



## **“Combination of factors leads to outperformance”**

David Bakkegaard Karsbøl, Fund Manager and Chief Statelist, Sparinvest

### **Long term, most active fund managers fail to beat their benchmark. You claim that your intelligent Quant Funds are able to outperform the market systematically. What is the secret of your success?**

The secret is to be exposed to several factors at a time. No single factor can perform continuously. But if one doesn't work, the others do. The correlation between the factors is low. In the long term, the combination of factors leads to outperformance.

### **There are dozens of different factors. Which ones do you use?**

At Sparinvest we are value investors. That is our DNA. So one important factor is valuation. You can define value as paying as little as possible for investments that should be priced a lot higher. We use the price to book ratio. The second factor is size. Small and mid-cap stocks tend to outperform. That doesn't mean they always outperform. The same is true for our third factor, which is momentum. If you buy the stocks with the strongest recent upwards price momentum, they tend to continue to outperform the market in the next few months. We try to make sure that all of these factors are present in each investment. The cumulative effects of these 3 tilts are enough to outperform the benchmark.

### **How big was your outperformance during the last years?**

Since 2010, we have consistently outperformed our benchmark – MSCI World – by around two percent per year. For investors looking for a much bigger outperformance, our fund is the wrong product.

### **Why is that?**

Due to its broad diversification, the fund will not diverge a lot from the benchmark. In our equity fund we have 800 positions. That's a big difference when compared to conventional value funds with very concentrated portfolios. They can diverge a lot from the benchmark.

### **The management of 800 positions sounds like a lot of work.**

It definitely is. By using our three factors we try to filter the best stocks out of many thousands. Even if we use computers, they don't do the job by themselves. We have to feed them with a lot of data and knowledge and interpret the results right.

### **How does your fund perform in extreme surroundings, like 2008?**

During the financial crisis in 2008, factor investing did not work so well. The reason is that large caps, which are underweighted in such funds, had easier access to financing. But 2008 was a disruptive, one-off event. This is not going to happen again in our lifetime.

### **Why are you so sure?**

Because everybody is afraid of it. As long as the financial crisis is in the minds of the investors, they will not create another one. And people will remember 2008 for a long time.

David Bakkegaard Karsbøl holds a master of science degree in economics from the University of Copenhagen. He joined Sparinvest in 2013 as Chief Strategist and is responsible for the company's six blend funds with total AuM of approximately 570 million EUR. From 2003 to 2012 he worked as Chief Economist at Saxo Bank and also as the Chief Investment Officer at Saxo Privatbank.



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*Projected returns are indicated before charges and based on current yield levels taking the historic default and recovery rates experienced by running the strategy.*

*Past performance is no guarantee for future performance.*