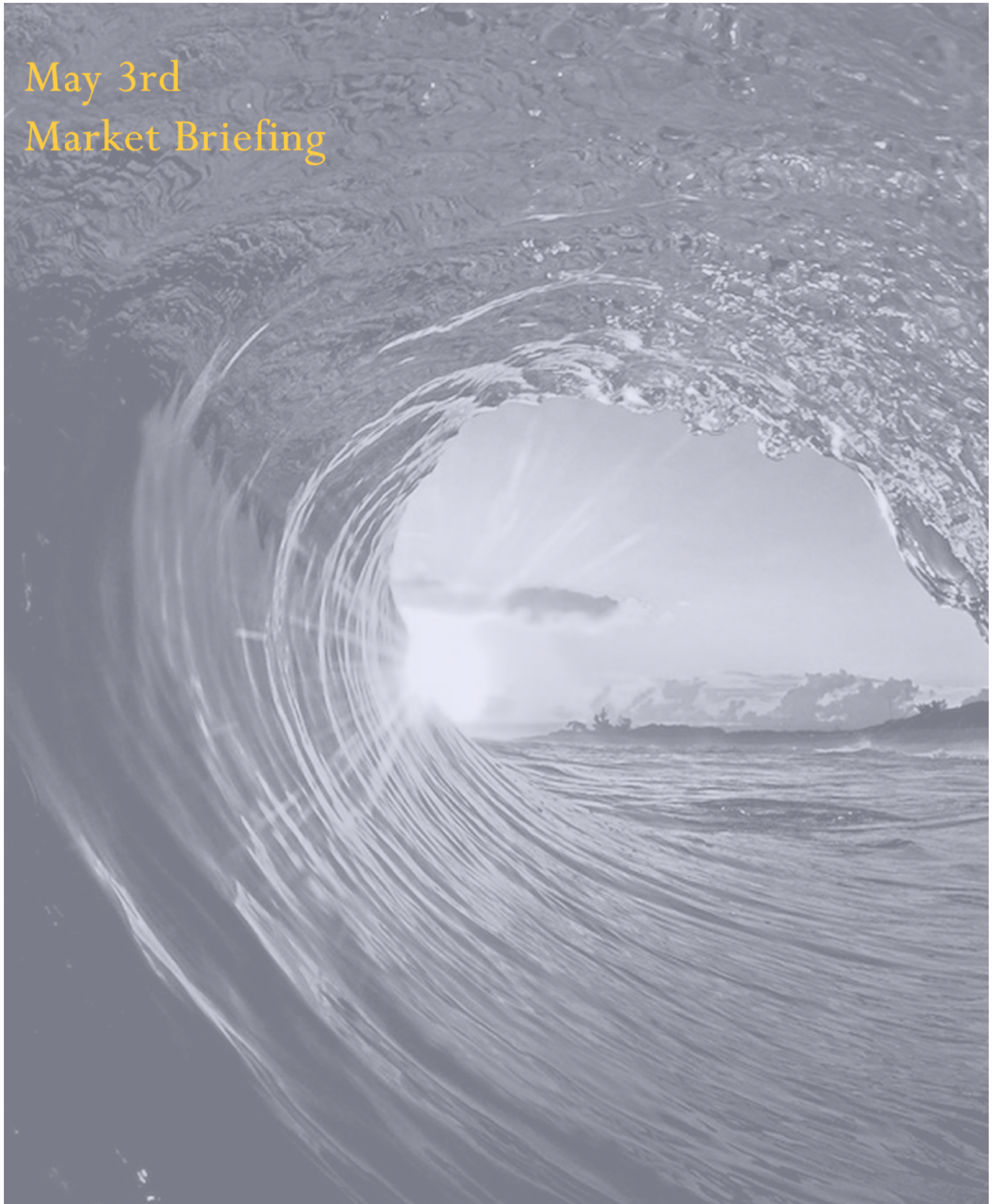

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"Stay focused (2)"

Market briefing

- The "smart beta" investing approach relies on finding variables that anticipate a stock will outperform.
- Looking at the "best companies to work for" in the US proved to be a valid approach* to outperform.
- Given the feedback received we want to repeat the excercise in Europe.

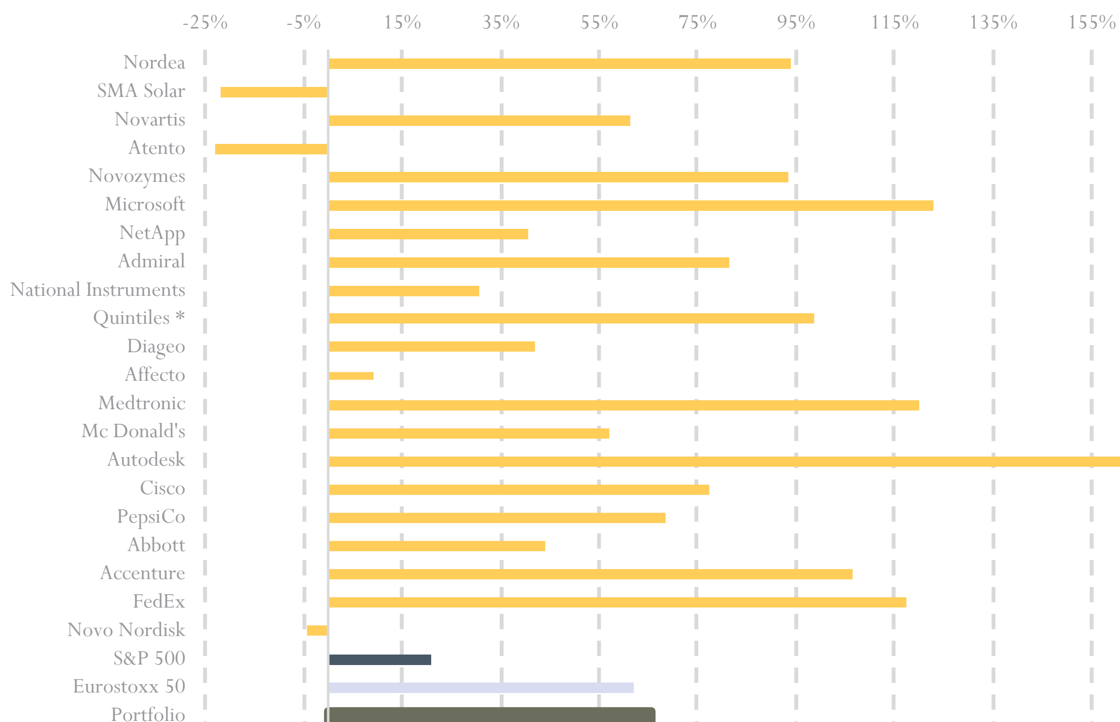
** See Market Brifing from April 27th ("Stay focused").*

Investors are ultimately humans, and humans tend to have few time to do whatever they want to do. Investing is consequently an activity where time optimization is key. Going through the fundamentals of a company can be time demanding and, if the analysis shows up the company is not an attractive investment, disapointing. A tempting shortcut is to find those few factors (even one single factor) which could show us in a blink if a company is an attractive investment. In our last Market Briefing we showed how a portfolio composed, on an equal weighting basis, only by the public companies among the first twenty of the 2012 Forbes list of "Best Companies To Work For" would have outperformed the market until today. Same for the 2017 list.

The companies that do have happy employees tend to outperform the market.

We repeated the analysis in Europe and the results are in line with what we expected. However we need to outline some differences between Europe and the United States. The list we used is the one from the website "Great Place To work" which separate companies in "Multinationals", "Large companies" and "Small and Medium". We looked at the 2012 lists of "Multinationals" and "Large companies", each one listing 25 companies. Had we invested five years ago in an equal weighted portfolio of the public companies among those 50 the resulting performance would have been better than the market (Eurostoxx 50 and S&P 500). The magnitudes are displayed in the graph below. Truth is that even if we had a list of great companies to work for in Europe, the majority of the companies were listed in the US, UK or the Nordic markets. But the approach still

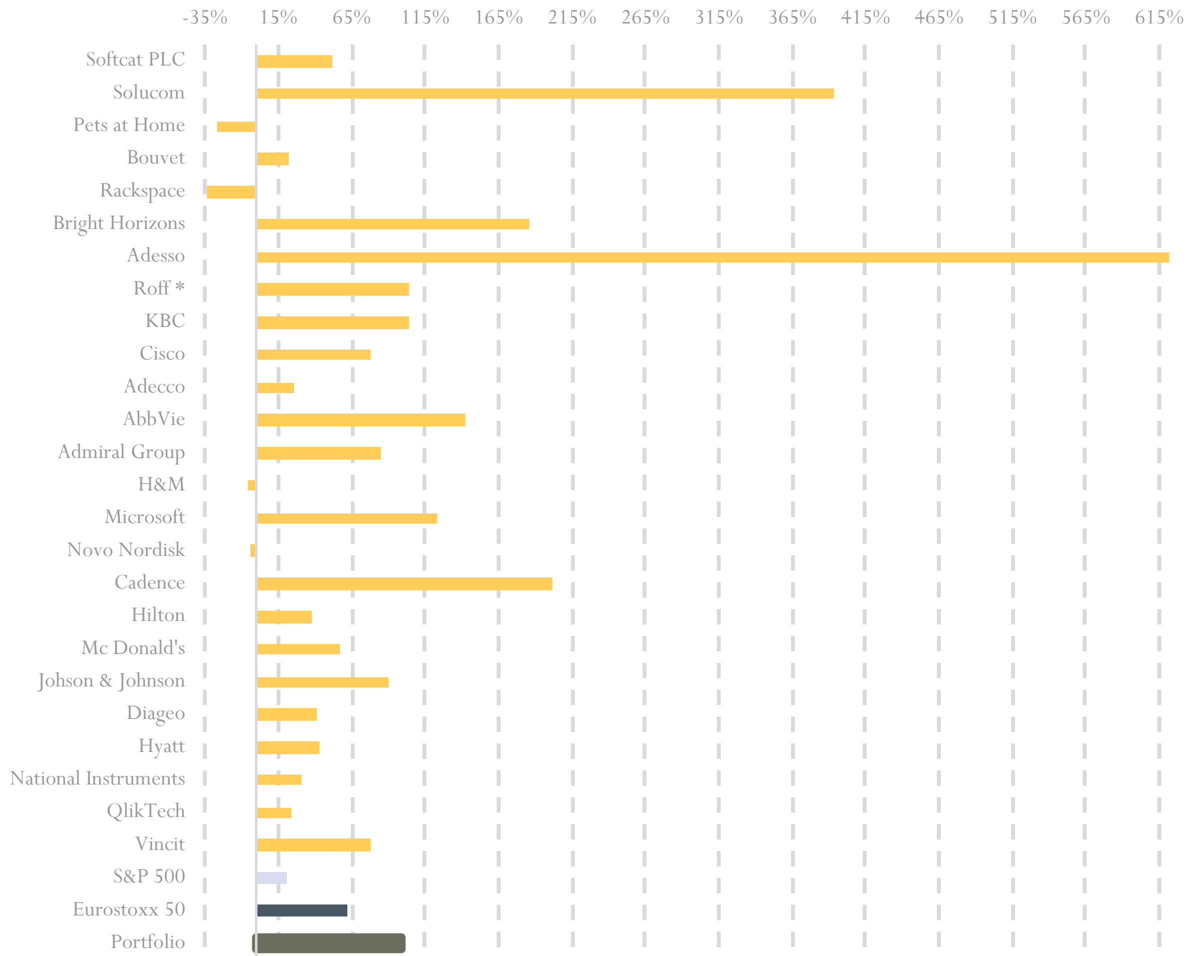
The portfolio built with the proposed approach beat the Eurostoxx 50 by 360 basic points.



5 year return 2012 "Great Place to Work" **(Multinationals and Large Companies lists)**

** 4 year return*

It must be outlined that what we are trying to do is to analyse how a simple approach can be more profitable than a complex one which involves many hours analysing balance sheets and financial indicators. If we wanted to be purists we shall have included only the companies based in Europe and quoted in European markets, but the whole point is about finding a quick way to do some stock screening. Of the 2012 lists mentioned before some of the companies have been wiped out and replaced by new ones. Below is displayed the 5-year return for the companies within the 2016 lists. Again, the approach beats the market and in a higher margin. Logic suggests that companies that are a Great Place to Work in 2016 shall had good corporate results in the past years while the companies dropped out of the list did have worse results, diminishing the attractiveness of the company as an employer. It seems then that the approach, even if useful, shall be updated constantly to really work.



5 year return 2016 "Great Place to Work" **(Multinationals and Large Companies lists)**

** Subsidiary of BGC Partners.*

If we look at the companies that are included both in the 2012 and 2016 lists then we found seven, and a portfolio composed by these did not outperformed the Eurostoxx 50 - not by far (-3,8 percentage points) - but did outperformed the S&P 500 by 37,3 percentage points.

Obviously we can complement this approach with a superficial fundamental analysis, adding therefore Dividend Yield, PER, P/B, etc. to the variables to look at and filtering those companies that do comply with any threshold we want to set up for each quantitative factor added. More obvious is the need to apply common sense to any investment we made.

Continuing with this series, in view of the interest shown by clients and partners, we will analyse the case of a dynamic portfolio, starting with the 2012 list until the 2016 list, making as if we sold the companies dropped from the lists and bought the ones added in each year edition. Stay tuned... stay focused.

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