



## Webinar:

Introducing the Wolfe QES US Broad Equity Model  
In Omega Point

Thursday June 11, 2020

# Today's Presenters



**Hallie Martin**

Head of Risk and Investment  
Solutions, Wolfe Research



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CEO & Co-Founder, Omega Point

# Today's Agenda

- Wolfe QES's Next Generation Factors
- What Is a Stock's "Exposure" to a Factor?
- Hedge Fund Crowding & Short Interest Factors
- Analysis of Hedge Fund 13F Portfolios

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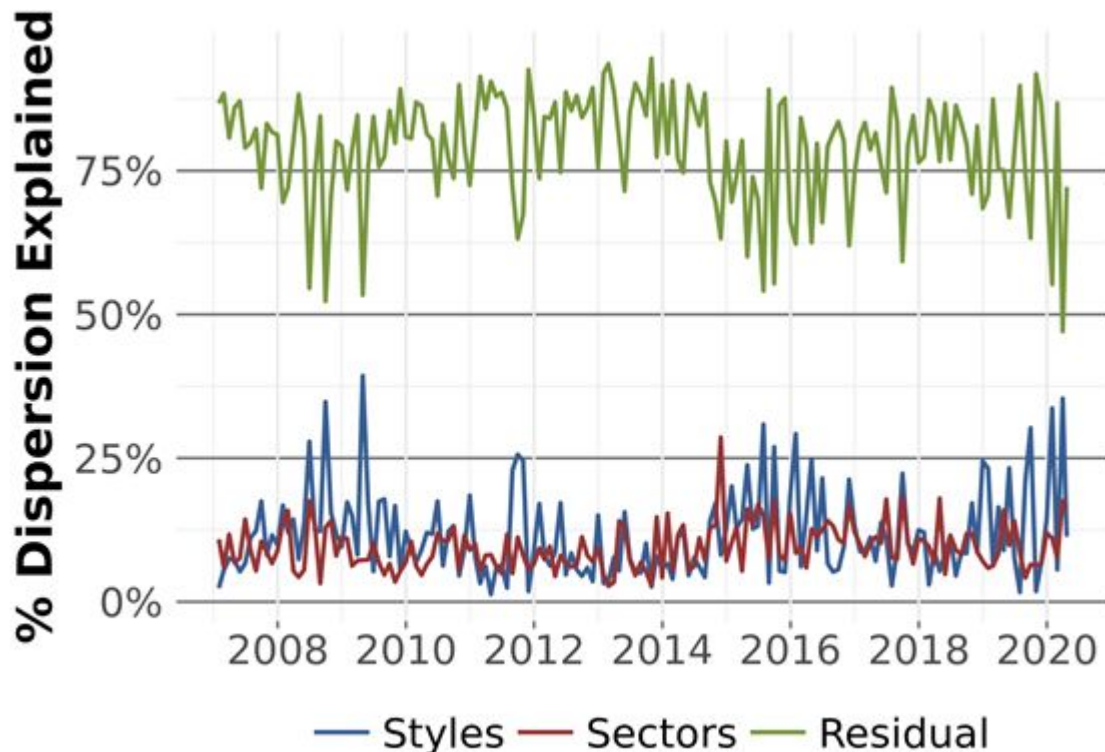
# NEXT GENERATION FACTORS

# Next Generation Factors

## Factors & Descriptions

QES Factor Name	Signal Description
Earnings Yield	Next 12-month median consensus EPS divided by current share price.
Book-to-Price	Ratio of book value of equity to market value of equity.
Growth	Combination of mean consensus EPS growth and sales growth over the next 12-months.
Revisions	Combination of 3M changes in mean consensus EPS and Sales over next 12-months.
Profitability	Combination of trailing ROE and ROA.
Leverage	Combination of total debt to stockholders' equity and total debt to total capital at market value.
Dividend Yield	Ratio of trailing 12M dividend per share divided by current share price.
Momentum 12M-1M	Total return of the past 12M excluding the most recent 1M.
Volatility	Realized volatility, based on daily returns over the past 12M.
Size	Market capitalization, common shares outstanding multiplied by the current share price.
Liquidity	Notional value traded over the past 20 trading days divided by the market capitalization.
Interest Rates	Beta to interest rate changes for US Treasuries approximately equivalent to the 10Y.
Oil Prices	Beta to weekly return of crude oil WTI Futures TR after controlling for market beta.
HF Crowding	Combination of hedge fund intensity (% of float) and level (market value) based on 13F filings.
Short Interest	Ratio of shares borrowed for shorting to inventory available for lending.
QES Industries	Binary one or zero values identifying each stock's QES Industry classification

# Next Generation Factors

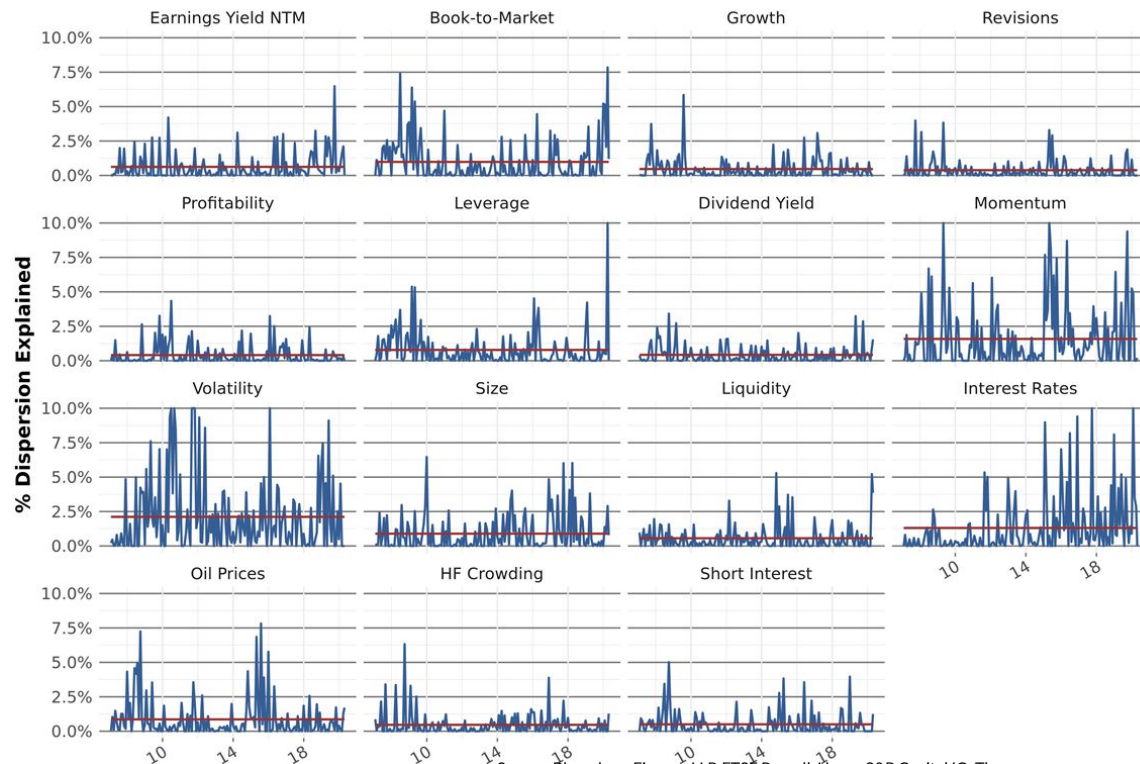


- We analyze the opportunity set to measure the explanatory power of our model. The opportunity set is the long-short portfolio signal-weighted by the 1M forward return of stocks in the risk estimation universe.

Source: Bloomberg Finance LLP, FTSE Russell, Haver, S&P Capital IQ, Thomson Reuters, Wolfe Research Luo's QES

Source: Wolfe Research, QES Risk & Investment Solutions, Hallie Martin.

# Next Generation Factors



Source: Bloomberg Finance LLP, FTSE Russell, Haver, S&P Capital IQ, Thomson Reuters, Wolfe Research Luo's QES

- Next generation factors Interest Rates, Oil Prices, HF Crowding, and Short Interest all explained significant US Equity return dispersion in the post-Global Financial Crisis time period.

# What Is a Stock's Exposure to a Factor?

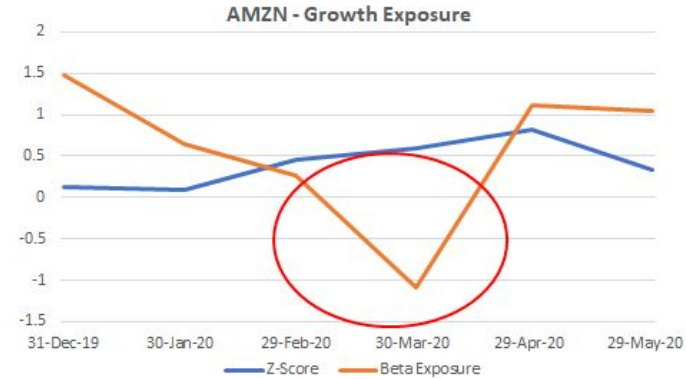
- Conventional models **z-score** raw factor signals within the risk estimation universe to estimate the exposure of stock to a factor. However this metric does not measure the statistical relationship between stock returns and factor returns.
- Wolfe QES risk models use z-scores to construct factor portfolios, but then we estimate the **regression betas** of stock returns to factor portfolio returns.
- Our stock exposures are then **75% regression beta + 25% z-score** within the risk estimation universe, reflecting the statistical relationship between stock and factor returns.
- Wolfe QES models also **cover stocks outside the risk estimation universe**, in this case exposure reflect 100% regression beta. This allows us to measure exposure of non-US stocks to US factors.



# What Is a Stock's Exposure to a Factor?



Source: Bloomberg Finance LLP, FTSE Russell, Haver, S&P Capital IQ, Thomson Reuters, Wolfe Research Luo's QES



Source: Bloomberg Finance LLP, FTSE Russell, Haver, S&P Capital IQ, Thomson Reuters, Wolfe Research Luo's QES

- AMZN has a consistently positive z-score to Growth metrics, however stock returns had negative beta to the factor returns in March 2020.

# Hedge Fund Crowding & Short Interest Factors

- **Hedge Fund Crowding** is constructed using quarterly 13F-based signals and is a composite of Intensity (% float owned by HFs) and Level (total notional \$ owned by HFs).
- **Short Interest** is constructed using daily securities lending data aggregated from broker-dealers by Markit. Specifically, the signal is utilization which measures shorts outstanding relative to available inventory.
- Both factors moved very significantly on a **broad hedge fund de-risking in mid-March** which saw HF Crowding drop as PMs sold popular longs and Short Interest rally as PMs covered popular shorts.
- Short Interest performance is currently stretched to the upside as **popular shorts are a pain trade in the risk rally**.

# Measuring Crowding and Short Interest for A Broader Universe

Jun 8, 2020

Country is not in [US]

Average Daily Volume > 5000000

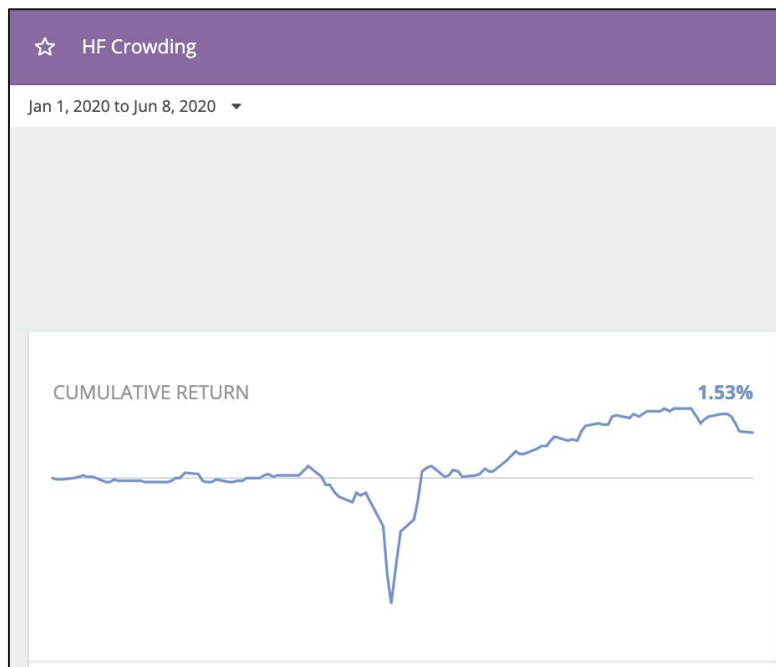
Market Cap > 5000000000

HF Crowding Exposure > 2

ADD UNIVERSE ADD FILTER

<div>Sector</div> <div> <input type="checkbox"/> Banks (125)  <input type="checkbox"/> Real Estate Management &amp; Development (50)  <input type="checkbox"/> Insurance (43)  <input type="checkbox"/> Capital Markets (40)  <input type="checkbox"/> Metals &amp; Mining (39)  <a href="#">SEE MORE</a> </div> <div>Country</div> <div> <input type="checkbox"/> China (283)  <input type="checkbox"/> Japan (104)  <input type="checkbox"/> Canada (50)  <input type="checkbox"/> Thailand (43)  <input type="checkbox"/> Taiwan (39)  <a href="#">SEE MORE</a> </div> <div>Currency</div>	Found 903 securities							COLUMNS
		DESCRIPTORS		RISK			EXPOSURE	
	ID	Mkt Cap	ADV	Total	Factor	Specific	↓ HF Crowding	Short Interest
	<input type="checkbox"/> MNG GB	5.64 B	24.31 M	68.41%	66.06%	33.94%	4.82	2.41
	<input type="checkbox"/> COV FR	7.60 B	22.56 M	61.21%	59.43%	40.57%	4.80	0.92
	<input type="checkbox"/> 002185 CN	5.33 B	451.40 M	52.04%	36.46%	63.54%	4.77	1.43
	<input type="checkbox"/> AVST GB	6.10 B	17.12 M	50.43%	45.01%	54.99%	4.75	0.91
	<input type="checkbox"/> CIMB MY	9.25 B	25.74 M	42.69%	46.94%	53.06%	4.68	1.00
	<input type="checkbox"/> RENT3 BR	6.67 B	82.64 M	70.83%	62.91%	37.09%	4.67	1.39
	<input type="checkbox"/> CNP FR	9.71 B	13.33 M	69.45%	69.13%	30.87%	4.65	0.76
	<input type="checkbox"/> ELI BE	7.60 B	23.71 M	46.60%	52.54%	47.46%	4.61	0.07
	<input type="checkbox"/> A011170 KR	5.55 B	35.06 M	48.72%	35.48%	64.52%	4.61	-0.22
	<input type="checkbox"/> FAB AE	34.90 B	10.41 M	50.49%	58.36%	41.64%	4.61	1.02
	<input type="checkbox"/> SCR FR	5.63 B	27.19 M	56.39%	58.44%	41.56%	4.58	2.69

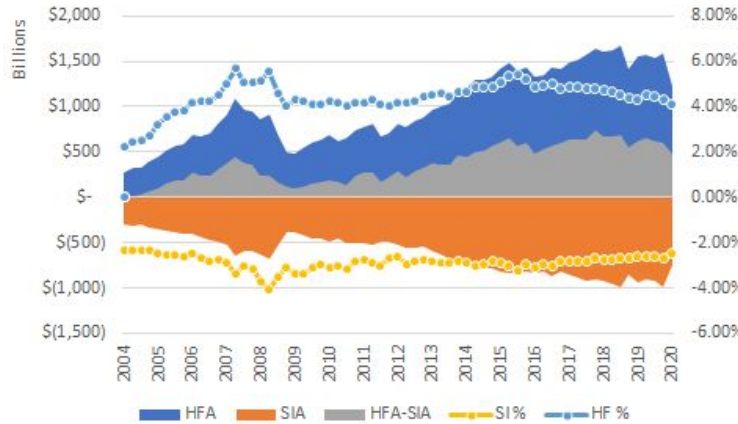
# Hedge Fund Crowding & Short Interest Factor Returns



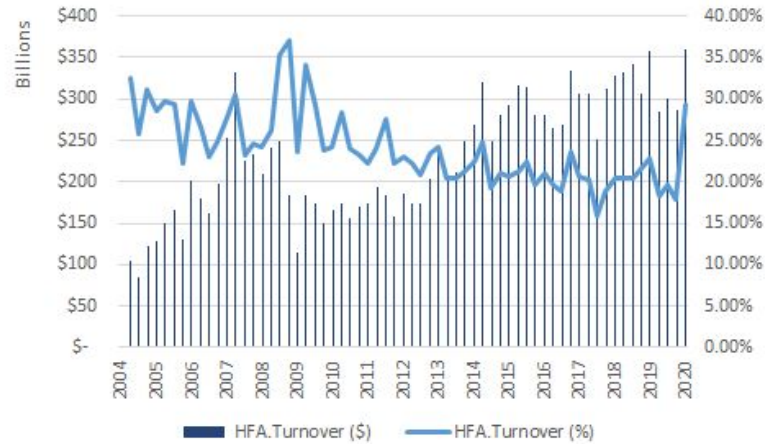
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# ANALYSIS OF HEDGE FUND 13F PORTFOLIOS

# Analysis of Hedge Fund 13F Portfolios



Source: Bloomberg Finance LLP, FTSE Russell, Haver, S&P Capital IQ, Thomson Reuters, Factset, Wolfe Research Luo's QES



Source: Bloomberg Finance LLP, FTSE Russell, Haver, S&P Capital IQ, Thomson Reuters, Factset, Wolfe Research Luo's QES

- We also analyze the Hedge Fund Aggregate portfolio, which weights stocks by total notional invested across all 13F hedge fund portfolios.
- 13F filings and short interest data suggest a reduction in gross notional by Equity L/S, consistent with moves in our Hedge Fund Crowding and Short Interest factors in mid-March.

# Recent Sector Exposures of the 13F Portfolio

As of Mar 31, 2020

11 Sectors Sector ↓

% Risk

Name	Active % Equity	▼ Active
< TOTAL	-	9.81
Consumer Discret...	3.09	21.03
Health Care	1.87	17.12
Industrials	3.22	15.08
Information Tech...	-5.76	12.36
Communication S...	1.08	8.38
Consumer Staples	-3.19	5.72
Energy	0.96	5.64
Financials	-1.17	4.56
Real Estate	0.17	4.47
Materials	0.81	3.16
Utilities	-0.62	2.54

As of Jun 8, 2020

11 Sectors Sector ↓

% Risk

Name	Active % Equity	▼ Active
< TOTAL	-	12.30
Consumer Discret...	4.34	27.71
Industrials	3.01	17.08
Energy	2.18	13.44
Health Care	0.97	13.20
Communication S...	0.68	6.95
Information Tech...	-6.85	6.54
Real Estate	0.18	4.62
Materials	0.77	3.47
Consumer Staples	-2.86	3.21
Financials	-1.55	2.91
Utilities	-0.68	1.28

# Style Factors Have Explained Most of The Hedge Fund 13F Recent Active Volatility

Risk Contributors		
As of Mar 31, 2020		
		% Risk. (Active)
FACTORS	>	92.97
Style	>	84.67
Industry	>	8.30 ▲

Risk Contributors		
As of Jun 8, 2020		
		% Risk. (Active)
FACTORS	>	95.14 ▲
Style	>	90.68 ▲
Industry	>	4.46 ▼



# And Have Driven Most of the Hedge Fund 13F's Active Returns...



Active Returns Measured vs The SP500 Benchmark

# Short Interest Second Highest Performing Factor Since COVID

Biggest Movers		3M		
Mar 8, 2020 - Jun 8, 2020				
Winners		Losers		
Volatility	12.41%	Revisions	-5.13%	
Short Interest	5.18%	Momentum (12M-1M)	-4.57%	
Profitability	3.94%	Leverage	-3.46%	
Book to Price	2.90%	Oil Beta	-3.22%	
HF Crowding	2.15%	Dividend Yld	-2.60%	
Interest Rate Beta	1.81%	Liquidity	-0.82%	
Earnings Yld	1.19%			
Size (MktCap)	1.19%			
Growth	0.74%			

# Current Highest Exposures To Short Interest

Daily Style Exposures																	
Jun 8, 2020																	
	DESCRIPTORS			FACTORS													
	Pos Size	% GMV	Book to Price	Dividend Yld	Earnings Yld	Growth	Leverage	Liquidity	Moment. (12M-1M)	Profitability	HF Crowding	Oil	▼ Short Interest	Interest Rate Beta	Revisions	Size (MktCap)	Volatility
▼ LONG	\$1.923 M	100.00%	-0.30	-0.20	-0.29	0.26	-0.08	0.09	0.28	0.18	0.81	0	-0.15	-0.10	0.10	0.81	-0.29
VAL	\$1.867 K	0.10%	4.91	-4.89	-5.00	4.96	5.00	-0.81	-5.00	-3.92	2.21	3	5.00	3.61	4.97	-4.56	4.51
XOG	50.046527...	0.00%	4.90	-3.71	-2.45	1.76	1.71	1.08	-4.90	-4.25	3.97	4	5.00	1.23	4.96	-3.60	4.56
CHK	33.744728...	0.00%	4.31	-2.84	-4.43	4.43	4.98	-4.93	-4.97	-1.94	2.37	0	5.00	4.76	4.99	-1.45	4.73
WLL	173.23783...	0.01%	-2.27	-4.93	-4.33	4.51	4.97	4.92	-4.81	5.00	-1.80	-1	5.00	4.51	4.89	-4.14	4.63
WPG	29.372559...	0.00%	2.03	2.50	-4.79	-0.21	3.41	1.33	-4.12	3.42	-1.65	-0	5.00	0.71	0.93	-3.52	3.84
NE	158.16260...	0.01%	3.11	-1.10	-5.00	0.43	5.00	-0.11	-4.82	-4.87	-3.02	1	5.00	2.72	4.15	-3.44	3.69
JCPNQ	49.708815...	0.00%	3.86	-2.95	-4.20	3.51	4.94	-2.81	-4.91	0.40	1.40	-2	5.00	1.22	5.00	-2.96	4.25
OAS	742.12071...	0.04%	-4.00	-3.34	-4.99	4.98	5.00	-4.95	-4.96	4.96	3.80	4	5.00	4.99	2.68	-1.96	4.31
UNTCQ	2.1812798...	0.00%	4.95	0.79	-4.51	2.94	1.86	2.84	-4.89	-5.00	4.21	4	5.00	1.49	3.10	-2.55	2.72
HTZ	\$1.051 K	0.05%	2.38	-1.94	-4.99	5.00	5.00	-0.66	-4.95	-1.77	1.71	2	5.00	3.06	2.79	-4.53	3.12
CHAP	118.21525...	0.01%	4.69	-2.81	-4.05	4.98	2.67	-2.94	-3.84	-0.93	2.35	4	5.00	-0.60	2.09	-0.72	1.75
RNET	14.037011...	0.00%	0.59	-4.03	-4.67	-1.76	4.98	2.73	-4.41	3.96	-2.31	-3	5.00	-1.14	2.93	-3.28	2.78
CPE	\$1.042 K	0.05%	1.28	-4.77	-4.45	4.97	5.00	4.70	-4.72	4.99	-3.24	3	5.00	3.83	2.47	-3.06	3.38
NBR	544.33963...	0.03%	4.80	-4.59	-4.98	1.89	2.47	-1.87	-3.89	-4.21	-4.88	4	5.00	2.86	0.02	-2.58	3.08
MDRIQ	190.97041...	0.01%	3.21	-3.81	4.64	2.26	-1.25	4.02	-4.78	-2.98	1.72	-1	5.00	1.58	5.00	1.69	1.53
WTRH	5.6954184...	0.00%	-2.28	-4.98	4.98	4.98	-5.00	4.38	-1.65	4.87	-5.00	-4	5.00	1.79	4.97	-3.22	0.37
MIK	613.58935...	0.03%	0.24	0.39	2.18	-0.90	4.61	4.61	-4.15	4.92	0.58	0	5.00	1.27	4.65	-1.09	4.11
SDRL	157.70661...	0.01%	2.61	-2.44	-2.40	3.86	5.00	0.96	-3.05	-1.95	-3.44	1	5.00	1.71	5.00	0.05	4.05
CRC	221.65805...	0.01%	-2.36	-4.70	-2.46	0.15	4.98	4.15	-2.01	-2.52	-4.70	4	4.99	1.85	-0.84	-4.61	2.46
RTW	10.738217...	0.00%	-2.52	-3.06	3.66	-1.34	-0.06	2.80	-0.13	5.00	2.38	0	4.99	-0.97	5.00	-0.44	4.50
PEI	17.692280...	0.00%	3.56	4.87	-4.68	4.63	2.31	2.15	-3.27	3.80	-0.14	3	4.99	1.10	4.27	-4.76	3.88

# Key Takeaways

- Wolfe Research & Omega Point have partnered to provide a unique lens on risk across global equity portfolios using next generation factors.
- In addition to standard z-scores, Wolfe QES's exposure methodology incorporates the actual betas of stocks to factors. This methodology also enables coverage of stocks outside the risk universe.
- Style factors have recently contributed significant risk and return in 13F-based Hedge Fund portfolios.
- Coming next... Wolfe QES's sector risk models

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