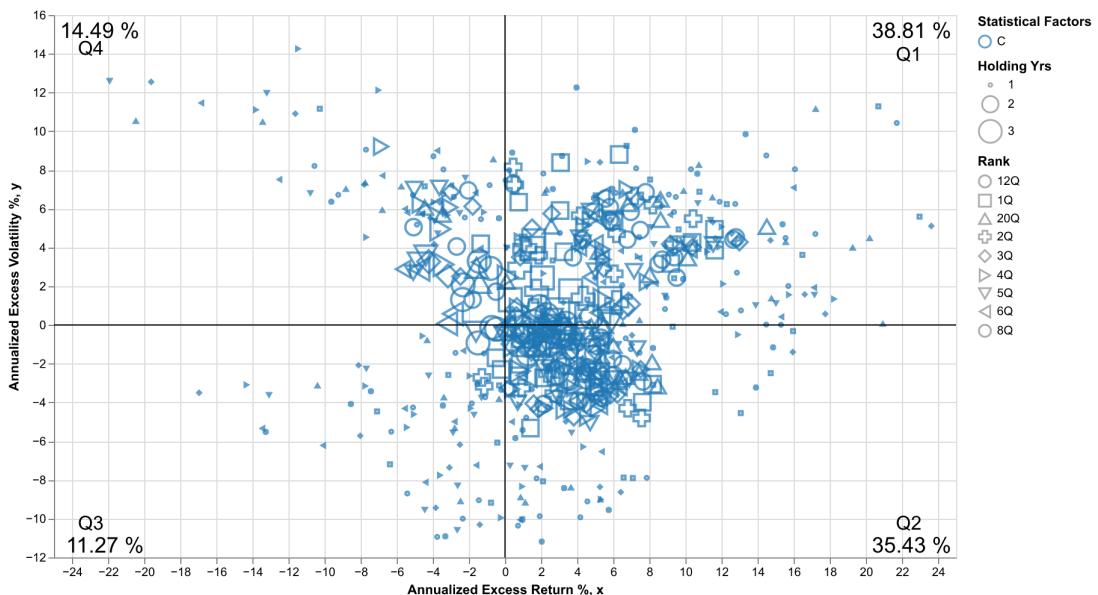
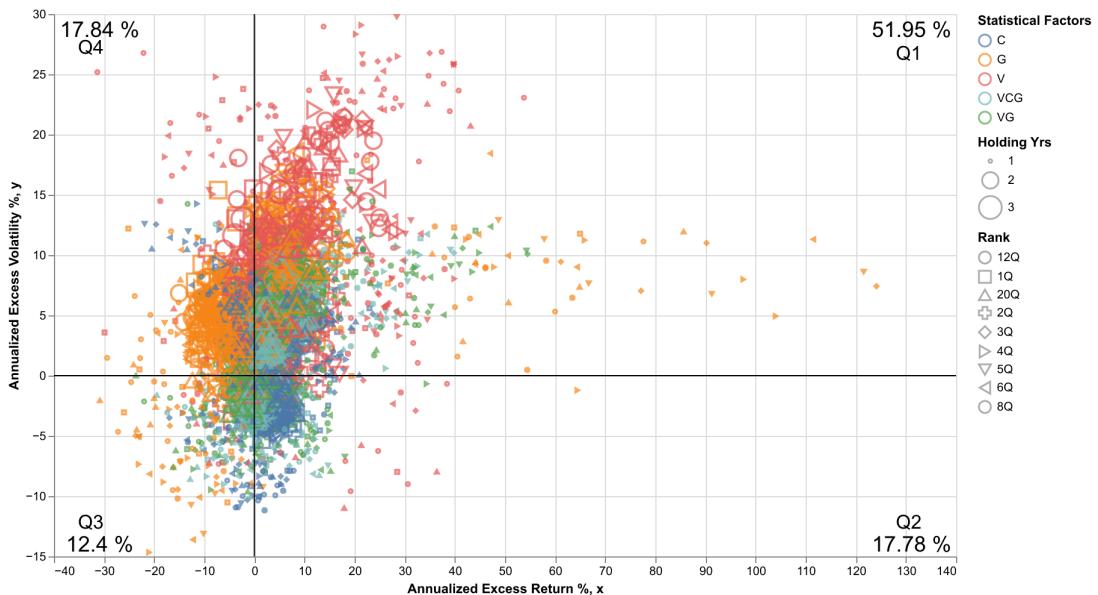


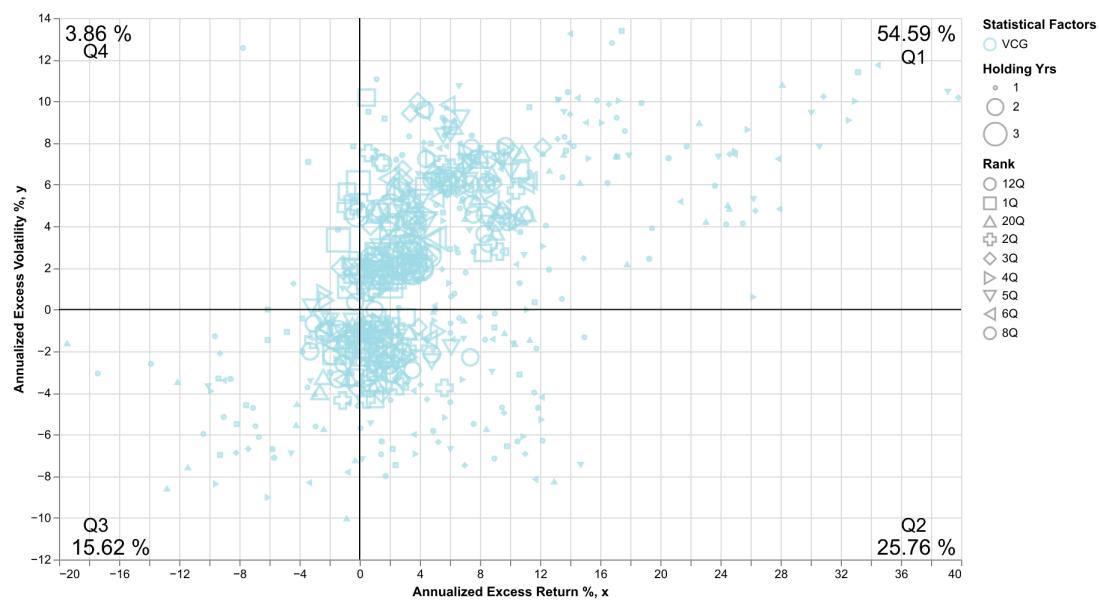
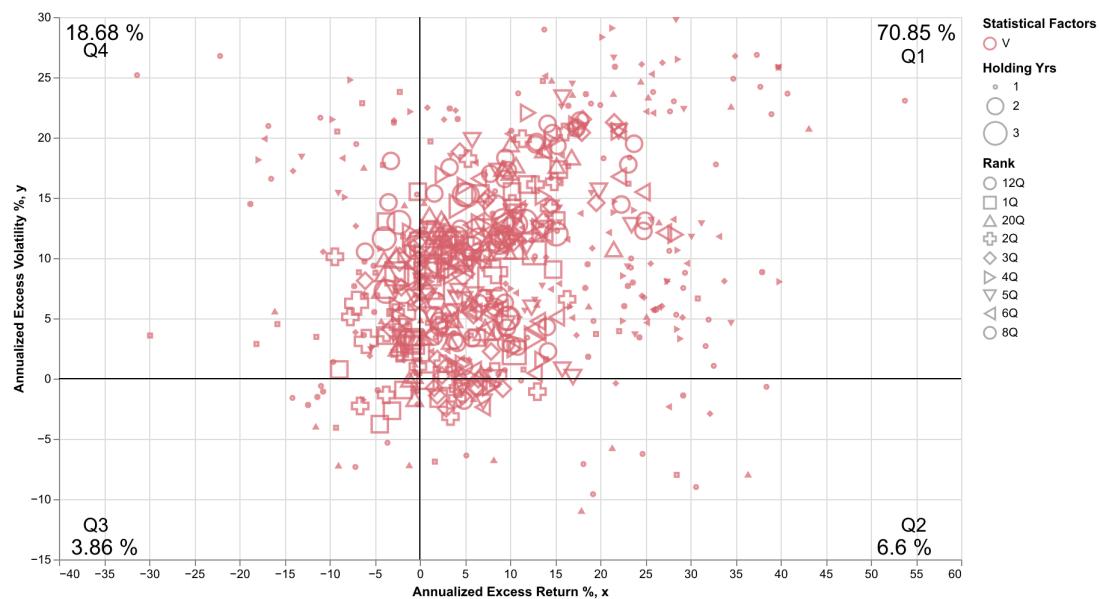
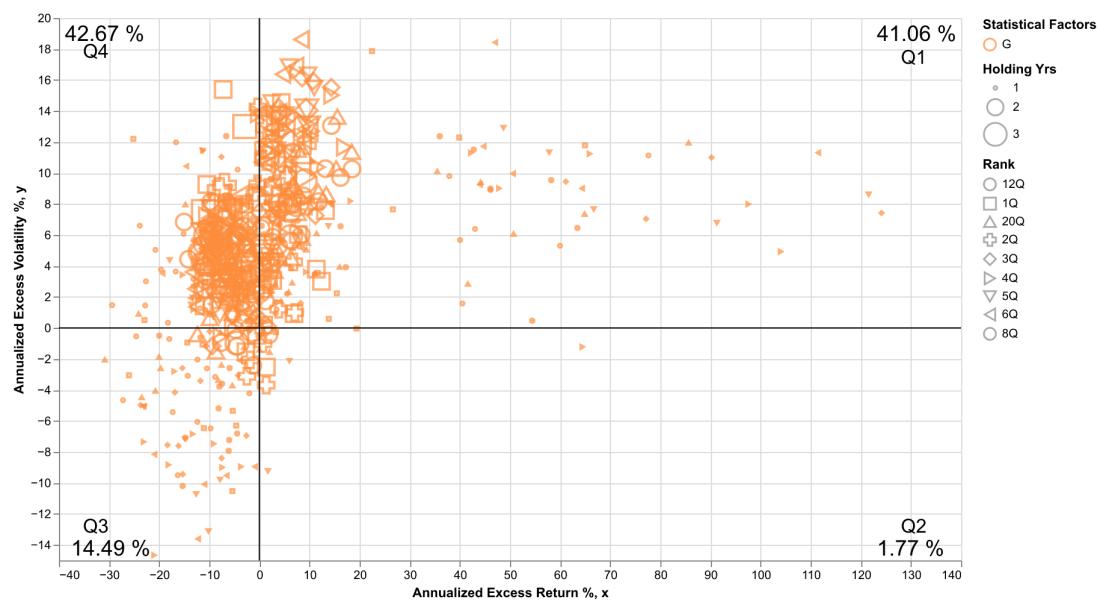
4. Cartesian plots for various statistical measures

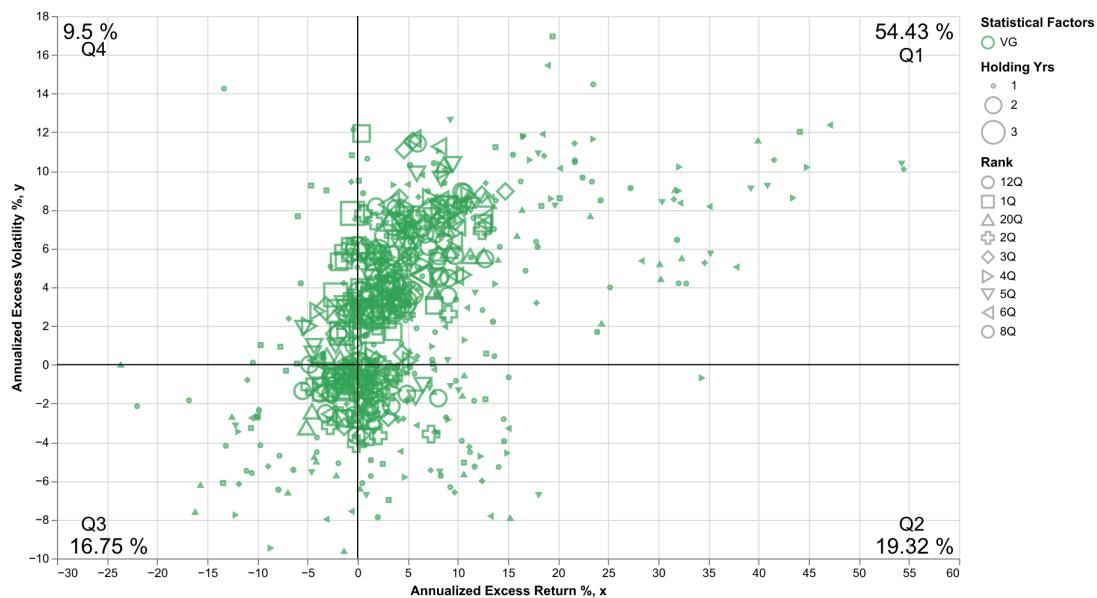
The cartesian plots below illustrate annualized excess returns vs. annualized excess volatility, information ratio vs. annualized excess returns, annualized excess volatility vs. information ratio, alpha vs. beta and tracking error vs information ratio plotted for different statistical factors, for different holding periods and for respective quarterly proxy rankings.

4.1. Annualized excess returns vs. annualized excess volatility

The cartesian chart of annualized excess return vs. annualized excess volatility plotted for different statistical factors, for different holding periods and for respective quarterly proxy rankings.

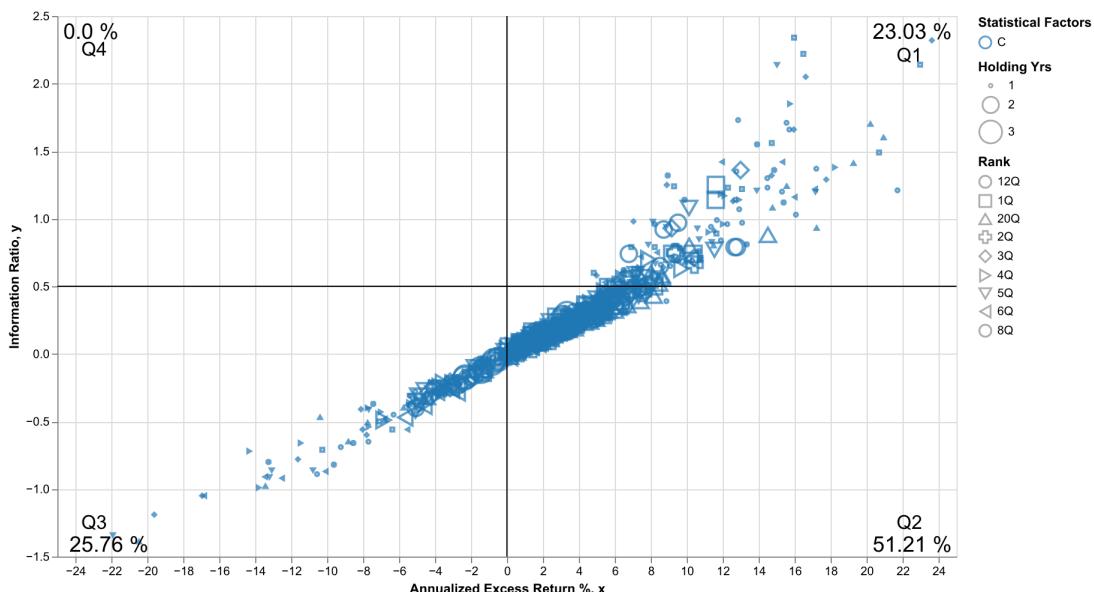
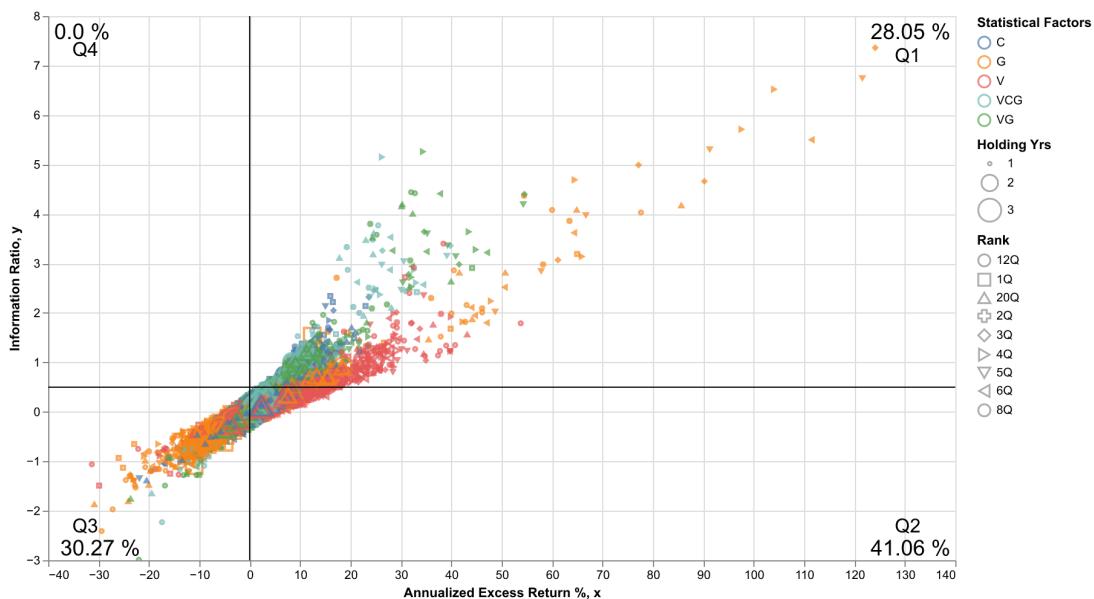


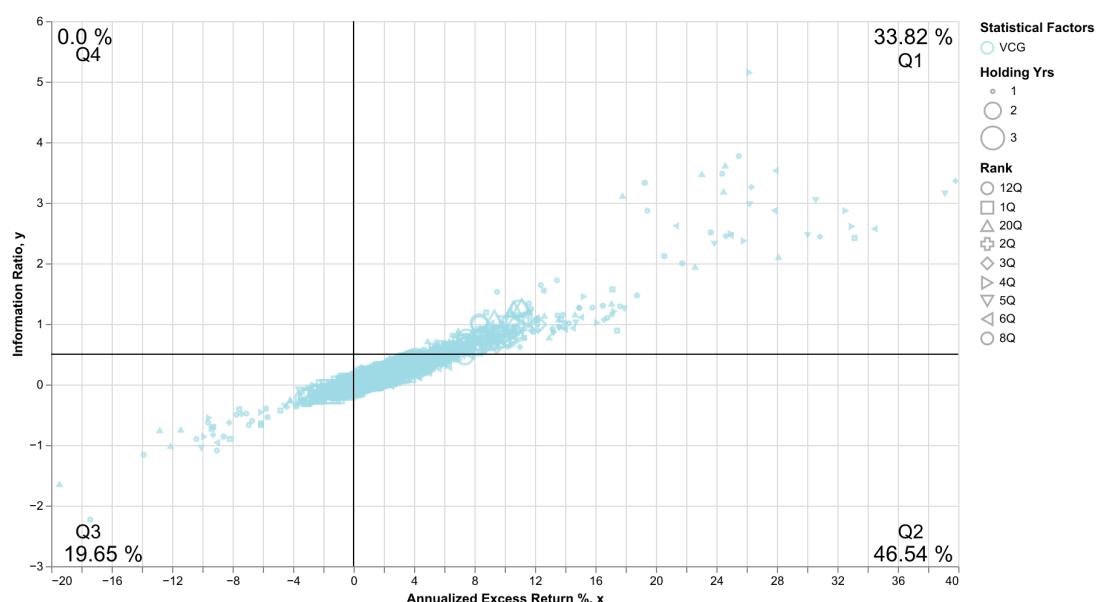
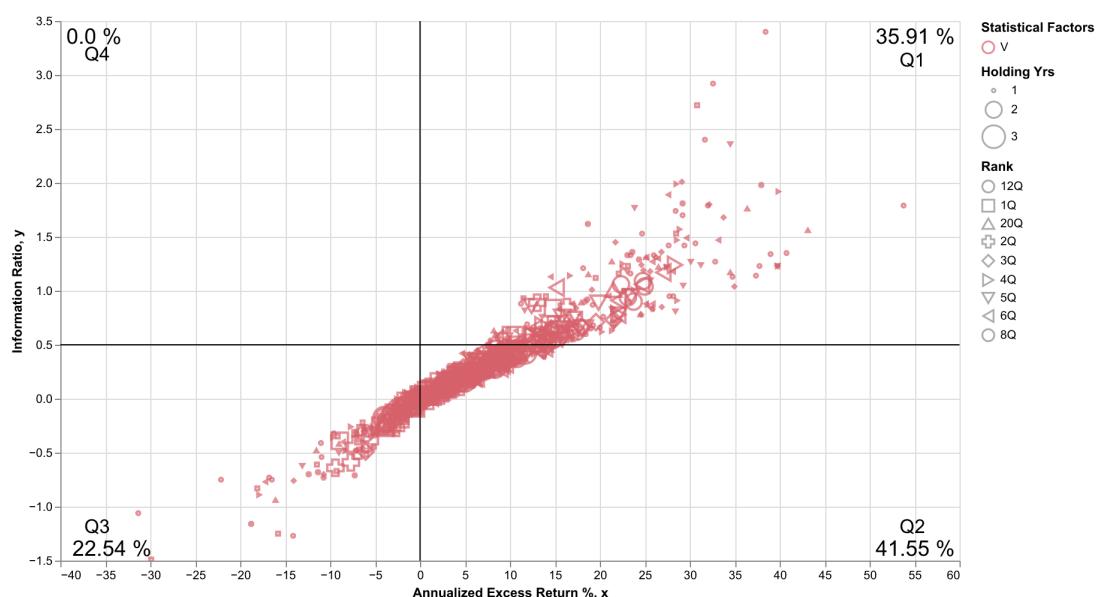
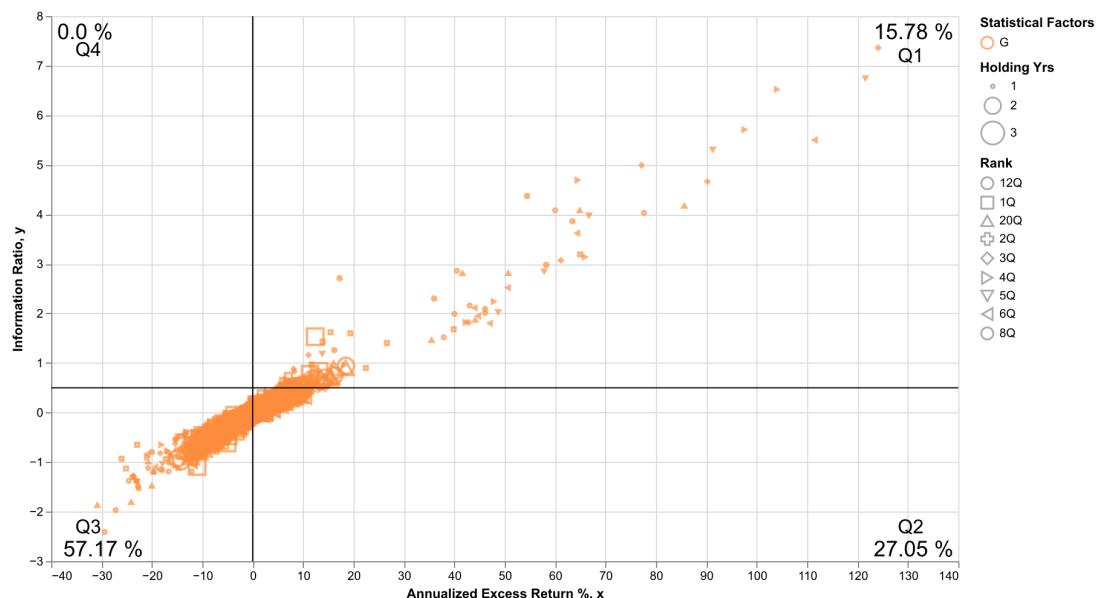


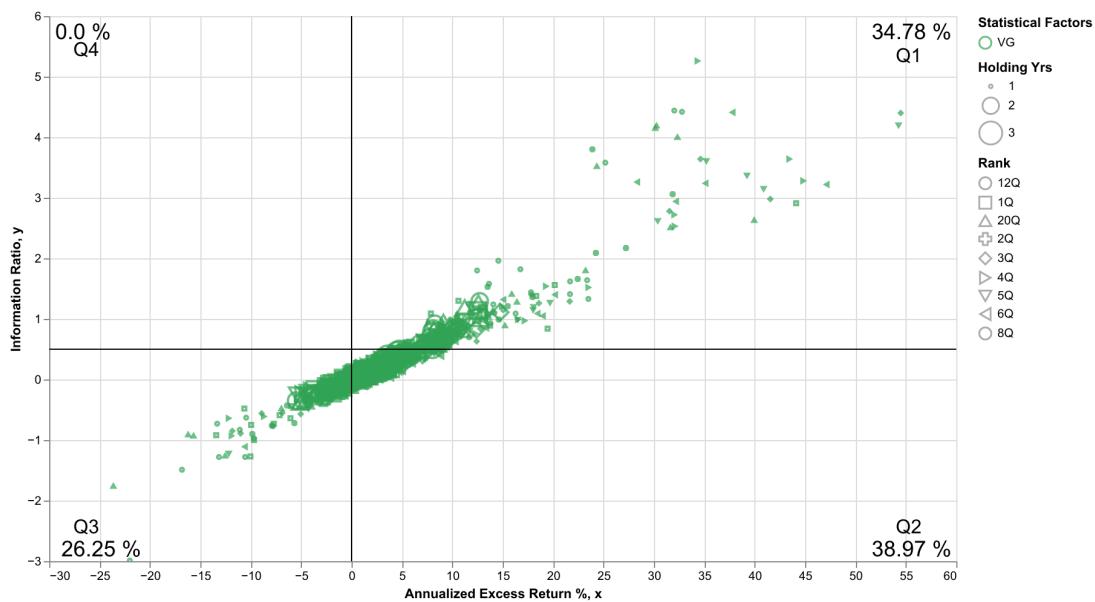


4.2. Annualized excess returns vs. Information ratio

The cartesian chart of annualized excess return vs. information ratio plotted for different statistical factors, for different holding periods and for respective quarterly proxy rankings.

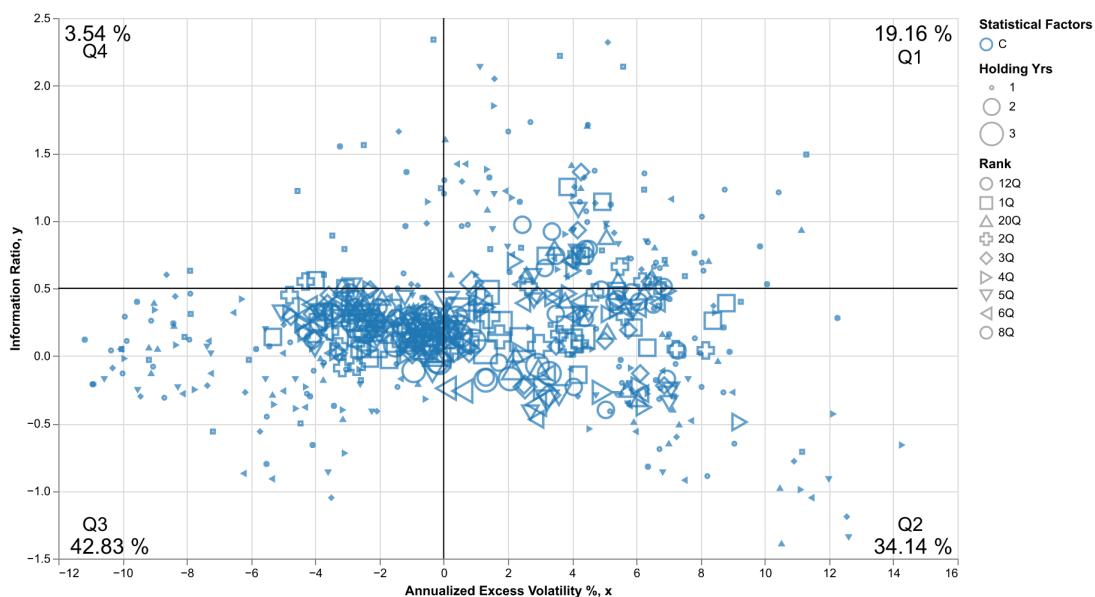
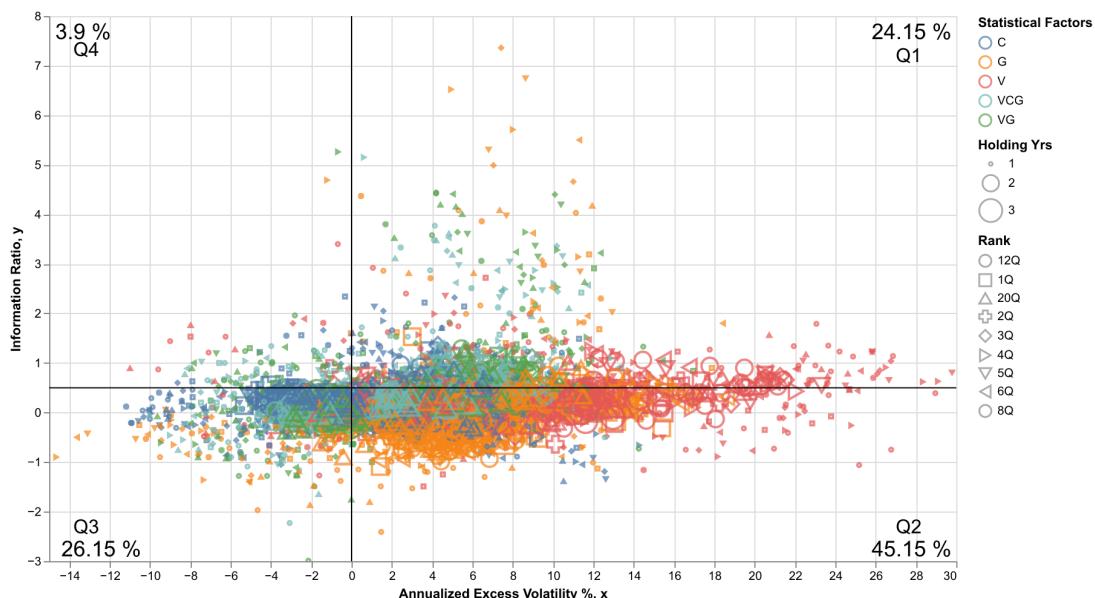


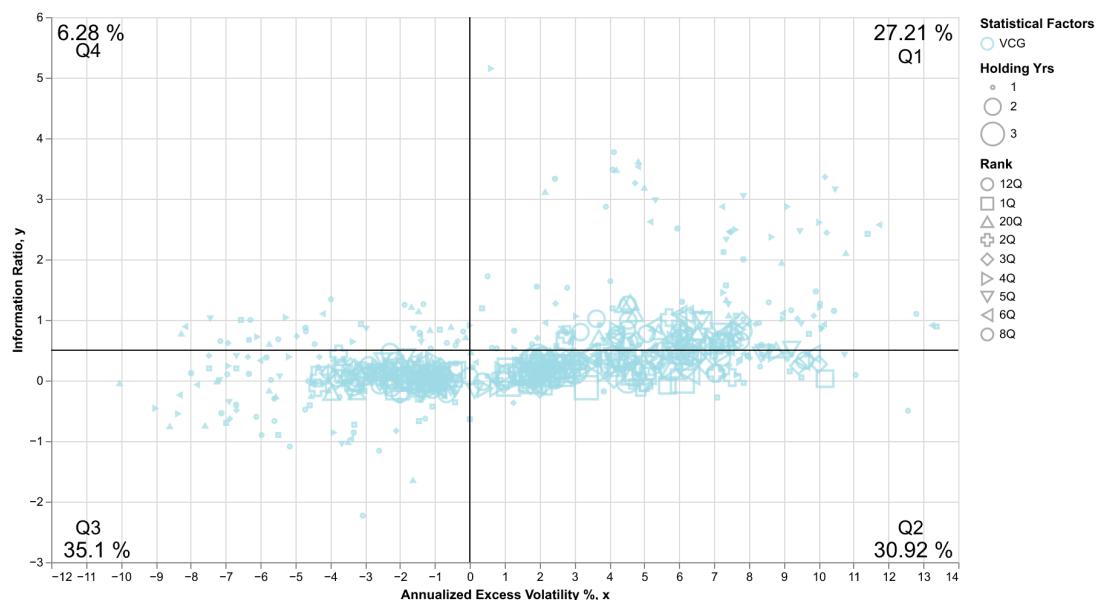
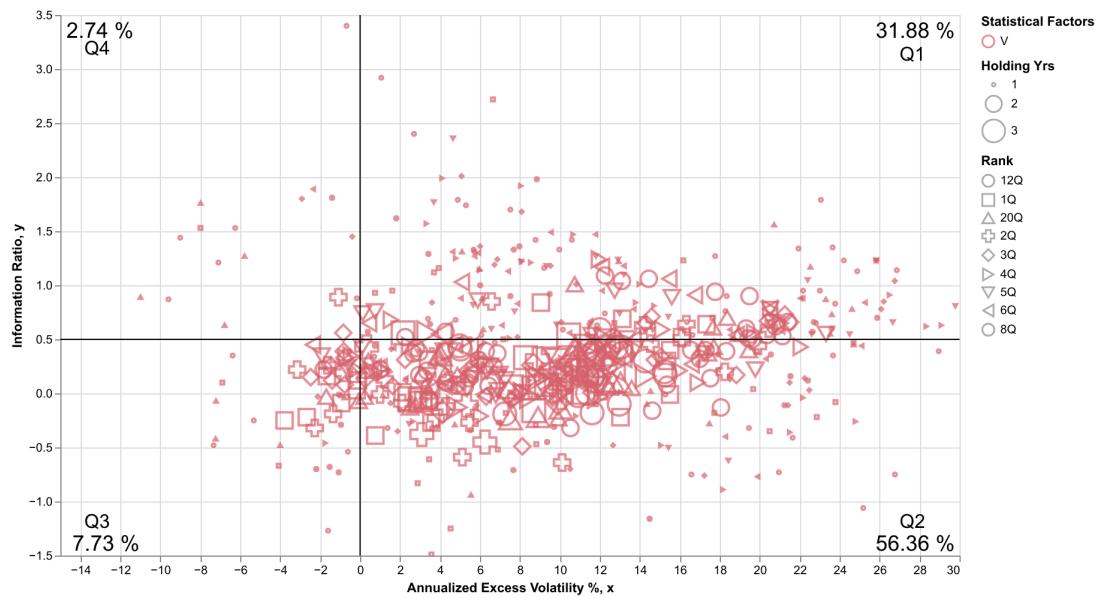
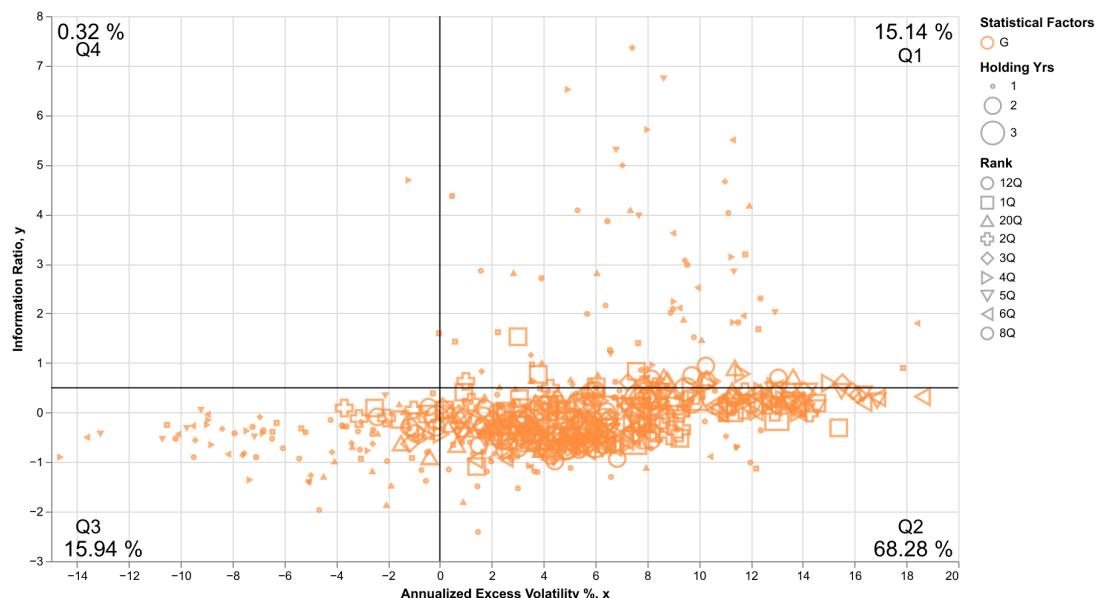


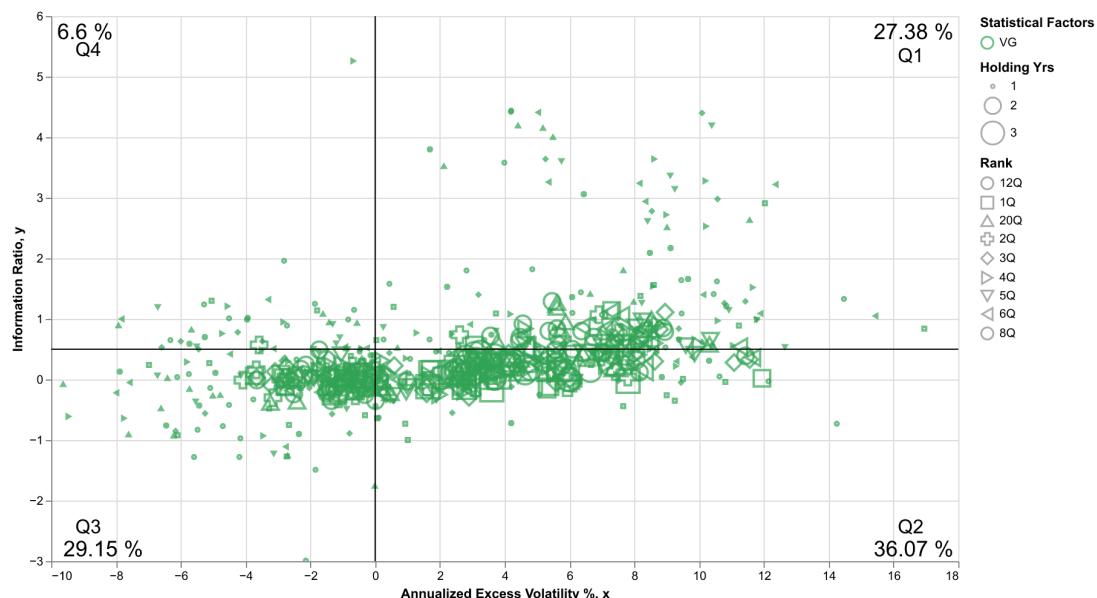


4.3. Annualized excess volatility vs. Information ratio

The cartesian chart of annualized excess volatility vs. information ratio plotted for different statistical factors, for different holding periods and for respective quarterly proxy rankings.

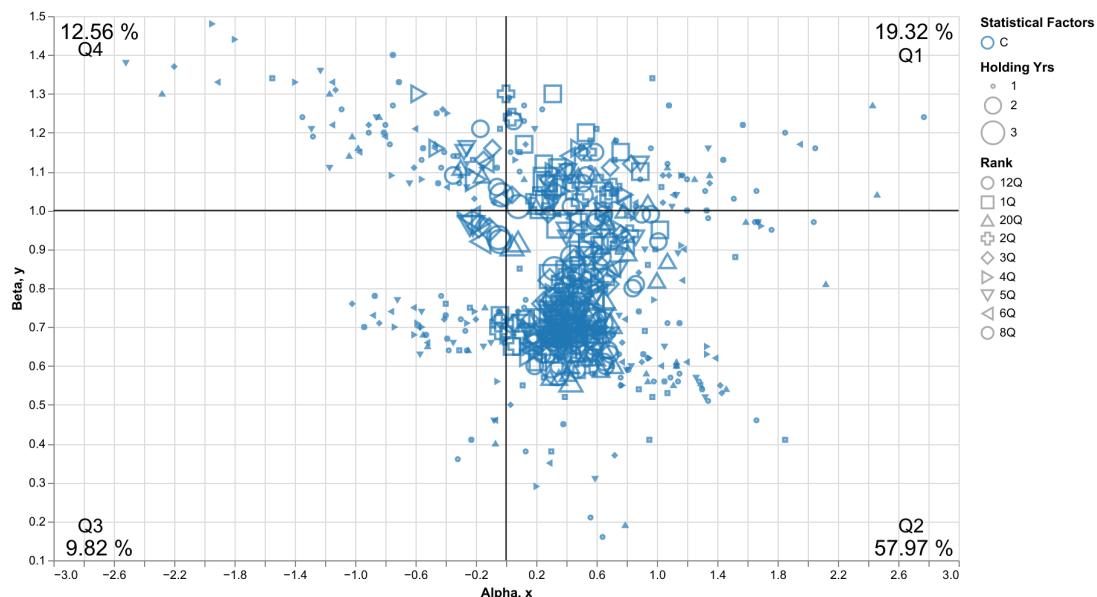
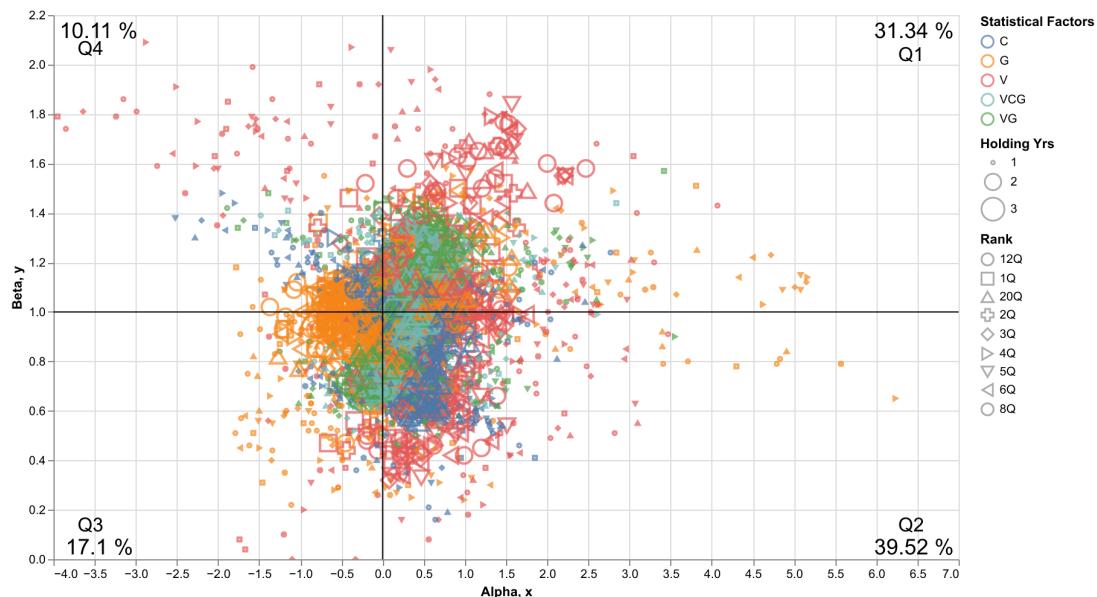


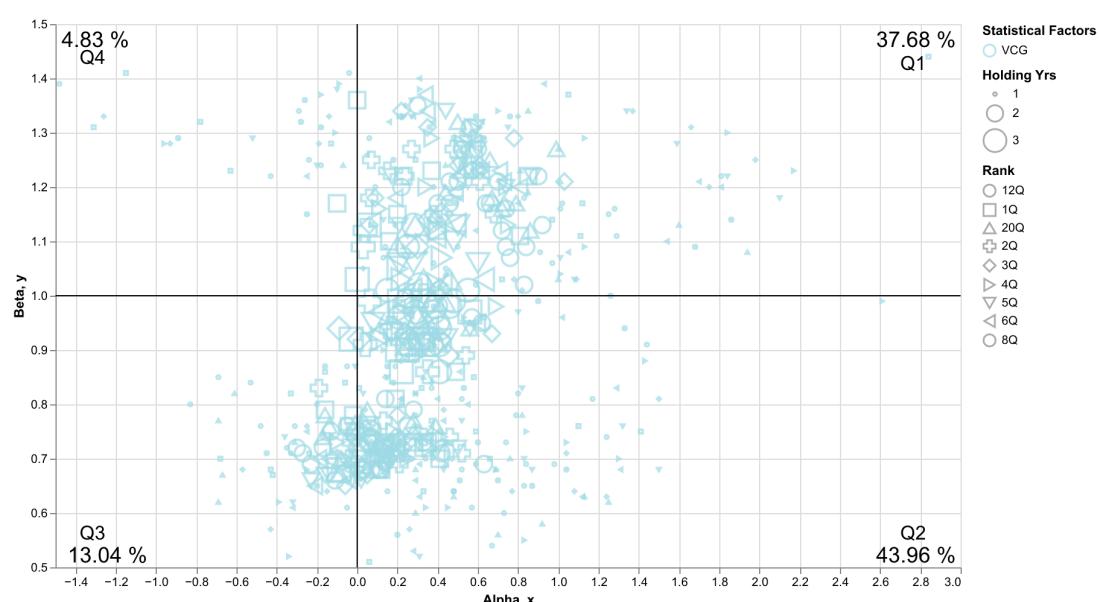
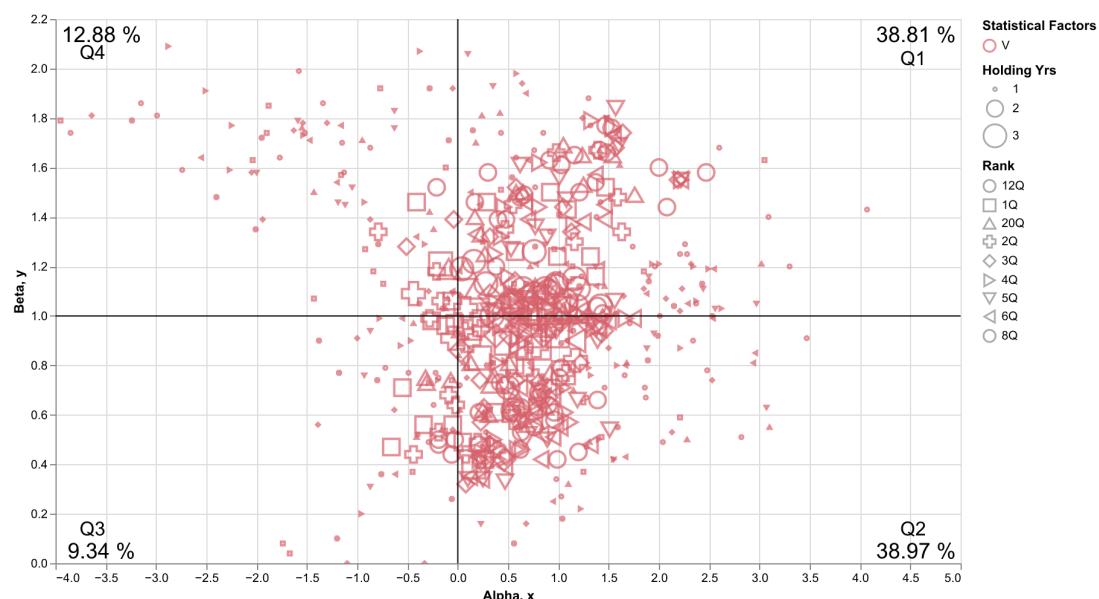
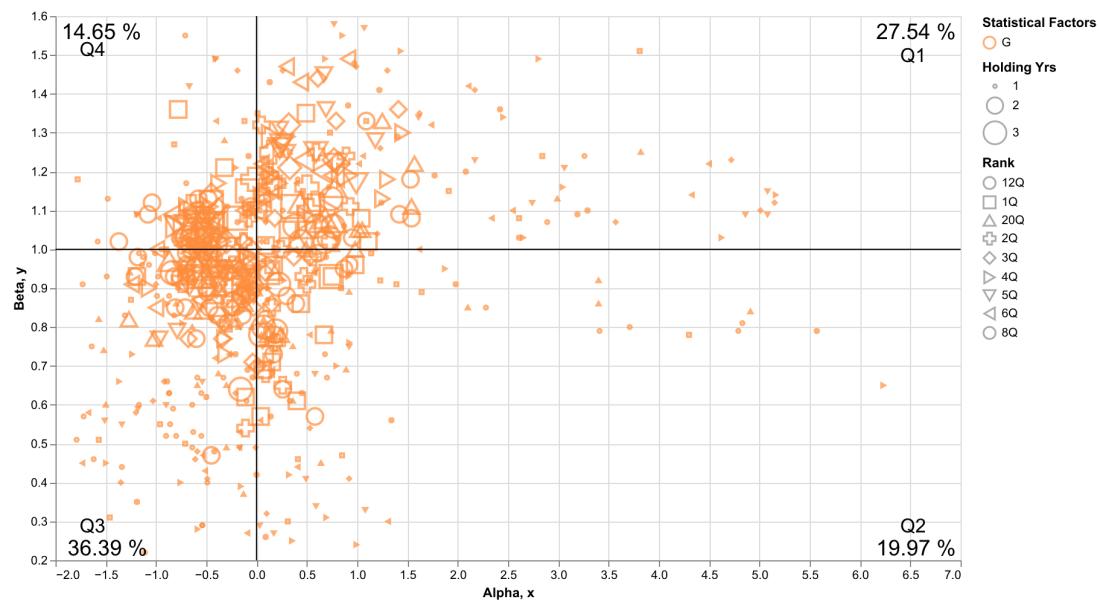


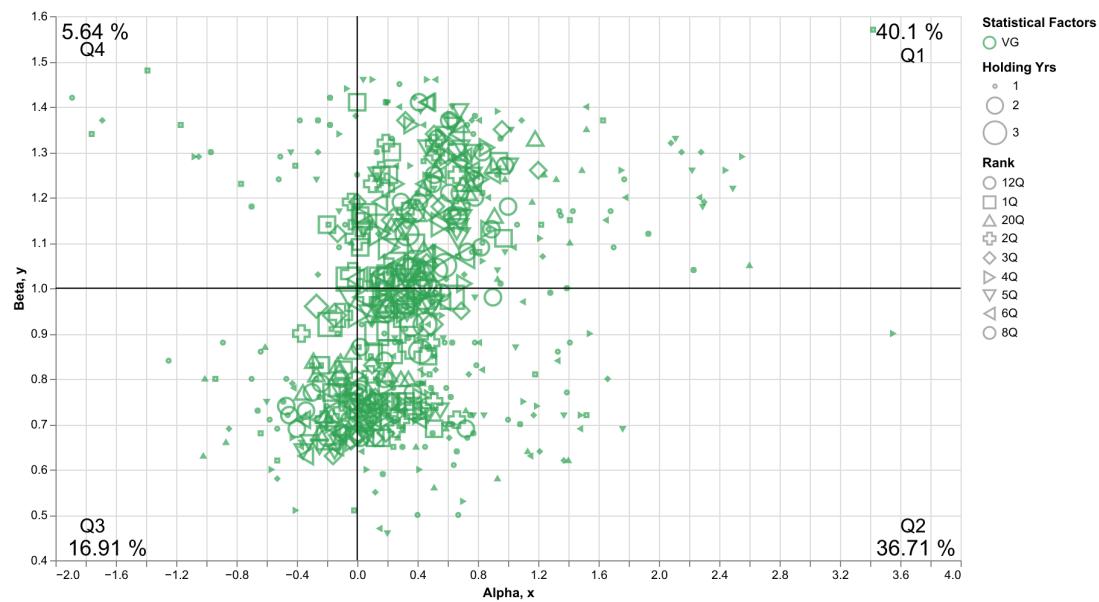


4.4. Alpha vs. Beta

The cartesian chart of alpha vs. beta plotted for different statistical factors, for different holding periods and for respective quarterly proxy rankings.

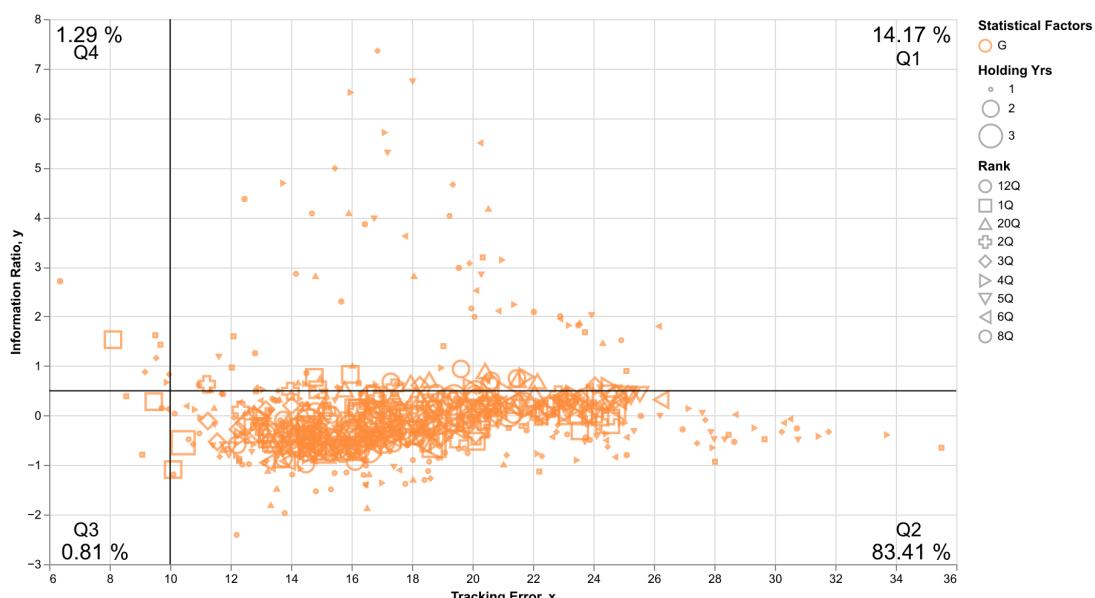
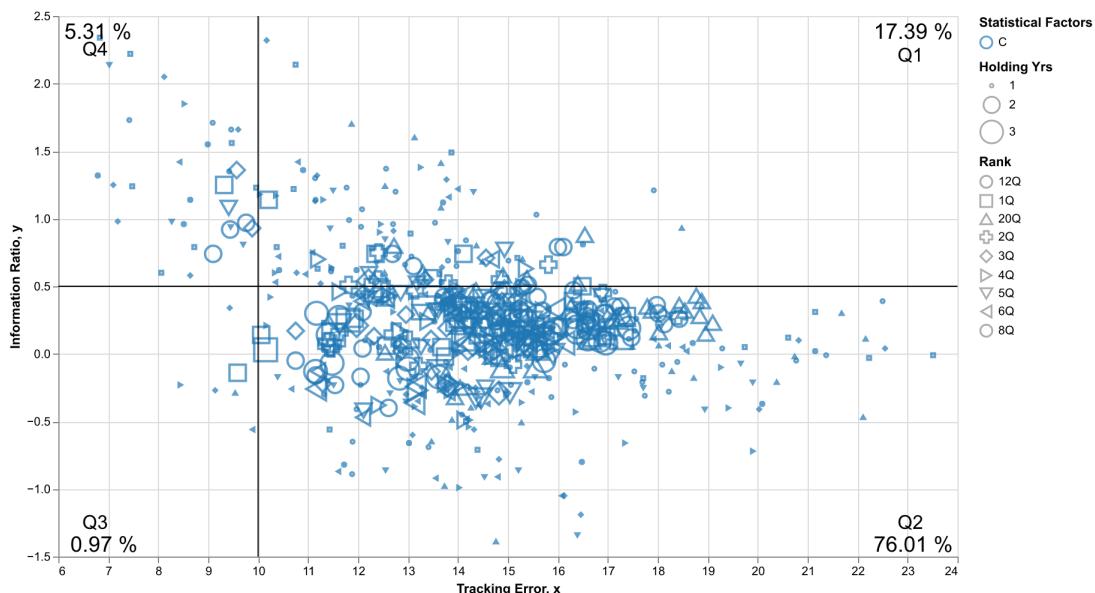


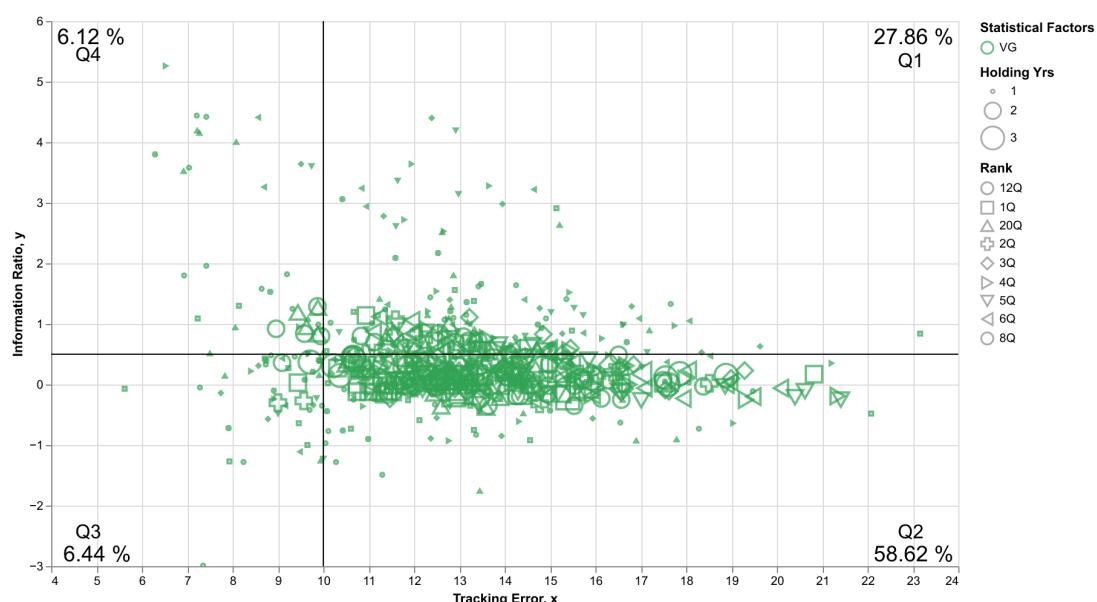
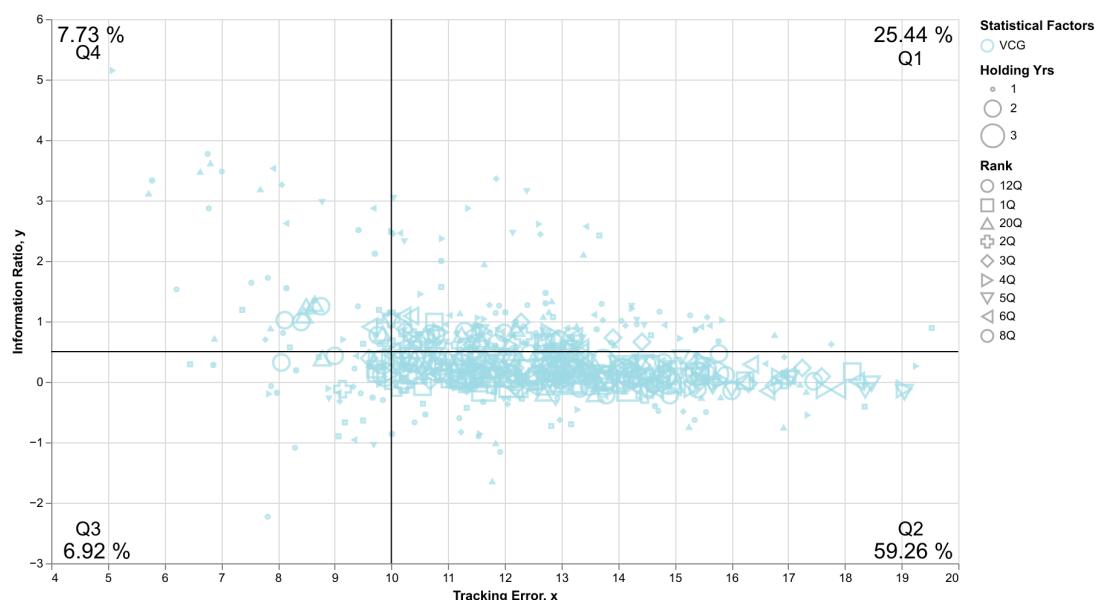
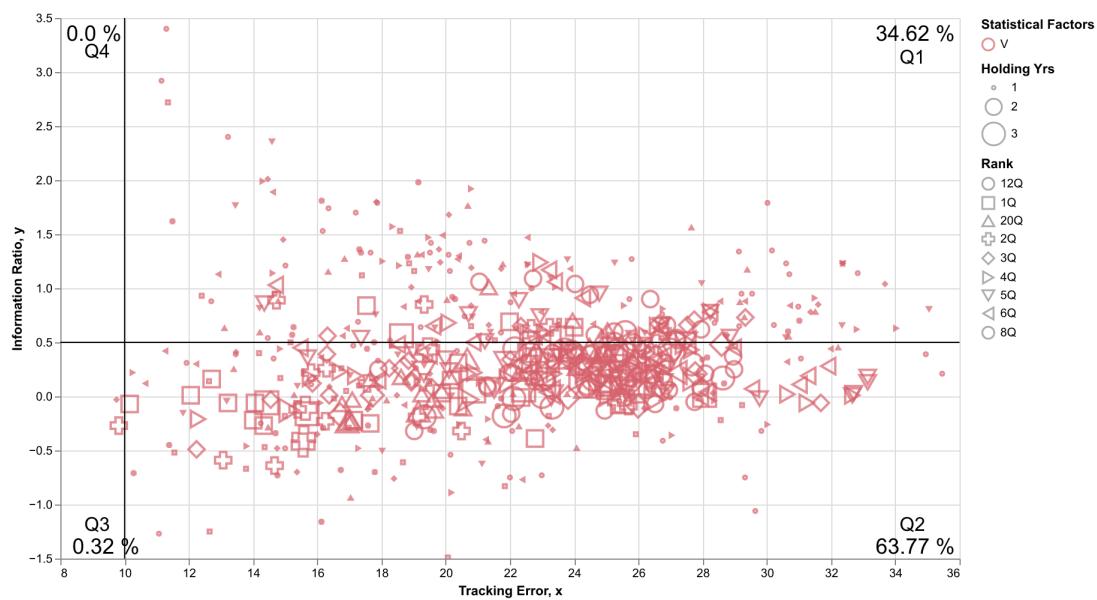




4.5. Tracking error vs. Information ratio

The cartesian chart of tracking error vs. information ratio plotted for different statistical factors, for different holding periods and for respective quarterly proxy rankings.





4.6. Cartesian cluster analysis

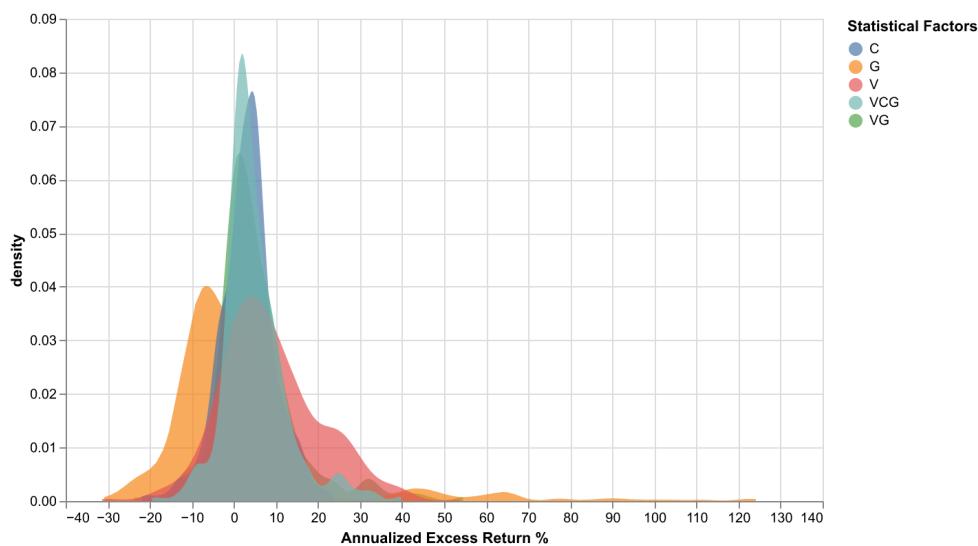
The table below carries the cluster analysis across four quadrants, highlighting positive and negative skew in the dataset, and risk-return characteristics of the various statistical factors. Overall, the VCG factor shows robustness across statistical metrics, while C and V statistical factors are with the most risk and skew.

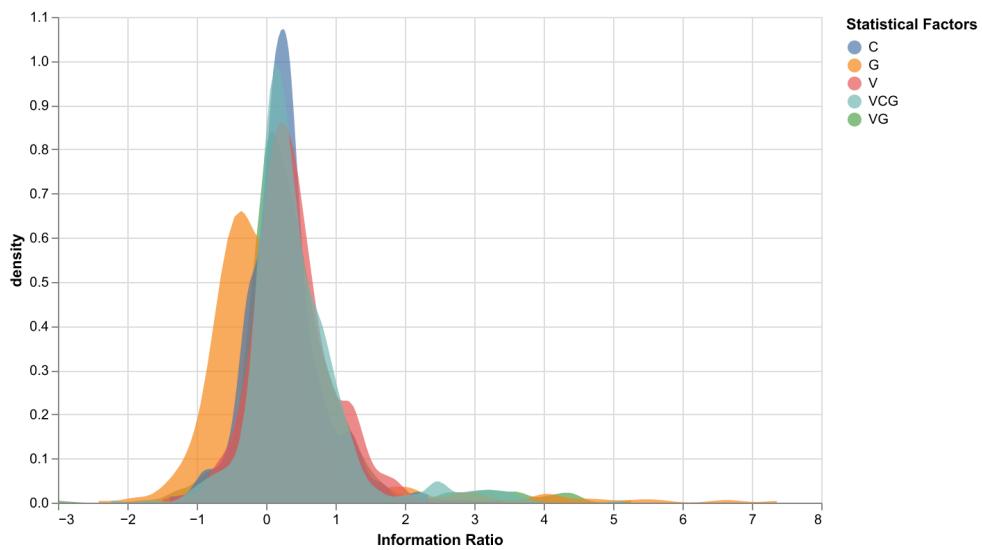
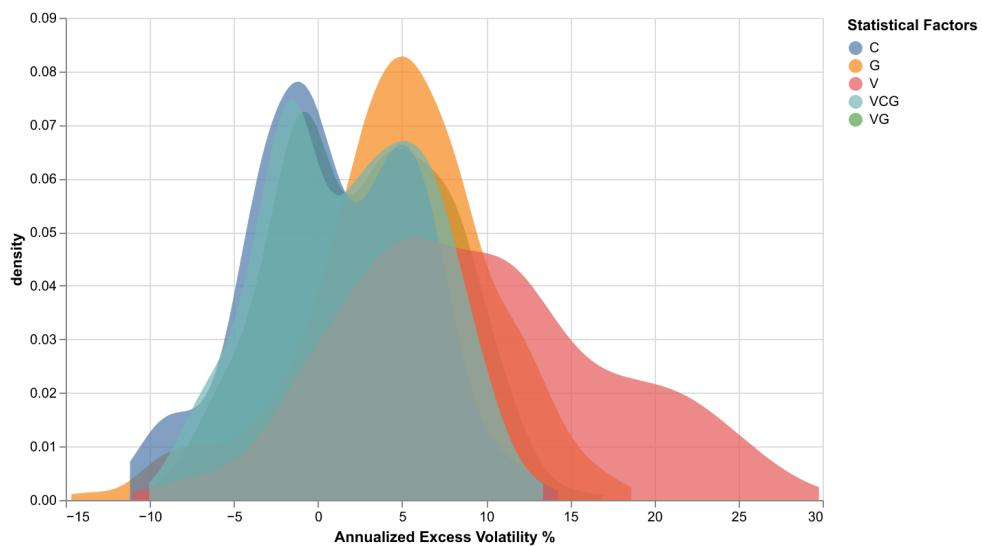
Statistics	Statistical Factors	Q1	Q2	Q3	Q4	Q1+Q2	Q2+Q3	Q3+Q4	Q4+Q1	Q1+Q3	Q2+Q4
Annualized Excess Return %	C	38.81 %	35.43 %	11.27 %	14.49 %	74.24%	46.7%	25.76%	53.3%	50.08%	49.92%
vs.	G	41.06 %	1.77 %	14.49 %	42.67 %	42.83%	16.26%	57.16%	83.73%	55.55%	44.44%
Annualized Excess Volatility %	V	70.85 %	6.6 %	3.86 %	18.68 %	77.45%	10.46%	22.54%	89.53%	74.71%	25.28%
	VCG	54.59 %	25.76 %	15.62 %	3.86 %	80.35%	41.38%	19.48%	58.45%	70.21%	29.62%
	VG	54.43 %	19.32 %	16.75 %	9.5 %	73.75%	36.07%	26.25%	63.93%	71.18%	28.82%
Annualized Excess Return %	C	22.71 %	51.21 %	25.76 %	0.0 %	73.92%	76.97%	25.76%	22.71%	48.47%	51.21%
vs.	G	15.46 %	27.05 %	57.17 %	0.0 %	42.51%	84.22%	57.17%	15.46%	72.63%	27.05%
Information Ratio	V	34.62 %	41.55 %	22.54 %	0.0 %	76.17%	64.09%	22.54%	34.62%	57.16%	41.55%
	VCG	33.49 %	46.54 %	19.65 %	0.0 %	80.03%	66.19%	19.65 %	33.49%	53.14%	46.54%
	VG	33.98 %	38.97 %	26.25 %	0.0 %	72.95%	65.22%	26.25%	33.98%	60.23%	38.97%
Annualized Excess Volatility %	C	19.16 %	34.14 %	42.83 %	3.54 %	53.3%	76.97%	46.37%	22.7%	61.99%	37.68%
vs.	G	15.14 %	68.28 %	15.94 %	0.32 %	83.42%	84.22%	16.26%	15.46%	31.08%	68.6%
Information Ratio	V	31.88 %	56.36 %	7.73 %	2.74 %	88.24%	64.09%	10.47%	34.62%	39.61%	59.1%
	VCG	27.21 %	30.92 %	35.1 %	6.28 %	58.13%	66.02%	41.38%	33.49%	62.31%	37.2%
	VG	27.38 %	36.07 %	29.15 %	6.6 %	63.45%	65.22%	35.75%	33.98%	56.53%	42.67%
Alpha	C	18.2 %	57.97 %	9.82 %	12.56 %	76.17%	67.79%	22.38%	30.76%	28.02%	70.53%
vs.	G	26.09 %	19.97 %	36.39 %	14.65 %	46.06%	56.36%	51.04%	40.74%	62.48%	34.62%
Beta	V	37.2 %	38.97 %	9.34 %	12.88 %	76.17%	48.31%	22.22%	50.08%	46.54%	51.85%
	VCG	36.88 %	43.96 %	13.04 %	4.83 %	80.84%	57.0%	17.87%	41.71%	49.92%	48.79%
	VG	38.33 %	36.71 %	16.91 %	5.64 %	75.04%	53.62%	22.55%	43.97%	55.24%	42.35%
Tracking Error	C	17.39 %	76.01 %	0.97 %	5.31 %	93.4%	76.98%	6.28%	22.7%	18.36%	81.32%
vs.	G	14.17 %	83.41 %	0.81 %	1.29 %	97.58%	84.22%	2.1%	15.46%	14.98%	84.7%
Information Ratio	V	34.62 %	63.77 %	0.32 %	0.0 %	98.39%	64.09%	0.32%	34.62%	34.94%	63.77%
	VCG	25.44 %	59.26 %	6.92 %	7.73 %	84.7%	66.18%	14.65%	33.17%	32.36%	66.99%
	VG	27.86 %	58.62 %	6.44 %	6.12 %	86.48%	65.06%	12.56%	33.98%	34.3%	64.74%

5. Statistical distributions

5.1. Area charts

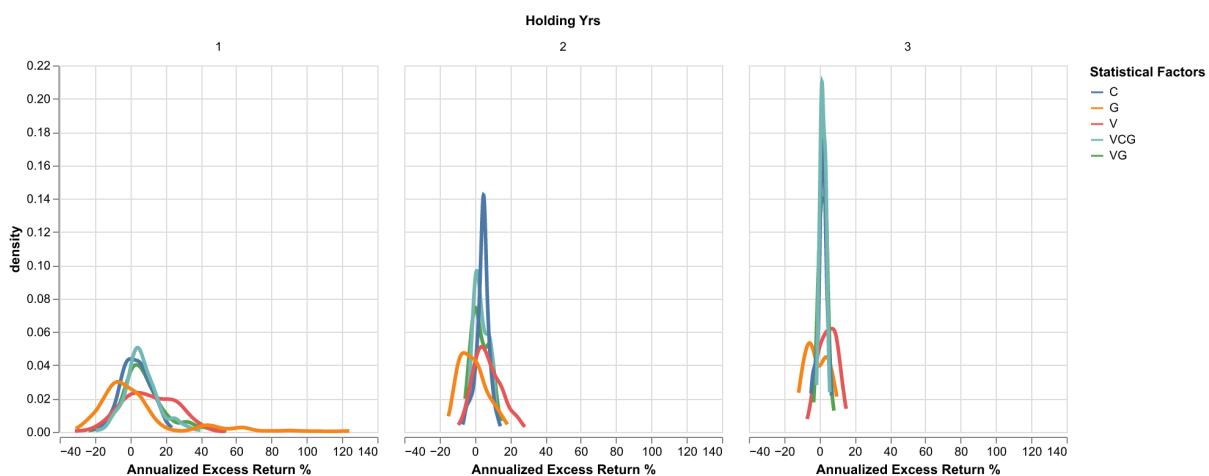
The area charts below showcase the distribution of annualized excess return, annualized excess volatility and information ratio across various statistical factors.

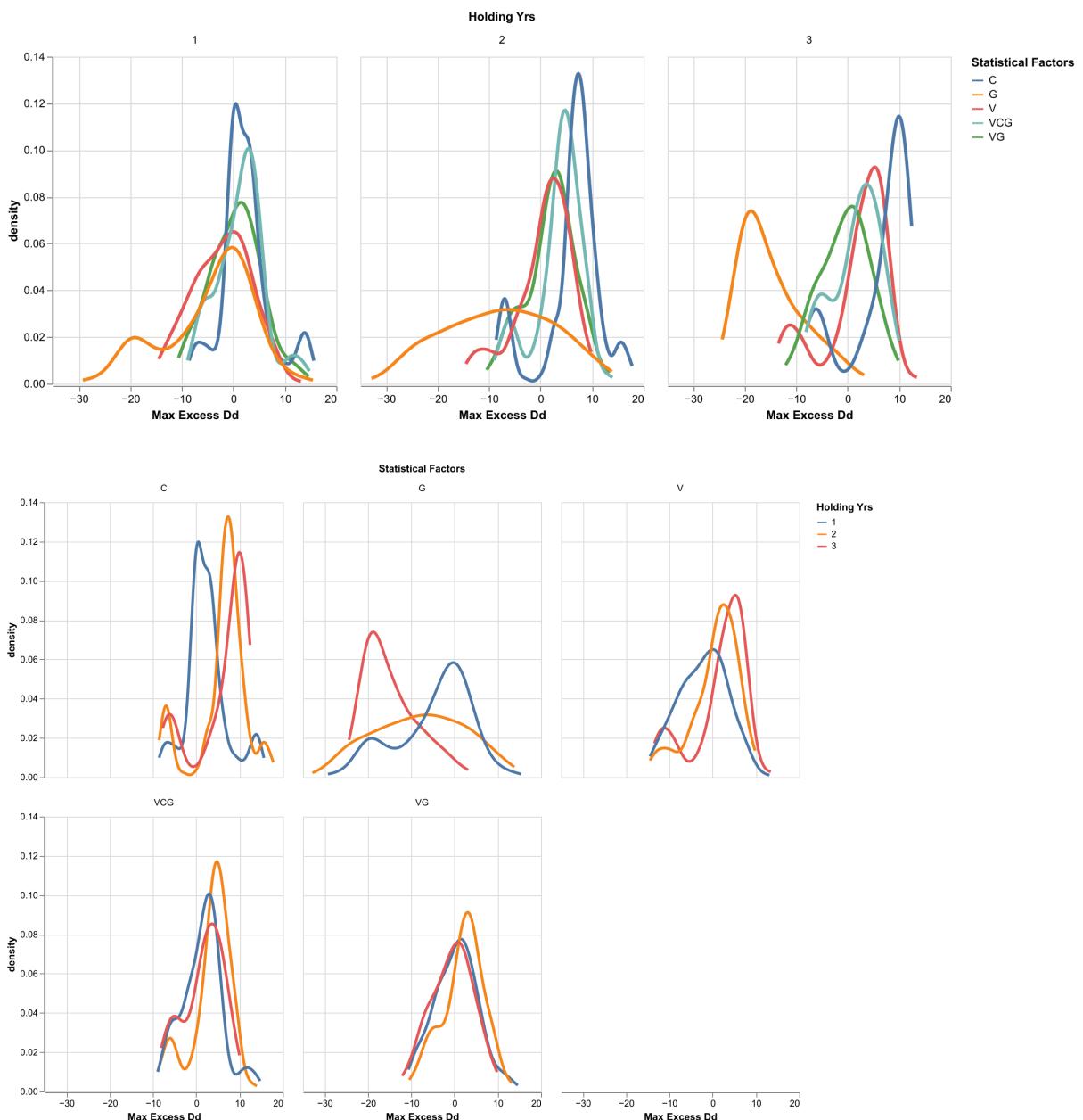




5.2. Line charts

The line charts below showcase the annualized excess return distribution for each holding periods, max excess drawdown distribution for each holding periods and max excess drawdown distribution for each statistical factor. Max excess drawdown represents the difference between portfolio max drawdown and benchmark max drawdown.





6. Modern portfolio theory (MPT) statistics

The table of averaged MPT statistics for each statistical factor and holding periods without outliers.

(**AR** - Annualized Excess Returns, **AV** - Annualized Excess Volatility, **TE** - Tracking Error, **IR** - Information Ratio, **Max Excess Dd** - Maximum Excess Drawdown)

Statistical Factors	Holding Yrs	AR	AV	TE	IR	Alpha	Beta	Max Excess Dd
C	1Y	2.79	1.14	14.16	0.27	0.32	0.87	2.28
	2Y	4.02	0.86	14.04	0.29	0.39	0.85	6.13
	3Y	1.67	0.43	14.67	0.11	0.36	0.8	6.12
G	1Y	4.93	3.43	17.41	0.27	0.43	0.87	-4.82
	2Y	-0.56	5.62	17.28	-0.08	-0.01	0.98	-7.85
	3Y	-1.37	7.64	18.67	-0.11	-0.04	1.06	-14.82
V	1Y	8.53	9.2	20.86	0.39	0.34	1.06	-2.2
	2Y	7.73	8.81	23.21	0.32	0.75	0.99	0.46
	3Y	5.11	9.99	23.63	0.2	0.72	0.99	1.42
VCG	1Y	5.69	1.33	11.65	0.55	0.4	0.95	1.43
	2Y	3.52	1.92	13.02	0.31	0.3	0.94	3.5
	3Y	2.36	2.62	12.56	0.19	0.3	0.97	1.58
VG	1Y	6.13	2.04	12.19	0.55	0.39	0.96	0.41
	2Y	3.28	2.8	13.85	0.27	0.28	0.97	1.96
	3Y	2.6	3.82	13.37	0.2	0.31	1.01	-0.6

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