

# RAFI™ Fundamental Index™ Series

## FOUNDED ON PRINCIPLES OF CONTRARIAN INVESTING AND DISCIPLINED REBALANCING

The RAFI Fundamental Index strategy is a broadly diversified equity strategy built on principles of contrarian investing and disciplined rebalancing. By using fundamental measures of company size to select and weight companies, the approach eliminates the performance drag associated with traditional passive investment vehicles and has historically led to outperformance in developed markets of approximately 1.5%–2.0% a year.<sup>1</sup>

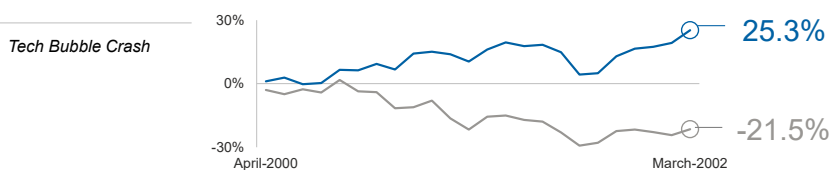
- Broad economic representation with low implementation costs and high capacity
- A history of outperformance based on sound investing principles
- Breaks the link between price and weight
- Engages in contrarian rebalancing, helping investors capture excess return

## SEVERING THE LINK BETWEEN PRICE AND PORTFOLIO WEIGHT

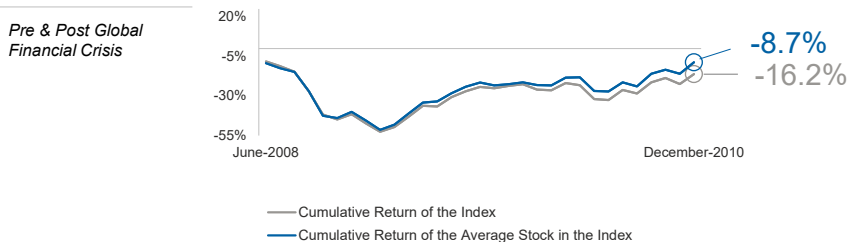
Traditional passive investment vehicles are market capitalization-weighted, which means that as the price of a company increases so does its overall weight in the portfolio, creating a drag on returns. The RAFI Fundamental Index strategy severs that link and embeds a buy-low, sell-high approach, which avoids significant overweights to the trendy, popular, and most expensive securities.

### Capitalization Weighting Creates a Drag on Returns

#### Cumulative Return of the S&P 500 Index



#### Cumulative Return of the MSCI EAFE Index



Average stock in the S&P 500 Index is calculated by equally weighting the holdings of the S&P 500 as of 4/2000 and price drifting them to 3/2002. The same process is used for the MSCI EAFE from 6/2008 to 12/2010. Source: Research Affiliates, LLC, based on data from FactSet.

## INDEX OVERVIEW

### Expected Outcomes and Benefits

1. Uses fundamental measures of company size to sever the link between price and portfolio weight.
2. Systematically rebalances using a company's fundamental weight as a rebalancing anchor, embedding a buy-low, sell-high approach.
3. Preserves all the positives of traditional passive investing and uses regular periodic rebalancing to help investors capture excess return from long-term mean reversion.
4. Broadly diversified and economically representative with a low tracking error relative to cap-weight index.

*The RAFI Fundamental Index strategy allows investors to capture long-term value and rebalancing premiums, while preserving all the positives of traditional passive investing.*

<sup>1</sup> "Fundamental Indexation," 2005. Amott, Hsu, and Moore.

## THOUGHTFULLY DESIGNED TO DELIVER FOR INVESTORS

Picking active managers is a game with poor odds. The RAFI Fundamental Index strategy preserves all the positives of traditional passive investing—simple, transparent, broadly diversified, and low cost—helping investors capture excess return from long-term mean reversion, one of the largest and most persistent active investment opportunities.

### Consistency Has Helped Investors Reach Their Goals

| Strategy   | Annualized Excess Return | 3-Yr Rolling Win Rate | 5-Yr Rolling Win Rate | Start Date |
|--|--------------------------|-----------------------|-----------------------|------------|
| RAFI Fundamental US Index vs. <i>Mstar US Large-Mid Cap Index</i>              | 1.3%                     | 59.7%                 | 76.5%                 | 1/1992     |
| RAFI Fundamental UK All Company Index vs. <i>FTSE All-Share</i>                | 1.2%                     | 69.0%                 | 76.9%                 | 5/1984*    |
| RAFI Fundamental Dev ex US Index vs. <i>MSCI EAFE Index</i>                    | 2.1%                     | 79.6%                 | 89.8%                 | 5/1984     |
| RAFI Fundamental Emerging Markets Index vs. <i>MSCI Emerging Markets Index</i> | 4.6%                     | 81.6%                 | 84.3%                 | 5/1996     |
| RAFI Fundamental Global Index vs. <i>MSCI All Country World Index</i>          | 1.7%                     | 69.9%                 | 73.8%                 | 5/1996     |

As of December 31, 2021

Data prior to index launch are simulated. Please see important information at the end of this presentation regarding simulated data. The RAFI Fundamental Indices were launched on 1/31/2017. FTSE All-Share returns begin in Jan 1986. Source: Research Affiliates, LLC, based on data from FactSet.

## OUR INTERACTIVE TOOLS



### Asset Allocation Interactive

Estimates of long-term expected returns for 130+ assets and model portfolios across five currencies with the ability to create, save, and blend customized portfolios.

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### Smart Beta Interactive

Estimates of expected excess returns over popular benchmarks for 25+ strategies and 15 factor variations with ability to analyze expected excess returns, historical returns, and various risk measures and markets.

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## RELATED RESEARCH

### "Fundamental Indexation"

Arnott, Hsu, Moore

March 2005 | *Financial Analysts Journal*



### "Rebalancing and the Value Effect"

Arnott, Chaves

August 2012 | *Journal of Portfolio Management*



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## RESEARCH AFFILIATES

### At a Glance

**US\$143B\***

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

### 425+ articles published

Important recognitions include:

#### Graham & Dodd Awards

"What Is Quality?"

"Reports of Value's Death May Be Greatly Exaggerated"

#### William F. Sharpe Indexing Achievement Award

"Fundamental Indexation"

"Rebalancing and the Value Effect"

#### Bernstein Fabozzi/Jacobs Levy Award

"Alice's Adventures in Factorland:

Three Blunders That Plague Factor Investing"

"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



**Chris Brightman, CFA**

Partner, Chief Executive Officer & Chief Investment Officer



**Katrina Sherrerd, PhD, CFA**

Partner, Vice Chair



**Campbell Harvey, PhD**

Partner, Head of Research

\*As of June 30, 2022