May 2025

BetaPlus: Consistent alpha in an uncertain world

NAM's BetaPlus Enhanced Equity Strategies

Highlights

- In **today's concentrated** and **fast-evolving market, investors** need **more** than just **active or passive** – they need **enhanced solutions** that **can keep-up** with **changing conditions**
- By **dynamically adjusting** to **factor shifts**, **BetaPlus Enhanced** avoid **static model pitfalls** and have **consistently** delivered strong **risk-adjusted returns**[1]
- **With a proven track record** across different regions, **BetaPlus Enhanced are** designed for **investors seeking resilient long-term outperformance** with limited active risk[2]

Investor's dilemma in a concentrated market: Active vs Passive?

The post-COVID equity rally has ushered in one of the most concentrated bull markets in recent history. In 2023 and into 2024, global equities were dominated by a handful of mega-cap technology companies, driven by an accelerating AI narrative. The so-called "Magnificent Seven" – Apple, Microsoft, Amazon, Nvidia, Meta, Alphabet, and Tesla – collectively delivered the lion's share of returns in both the S&P 500 and MSCI World Index[3].

This unprecedented concentration is presenting significant challenges for traditional active managers, especially those bound by diversification mandates or fundamental valuation models. Many have struggled to justify overweighting these dominant stocks – or even including them – given their investment philosophy. As a result, a vast number of active strategies have fallen behind their benchmarks.

Data supports this underperformance: in 2023, just 28.7% of active equity managers outperformed their benchmarks, with figures for 2024 still below 30%[4]. For many investors, this has prompted a revaluation of active mandates. Indeed, the combination of higher management fees and underperformance has been the primary driver behind active strategies losing ground against their benchmark in recent years. This reality is causing investors to question the value proposition of active management and consider alternative approaches to achieve their investment objectives.

In response, flows have accelerated toward passive strategies, perceived as more benchmark aligned, cost-effective, and transparent. Yet this rush to passive deserves greater scrutiny. While passive solutions avoid explicit active bets, they embed implicit biases – particularly toward dominant styles like Growth and Quality. What appears as neutrality in passive investing can, in reality, result in hidden style tilts and reduced diversification.

Ultimately, investors must weigh the trade-offs between cost and risk control, recognizing that neither approach is without its limitations. In a market environment shaped by concentration and rapid shifts, the challenge may lie not in choosing one over the other – but in adapting to a new investment reality.

Active 2.0: Consistent alpha, low TE

The rise of passive does not signal a rejection of active management altogether. Rather, it reflects investor ongoing frustration with negative and inconsistent excess return, high tracking error and elevated fees. The reality is that the need for differentiated exposure, alpha generation, and risk control is more critical than ever – especially in a concentrated market heavily influenced by regime shifts, style rotations, and global divergence.

What's required is a re-imagined form of active management – one that blends the discipline and cost-efficiency of passive strategies with structured, risk-aware mechanisms for alpha generation. The key is not simply being active, but being active in a smarter, more efficient, and adaptable way.

1) **There can be no warranty that an investment objective, targeted returns and results of an investment structure is achieved. The value of your investment can go up and down, and you could lose some or all of your invested money**. 2) Source: Nordea Investment Management as of 31.12.2024. 3) Reference to companies or other investments mentioned should not be construed as a recommendation to the investor to buy or sell the same but is included for the purpose of illustration. 4) Source: Morningstar's European Active/Passive Barometer 2024.

In other words, investors aren't giving up on active – they are demanding better from it. They want:

- Exposure that remains benchmark-aware but retains an edge in seeking outperformance
- The flexibility to adapt to evolving market conditions without compromising risk control
- A fee structure that is competitive enough to stand alongside passive solutions

This opens the door for enhanced indexing: an active investment approach that bridges the gap between traditional passive and active management, aiming to outperform mainstream indices in a consistent, scalable, and cost-effective way.

NAM's BetaPlus Enhanced: The active answer to a changing world

NAM's BetaPlus Enhanced Equity Solutions exemplifies the evolution in active investing, directly addressing the investor's dilemma. This innovative approach deploys active risk in a structured yet flexible manner – capturing style tilts dynamically as market conditions evolve, while maintaining portfolio consistency and cost efficiency. While the bulk of risk and performance continues to be driven by the parent index, the controlled, time-varying application of active risk has consistently delivered excess returns, all while maintaining a low level of tracking error.

The strategy employs a multi-factor investment approach, combining quantitative insights with a fundamental overlay. These factors – Value, Quality, Growth and Momentum – are assessed with nuance across various market segments to maximize their effectiveness and balance.

What truly distinguishes NAM's BetaPlus is its unique combination of extensive experience, scale, and innovation in alpha generation. With over 15 years of track record expertise and more than EUR 60 billion in assets under management, BetaPlus brings both experience and expertise. Building on this solid foundation, the strategy's real differentiator lies in its dynamic process for adjusting factor weights. This adaptive mechanism enables the strategy to react to variations in factors' performance, capitalize on market shifts, and optimize exposures rapidly across different market segments.

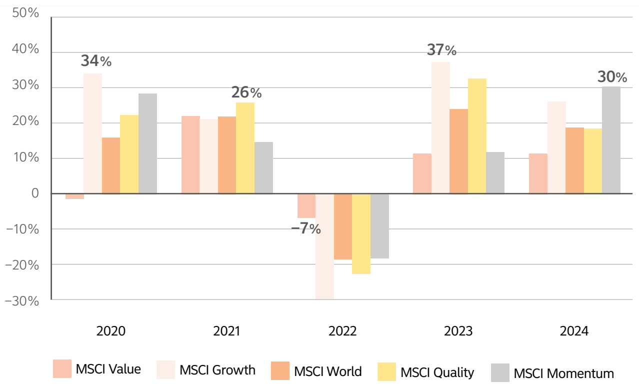
Key attributes of BetaPlus Enhanced:

- Maintains low tracking error (1–2% ex-ante TE), and beta close to 1
- Targets sector/region neutrality, focusing most of active risk and excess return potential on security selection
- Adapts continuously across time and geographies to respond to changing market dynamics

Dynamic approach: Consistency in shifting markets

Most traditional enhanced and/or factor strategies rely on fixed definitions and exposures – essentially "set-and-forget" models. But market dynamics evolve. Economic cycles, factor crowding, and changing market paradigms can all impact the effectiveness of these static strategies, often leading to underperformance despite sound long-term rationale.

Factor's performance in the last five years



Source: Bloomberg, Nordea Investment Management AB. Date: 31.12.2024. For illustrative purposes only.

An analysis of MSCI Indexes performances over the past five years reveals the challenging nature of effectively timing the right style tilt to outperform the parent index (e.g., MSCI AC World Index). This task is undoubtedly difficult, with outcomes varying dramatically depending on the investment cycle's starting point and trajectory.

BetaPlus addresses this challenge through a granular and dynamic multi-factor framework. Unlike other enhanced strategies, it continuously reassesses which factors are generating consistent alpha in each region and sector by analysing factor correlations to excess return over time.

This approach allows BetaPlus Enhanced solutions to evolve with markets, rather than sticking to rigid allocations that may become outdated. A major risk of static factor strategies is getting the timing wrong – for instance, relying on a factor that falls out of favour. Indeed, by looking at 90 different Segments[5] in the MSCI AC World Index universe, we can find that factor leadership shifts frequently and diverges across Segments. BetaPlus does not try to predict these shifts but instead adapts as signals change, targeting factor exposures where the likelihood of excess returns is higher.

By looking at the last three years' equity market performance, we can clearly illustrate the benefits of this approach:

5) The team goes one step further to the industry level (i.e. Banks, Insurance, Financial Services, etc.) to create what we call Segments. This Segment structure establishes a solid foundation for a proprietary methodology that analyses relatively homogeneous groups of companies, by combining geographic, sectoral and even industrial classifications. These Segments group companies with comparable characteristics, enabling a nuanced analysis in the following steps of the process.

	2022	2023	2024	YTD
MSCI Value	–6.5%	11.5%	11.5%	0.6%
MSCI Growth	–29.2%	37.0%	25.9%	–11.0%
MSCI World	–18.1%	23.8%	18.7%	–5.5%
MSCI Quality	–22.2%	32.4%	18.4%	–6.7%
MSCI Momentum	–17.8%	11.8%	30.2%	6.9%
BetaPlus Enhanced Global	–18.0%	26.6%	19.8%	–3.4%

Source: Nordea Investment Management AB. Period under consideration: 31.12.2021 – 22.04.2025. The performance represented is gross of fees, composite and historical based on the BetaPlus Enhanced Global Equity Strategy. **Comparison with other financial products or benchmarks is only meant for indicative purposes.** For illustrative purposes only.

	3 Years			5 Years		
	Exc Ret.	IR	TE	Exc Ret.	IR	TE
MSCI Growth	0.05%	0.01	6.58%	0.46%	0.07	6.40%
MSCI Quality	1.45%	0.33	4.39%	0.42%	0.09	4.40%
MSCI Value	–0.56%	–0.08	6.60%	–0.56%	–0.18	6.48%
MSCI Momentum	0.34%	0.05	7.44%	–0.83%	–0.12	6.93%
BetaPlus Enhanced Global Equity	1.18%	1.21	0.98%	1.52%	1.43	1.07%

Source: Nordea Investment Management AB. Period under consideration: 31.03.2019 – 31.03.2025. The performance represented is gross of fees, composite and historical based on the BetaPlus Enhanced Global Equity Strategy. **Comparison with other financial products or benchmarks is only meant for indicative purposes.** For illustrative purposes only.

2022: As inflation fears spread globally, more cyclical styles suffered while Value had its best year, outperforming others by more than 10%. NAM's BetaPlus Enhanced Global Developed Equity Strategy managed to match the performance of MSCI World, while those betting on Quality and Growth saw significant underperformance.

2023: Market sentiment shifted dramatically. Value struggled after its impressive previous year, while Growth and Quality dominated, driven by AI Mega Cap stocks. Even in this situation, BetaPlus demonstrated resilience by delivering higher performance than the benchmark, thanks to its dynamic approach favouring the most prominent factors in different segments.

2024: Strong Momentum dominated the market, driven by a persistent risk-on environment and still strong performance from high beta stocks. In this environment, BetaPlus showcased its adaptability, delivering a robust +1% excess return.

YTD: After Tariff Day, markets have seen high volatility and sector rotations. Defensive investment styles have outperformed aggressive ones, reversing last year's trend. Despite this shift, BetaPlus has successfully maintained performance above its parent index[6], showcasing its ability to adapt to changing market conditions.

While calendar year performance can be influenced by idiosyncratic effects, the three and five-year annualized figures provide a more comprehensive picture. These longer-term views underscore a crucial message: take strong bets on a given style or a combination of many can be exceptionally challenging, as market sentiment and factor dominance can shift rapidly and unpredictably.

The real strength of NAM's BetaPlus Enhanced Equity Solutions is its ability to adapt to changing market conditions while limiting active risk. As a result, they have consistently achieved a higher Information Ratio compared to traditional strategies. By blending active management with quantitative techniques, BetaPlus offers investors a smarter way to navigate today's complex financial markets.

No regional bias: A globally adaptive approach

Factor performance across different regions has also been a focal point of interest in the investment community, with Value, Momentum, Quality, and Growth factors showing varying levels of effectiveness in North America, Japan, Europe, and Emerging Markets (EM) over time. These factors have shown diverse performance patterns shaped by a complex interplay of economic, structural, and region-specific elements.

Historically, Value has been a strong performer in most regions, particularly in Europe and Japan, though its effectiveness has waned in recent years, especially in North America. Momentum, on the other hand, has shown consistent strength across regions, with particular efficacy in North America and Europe, despite facing challenges in the more volatile EM. Quality has proven to be a reliable factor globally, offering robust performance and downside protection during turbulent periods. Growth has exhibited mixed results, with notable strength in North America, driven largely by the technology sector, but less consistent performance elsewhere.

In this light, it's valid to ask if an approach that worked so consistently well in developed markets, can also work across other regions. That's why EM present a unique case study in BetaPlus Enhanced performance. Over the past three years, Value was the best-performing style in 2022 globally and the second-best in 2023 in EM – contrasting with its last-place position in the MSCI World ranking. This divergence highlights the challenges investors face in finding the right factor tilt and avoiding underperformance relative to the parent index[6].

Indeed, while Growth and Quality have been dominant factors globally, EM have exhibited relative weakness in both. The cyclical nature of factor performance and its susceptibility to numerous variables underscore the importance of understanding regional differences for investors seeking to optimize their portfolios. This reality emphasizes the need for a nuanced, regionally sensitive approach to factor investing, rather than a one-size-fits-all strategy.

6) **The performance represented is historical; past performance is not a reliable indicator of future results and investors may not recover the full amount invested. The value of your investment can go up and down, and you could lose some or all of your invested money.**

As global markets continue to evolve, staying attuned to these regional variations will be crucial in navigating the complex landscape of factor investing.

		2022	2023	2024	3 Years
Value	EM	−15.8%	14.2%	4.5%	0.2%
	World	−6.5%	11.5%	11.5%	0.6%
Growth	EM	−24.0%	5.8%	10.3%	−3.9%
	World	−29.2%	37.0%	25.9%	−11.0%
Parent Index	EM	−20.1%	9.8%	7.5%	−1.9%
	World	−18.1%	23.8%	18.7%	−5.5%
Quality	EM	−22.2%	15.7%	1.9%	−2.8%
	World	−22.2%	32.4%	18.4%	−6.7%
Momentum	EM	−20.1%	9.8%	7.5%	−1.9%
	World	−17.8%	11.8%	30.2%	6.9%
BetaPlus	BetaPlus EM	−18.9%	11.3%	9.5%	−0.4%
	BetaPlus World	−18.0%	26.6%	19.8%	−3.4%

Source: Nordea Investment Management AB. Period under consideration: 31.12.2021 – 31.12.2024. The performance represented is gross of fees, composite and historical based on the BetaPlus Enhanced Global Equity Strategy and BetaPlus Enhanced Emerging Market Strategy. **Comparison with other financial products or benchmarks is only meant for indicative purposes.** For illustrative purposes only.

In this context of varying style directionality across regions, NAM's BetaPlus Enhanced Equity Solutions stands out. Rather than being constrained by static factor definitions or regional biases, BetaPlus dynamically adjusts factor weightings based on their current explanatory power across every Segment. This ensures that no single factor dominates performance while allowing for a measured response to changing economic and market conditions. By maintaining this flexible approach, BetaPlus has consistently delivered superior risk-adjusted returns[7], as evidenced by its higher Information Ratio across both developed and emerging markets over the past three years.

	3 Years			5 Years		
	Exc Ret.	IR	TE	Exc Ret.	IR	TE
MSCI EM Growth	−1.26%	−0.46	2.71%	−1.82%	−0.48	3.81%
MSCI EM Quality	−3.49%	−0.51	6.79%	−0.23%	−0.03	6.81%
MSCI EM Value	1.32%	0.46	2.89%	1.87%	0.45	4.14%
MSCI EM Momentum	−2.48%	−0.22	11.07%	1.78%	0.16	11.34%
BetaPlus Enhanced EM Equity	1.37%	0.78	1.75%	0.48%	0.26	1.85%

Source: Nordea Investment Management AB. Period under consideration: 31.03.2019 – 31.03.2025. The performance represented is gross of fees, composite and historical based on the BetaPlus Enhanced Global Equity Strategy and BetaPlus Enhanced Emerging Market Strategy. **Comparison with other financial products or benchmarks is only meant for indicative purposes.** For illustrative purposes only.

Beyond Active vs. Passive: BetaPlus approach

Whether you are considering investing in a passive solution or are already invested, BetaPlus represents a powerful alternative to passive. In today's world of hyper-concentration, dynamic market regimes, and factor complexity, investors need a sophisticated approach – one that combines the discipline of indexing with the insight, flexibility, and adaptability of active management.

NAM's BetaPlus Enhanced Equity Solutions delivers exactly that. It offers consistent excess returns with limited active risk and cost efficiency, thanks to its adaptive process ability to navigate factor rotations and regional/sector deviations effectively. Instead of predicting factor or regional performance, our strategy responds intelligently to changing conditions – an essential capability in the face of growing regional variations and cyclical shifts in factor behaviour.

NAM's BetaPlus Enhanced Equity solution is not just an alternative – it is the next step forward. A smarter core, a more resilient strategy, and a better way to navigate complexity with clarity.

Nordea BetaPlus. The active answer to passive.

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