

WHAT IS A MULTI-FACTOR INVESTMENT APPROACH?

Factor-based investing is built on identifying quantifiable firm characteristics, or “factors,” that can explain differences in stock returns. Using a multi-factor approach, portfolios can be optimized to create targeted exposures to diverse security characteristics while minimizing benchmark-relative risk.

The roots of factor-based investing can be traced to the Capital Asset Pricing Model (CAPM), introduced in the early 1960s, which states that a stock’s expected return is proportional to its beta, or the stock’s sensitivity to equity market returns. Over the last 50 years, academic research has identified a number of other factors that also impact stock returns. Gerstein Fisher’s Multi-Factor® approach acknowledges that many quantifiable variables contribute to a stock’s expected return, and incorporates these insights by designing portfolios with greater exposures to those security characteristics that should improve risk-adjusted return.

Factor-based investing is a quantitative approach based on data. A multi-factor strategy is premised on the idea that excess returns can only be achieved by taking on additional risk; if this were not the case, then market participants would be able to take advantage of “free lunch” opportunities and outperform their benchmarks easily. Being different than the market is an important form of risk, and any given stock will have characteristics that make it different than the market average. By focusing on those characteristics, or factors, that historically have generated above-market returns, we can engineer portfolios that are designed to outperform benchmarks and peers by taking on risk in specifically targeted ways.*

Gerstein Fisher’s Multi-Factor® strategies incorporate information from equity prices and financial statements to identify the inherent characteristics of thousands of global companies. These characteristics are often related to a firm’s cost of capital, which captures a company’s cost of raising money from financial markets, or to the relative risk of that stock compared to that of the overall market. The factors that can be incorporated into our Multi-Factor® approach include (but are not limited to):

Size: Market capitalization

Value: Book-to-Market, Price-to-Earnings

Momentum: 6–12 month trailing stock return

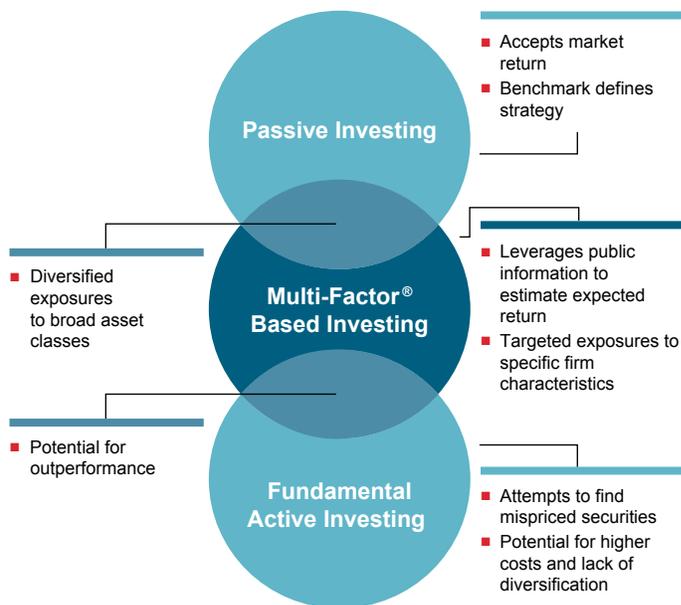
Asset Growth: Percentage change in assets

Profitability: Gross margins, or revenues less cost of goods sold

Research & Development: R&D/Total Sales

Leverage: Debt-to-Equity ratio

Exhibit 1: Active, Passive, and Multi-Factor Investing



Source: Gerstein Fisher Research

* There is not guarantee that the influence of identified factors on investment returns in the past will continue to persist in the future.

Investment Products & Services

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- Not a Deposit or Guaranteed by a Bank or any Bank Affiliate

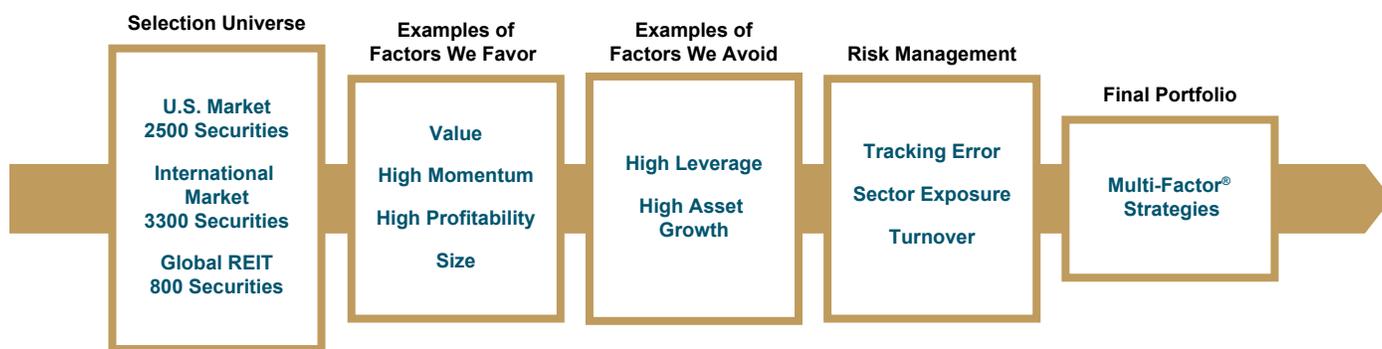
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Gerstein Fisher's Multi-Factor® investment strategies seek to incorporate the best elements of both traditional active and passive investment approaches. Offering the diversification typical of passive strategies (an index fund, for example) while taking positions that are actively different than a benchmark allows for the opportunity to outperform those benchmarks while carefully managing risk exposures.

Gerstein Fisher offers a quantitative framework for building an investment strategy, based on data and observable information, and allows for transparency in

the portfolio's returns, which can be traced to targeted factor exposures. These strategies are designed based on decades of research, diversified across multiple and distinct risk sources, and can be implemented across multiple asset classes in varying market environments. Factor-based investing can be a compelling approach for investors who seek a highly disciplined, risk-managed investment strategy designed to generate long-term returns in excess of a traditional benchmark.

Exhibit 2: Gerstein Fisher's Multi-Factor® Investment Process



Source: Gerstein Fisher Research

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