

Storebrand Global Multifactor

Commentary for Q4 2023



Note: This is a marketing communication for professional investors only.

This is a report on the Q4 2023 performance of the Norwegian-registered equity fund Storebrand Global Multifactor, as provided by the fund manager, Andreas Poole.

Important Information

Except otherwise stated, the source of all information is Storebrand Asset Management AS as at 30th of June 2023. Historical returns are no guarantee for future returns. Future returns will depend, inter alia, on market developments, the fund manager's skills, the fund's risk profile and subscription and management fees. The return may become negative as a result of negative price developments. Statements reflect the portfolio managers' viewpoint at a given time, and this viewpoint may be changed without notice. Future fund performance is subject to taxation which depends on the personal situation of each investor, and which may change in the future.

No offer to purchase shares can be made or accepted prior to receipt by the offeree of the fund's prospectus and KIID and the completion of all appropriate documentation. You can download more information including Investor Rights information, full prospectus, Key Information Documents, General Commercial Terms and Annual Reports in Norwegian [here](#). The fund is classified in risk profile 5 out of 7 (SRRI score). The value of a fund with risk class 5-7 may increase or decrease significantly due to its composition and the fund company's portfolio management practices.

Storebrand Asset Management AS may terminate arrangements for marketing under the Cross-border Distribution Directive denotification process.

Throughout the quarter, the fund yielded a gross return of 4.7 %, while its benchmark, the MSCI World NTR, recorded a return of 6.3 %. Both returns are denominated in Norwegian Krone (NOK). When measured in the local currency, the MSCI World exhibited an impressive increase of 9.9 %. However, the strengthening of the Norwegian currency against foreign currencies, particularly the US dollar, had a negative impact on the returns measured in NOK.

For the entire year, the fund realized a gross return of 20.4 %, whereas the benchmark experienced a more significant increase of 27.6 %, indicating a considerable lag by the fund compared to the benchmark. In local currency terms, the benchmark saw a rise of 23.1 %, highlighting a positive currency effect for the entire year.

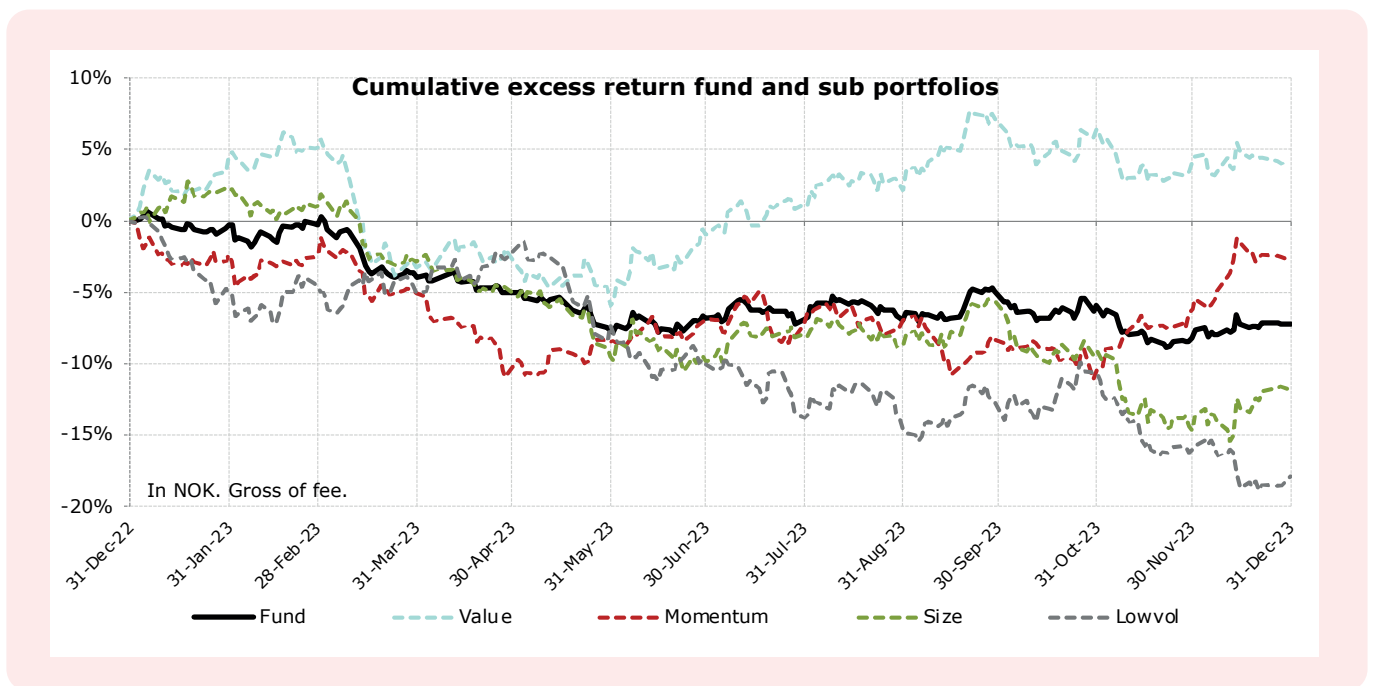
The table presented below summarizes the returns and relative returns of the fund along with the relevant factor portfolios.

| | Return | | Relative Return | | | | |
|---------|------------------------|------------|-----------------|-------|----------|--------|---------|
| | Stb Global Multifactor | MSCI World | Diff. | Value | Momentum | Size | Low Vol |
| Jan. 23 | 8,3% | 8,6% | -0,3% | 4,4% | -2,4% | 2,1% | -5,0% |
| Feb. 23 | 1,1% | 1,1% | 0,0% | 0,6% | 0,0% | -0,9% | 0,3% |
| Mar. 23 | 1,0% | 4,4% | -3,4% | -7,5% | -2,3% | -3,6% | -0,1% |
| Apr. 23 | 3,0% | 3,9% | -0,8% | 1,2% | -5,2% | -1,6% | 2,3% |
| May. 23 | 1,0% | 3,2% | -2,2% | -3,3% | 2,6% | -4,1% | -3,9% |
| Jun. 23 | 2,8% | 2,0% | 0,9% | 4,4% | 1,6% | -0,2% | -2,2% |
| Jul. 23 | -2,6% | -2,4% | -0,2% | 1,7% | -0,5% | 1,5% | -3,5% |
| Aug. 23 | 2,7% | 2,6% | 0,1% | 0,8% | 0,4% | -0,5% | -0,4% |
| Sep. 23 | -2,8% | -4,3% | 1,5% | 3,9% | -1,4% | 2,3% | 1,1% |
| Oct. 23 | 1,2% | 1,9% | -0,8% | -0,6% | -1,8% | -2,9% | 2,2% |
| Nov. 23 | 3,9% | 5,5% | -1,7% | -2,0% | 4,4% | -4,5% | -4,3% |
| Dec. 23 | -0,4% | -1,2% | 0,7% | -0,2% | 2,7% | 2,3% | -1,9% |
| Q4 | 4,7% | 6,3% | -1,7% | -2,9% | 5,4% | -5,1% | -4,1% |
| 2023 | 20,4% | 27,6% | -7,2% | 3,9% | -2,8% | -11,9% | -17,9% |

In NOK. Gross of fee.

For longer term risk and returns, please click [here](#).

The graph below illustrates the progression of relative returns over the course of this year, with all returns presented gross of management fee. In Q4, the Momentum factor exhibited the strongest performance, outperforming the benchmark. Conversely, all other factors underperformed, with Size exhibiting the weakest performance among them.



Following a positive third quarter, the fund experienced underperformance relative to the MSCI World by 1.7 %. This reversal nullified all gains achieved in the last month of Q2 and Q3, resulting in the fund trailing the benchmark by 7.2 % for the entire year.

In previous reports, I have highlighted the impact of the surge in Large Cap Tech stocks, driven by the AI hype, and how the fund's underweight position in these stocks has affected its performance. Was the fund's underperformance in Q4 a recurrence of this effect?

Not exactly. The graph below illustrates the performance of the FAANG index compared to the MSCI World during 2023:



Source: Bloomberg

Examining the graph, we observe that after the ascent until May, it remains nearly flat for the remainder of the year. This implies that the impact of not holding these stocks was less pronounced in the second half of the year. The primary factor contributing to underperformance in November was a broader shift from Value to Growth. Falling interest rates fueled increased optimism surrounding growth stocks, and even Renewable Energy stocks saw a resurgence.

Low Volatility

The Low Volatility portfolio encountered a 4.1 % underperformance in Q4, and a substantial 17.9 % underperformance for the entire year. Given the benchmark's rise of 27.6 %, this implies that the absolute return of the Low Volatility portfolio was approximately 10 %. While it is expected for Low Volatility strategies to underperform in a bullish market, the extent of this underperformance is notably disappointing.

A few years ago, when interest rates were at zero, low volatility stocks were more popular, considered as an alternative to bonds. However, with the current higher interest rates, there is presently limited interest in such an alternative.

Value

The Value portfolio of the fund showed a slight underperformance in Q4, trailing the benchmark by 2.9 %. However, for the entire year, the portfolio outperformed the benchmark by almost 4 %, compensating for the loss resulting from not holding Large Cap Tech stocks and more. Despite a setback in Q4, I anticipate investors will continue to favor value stocks in 2024. Investors seem to value the tangible results that value stocks deliver today in contrast to the promises of future growth from growth stocks. This preference might persist even if the interest rate is 4 % instead of 5 %.

Size

The fund's Small Cap portfolio experienced a Q4 underperformance of 5.1 % relative to the MSCI World. For the full year, the underperformance amounted to 11.9 %. In my 2022 report, I highlighted how the Size portfolio somewhat "unfairly" outperformed last year due to an overweight in Asia, which was performing exceptionally well at the time. This year, particularly in Q4, we witnessed a reversal of this trend as Asia underperformed, making the fund's Size portfolio appear weaker compared to the global MSCI Small Cap index. While small caps have been out of favor recently, their P/E levels compared to large cap stocks suggest a potential upside. Despite their current lack of popularity, I believe there is still room for small caps to outperform large caps, as their inherent potential justifies a higher P/E level.

Momentum

The fund's Momentum portfolio demonstrated strong outperformance during Q4, recording a gain of 5.1 %. However, for the entire year, the portfolio experienced a slight underperformance of 2.8 %. The year began with underperformance in the Momentum factor as the previous year's winners, particularly Energy stocks, started to decline. Following the typical pattern of momentum, this was succeeded by a phase of relatively flat performance, allowing new momentum stocks to establish themselves. Notably, the factor currently exhibiting the highest overlap with Momentum is Value—stocks that have performed well but still maintain an affordable valuation.

Going forward

The challenging relative performance in 2023 is certainly not a source of pride, and the difficulties faced in the first few months of the year, especially in May, were particularly hard to recover from. The initial AI "euphoria" that characterized the beginning of 2023 now appears to have subsided. During the latter half of the year, companies like Nvidia have had to deliver exceptional earnings results merely to sustain their elevated stock prices. Whether they can continue to do so remains uncertain. However, it's plausible that if their results fall short of expectations, the stock price may face repercussions—a scenario in which Storebrand Global Multifactor seems well positioned to capitalize on potential opportunities.

Factor score definitions:

Value: Intrinsic value pr share divided by stock price combined with EBIT/EV. Intrinsic value is net present value of cashflows to equity, calculated by an in house developed model.

Momentum: Total return over last 12 month, except the most recent month.

Size: Market Cap.

Low volatility: Inverse of volatility over the last 12 months.