

Nomura Launches Fundamental Index Global Equity Fund

In the aftermath of the credit crunch a number of commentators have highlighted the need for pension funds to increase their manager/strategy diversification, and hence reduce their risk profile, whilst continuing the pursuit of alpha. In this context the growing awareness of the benefits of fundamental indices over market cap-orientated ones has inclined us to launch a new Global Equity Fund that will adopt this methodology.

What is a “Fundamental Index”?

Essentially it's a methodology for creating and weighting an index of securities using fundamental measures of a company's size and economic footprint rather than the conventional market capitalisation basis. It's based on a belief that markets are not perfectly efficient and that pricing errors lead to a substantial performance drag for cap-weighted portfolios. In essence, it avoids overweighting overvalued stocks and underweighting undervalued stocks and, as you might suspect, an enormous amount of work has gone into testing the belief. Broadly speaking the results of such work have shown that the concept has worked over a variety of time periods and virtually all markets.

Nomura has been an early mover in linking equity management to the indices that have been created and has partnered with Research Affiliates in the US to manage this new fund and a number of others. Currently we have some \$2.7bn under management and notable success in delivering alpha.

In short, we see the attractions of this strategy as:

- **Offering a low cost alpha advantage (average of 200bps out performance)**
- **Greater diversification away from traditional market capitalisation practices**
- **An ability to accommodate large pools of assets**
- **Wide ranging stock diversification from a 1500 stock portfolio**
- **Low turnover and fees as the strategy is essentially passive**

The fund was launched in December 2008 in our Dublin fund range, an ideal platform to access the concept of Fundamental Indices within the regulatory comfort of UCITS III.

If this is of interest to you then please let us know. We have a variety of information to help explain and support the concept that we are happy to share.

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