

Convergence Long/Short Strategies

Q2-2020 Factor Analysis

Factor Research

The following table shows the three top and bottom performing factors within the U.S. Equity market over different time periods. We ranked all 15 factor composites by quintile spread return to show that what can work over the long term is not always true in the short term (see disclosures for a definition of quintile spread return).

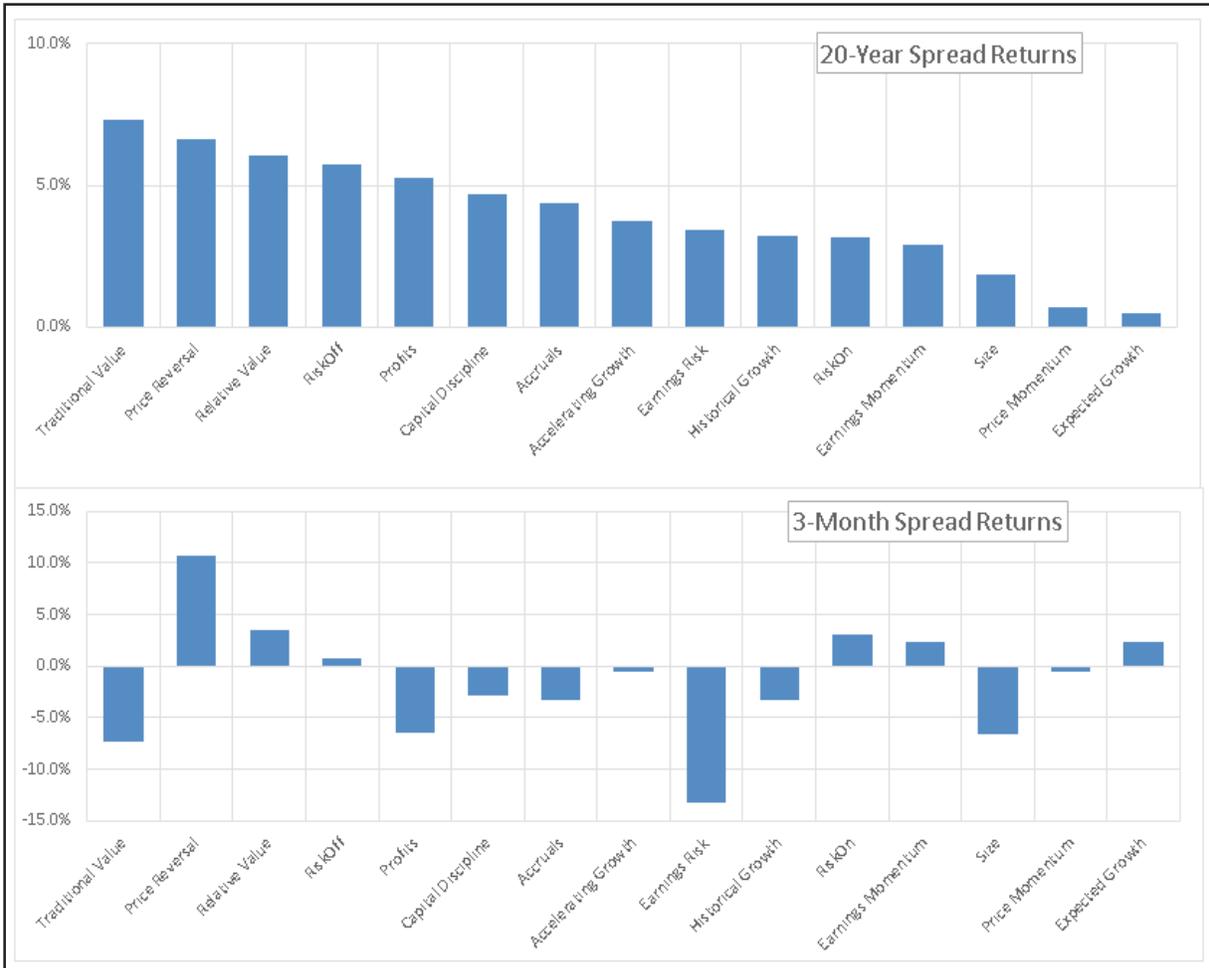
	3 mo	6 mo	12 mo		5 yr	10 yr	20 yr
Top 3	Price Reversal	Price Momentum	Price Reversal		Price Momentum	Sales Growth	Traditional Value
	Relative Value	Earnings Momentum	Earnings Momentum		Price Reversal	Price Reversal	Price Reversal
	RiskOn	Historical Growth	Sales Growth		Historical Growth	Capital Discipline	Relative Value
Bottom 3	Size	Earnings Risk	RiskOn		Size	RiskOff	Size
	Traditional Value	RiskOn	Earnings Risk		RiskOn	Traditional Value	Price Momentum
	Earnings Risk	Traditional Value	Traditional Value		Traditional Value	RiskOn	Expected Growth

As of 06/30/2020. Source: Convergence Investment Partners, Wilshire Analytics.

The above table shows that the more recent periods have been dominated by more technical factors, such as Price Reversal and Price Momentum. We have a Price Reversal composite, that is only used on our short portfolio. As a quick reminder, a “reversal” is a change in the price direction of a stock. Reversals can occur to the upside or downside. For our short model we are expecting a downside reversal. Following an uptrend, a reversal would be to the downside and conversely, after a downtrend, a reversal would be to the upside. Reversals are based on overall price direction and are based on a much shorter time period than price momentum.

The charts below show an analysis of which factors worked in Q2-2020 versus their trailing 20-year returns. These tables show the long-short quintile spread returns of all the factor composites we monitor at Convergence Investment Partners.¹

Factor metrics rewarded by market participants within the US equity markets



Source: Convergence Investment Partners, LLC, Wilshire Analytics

Some factors generated significant negative spread in the second quarter, led by Earnings Risk and Traditional Value. Conversely, Price Reversal generated a very strong positive spread. After Price Reversal, there were not many factors that generated a noteworthy positive spread in the quarter.

¹ These returns are linked monthly spread returns as opposed to the difference between the 12 month long and short holdings.

In order to better observe thematic changes in factor efficacy, we created the following chart which shows spread returns of 3-month periods over the past 3 years. These are ranked from highest spread return to lowest spread return for each quarter (see the legend below).

Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
PM 5.38	ER 3.96	PM 2.87	PM 2.86	PM 3.9	ER 8.87	PR 1.74	PM 4.25	ER 4.44	RON 4.02	HG 8.15	PR 10.75
EM 3.26	PT 3.43	EG 1.68	AG 1.98	PT 2.04	SZ 5.69	RV 1.63	AG 1.34	SZ 3.5	RV 3.39	PM 7.54	RV 3.51
CD 1.65	SZ 2.69	ACC 1.56	RON 1.86	ER 1.73	RSK 4.19	CD -0.26	EG 1.05	PT 2.32	TV 2.32	PT 4.87	RON 3.04
PT 1.34	PM 2.51	HG 1.15	ACC 0.94	EM 1.46	PT 3.19	HG -0.93	SZ 1.01	AG 2.08	RSK 1.95	EM 3.33	EG 2.37
HG 0.93	RV 2.37	AG 1.11	EG 0.65	PR 1.22	HG 3.05	EM -0.94	ER 0.7	PR 1.85	AG 1.65	CD 3.26	EM 2.3
EG 0.9	TV 1.92	CD 0.88	CD 0.51	AG 1.12	CD 1.59	RON -0.97	EM 0.58	EM 1.82	PR 0.98	AG 0.55	RSK 0.77
PR 0.84	EM 0.98	EM 0.22	RV 0.43	CD 1.09	EG 1.29	EG -1.77	HG 0.23	CD 0.91	SZ 0.26	ER 0.27	AG -0.56
ACC 0.81	AG 0.96	ER 0.18	HG 0.1	HG 0.86	TV 0.52	ACC -2.01	PT 0.06	ACC 0.66	CD -0.13	EG -0.08	PM -0.56
RV 0.75	RSK 0.39	PT 0.17	PR -0.31	EG 0.4	RV 0	AG -2.09	PR -0.53	RON 0.57	EG -0.96	ACC -2.69	CD -2.81
AG -0.03	EG -0.18	RSK -0.42	EM -0.73	ACC -0.61	PR -0.19	RSK -2.44	CD -1.21	RSK 0.55	PT -1.04	SZ -6.12	ACC -3.26
ER -0.2	HG -0.38	PR -0.43	RSK -1.18	RSK -0.95	ACC -0.33	SZ -2.87	RON -1.76	PM 0.36	HG -1.18	PR -7.26	HG -3.31
RON -0.6	PR -0.63	SZ -0.64	ER -1.34	SZ -1.73	PM -0.63	PT -3.02	RSK -1.86	TV 0.07	EM -2.42	RSK -9.39	PT -6.5
TV -0.76	CD -0.74	RV -2.27	PT -1.5	RON -2.85	EM -1.48	PM -3.06	RV -2.12	HG -0.09	ACC -3.67	RV -9.94	SZ -6.6
SZ -1.19	ACC -1.6	RON -3.46	TV -4.16	TV -3.18	AG -2.17	TV -4.87	ACC -2.94	RV -0.62	ER -3.69	TV -15.44	TV -7.3
RSK -1.82	RON -2.03	TV -4.61	SZ -6.81	RV -4.46	RON -3.8	ER -5.14	TV -2.96	EG -1.16	PM -3.89	RON -17.47	ER -13.29

ACC	Accruals	HG	Historical Growth	RV	Relative Value
AG	Accelerating Growth	PM	Price Momentum	SZ	Size
CD	Capital Discipline	PR	Price Reversal	TV	Traditional Value
EM	Earnings Momentum	PT	Profits	RON	RiskOn
ER	Earnings Risk	RSK	RiskOff	EG	Expected Growth

Disclosures

Past performance is no guarantee of future results. Any investment contains risk including the risk of total loss. There is no guarantee that an investment or strategy will meet its investment objectives.

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Source of all factor data: Convergence Investment Partners.

No graph, chart, or formula should in and of itself be used to determine which securities to buy or sell.

FACTOR COMPOSITE RESULTS

Factor Composites (factors) are composed of securities in the Russell 3000 Index ranked by Convergence in terms of the identified metrics. Thus, individual stocks appear in multiple composites. No client portfolios are managed to any one factor and all factor results reflect backtested data. Factor composites are not available for direct investment. Factor composite results are measured in terms of their quintile spread return ("spread return"): the difference between the index-weighted average results of the highest ranked 20% less that of the lowest ranked 20%. Higher positive numbers indicate that the factor was more relevant to / indicative of stocks that performed well. Negative results are similarly indicative of factors that could have made effective shorts. Convergence views most factors on an industry group neutral basis where industry group weights are fixed based on the selection universe/index weights.

The Russell 3000 Index measures the performance of the largest 3000 US companies. It is constructed to provide a comprehensive, unbiased, and stable barometer of the broad market and it is reconstituted annually to ensure new and growing equities are reflected. Comparison to any index is for illustrative purposes only and the volatility of the benchmark may be materially different from the volatility of the strategies due to varying degrees of diversification and/or other factors. Index performance returns do not reflect any management fees, transaction costs, or expenses. Indices are unmanaged. You cannot invest directly in an index.