Marketing Material
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Market Neutral Opportunities in Europe.

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After years of outflows from active directional and market-neutral funds in Europe, market inefficiencies abound, particularly in small and mid-cap segments. The concentration of investors in passive investments and European mega-caps leaves a wide array of attractive stock-picking opportunities underappreciated. After a strong start of the year for market-neutral investment approaches, we believe the opportunity set remains very compelling.

The Normalisation of Rates Leads to the Repricing of Shorts

While the zero-rate environment and quantitative easing had led to easy financing of many unprofitable companies, boosting inflows into speculative stocks, the rate normalisation of the last two years is leading to a re-pricing of low-quality firms in 2024. Slower growth expectations and more expensive refinancing lead investors to question the sustainability of high valuations for many growth stocks.

In this context, we see our short single-name strategies deliver strong alpha, names we short strongly underperforming the MSCI Europe index.

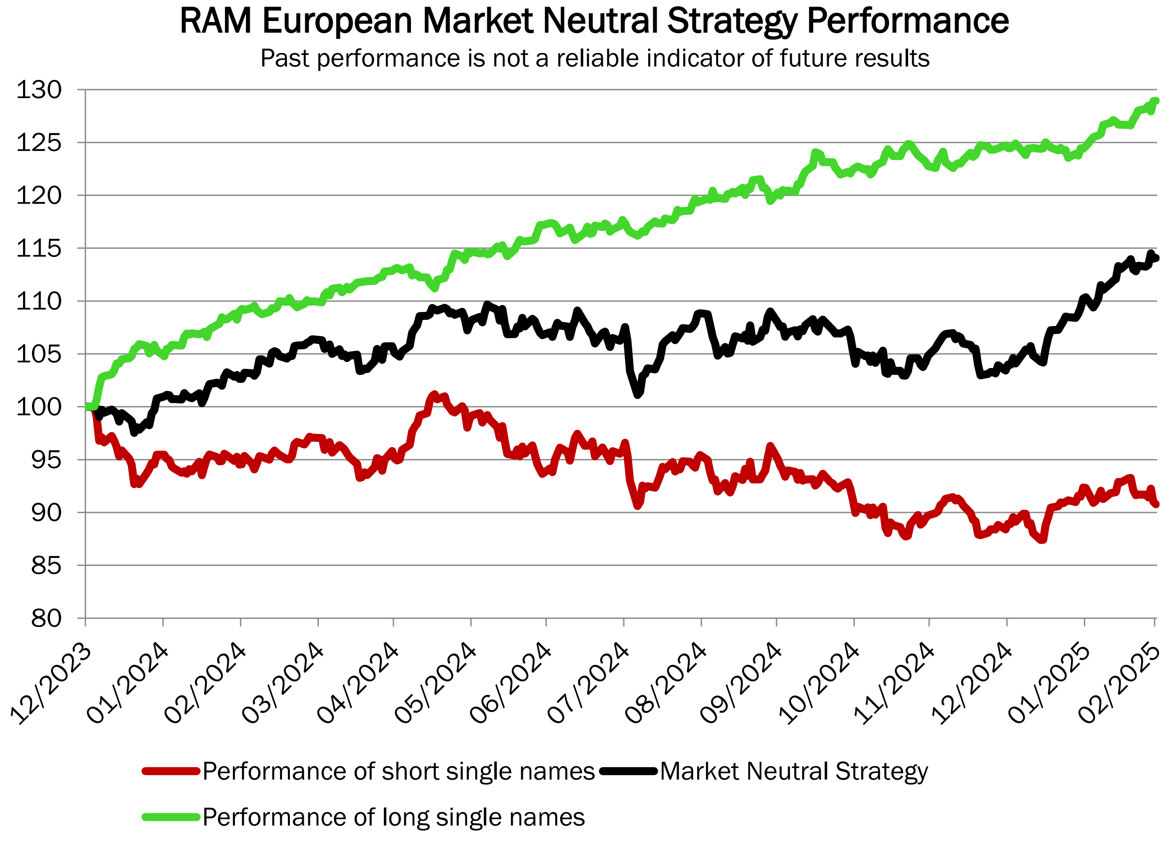

Figure 1. Source: RAM Active Investments, data as of 28.02.2025. Performance is gross of fees.

Dispersion of Valuations Remains Elevated

2024 ended with a significant level of valuation dispersion in Europe, with a high spread in the valuation of companies across the continent. It was particularly evident in the small and mid-cap stock universes, which were, in many ways, left behind by the flows towards passive investments in the last years.

We still witness a high spread of valuations across companies in Europe, with value opportunities abounding. The spread of Earnings Yield between top and bottom quintile valuation names is currently around 12.5%, at levels comparable to 2001 or 2010, after which we saw historically strong valuation convergence and performance of fundamental market-neutral approaches. We would argue that the concentration of investors into passive and the large outflows from market-neutral asset classes have left very few players actively playing these relative value opportunities (outside of mega-caps), explaining the current high degree of market inefficiency.

The phenomenon is not limited to European markets. An analysis of current valuation-led inefficiencies in the US is documented in '[The Less-Efficient Market Hypothesis]' recently published by Clif Asness at AQR Capital Management, LLC.

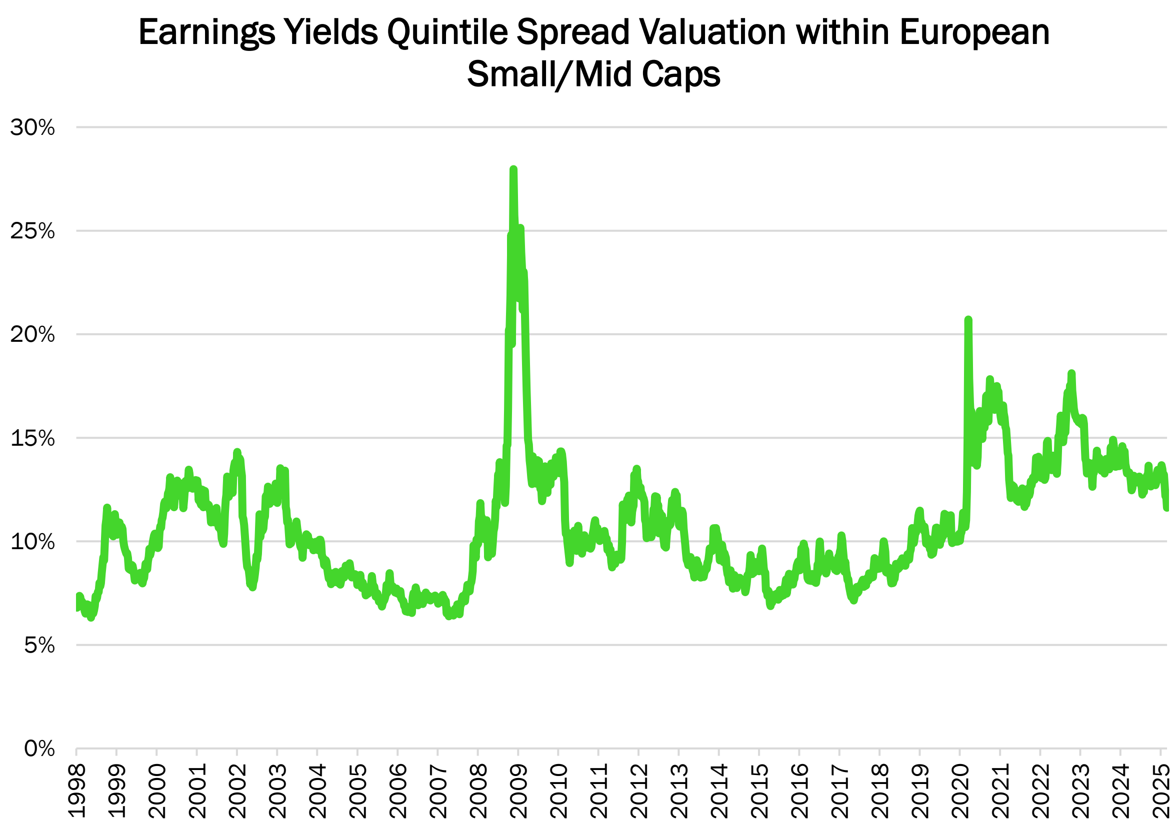

Figure 2. Source: RAM Active Investments, Factset Fundamentals, data as of 28.02.2025.

Low Levels of Shorting in Europe Still

We think that part of the explanation for the current heightened inefficiency in European markets lies in the historically low presence of single-name short-sellers. After the repeated short coverings we observed since COVID-19 and the retail speculative attacks on shorts since then (see The Short Tantrum), many hedge funds have capitulated on single-name short selling.

Despite the strong performance of fundamentally led single-name shorts since the beginning of the year, the level of short-selling in the market remains historically low. Bank of America estimates that current balances on short single names are just around 1.4% of the European market capitalisation (cf. fig. 2), when it previously hovered between 2-3%.

Figure 3. Source: Bank of America Short Analytics, Markit, Bloomberg, data as of 31.08.2024

Enhancements of the RAM European Market Neutral Strategy since COVID-19

Our research team has worked hard in recent years to look for robust ways to enhance the risk-adjusted returns of our RAM European Market Neutral strategy. Our objective was to make the strategy more immune to large adverse exogeneous, unpredictable shocks like COVID-19 and Pfizer's vaccine announcements in 2020.

Frequency Diversification

Since 2021, we have diversified frequencies in our market-neutral strategies. We deployed statistical arbitrage engines exploiting short-term price-based inefficiencies, typically with a daily horizon, complementing our longer-term investment strategies and increasing our long-term Sharpe objective.

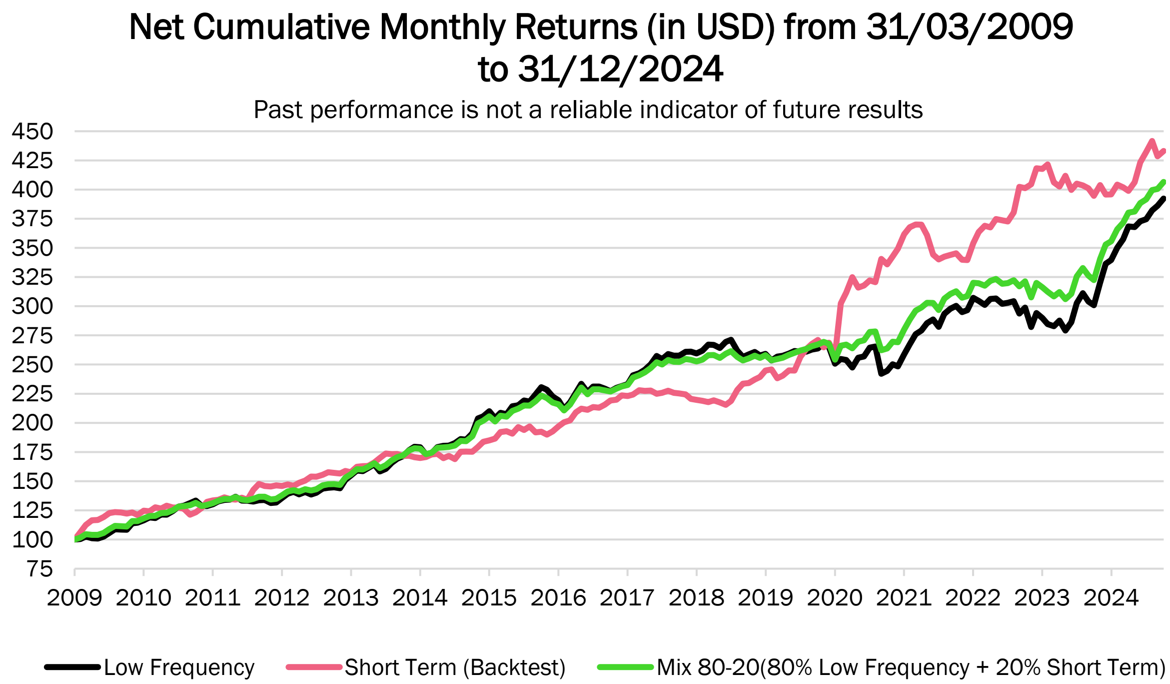

Figure 4. Net cumulative performance (in USD) of RAM AI's low-frequency, short-term and combined long-short European strategies. Source: RAM Active Investments.

	Return	Volatility	Sharpe Ratio	Downside Volatility	Ratio Return to Downside Volatility	Max Drawdown	Max Drawdown Trough Date	One-way Monthly Turnover (%/NAV)
Low Frequency	9.0%	7.5%	1.0	7.4%	1.2	-10.7%	30/11/2020	80%
Mid Frequency	9.6%	7.9%	1.0	4.4%	2.2	-8.3%	28/02/2022	370%
Mix 80-20	9.1%	6.1%	1.23	5.2%	1.8	-5.8%	30/11/2020	138%

Figure 5. Annualised Descriptive statistics (based on USD returns) of RAM AI's low-frequency, short-term and combined long-short European strategies.

Tail Risk Minimisation

After the COVID-19 tail events, we developed a custom tail optimisation process that minimises the correlation risk in tail events for the strategy's current model portfolio. This process mitigates the portfolio's momentum and style biases to minimise the downside in extreme market conditions.

The optimised book is, hence, more resilient to adverse rotational shocks like the ones experienced during COVID-19, which enhances our Sharpe ratio over the long run and reduces the expected maximum drawdown for the strategy.

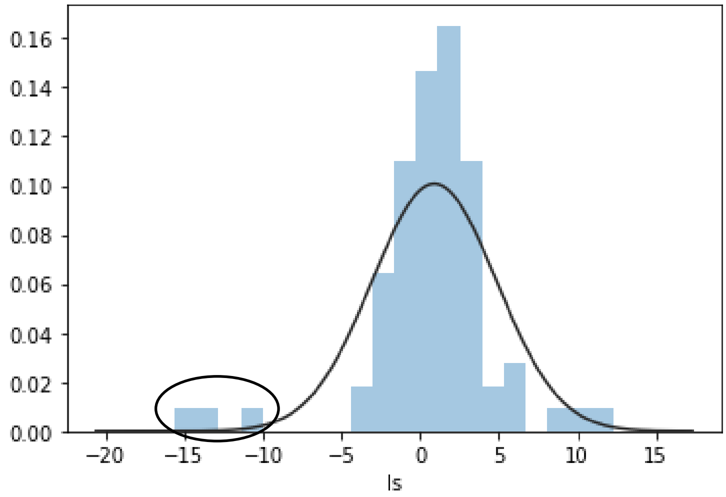

Figure 6: Left tail in the return profile of a long/short momentum strategy.

New Sentiment Inputs

Since 2020, we have strongly broadened the scope of information we have on stocks by integrating new unstructured text inputs into our return prediction models.

In recent years, there has been an incredible surge in the development of new Large Language Models (LLMs) in the open-source space. Some of these models are very good while being small enough to be fine-tuned on our own compute infrastructure. We fine-tune these into expert models to extract more valuable insights from news-flow on companies and earnings announcement transcripts.

There are thousands of news on the stocks in our investable universe every day and getting the information from these news systematically into our process is a strong value-added. Our investment process can integrate these news days before analysts revise revenue or earnings estimates on the stocks, so it helps us integrate the information from new events on companies much faster (product announcements, guidance, management change, etc.).

We also use LLMs to extract information from earnings announcement transcripts and Q&A sessions with analysts. The sentiment of analysts and management during the Q&A often carries more information than the presentation, which is often very 'polished.'

Long-Term Alpha Capture

The COVID-19 pandemic led to a bubble in certain segments of the growth universe, driven by easy financing and elevated growth expectations. This environment significantly impacted fundamental-based market-neutral strategies but has also created new opportunities within the asset class. We believe we are now seeing signs of a market reversal and that over the long-term, market-neutral strategies will offer strong risk-adjusted returns and important diversification in a concentrated market.

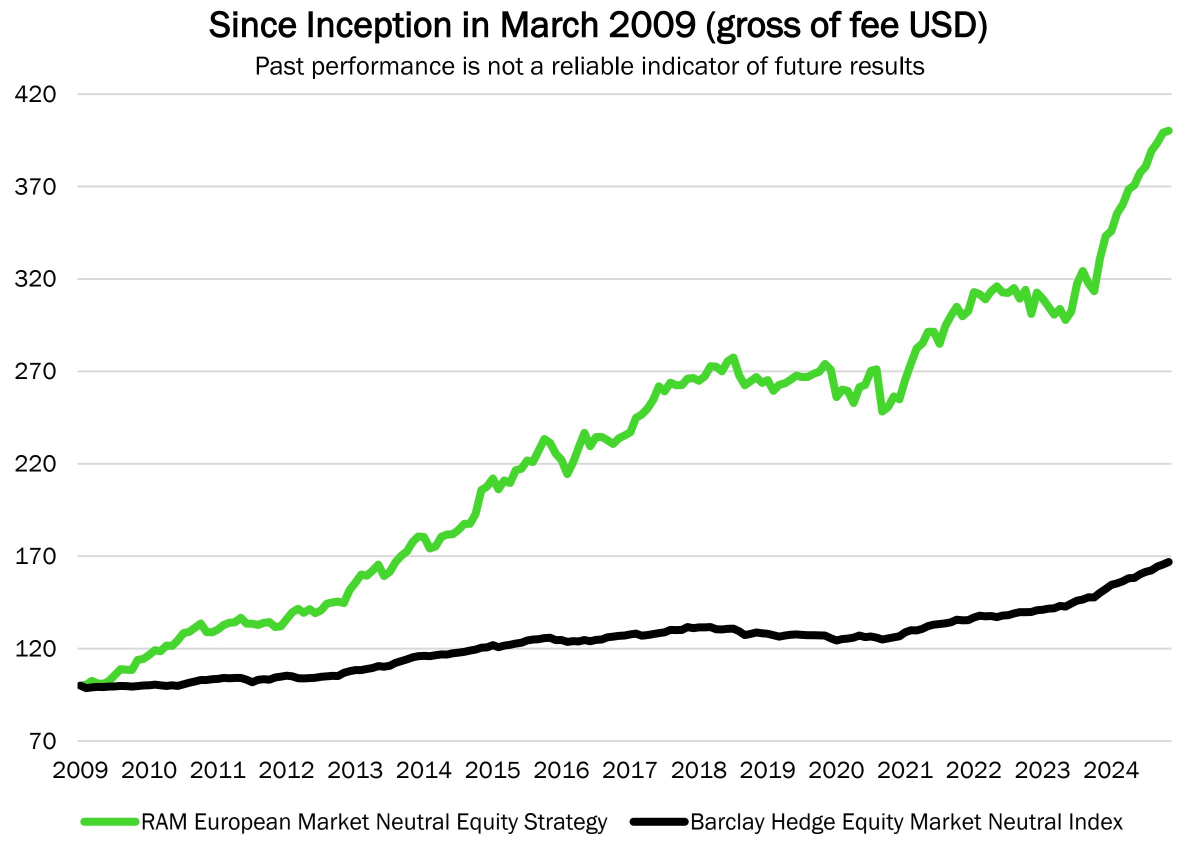

Figure 7. Source: RAM Active Investments, Bloomberg Fundamentals, data as of 31.01.2025.

The strategy combination of steady annualised returns and low volatility offers investors a compelling risk-reward profile (in USD).

Statistics Since Inception	RAM European Market Neutral Equity
Annualised Return (USD)	9.34%
Annualised Volatility	7.12%
Max Drawdown	-10.52%
Sharpe Ratio	1.14

Figure 8. Source: RAM Active Investments, FactSet Fundamentals, data as of 28.02.2025.

Over the long-term, the non-linear interaction of fundamental, technical, liquidity and alternative inefficiencies in the stocks we trade helps us capture strong fundamental long and short opportunities with optimal timing.

Fundamental	Fund Long	Fund Short	Index
Dividend yield	3.28%	2.78%	3.10%
Free cash flow yield	10.96%	2.19%	3.85%
Price/book	1.95	1.83	1.78
Price/earnings	15.70	32.82	17.99
Return on equity	12.53%	7.36%	12.75%

Fig. 9 Source: RAM Active Investments, Factset Fundamentals, data as of 28.02.2025.

The strategy has achieved an 8.39% alpha since inception, highlighting its capacity to produce returns that are independent of market trends. With near-zero beta and a negative capture ratio, the strategy offers a solution for investors looking for performance that is uncorrelated to the market.

Statistics Since Inception (in USD)	RAM European Market Neutral Equity
Alpha	8.39%
Beta (MSCI World)	-0.02

Fig. 10 Source: RAM Active Investments, Factset Fundamentals, data as of 28.02.2025.

Disclaimer

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