

RAFI™ Fundamental Growth Index Series

AN INVESTOR-CENTRIC DEFINITION OF GROWTH

Traditional growth indices often use price-derived signals like; forward P/E ratios, PEG ratios or analyst forecasted EPS growth. These measures reflect expectations (and often investor enthusiasm), not actual business progress.

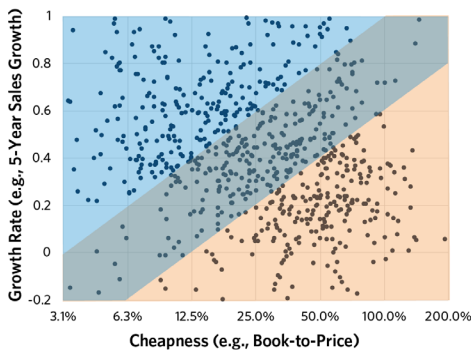
By contrast, the RAFI Fundamental Growth Index uses metrics that capture real, measurable business growth and weights companies in proportion to the magnitude of that growth.

- Defines growth by real business expansion, not high valuations
- Weights by fundamental growth, not market cap, aiming to reduce price-driven distortions
- Designed to avoid expensive, slow-growing companies that drag on traditional growth indices
- Diversifies across sectors, emphasizing innovative, economically significant companies

GROWTH DEFINED BY FUNDAMENTALS, NOT PRICE

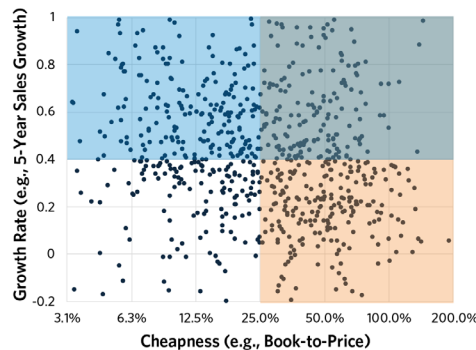
Traditional Growth & Value Indices

Sort by a blend of Cheapness and Growth Rate.
Value = slow and cheap (orange).
Growth = fast and expensive (blue).
Crossover = mixed (grey). Nothing excluded.



Fundamental Growth & Value Indices

Value = top half by Cheapness (orange).
Growth = top half by Growth Rate (blue).
Crossover = fast and cheap (grey)
Excluded = slow and expensive (white).



Note: the above charts were originally published in Fundamental Growth, (Arnott, Brightman, Harvey, Nguyen & Shakernia).
Source: Research Affiliates, based on data from Worldscope/Datastream. Data represents 12/31/2024 growth and valuation characteristics for the top 1000 US companies by capitalization weight.

INDEX OVERVIEW

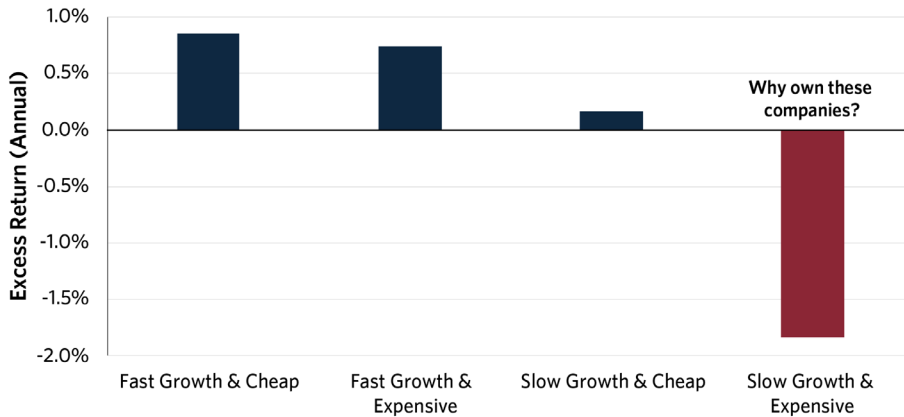
Expected Outcomes and Benefits

1. Measures True Business Growth – RAFI Fundamental Growth identifies companies with measurable increases in sales, profitability, and R&D, aiming to avoid the expensive, slow-growing stocks that traditional growth indexes often include.
2. Weights by Company Fundamental Growth Rather Than Market Price – Companies are weighted by the scale of their fundamental expansion rather than their market capitalization, designed so that exposure reflects real economic progress instead of investor enthusiasm.
3. A Broadly Diversified Growth Index – The RAFI Fundamental Growth Index offers a diverse mix across sectors of innovative and economically significant companies, rather than concentrating on the trendy, popular and most expensive sectors.

The RAFI Fundamental Growth Index selects and weights companies based on actual, observable business growth rather than market prices or valuation multiples.

DESIGNED TO AVOID PRICE-DRIVEN GROWTH TRAPS

Picking Traditional growth approaches can become concentrated in what is popular and expensive. The evidence here is straightforward: when growth is slow and valuations are high, returns have tended to disappoint. RAFI Fundamental Growth focuses on realized fundamental expansion designed to help avoid that costly corner of the market.



Through December 2024

Notes: This figure reports average annualized excess returns versus the broad cap-weighted market portfolio from March 1969 through December 2024 for four cap-weighted portfolios formed via independent sorts on book/price and 5-year sales-per-share growth. Stocks are classified into quadrants based on their position relative to the median of each signal. Portfolios are rebalanced annually. Source: Research Affiliates; data from CRSP/Compustat.

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Arnott, Brightman, Harvey, Nguyen, Shakernia

July 2025

"Why Hold Expensive Slow Growing Stocks? An Alternative Framework for Value and Growth Indices"

Brightman, Harvey, Nguyen, Shakernia

November 2025

"False Choices: Real Costs: Structural Flaws in the Growth-Value Duality"

Shakernia, Nguyen

July 2025

"Must Value Be Anti-Growth?"

Nguyen, Beck, Albuquerque

July 2025

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At a Glance

US\$181B*

in assets managed worldwide using investment strategies developed by Research Affiliates.

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Bernstein Fabozzi/Jacobs Levy Award

"Alice's Adventures in Factorland:

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"A Study of Low-Volatility Portfolio Construction Methods"

2002

Founded by Rob Arnott and based in Newport Beach, California.

FIRM LEADERSHIP

Average of 40+ years in industry experience.



Rob Arnott

Partner, Chair



Katrina Sherrerd, PhD, CFA

Partner, Vice Chair & Chief Executive Officer



Jim Masturzo

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Campbell Harvey, PhD

Partner, Director of Research

*As of December 31, 2025

**Research Affiliates, LLC and its affiliates did not pay fees to be considered for the awards mentioned herein.

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