MSCI

FACTOR

Focus: Growth

VALUE SIZE MOMENTUM QUALITY YIELD VOLATILITY GROWTH LIQUIDITY

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Factor focus: Growth

In the realm of investing, a factor is any characteristic that helps explain the long-term risk and return performance of an asset. MSCI Factor Indexes are designed to capture the return of factors which have historically demonstrated excess market returns over the long run.

MSCI Factor Indexes are rules-based, transparent indexes targeting stocks with favorable factor characteristics – as backed by robust academic findings and empirical results – and are designed for simple implementation, replicability, and use for both traditional indexed and active mandates.

Defining Growth

The Growth factor captures company growth prospects using historical earnings, sales and predicted earnings and has been used by active managers as a potential source of alpha. One challenge capturing growth through simple selection models can be the impact of unintended exposure, which demonstrate that assets with high growth may also have high valuations, high volatility, low yield and low quality, which may negatively affect the performance of a portfolio. MSCI's growth target index controls for unintended risks and exposures and extends the concept of growth at a reasonable price (GARP) to seek a reasonable level of volatility, yield and quality.

Growth at a reasonable price (GARP), a concept long employed by growth investors, seeks to avoid paying too much for the potential growth of a stock. The GARP concept can be extended by controlling the level of value exposure—ensuring the long-term premium for growth is not eroded by the unintended and incidental impact of securities with high valuations—i.e. negative exposure to the value factor.

Why investors have used growth strategies

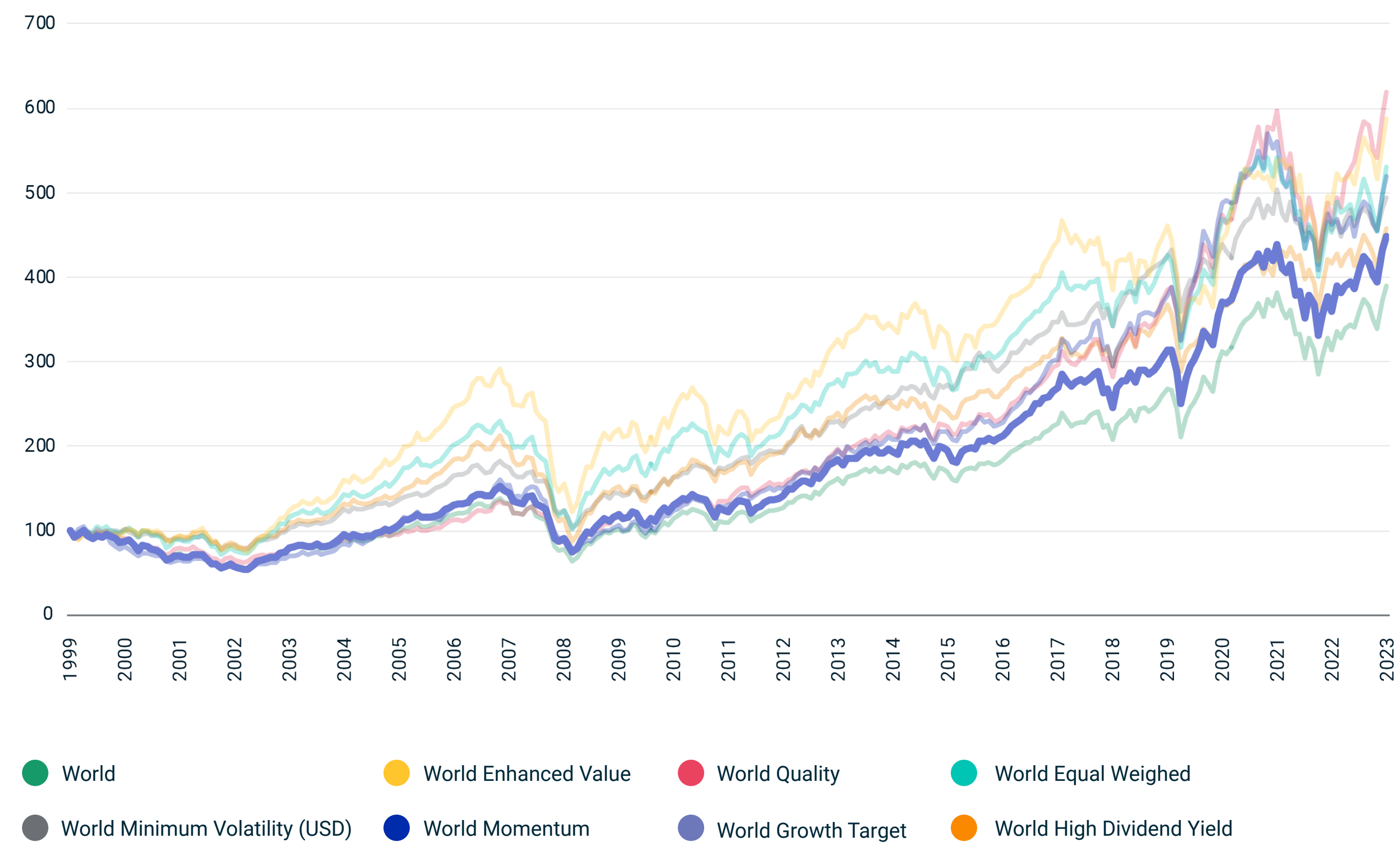
Growth investing, also known as capital growth or capital appreciation, has been a popular investment strategy dating back to the 1950s and is among the most intuitive and widely practiced investment ideas by active managers.

Growth is a recognized investment strategy and has a high explanatory power in risk forecasting, as shown in risk models. The pure growth factor, independent of exposure to other style or industry factors, has shown an attractive long-term return compared to MSCI ACWI Index as well as low or negative correlation with other factors which may help diversify a multi-factor portfolio by reducing short-term cyclicality.

Performance & implementation

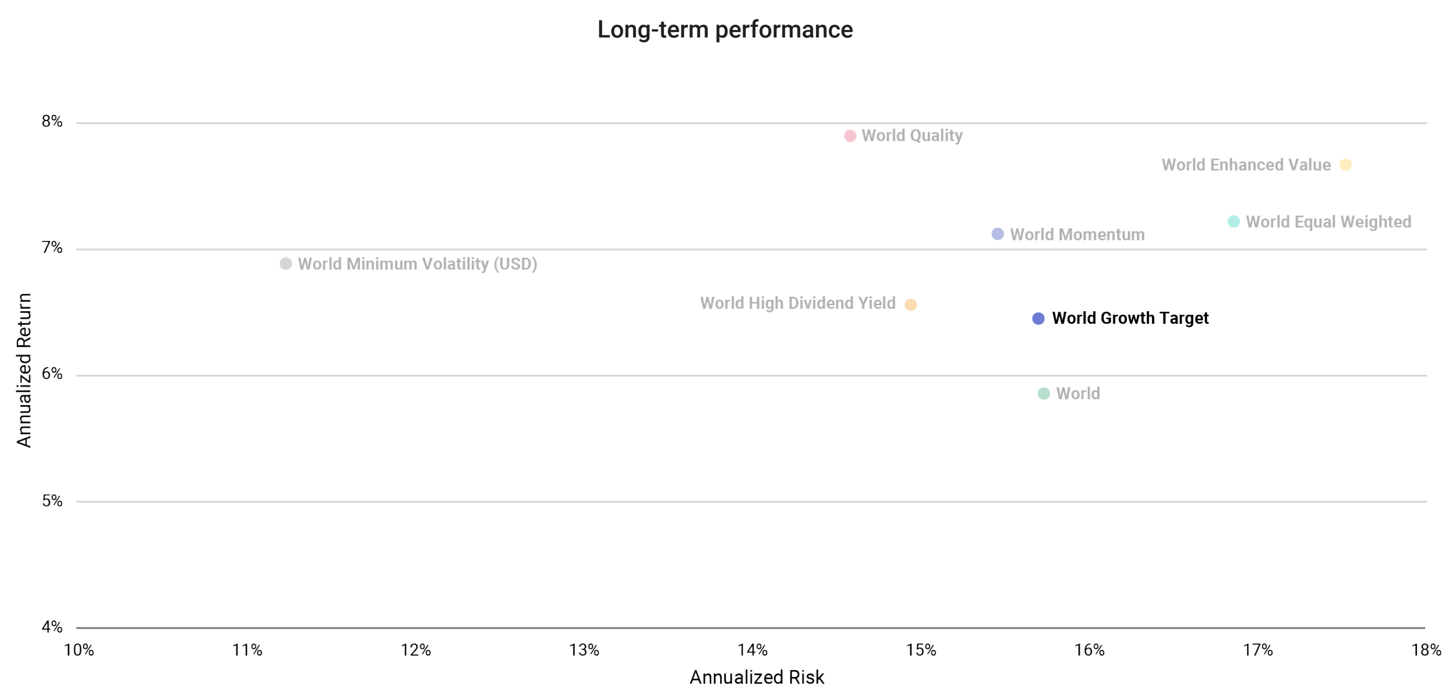
MSCI World Factor Indexes

Over time, individual factors have delivered outperformance relative to the market.



The MSCI World Growth Index has historically generated excess returns over the long run with a 0.6% annual return over the MSCI World Index since 1999 as represented above.

Long-term performance: December 1999 - December 2023



Although factor strategies have exhibited long-term outperformance, in the short-term, factor performance has been cyclical and has generated periods of underperformance.

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How factors have performed relative to each other:

Growth

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
1.5%	-4.5%	-9.6%	56.7%	28.6%	28.4%	31.0%	19.9%	-29.2%	42.0%	18.2%	8.0%
1.2%	-8.0%	-9.8%	50.4%	24.1%	17.2%	28.9%	16.8%	-33.5%	41.9%	16.5%	4.8%
0.3%	-10.0%	-13.6%	40.1%	21.3%	15.2%	22.1%	11.4%	-37.8%	33.8%	12.8%	4.8%
-2.1%	-11.5%	-14.4%	33.8%	20.8%	12.5%	21.8%	10.3%	-39.9%	33.5%	12.3%	4.4%
-10.2%	-12.1%	-15.1%	30.5%	20.0%	10.0%	21.2%	9.6%	-40.3%	31.9%	11.4%	-5.0%
-12.5%	-16.5%	-16.5%	26.0%	19.3%	8.5%	20.7%	7.3%	-41.9%	30.8%	9.3%	-5.4%
-12.9%	-19.4%	-19.4%	25.9%	15.2%	8.3%	19.1%	6.4%	-42.4%	17.2%	9.1%	-9.3%
-18.9%	-20.5%	-19.5%	22.0%	12.7%	6.0%	16.8%	6.1%	-42.6%	14.8%	7.2%	-11.0%

2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
16.7%	32.7%	12.1%	5.8%	10.3%	32.6%	-1.4%	36.7%	28.7%	26.1%	-3.9%	33.0%
16.5%	30.7%	9.0%	4.5%	9.4%	26.6%	-2.4%	28.4%	22.7%	22.3%	-9.2%	24.4%
15.0%	30.3%	7.0%	4.2%	8.9%	26.6%	-5.1%	28.3%	18.1%	20.8%	-9.3%	24.4%
14.8%	27.7%	5.5%	1.2%	8.9%	23.9%	-6.7%	27.4%	16.5%	18.2%	-16.4%	20.3%
14.7%	27.4%	4.6%	-0.3%	8.2%	23.1%	-8.2%	24.5%	10.1%	16.8%	-17.3%	17.3%
13.7%	26.5%	4.6%	-1.0%	8.2%	22.9%	-8.5%	24.3%	3.3%	15.4%	-17.7%	12.2%
13.3%	22.9%	3.4%	-2.4%	5.1%	19.2%	-11.8%	24.0%	1.0%	15.0%	-17.8%	10.1%
8.9%	19.4%	3.3%	-2.7%	4.7%	18.0%	-13.4%	19.8%	-3.3%	14.8%	-21.9%	8.1%

World · World Enhanced Value · World Quality · World Equal Weighed
World Minimum Volatility (USD) · World Momentum · World Growth Target · World High Dividend Yield

The analysis and observations in this report are limited solely to the period of the relevant historical data, backtest or simulation. Past performance — whether actual, back tested or simulated — is no indication or guarantee of future performance. None of the information or analysis herein is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision or asset allocation and should not be relied on as such. The time periods covered in the charts in this paper were dictated by the data available when we conducted the simulations which produced them. There are frequently material differences between backtested or simulated performance results and actual results subsequently achieved by any investment strategy.

Conclusion

Growth stocks can be defined as companies that are expected to grow sales, earnings or margins above average compared to their industry or the market. The growth factor can benefit a multi-factor portfolio by reducing short-term cyclicality offering asset managers diversification and a persistent source of premia. MSCI created the Growth Target Index, based on Barra GEMLT descriptors, using an optimization approach to capture the growth factor while constraining unintended exposures that may detract from the growth premium.

Learn more about Factor Investing at
www.msci.com/factor-investing

About MSCI Inc.

MSCI is a leading provider of critical decision support tools and services for the global investment community. With over 50 years of expertise in research, data and technology, we power better investment decisions by enabling clients to understand and analyze key drivers of risk and return and confidently build more effective portfolios. We create industry-leading research-enhanced solutions that clients use to gain insight into and improve transparency across the investment process.

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