Factor Year Report 2025

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Factor Investing from a Fundamental Lens

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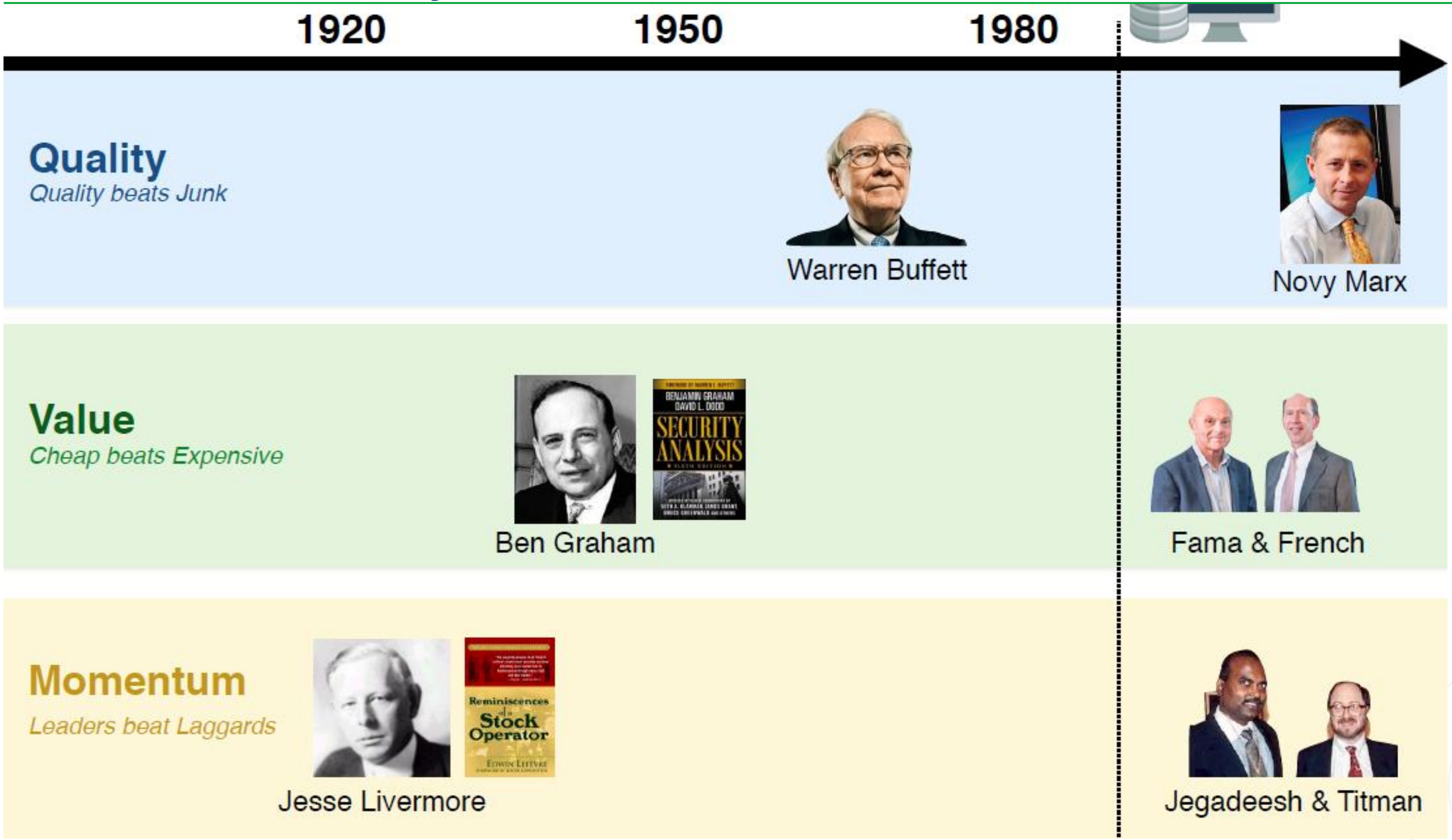
Factors: Defined

- Factors are ***investment styles*** that deliver relatively higher returns over the **long run**. These risk premiums don't come for free, as factors can ***underperform*** in the short or even ***medium*** run ("bad times").
  - **Static** factors like equities and bonds whose risk premiums are obtained by simply buying assets (long-only positions).
- The superior returns to factors, on average, arise as they underperform during bad times, sometimes dramatically.
- For most investors, **Bad times matter more than good times**: understanding the factor risks of a portfolio is essential.
- Factor investing is:
  - Fundamental investing: Applying classical investing principles.
  - Robustly designed: Implementation process backed by robust statistical academic research.
  - Systematically applied: Employing both qualitative and quantitative tools.
- Investing gurus like Warren Buffett, Ben Graham, Paul Tudor Jones, Stan Druckenmiller, Peter Lynch, Rakesh Jhunjhunwala and many others applied certain styles of factor investing before they were discovered and confirmed by academics.

Factors: Rationale

Factor	Behavioural/Risk-Based Rationales	Who Is on the Other Side?
Value	Over-extrapolation of past growth	Multi-year return-chasers
	Discomfort with old economy or old tech companies	Investors attracted to glamor stocks
	Distress risk	Investors averse to some risks in value stocks
Momentum	Underreaction to news	Contrarians resisting the herd
	Delayed overreaction to price trends	Investors realizing gains or hanging on to losers
	Disposition effect	
Quality	Leverage aversion/constraints	Leverage-constrained or leverage-averse investors
	Lottery-seeking preferences	Investors who prefer lottery-like upside
	Under-appreciation of quality characteristics	

Factors: Verified by Investors and Academics



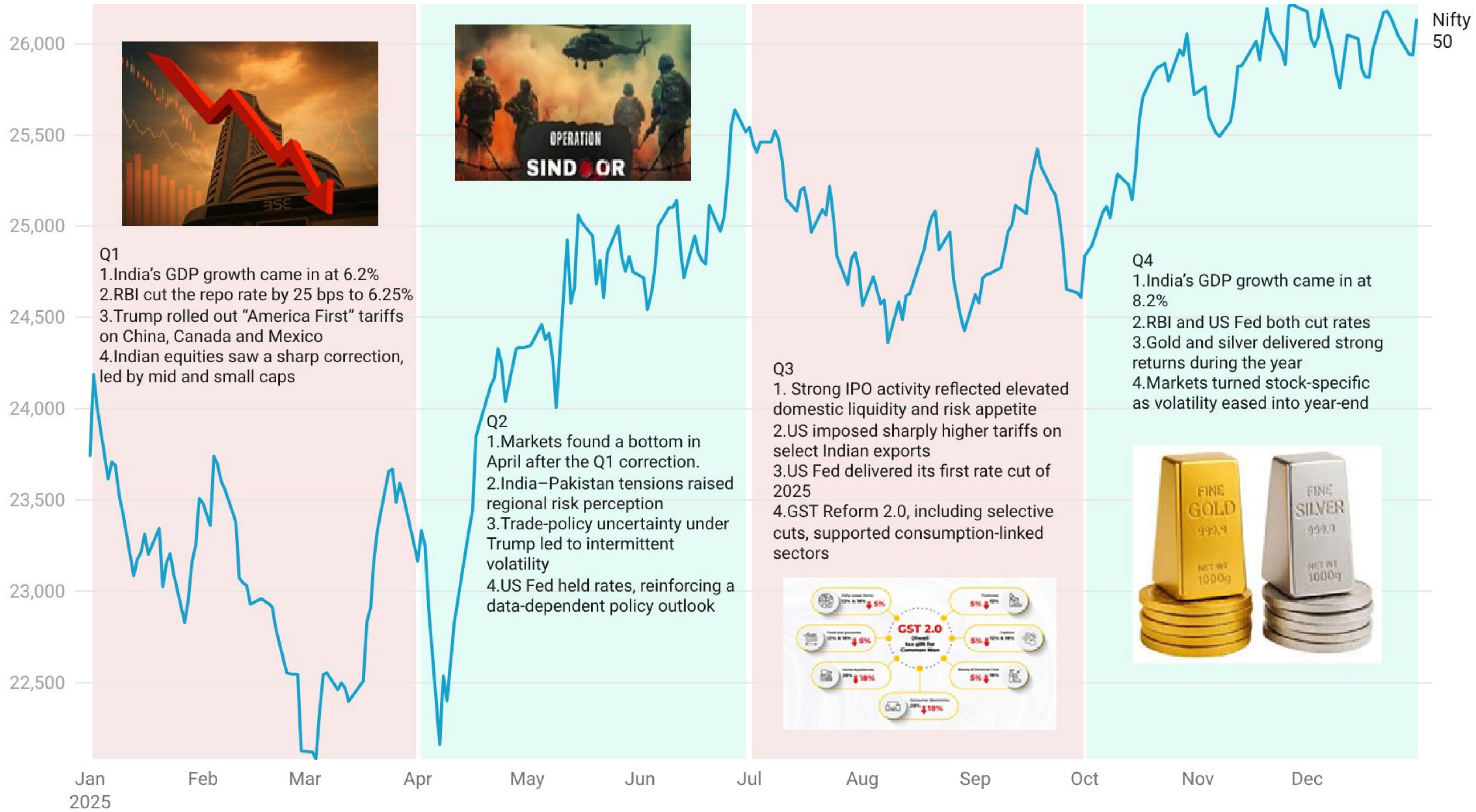
Source: Stockopedia

CY 2025: Factors, Sectors & More

Executive Summary: A “Value”able Year

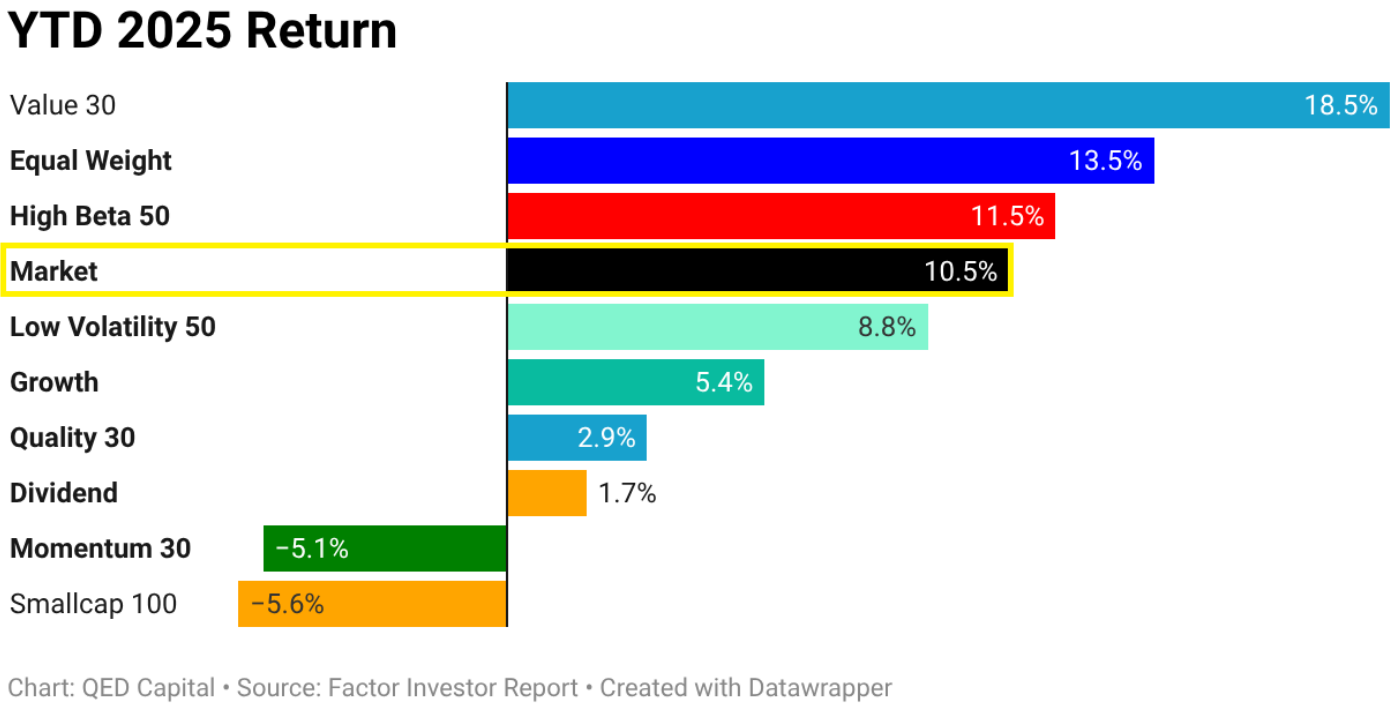
- **Market:** In 2025 leadership proved fragile, trends reversed quickly, and crowded exposures were tested as markets shifted from momentum-driven optimism to valuation and discipline.
- **Value**: Value benefited from cyclical recovery, sector rotation, and valuation normalization, emerging as the outperformer.
- **Momentum:** Momentum had a tough 2025. It struggled amid no clear trend emerging, frequent rotations, with sharp drawdowns. It did catch up a bit towards the end of the year.
- **Quality & Low Volatility**: Protection over participation. Defensive factors did what they were meant to do—limit damage during drawdowns but lagged during rebounds.
- **Factor Investing:** Factors reflect underlying fundamentals of the market. It is a disciplined and systematic way to apply time-tested investment principles.

CY 2025 – Year in Review



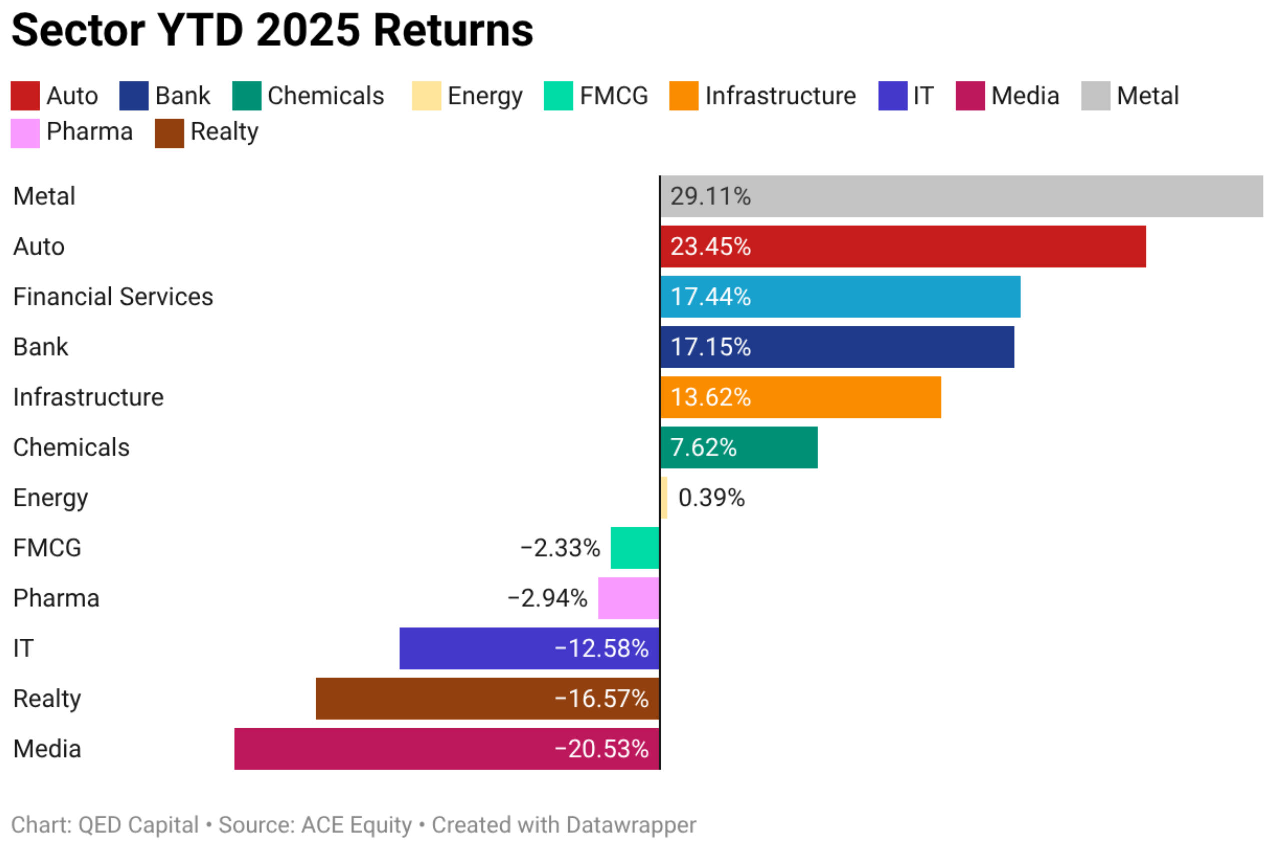
Created with Datawrapper

CY 2025 Factor Performance



- **Value-Led Leadership** – Factor performance in 2025 was dominated by Value, which delivered the strongest returns and materially outperformed the Market.
- **Cyclical Risk Rewarded** – Equal Weight and High Beta finished ahead of the benchmark, reflecting periods of risk-on conditions.
- **Defensive Stability** – Low Volatility lagged the Market but provided steadier participation during phases of elevated uncertainty.
- **Muted Style Factors** – Growth, Quality, and Dividend delivered modest returns, in a year where cyclicals and industrials were rewarded.
- **Breakdown in Trend Leadership** – Momentum and Smallcap were the weakest performers, highlighting how frequent leadership shifts and uneven breadth challenged trend-driven and lower-liquidity exposures.
- **Wide Factor Dispersion** – The sharp divergence between top-performing and lagging factors reinforced the importance of diversification and multi factor strategies.

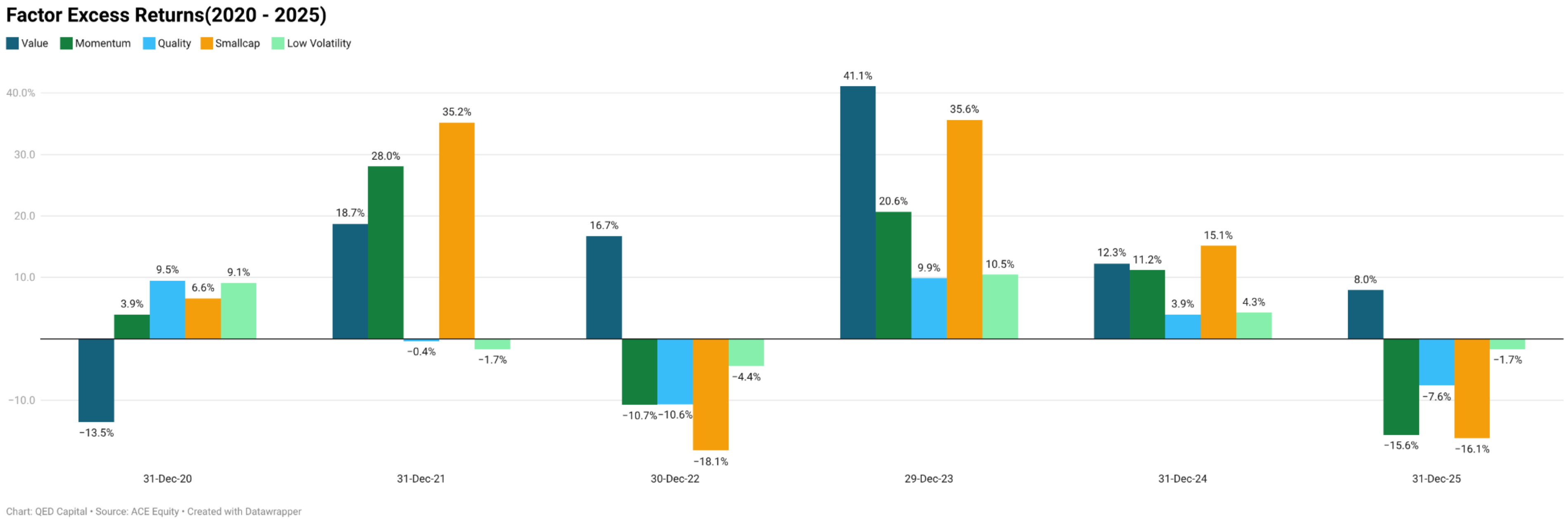
CY 2025 Sector Performance



- **Uneven Market Leadership** – Sector performance in 2025 showed clear dispersion, with outcomes varying sharply across sectors rather than reflecting broad-based strength.
- **Cyclical Strength** – Metals and Auto, finished the year at the top of the performance rankings. Metals carry forward that strength into CY 2026.
- **Financial Stability** – Financials and Banks delivered steady returns, supporting overall market breadth.
- **Moderate Mid-Tier Performance** – Infrastructure and Chemicals delivered modest gains, placing them in the middle of the sector performance spectrum.
- **Muted Defensives** – FMCG and Pharma underperformed over the year.
- **Flat Energy Performance** – Energy ended the year largely unchanged, failing to emerge as a clear leader.
- **Structural Laggards** – IT, Realty, and Media remained among the weakest-performing sectors.

Factors – A longer term view

Factors Create Alpha Over Time



- **Long run:** Factors deliver relatively higher returns over the long run. These risk premiums don't come for free, as factors can underperform in the short or even medium run ("bad times")
- **No Pain, No Premium:** Superior returns to factors, on average, arise as they underperform during **bad times.**
- **2025 in Context** – The uneven factor outcomes observed in 2025 reflect this dynamic. Except Value other factors underperformed the market.

Factor Correlation Matters

Excess Return Correlations

Factor	Value	Momentum	Quality	Smallcap	Low Volatility	Growth	Equal Weight	Dividend	High Beta
Value	1.00%	0.58%	0.10%	0.53%	0.07%	-0.21%	0.38%	0.61%	0.77%
Momentum	0.58%	1.00%	0.37%	0.60%	0.09%	0.00%	0.37%	0.45%	0.63%
Quality	0.10%	0.37%	1.00%	0.29%	0.40%	0.61%	0.44%	0.62%	0.17%
Smallcap	0.53%	0.60%	0.29%	1.00%	0.10%	-0.06%	0.19%	0.44%	0.71%
Low Volatility	0.07%	0.09%	0.40%	0.10%	1.00%	0.56%	0.58%	0.41%	-0.04%
Growth	-0.21%	0.00%	0.61%	-0.06%	0.56%	1.00%	0.35%	0.50%	-0.20%
Equal Weight	0.38%	0.37%	0.44%	0.19%	0.58%	0.35%	1.00%	0.41%	0.30%
Dividend	0.61%	0.45%	0.62%	0.44%	0.41%	0.50%	0.41%	1.00%	0.41%
High Beta	0.77%	0.63%	0.17%	0.71%	-0.04%	-0.20%	0.30%	0.41%	1.00%

Table: QED Capital • Source: ACE Equity • Created with Datawrapper

- **Shared Market Exposure, Different Sensitivities** – Factors respond differently to changes in economic conditions and market regimes, even when operating within the same market environment..
- **Moderate Cross-Factor Correlation** – The correlation matrix shows that most factors are neither tightly coupled nor fully independent. This creates room for leadership to shift rather than persist.
- **Factor Premia Are Earned Through Underperformance** – Superior long-term returns arise because factors tend to lag during unfavourable regimes, requiring investors to bear interim drawdowns.
- **Discipline Is Required — Rotation Is a Feature, Not a Failure** – Staying invested through weak phases is critical, as rotation is the process that enables factor premia to compound over full cycles.

Factor Leadership Rotates Regularly

Factor Leadership Across Calendar Year

Rank	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	10 Year Average
1	Value (21.50%)	High Beta (59.48%)	Quality (6.59%)	Momentum (9.74%)	Quality (24.37%)	Size (59.27%)	Value (21.03%)	Value (61.14%)	Size (23.94%)	Value (18.47%)	Momentum (19.04%)
2	Dividend (9.92%)	Size (57.29%)	Low Volatility (-0.51%)	Low Volatility (5.05%)	Low Volatility (23.96%)	Momentum (52.14%)	Growth (12.44%)	Size (55.63%)	Value (21.07%)	Equal Weigth (13.54%)	Value (18.55%)
3	Momentum (8.51%)	Momentum (54.47%)	Growth (-1.47%)	Quality (4.12%)	Size (21.47%)	Value (42.80%)	High Beta (10.40%)	High Beta (49.01%)	Momentum (20.01%)	High Beta (11.50%)	Size (16.18%)
4	Equal Weight (5.40%)	Value (30.66%)	Dividend (-1.82%)	Equal Weight (2.69%)	Momentum (18.83%)	High Beta (35.52%)	Equal Weight (6.36%)	Dividend (42.13%)	Dividend (16.66%)	Low Volatility (8.81%)	Equal Weight (13.75%)
5	Low Volatility (3.65%)	Low Volatility (30.21%)	Momentum (-2.45%)	Growth (-1.06%)	Equal Weight (17.62%)	Equal Weight (32.60%)	Dividend (1.88%)	Momentum (40.67%)	Low Volatility (13.10%)	Growth (5.39%)	Low Volatiltiy (13.71%)
6	Size (2.26%)	Quality (27.81%)	Equal Weight (-6.33%)	Dividend (-2.01%)	Dividend (12.61%)	Dividend (30.14%)	Low Volatility (-0.11%)	Low Volatility (30.49%)	Quality (12.71%)	Quality (2.94%)	Dividend (13.64%)
7	Growth (0.08%)	Growth (26.58%)	Value (-21.31%)	Size (-9.52%)	Growth (10.17%)	Quality (23.76%)	Quality (-6.32%)	Quality (29.88%)	Growth (9.81%)	Dividend (1.66%)	High Beta (12.97%)
8	Quality (-0.57%)	Equal Weight (26.13%)	High Beta (-28.41%)	Value (-11.27%)	High Beta (9.08%)	Low Volatility (22.43%)	Momentum (-6.40%)	Equal Weight (29.79%)	Equal Weight (9.73%)	Momentum (-5.11%)	Quality (12.53%)
9	High Beta (-2.72%)	Dividend (25.27%)	Size (-29.08%)	High Beta (-18.47%)	Value (1.43%)	Growth (8.82%)	Size (-13.80%)	Growth (24.83%)	High Beta (4.26%)	Size (-5.62%)	Growth (9.56%)

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- **Short-Term Unpredictability** – Year-to-year factor leadership is highly unstable and driven by shifting market regimes.
- **Regime-Dependent Outcomes** – Changes in macro, liquidity, and risk appetite reshuffle factor winners and laggards rather than follow a fixed pattern.
- **Long-Cycle Premia, Not Annual Signals** – Ten-year rankings show that certain factor premia emerge over full market cycles, but these are **not predictable on an annual basis**.
- **Timing Risk of Concentration** – Relying on a single factor increases timing risk due to leadership instability across years.
- **Diversification as Robustness** – Diversifying across factors improves portfolio resilience across regimes rather than attempting to forecast yearly winner
- **2025 as Confirmation** – The factor rotations observed in 2025 are consistent with this broader pattern of **limited short-term predictability**.

5 Yr View – High Risk Led to High Returns

- **Positive Relationship** – Over the past five years, higher volatility has generally been associated with higher returns.
- **Cyclical Risk Was Rewarded** – Value, Small cap, and High Beta delivered stronger absolute returns by accepting materially higher volatility during favorable market phases
- **Momentum as a Balanced Case** – Momentum achieved competitive returns without requiring extreme volatility, indicating efficient risk usage.
- **Stability-Oriented Factors** – Low Volatility, Dividend, Quality, and Equal Weight clustered at lower risk levels, prioritizing return stability over maximizing upside.
- **Core Insight** –Returns improved with risk, but not all risk was rewarded equally.

15 Yr View – High Risk not equal to High Returns

- **Risk–Return Relationship Weakens Over Time** – Over longer horizons, higher volatility does not consistently translate into higher returns.
- **Risk Efficiency Matters More Than Risk Magnitude** – Momentum delivered strong long-term returns without requiring extreme volatility, indicating more efficient risk utilisation. High Beta exhibited the highest volatility but relatively weaker long-term returns, underscoring the cost of assuming risk without durable return drivers.
- **Cyclical Factors Require Patience** – Value and Smallcap benefited from long-term cyclical tailwinds but experienced significant drawdowns.
- **Lower-risk factors** like Low Volatility delivered competitive outcomes relative to their volatility
- **Core Insight** – Over full market cycles, consistent results come from how risk is managed, not simply how much risk is taken. Key risk is the risk of underperformance or "bad times".

About QED Capital

Investing Philosophy

Fundamental Investing

- Our approach to achieving consistent, sustainable outcomes involves utilizing robust investing principles and thorough analysis.

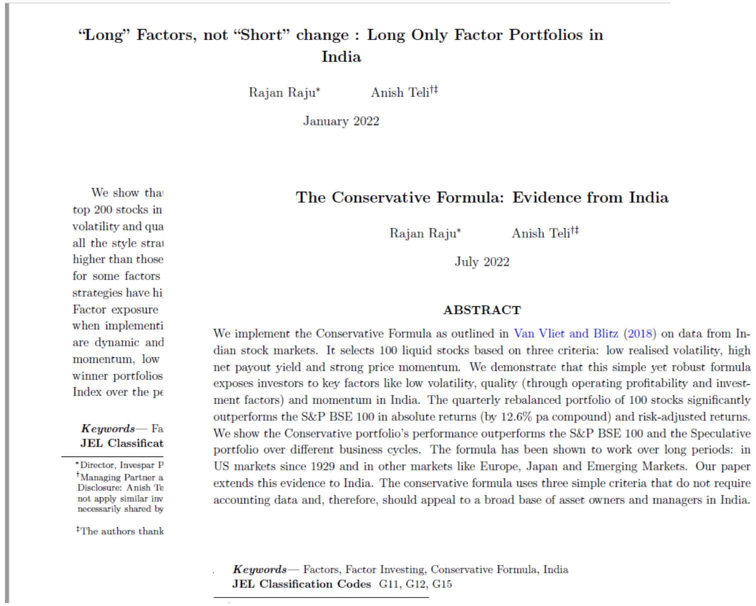
Robustly Designed

- Proprietary implementation process backed by robust statistical academic research
- Create value through portfolio construction, risk management, and execution.

Systematically Applied

- Employing both qualitative and quantitative tools.
- Disciplined process that we have been refining for more than 10 years.
- Continuous research on design, test, and improvement over time.

Core Beliefs: Proprietary Research combined with Practitioner insights



"Long" Factors, not "Short" change : Long Only Factor Portfolios in India

Rajan Raju* Anish Teli†‡

January 2022

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The Conservative Formula: Evidence from India

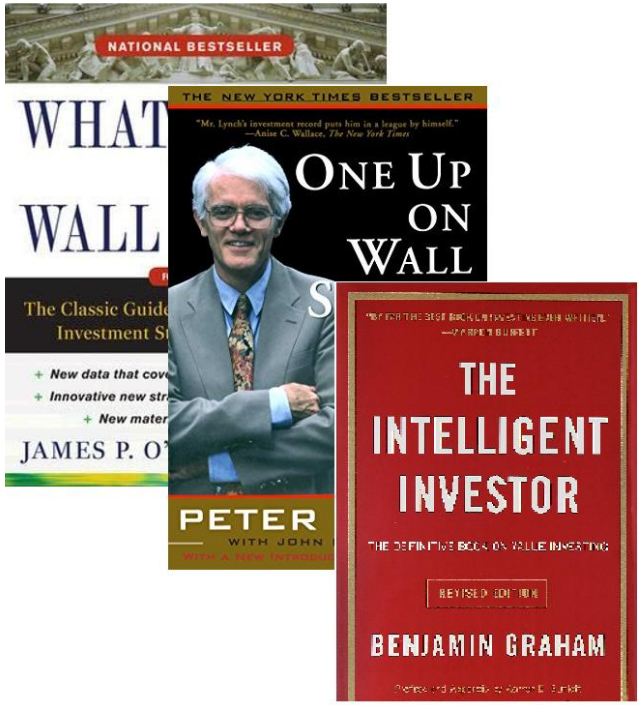
Rajan Raju* Anish Teli†‡

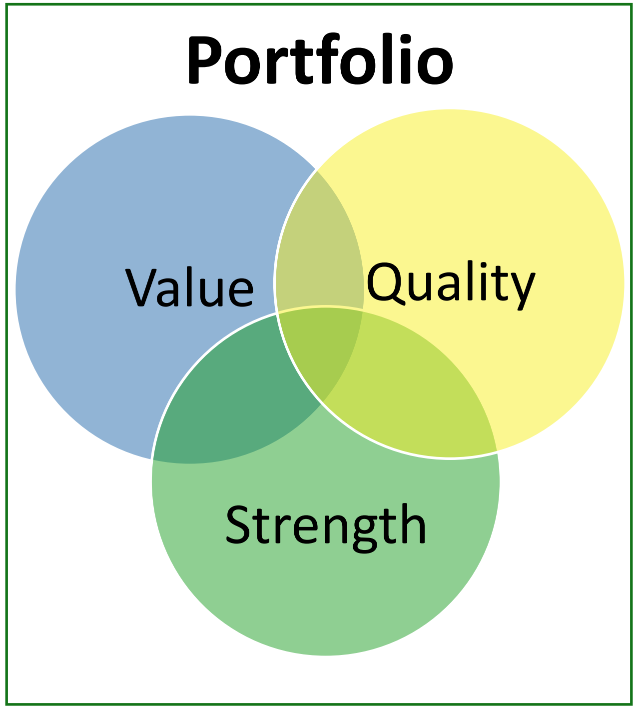
July 2022

ABSTRACT

We implement the Conservative Formula as outlined in Van Vliet and Blitz (2018) on data from Indian stock markets. It selects 100 liquid stocks based on three criteria: low realised volatility, high net payout yield and strong price momentum. We demonstrate that this simple yet robust formula exposes investors to key factors like low volatility, quality (through operating profitability and investment factors) and momentum in India. The quarterly rebalanced portfolio of 100 stocks significantly outperforms the S&P BSE 100 in absolute returns (by 12.6% pa compound) and risk-adjusted returns. We show the Conservative portfolio's performance outperforms the S&P BSE 100 and the Speculative portfolio over different business cycles. The formula has been shown to work over long periods: in US markets since 1929 and in other markets like Europe, Japan and Emerging Markets. Our paper extends this evidence to India. The conservative formula uses three simple criteria that do not require accounting data and, therefore, should appeal to a broad base of asset owners and managers in India.

Keywords— Factors, Factor Investing, Conservative Formula, India
JEL Classification Codes G11, G12, G15





Proprietary Research + Practitioner Insights = Fundamental Investing Systematically Applied

Core Beliefs: Proprietary Research combined with Practitioner insights

Conservative formula – A Globally working Mix of Factors

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