European Conservative Equities

A top-down look at Robeco European Conservative Equities

- European countries & sectors can be analyzed from a factor perspective
- This kind of analysis provides a useful picture of European equity market
- We are able to find attractive low-risk stocks in all sectors and countries

The Robeco European Conservative Equities strategy selects stocks based on our proven factor-based ranking model, which leads to different tilts towards to and away from certain sectors and countries. As a result, our model outcome gives a bottom-up picture of the relative attractiveness of countries and sector at any given moment, which is complementary to the many top-down analyses that are performed by fundamental analysts and economists.

In this article, we investigate the current bottom-up attractiveness of European sectors and countries and provide a few examples to illustrate how we are able to find attractive low-risk, high-income stocks with positive momentum across the whole European equity market spectrum.

With this analysis, we aim to bridge the gap between factor-based investing and the more traditional asset allocation approaches based on countries and sectors.

Article
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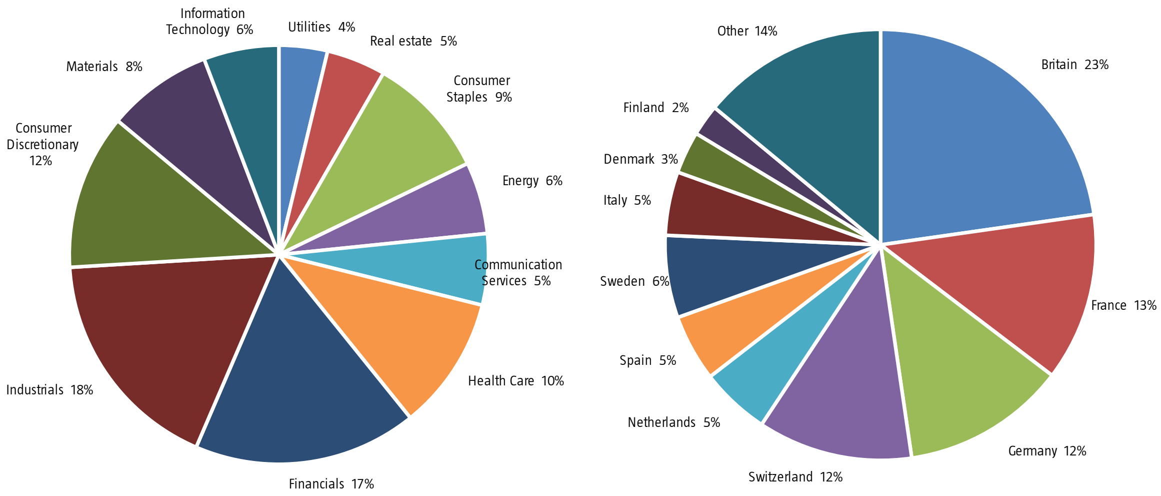
Distribution of investment universe

When building portfolios, we aim for diversified and active positions. Our starting point is to equal-weight top-ranked stocks. However, in order to achieve a liquid portfolio, we scale up larger stocks and scale down less liquid names. Figure 1 shows the breakdown per sector and country of our broad European investment universe, applying a 50%/50% weighing scheme of equal-weighting and market capitalization-weighting.[1] Currently, our investment universe consists of almost 1,200 stocks while the MSCI Europe only includes around 430 stocks.[2]

Figure 1 I Distribution of the investment universe of Robeco European Conservative Equities



Source: Robeco. As of 28 February 2019

Table 1 provides more detailed information. It shows the weight of each country/sector combination as a percentage of the entire universe. We can see that Switzerland and Denmark represent a particularly significant portion of the health care sector, due to pharma giants Novartis (CH), Roche (CH) and Novo Nordisk (DK). Similarly, Spain and Italy represent a significant portion of the Financials and Utilities sectors. On the other hand, the UK only accounts for a small portion of the technology sector, while Switzerland appears to be relatively underrepresented among consumer discretionary stocks.

Table 1 I Country/sector distribution and # of stocks within investment universe Robeco European CE

	Britain	France	Germany	Switzerland	Sweden	Netherlands	Spain	Italy	Denmark	Finland		# of stocks
Industrials	3.6%	2.9%	2.5%	2.2%	1.7%	0.8%	0.8%	0.6%	0.7%	0.7%	**17.6%**	247
Financials	4.3%	1.4%	1.6%	1.8%	1.0%	0.9%	1.3%	1.6%	0.4%	0.4%	**17.2%**	182
Consumer Discretionary	3.3%	2.0%	2.2%	0.6%	0.9%	0.2%	0.5%	0.7%	0.2%	0.1%	**12.0%**	162
Health Care	1.7%	1.1%	1.1%	3.1%	0.5%	0.4%	0.2%	0.2%	1.2%	0.1%	**10.3%**	92
Consumer Staples	3.1%	1.0%	0.4%	1.9%	0.4%	0.4%	0.1%	0.1%	0.3%	0.1%	**9.5%**	74
Materials	1.6%	0.5%	1.2%	0.9%	0.4%	0.5%	0.1%	0.1%	0.2%	0.4%	**8.1%**	91
Information Technology	0.7%	0.7%	1.4%	0.6%	0.4%	0.8%	0.3%	0.1%	0.1%	0.3%	**5.8%**	71
Communication Services	1.1%	1.0%	0.9%	0.2%	0.3%	0.1%	0.5%	0.2%	0.0%	0.2%	**5.5%**	74
Energy	1.3%	0.9%	0.0%	0.0%	0.1%	0.9%	0.3%	0.5%	0.0%	0.1%	**5.5%**	53
Real estate	1.3%	0.4%	0.8%	0.3%	0.6%	0.2%	0.2%	0.0%	0.0%	0.0%	**4.6%**	80
Utilities	0.8%	0.5%	0.2%	0.0%	0.0%	0.0%	0.8%	0.7%	0.1%	0.0%	**3.7%**	45
	22.7%	**12.6%**	**12.3%**	**11.6%**	**6.2%**	**5.2%**	**5.0%**	**4.8%**	**3.2%**	**2.3%**		**1171**
# of stocks	248	118	136	103	93	54	61	71	39	30		

Source: Robeco. As of 28 February 2019.

[1] This weighing scheme comes close to our actual weighing scheme
[2] We take broad market indices such as the S&P BMI and the MSCI IMI Index as the starting point, and apply a minimum liquidity and market cap filter. Currently, this leads to 1,171 European stocks in our investable universe. We also include Poland, Hungary and Czech Republic, which are officially part of the EM universe, but which we view as part of Europe.

European Conservative Equities: our active approach to low-volatility investing

Robeco European Conservative Equities is our active approach to low-volatility investing, or put differently, a defensive multi-factor strategy. The figure below recapitulates the factors and variables considered in all our Conservative Equities strategies. With our ranking model, we create a portfolio of top-ranked stocks, based on a bottom-up, factor-based stock selection process.

Low-risk: statistical and forward-looking factors			Valuation	Momentum
Volatility Short-term and long-term stock price variation	**Beta** Short-term and long-term correlation with markets	**Distress risk** Probability of default and credit spreads	**Valuation** Focus on defensive value variables like payout yield	**Momentum** Price momentum Analyst revisions Credit momentum
Combination of adaptive and stable variables captures low-risk in a robust way		Reduce tail risks	Avoid expensive low-vol stocks	Avoid low-vol stocks with negative momentum

Our straightforward and transparent ranking approach enables us to always relate every holding, every sector or country tilt and every transaction to (a change in) the different factor scores.[3] We see this as a clear advantage compared to more complicated mathematical techniques used by some of our competitors, such as minimum variance optimizations. Moreover, because our weighing scheme relies mostly on straightforward equal-weighting,[4] we create diversified, actively-positioned low-risk portfolios, where all sectors and most countries in our European investment universe are represented.

We are of the opinion that it is important to utilize a multi-dimensional approach to risk, and to include return factors like value and momentum, in order to avoid low-risk stocks that are expensive and/or in a negative trend. In our view, selecting stocks solely based on one measure of risk, such as volatility or beta, is suboptimal, as it ignores information from other factors and variables. Later on in this paper, we give examples of how this currently plays out in the Financials and Consumer Staples sector.

In our analysis, we made the following choices:

- We looked at our entire investment universe of almost 1,200 European stocks
- We focused on two low-risk factors (volatility, beta), dividend yield, price/earnings and price momentum.[5] This is a selection of variables from our ranking model that consists of more than 25 variables
- Outliers were capped at the individual variable level[6]
- Our primary focus has been on the top-down *sector* analysis. From there, we looked at differences between countries. We believe the business model (i.e. sector) is more important than the country the company is based in, especially in the integrated European market.

[3] This in combination with our portfolio construction requirements such as concentration limits on individual stock positions, outside index exposure and relative limits on sector, industry group and country exposures.
[4] Equal-weighting is our starting point, but we take size, liquidity and transactions costs into account when scaling positions.
[5] Volatility and beta are based on a 3-year lookback, dividend yield and P/E are based on trailing dividends and earnings and price momentum is based on 12-1 month momentum.
[6] For volatility, beta and dividend yield, we capped the variable at the highest and lowest 1% percentile. For P/E, we capped P/E's at 0 and 50 times earnings.

Total sector attractiveness

Table 2 ranks the 11 GICS sectors based on their attractiveness according to our bottom-up stock selection model. We can make several observations based on our analysis:

1. Unsurprisingly, more defensive sectors like Utilities, Real Estate and Consumer Staples score well, while the cyclical sectors Information Technology, Materials, Consumer Discretionary and Industrials are less attractive.
2. Moreover, the value character of both the Financials and Energy sector is clearly visible, as are the growth-like characteristics of the Information Technology and Health Care sector, which tend to have a higher valuation and a lower dividend yield.
3. Currently, large defensive consumer staples stocks such as Nestle, L'Oréal, Diageo and Pernod Ricard are appreciated for their stability and therefore have a higher valuation than the market's average.
4. The Financials sector combines a relatively low volatility with an above-average beta. We will analyze this further in the next paragraph.

Table 2 I Overall sector attractiveness based on the Robeco Conservative Equities model

	Rank	Volatility	Beta	Dividend yield	Price/earnings	Momentum
Utilities	1	20.4	0.8	4.2%	16.7	0.23
Real estate	2	17.3	0.6	2.7%	12.9	0.10
Consumer Staples	3	19.4	0.7	3.1%	21.8	0.07
Energy	4	27.8	1.0	4.2%	14.2	0.11
Communication Services	5	24.5	0.9	4.1%	21.2	-0.01
Health Care	6	25.3	1.0	2.1%	24.6	0.15
Financials	7	23.8	1.1	4.5%	14.1	-0.11
Industrials	8	24.9	1.0	2.8%	20.8	-0.05
Consumer Discretionary	9	25.7	0.9	3.1%	18.5	-0.04
Materials	10	28.0	1.2	3.4%	17.7	-0.02
Information Technology	11	29.8	1.1	1.7%	24.1	-0.02

Source: Robeco, Bloomberg. As of 28 February 2019

The Utilities sector currently comes out as the most attractive sector. It scores well on our low-risk factors, as well as on dividend and price momentum. Meanwhile, the Information Technology sector turns out to be volatile, with low dividends, high valuations and a negative momentum. Table 3 provides a few examples, for illustration purposes, of attractive utility stocks and unattractive technology stocks. In total, we can currently choose from 45 European utility stocks and 71 tech stocks.

Table 3 I Examples of attractive utility stocks (top half) and unattractive technology stocks (bottom half)

Name	Country	Volatility	Beta	P/E	Dividend	Momentum
REDES ENERGETICAS NACIONAIS	PORTUGAL	14.6	0.56	17.9	6.5	12%
ENDESA SA	SPAIN	20.4	0.86	16.3	6.3	32%
ELIA SYSTEM OPERATOR SA/NV	BELGIUM	14.8	0.39	14.1	2.6	28%
IBERDROLA SA	SPAIN	19.1	0.95	15.5	4.6	23%
TERNA SPA	ITALY	17.3	0.69	15.4	4.1	20%
RED ELECTRICA CORPORACION SA	SPAIN	19.5	0.74	14.1	5.3	30%
UNITED UTILITIES GROUP PLC	BRITAIN	20.9	0.51	15.7	4.8	31%
Name	**Country**	**Volatility**	**Beta**	**P/E**	**Dividend**	**Momentum**
ISRA VISION AG	GERMANY	45.9	1.51	33.6	0.3	-17%
MELEXIS NV	BELGIUM	32.4	1.32	20.9	3.7	-28%
S&T AG	AUSTRIA	38.5	1.52	37.3	0.6	-2%
S.O.I.T.E.C.	FRANCE	49.5	1.80	21.7	0.0	7%
INFINEON TECHNOLOGIES AG	GERMANY	26.2	1.42	17.8	1.4	-10%
CANCOM SE	GERMANY	30.4	1.44	33.7	1.4	-14%
RENISHAW PLC	BRITAIN	30.4	1.00	24.6	1.4	-5%

Source: Robeco, Bloomberg. As of 28 February 2019

European Financials: a large and diverse sector

Aggregated stock selection effects in our strategy are usually quite large in the Financials sector, which is the biggest sector in the MSCI Europe Index.[7] This large effect is the result of the diverse character of the sector, which consists of both high-risk and low-risk stocks. The sector consists of high-beta universal banks in France, Italy, Spain and Germany but also of stable (re)insurance companies and mid-sized banks that exhibit much lower levels of volatility.

Table 4 shows the scores of banks and insurance companies. Clearly, insurance companies score better on our low-risk measures, which explains their higher overall rank. Dividend yields are relatively high for both kinds of companies, but banks are more attractively valued, mainly due the higher risks associated with banks in Southern Europe. Currently, momentum is better for insurance companies, as 2018 was a tough year for most bank stocks.

The strategy avoids large banks in the Eurozone, but is invested in banks in Scandinavia and Switzerland and in insurance companies across Europe. This explains the strategy's overall overweight in the sector.

Table 4 I Overall attractiveness of bank and insurance stocks based on the Robeco Conservative Equities model

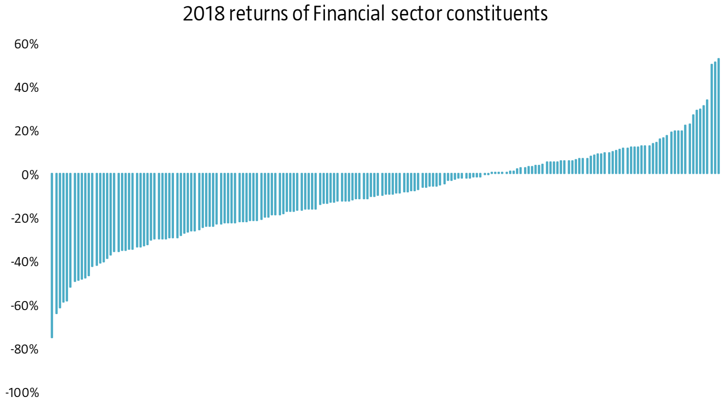
	Volatility	Beta	Dividend yield	Price/earnings	Momentum
Banks	26.0	1.2	4.7%	11.5	-0.20
Insurance	20.0	1.0	4.7%	16.5	0.01

Source: Robeco. As of 28 February 2019

As a result of the diversity of companies included in the sector, the stock return dispersion is typically higher than in other sectors. Stock selection effects are also higher, as we are mainly invested in low-risk financials.

Figure 2 further shows the heterogeneity of the sector, displaying the 2018 returns of all its constituents. For example, several bank stocks dropped significantly in value, while numerous insurance companies showed double-digit returns. Because the strategy has an overweight in stable insurance stocks, stock selection within the Financials sector was the largest contributor to the positive excess return in 2018.

Figure 2 I 2018 return distribution European financial sector & top 10/bottom 10 returns



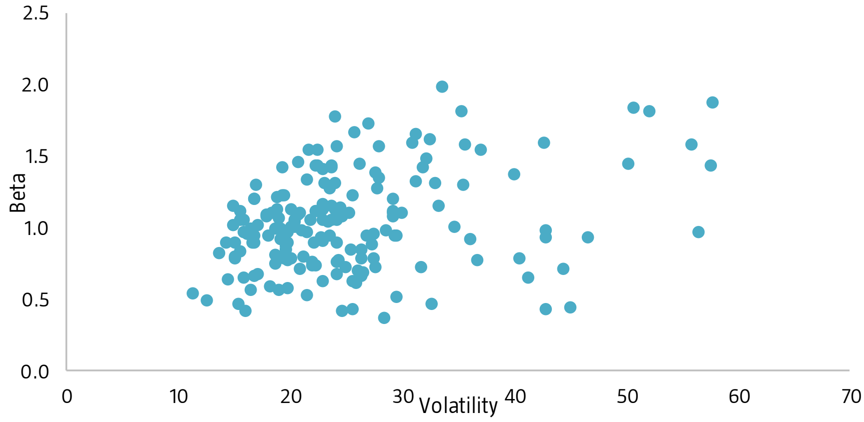
Name	Country	Industry group	2018 return
Aker ASA	NO	Investment Companies	51.5%
Jardine Lloyd Thompson Group PLC	GB	Insurance	51.0%
BinckBank NV	NL	Diversified Finan Serv	44.4%
Hypoport AG	DE	Diversified Finan Serv	34.5%
Tryg A/S	DK	Insurance	30.5%
Sofina SA	BE	Holding Companies-Divers	29.3%
Swiss Life Holding AG	CH	Insurance	28.2%
Poste Italiane SpA	IT	Insurance	24.2%
Hannover Rueck SE	DE	Insurance	21.2%
Admiral Group PLC	GB	Insurance	20.8%
Arrow Global Group PLC	GB	Diversified Finan Serv	-47.7%
Alpha Bank AE	GR	Banks	-47.7%
Danske Bank A/S	DK	Banks	-47.7%
Commerzbank AG	DE	Banks	-50.1%
Hoist Finance AB	SE	Diversified Finan Serv	-52.7%
Credito Valtellinese SpA	IT	Banks	-56.6%
Banca Monte dei Paschi di Siena SpA	IT	Banks	-62.5%
Metro Bank PLC	GB	Banks	-62.6%
National Bank of Greece SA	GR	Banks	-64.6%
GAM Holding AG	CH	Diversified Finan Serv	-76.1%

Source: Robeco. 2018 calendar year performance in local currencies.

Related to this are the large differences in stock price volatility and beta of the sector's constituents. This can be seen in Figure 3, showing how diverse the sector is. Moreover, the relation between beta and volatility is not that clear-cut as many investors might expect, which shows the importance of having a multi-dimensional approach to the low-risk factor.

[7] In our weighing scheme on page 2, Industrials is the largest sector, as that sector contains a relatively large number of names. However, in the market-cap weighted MSCI Europe, the Financials sector is dominant, having a 19% weight as of 28 February 2019, before Consumer Staples (14%) and Industrials (13%).

Figure 3 I Volatility and beta of European Financials



Source: Robeco. As of 28 February 2019.

Table 5 shows a sample of large financial stocks with a below-average volatility (<30%) but with a beta above 1.[8] Hence, these stocks are not highly volatile per se, but they tend to be very responsive to the general market sentiment.

Table 5 I Examples of high-beta financial stocks with a below-average volatility

Name	Country	Industry group	Volatility	Beta
ALLIANZ SE-REG	GERMANY	Insurance	19.1	1.33
BANCO SANTANDER SA	SPAIN	Banks	27.9	1.55
AXA SA	FRANCE	Insurance	25.1	1.35
BNP PARIBAS	FRANCE	Banks	26.6	1.43
PRUDENTIAL PLC	BRITAIN	Insurance	22.4	1.39
ING GROEP NV	NETHERLANDS	Banks	24.1	1.41
ZURICH INSURANCE GROUP AG	SWITZERLAND	Insurance	17.4	1.12
UBS GROUP AG-REG	SWITZERLAND	Banks	26.2	1.43
BANCO BILBAO VIZCAYA ARGENTA	SPAIN	Banks	27.6	1.45
BARCLAYS PLC	BRITAIN	Banks	25.4	1.14
INVESTOR AB-B SHS	SWEDEN	Investment Companies	17.9	1.20
STANDARD CHARTERED PLC	BRITAIN	Banks	27.8	1.33
AVIVA PLC	BRITAIN	Insurance	21.2	1.20
LEGAL & GENERAL GROUP PLC	BRITAIN	Insurance	20.7	1.06
ASSICURAZIONI GENERALI	ITALY	Insurance	24.0	1.12
CREDIT AGRICOLE SA	FRANCE	Banks	26.2	1.38
ERSTE GROUP BANK AG	AUSTRIA	Banks	26.9	1.10
CAIXABANK SA	SPAIN	Banks	29.9	1.32
3I GROUP PLC	BRITAIN	Private Equity	21.7	1.15
AEGON NV	NETHERLANDS	Insurance	29.8	1.39
JULIUS BAER GROUP LTD	SWITZERLAND	Diversified Finan Serv	23.4	1.30
INDUSTRIVARDEN AB-C SHS	SWEDEN	Holding Companies-Divers	17.6	1.14

Source: Robeco. As of 28 February 2019.

[8] The average stocks in our investment universe has a 3-year historical volatility of 30.1%. This is an equal-weighted volatility. The characteristics table later on gives the market-cap weighted volatility, which is lower as large caps are generally less volatile.

Consumer staples: Defensive but expensive

As Table 2 shows, the Consumer Staples sector comes out as a typical low-risk sector, which is no surprise given the non-cyclical nature of most of the sector's constituents. Nevertheless, the strategy has only a modest overweight in the sector. The reason is that many large consumer staples stocks come out as quite expensive in terms of valuation metrics such as price/earnings. This also shows the drawback of selecting stocks based solely on their low-risk characteristics, especially for investors who believe in the value premium. Table 6 gives a sample of large cap defensive consumer staples stocks with low-risk characteristics, but also with an above-average valuation.

Table 6 I Low-risk consumer staples stocks with a relatively high P/E

Name	Country	Industry group	Volatility	Beta	P/E
NESTLE SA-REG	SWITZERLAND	Food	12.9	0.71	27.7
DIAGEO PLC	BRITAIN	Beverages	17.2	0.73	25.4
ANHEUSER-BUSCH INBEV SA/N\	BELGIUM	Beverages	21.1	1.02	36.3
L'OREAL	FRANCE	Cosmetics/Personal Care	16.1	0.93	32.8
RECKITT BENCKISER GROUP PLC	BRITAIN	Household Products/Wares	19.7	0.53	20.1
PERNOD RICARD SA	FRANCE	Beverages	16.3	0.75	28.2
TESCO PLC	BRITAIN	Food	25.4	0.88	20.3
HEINEKEN NV	NETHERLANDS	Beverages	15.7	0.81	27.3
CARLSBERG AS-B	DENMARK	Beverages	15.7	0.82	23.7
KERRY GROUP PLC-A	IRELAND	Food	18.4	0.48	30.9
BEIERSDORF AG	GERMANY	Cosmetics/Personal Care	16.0	0.63	26.6
SWEDISH MATCH AB	SWEDEN	Agriculture	22.3	0.72	21.7
WM MORRISON SUPERMARKETS	BRITAIN	Food	17.7	0.58	21.8
COCA-COLA HBC AG-DI	SWITZERLAND	Beverages	23.0	0.84	25.1
ORKLA ASA	NORWAY	Food	16.7	0.33	20.8
KESKO OYJ-B SHS	FINLAND	Food	19.4	0.47	23.6
DAVIDE CAMPARI-MILANO SPA	ITALY	Beverages	21.6	0.85	31.6

Source: Robeco, Bloomberg. 3-year volatility and 3-year beta against MSCI Europe. Trailing 12m P/E. As of 28 February 2019.

Country analysis

Of course, we can do the same analysis from a country perspective, with the results displayed in Table 7. Interestingly, the picture is less clear-cut when taking a country perspective, as we will see later on. This confirms our opinion that the sector a company is related to, is more important than the country the company is based in. In other words, a British bank stock will behave very differently from a British telecom stock, but will behave more in line with a French bank stock.

1. Switzerland is the best-ranked country based on our bottom-up ranking, primarily due to the relatively low volatility of Swiss stocks. The Swiss market is not a cheap market, due to the relatively high P/E of index heavyweights such as Nestle, Roche and Novartis.
2. The UK comes out as quite uncorrelated with the rest of the European market and as quite attractive from a dividend perspective, but volatility of UK stocks is rather high, on average.
3. The cyclical German market scores poorly on beta and negatively on momentum, while having an average valuation.
4. The Italian market, which is characterized by a large portion of volatile banks, shows a higher risk profile. The Italian market is however very diverse with highly volatile financial stocks and low-beta utility stocks.
5. The above-average beta of the Spanish and French markets can mainly be attributed to the high-beta character of their large banks, as highlighted earlier in this paper.

Table 7 I Overall country attractiveness based on the Robeco Conservative Equities model

	Total rank	**Volatility**	**Beta**	**Dividend yield**	**Price/earnings**	**Momentum**
Switzerland	1	21.0	1.0	3.1%	21.8	0.02
Belgium	2	22.8	0.9	3.1%	19.4	-0.04
Britain	3	25.2	0.8	3.8%	18.2	0.02
Spain	4	23.5	1.1	3.7%	17.5	-0.01
Sweden	5	23.6	0.9	3.1%	17.0	0.10
France	6	23.7	1.1	3.1%	21.2	-0.02
Netherlands	7	23.7	1.0	3.4%	18.7	-0.02
Denmark	8	24.7	0.9	2.2%	21.9	0.01
Italy	9	27.2	1.1	3.5%	16.1	-0.04
Germany	10	24.0	1.1	2.9%	19.2	-0.06

Source: Robeco, Bloomberg. As of 28 February 2019.

Combining country and sector scores

Having looked at the relative attractiveness of different sectors and countries, it is interesting to combine both dimensions, to see how sectors score within a certain country, and vice versa. This is done in Table 8 for the total model z-score.

Table 8 I Overall rank attractiveness of country/sector combinations

Overall score	Switzerland	Belgium	Britain	Spain	Sweden	France	Netherlands	Denmark	Italy	Germany
Utilities			0.7	0.8		0.5		0.4	0.7	0.0
Real estate	1.1	1.1	0.4	0.2	0.9	0.3	0.4			0.6
Consumer Staples	1.0	0.1	0.5	0.0	0.8	0.6	0.6	0.8	0.4	0.0
Energy			0.1	0.5		0.6	0.6		0.7	
Communication Services	1.0	0.6	0.3	0.3	0.1	0.1			-0.5	0.3
Health Care	0.6	-0.2	0.1	0.1	-0.6	0.3	-0.2	0.0	0.1	0.0
Financials	0.2	0.7	0.0	-0.2	0.2	0.2	0.2	0.1	-0.3	0.3
Industrials	-0.2	-0.1	0.2	0.3	0.1	0.0	0.2	-0.3	-0.3	-0.2
Consumer Discretionary	-0.5		0.2	-0.2	0.2	0.0	-0.4	-0.4	-0.4	-0.3
Materials	-0.2	-0.5	0.2	-0.4	-0.3	0.0	-0.1	-0.3		-0.5
Information Technology	-0.6	-0.7	-0.1	0.0	-0.1	-0.3	-0.7			-0.5

Source: Robeco. Table shows aggregated z-scores. Only country/sector combinations that are >0.1% in our investment universe are shown. As of 28 February 2019.

The color coding shows how the scores of stocks in a certain sector are much more homogeneous than the scores of stocks in a particular country. The positive blue color is much more dominant in the upper half of the matrix (showing the most attractive sectors) than it is from the left (showing the most attractive countries). This once again shows that, in the integrated European market, the business activity (i.e. sector) of a company is more differentiating than the country where the company is based in.

So is the current positioning of our Conservative European strategy consistent with the relative attractiveness of different countries and sectors?[9] Table 9 shows the current positioning and the different active sector and country tilts of the strategy. Again, we can make several observations:

1. While the overweight in Swiss and Belgian stocks comes as no surprise, the overweight in the Italian market does. However, this position is entirely attributable to holdings in Italian utility stocks, such as Terna, Hera and ERG.
2. Also, the underweight in the seemingly attractive UK market seems contradictory with the analysis above. But this is due to a relatively small total position in several index heavyweights like HSBC, Unilever, Royal Dutch Shell and AstraZeneca. Having an underweight in these stocks quickly leads to an underweight in the UK market. The underweight in French stocks is the result of avoiding unattractively-ranked large banks and expensive luxury-goods companies.
3. The sector over/underweights are more in line with our analysis of relative sector attractiveness. The overweight in Financials is mainly driven by the holdings in stable insurance companies, the strategy does not own any of the large Eurozone banks.

Table 9 I Current country and sector positioning Robeco European Conservative Equities

Sector positioning	Portfolio weight	Index weight	Active weight
Real Estate	7.7%	1.5%	6.21%
Utilities	8.8%	4.1%	4.66%
Financials	22.0%	19.0%	2.96%
Communication Services	7.4%	4.8%	2.59%
Consumer Staples	16.3%	13.9%	2.32%
Energy	8.9%	8.2%	0.69%
Consumer Discretionary	8.2%	9.4%	-1.21%
Information Technology	1.2%	5.3%	-4.14%
Health Care	8.5%	12.9%	-4.43%
Materials	2.9%	7.6%	-4.77%
Industrials	8.2%	13.1%	-4.88%
Total	100.0%	100.0%	

Country positioning	Portfolio weight	Index weight	Active weight
Belgium	6.1%	1.6%	4.50%
Italy	6.4%	3.7%	2.69%
Switzerland	16.4%	14.0%	2.47%
Sweden	6.5%	4.3%	2.21%
Netherlands	5.7%	5.6%	0.09%
Spain	4.0%	4.9%	-0.89%
Denmark	1.7%	2.8%	-1.10%
United Kingdom	24.1%	27.2%	-3.10%
Germany	8.6%	13.9%	-5.30%
France	9.3%	17.8%	-8.55%

Source: Robeco Performance Measurement. As of 28 February 2019. Only a selection of countries is shown.

[9] We want to stress that a relatively high attractiveness of any given country/sector combination not necessarily leads to an overweight in the portfolio. The strategy only buys stocks that make it to very top of the ranking. A country or sector can come out as attractive if all its stocks show decent scores, but if none of those stocks makes it to the very top of the ranking, we might end up holding none or relatively few stocks in that segment. Also our weighing scheme is different, given our emphasis on equal-weighting as opposed to the market cap-weighing scheme of the MSCI Europe.

Conservative Equities: finding attractive stocks in every country and every sector

So far, we looked at the relative attractiveness of sectors and countries, based on their factor characteristics. This analysis provides an interesting top-down overview of the European stock market, from the perspective of our low-risk, value and momentum factors.

However, we want to emphasize that the Robeco European Conservative Equities strategy is able to find attractive low-risk stocks in all sectors and most countries across Europe. Table 10 gives a sample of stocks that are currently top-ranked. The table shows the diversity of sectors and countries where we find attractive Conservative stocks. Therefore, although a top-down factor analysis gives us very useful information on the relative attractiveness of countries and sectors, diversified bottom-up stock selection is the name of the Conservative Equities game. Moreover, as our stock weighing scheme is designed to deviate substantially from a stock's index weight, stock selection effects typically dominate allocation effects, which arise from our active sector and country tilts. With other words, bottom-up stock selection is more important than the resulting active country and sector weights.

Table 10 I Sample of attractive Conservative Equities stocks

Name	Country	Sector	Volatility	Beta	P/E	Dividend yield	Momentum
COLRUYT SA	BELGIUM	Consumer Staples	16.1	0.30	21.7	2.0	44%
MAGYAR TELEKOM TELECOMMUNICA	HUNGARY	Communication Services	11.6	0.19	11.2	5.3	9%
ICA GRUPPEN AB	SWEDEN	Consumer Staples	17.4	0.35	19.6	3.2	12%
REDES ENERGETICAS NACIONAIS	PORTUGAL	Utilities	14.6	0.56	18.0	6.5	12%
BEFIMMO	BELGIUM	Real Estate	14.1	0.48	15.5	3.6	3%
AXFOOD AB	SWEDEN	Consumer Staples	16.2	0.51	23.3	4.1	10%
ALLREAL HOLDING AG-REG	SWITZERLAND	Real Estate	11.3	0.44	16.1	3.9	7%
QINETIQ GROUP PLC	BRITAIN	Industrials	19.0	0.54	13.8	2.0	49%
ORIGIN ENTERPRISES PLC	IRELAND	Consumer Staples	22.9	0.52	11.9	3.9	2%
UNIPOLSAI ASSICURAZIONI SPA	ITALY	Financials	23.4	1.09	7.0	6.6	18%
ASSECO POLAND SA	POLAND	Information Technology	21.7	0.46	14.1	5.5	8%
ENDESA SA	SPAIN	Utilities	20.4	0.86	16.9	6.3	32%
JOHN LAING GROUP PLC	BRITAIN	Industrials	17.7	0.52	6.0	2.3	48%
GREENE KING PLC	BRITAIN	Consumer Discretionary	26.9	0.49	11.8	5.0	22%
GIMV NV	BELGIUM	Financials	12.0	0.54	12.1	5.0	2%
KOMERCNI BANKA AS	CZECH	Financials	17.2	0.50	12.1	5.0	4%
NESTLE SA-REG	SWITZERLAND	Consumer Staples	12.9	0.71	27.7	2.6	20%
EI GROUP PLC	BRITAIN	Consumer Discretionary	27.6	0.43	13.1	0.0	65%
SNAM SPA	ITALY	Energy	19.1	0.78	15.3	5.2	18%

Source: Robeco, FactSet. As of 28 February 2019.

After all, our main goal is to have diversified factor exposures. This is illustrated in Table 11, which shows our portfolio characteristics.

This is our favorite representation of the strategy's positioning, as it illustrates what the strategy was designed for: creating a diversified, actively positioned portfolio of low-risk stocks with a high dividend, attractive valuation and positive momentum. Moreover, it shows the low turnover of the strategy and the impact of using client cash flows to do the heavy lifting of rebalancing the portfolio towards top-ranked stocks with inflows while getting rid of the least attractive stocks with investment outflows. This use of cashflows has significantly reduced turnover, and with that, trading costs.

Table 11 I Portfolio characteristics Robeco European Conservative Equities

28-Feb-2019	Portfolio	MSCI	MSCI MinVol	Summary
Risk				
Volatility (holdings-based 3y)	18.9%	22.0%	18.8%	Lower risk than MSCI, similar to MinVol
Beta (holdings-based 3y)	0.72	1.00	0.74	
Distance-to-default	7.1	6.1	6.9	
Valuation				
Dividend yield	4.3%	3.7%	3.8%	Higher dividend and better valuation than MinVol
Net payout yield	4.6%	3.8%	3.8%	
Price/Earnings	14.6	14.8	17.5	
Momentum				
Price momentum (12-1M)	13.1%	0.9%	7.4%	Better momentum and revisions than MinVol
Earnings revisions (3M, % net positive)	39.0%	23.1%	26.8%	
Market cap				
Large cap (>10 bln USD)	58.8%	90.7%	83.4%	Increased opportunity set with small and mid caps
Mid cap (<10 bln USD)	13.8%	9.3%	16.6%	
% outside MSCI market index	27.4%	0.0%	0.0%	
Other characteristics				
Number of securities	168	438	181	Diversified, active and more sustainable portfolio
Active share	74%	-	57%	
RobecoSAM ESG score	56.8	54.4	50.6	
Turnover				
Expected turnover	25%	-	20%	Low turnover, average holding period 4 years
Realized turnover	7%	3%	17%	

Source: Robeco, FactSet

Conclusion

In this paper, we have looked at the relative attractiveness of sectors and countries in the European equity market from a factor perspective. For this, we looked at the bottom-up factor scores of almost 1,200 stocks, aggregated in a top-down view. Some of the variables we employ such as volatility, beta and dividend yield have a more structural character, while price/earnings and momentum score are more responsive to market conditions and investor preferences.

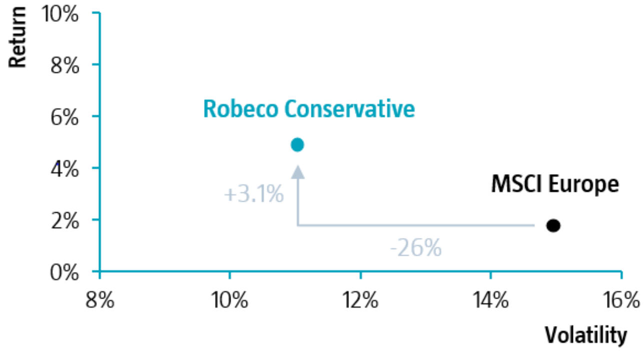
Our analysis showed the relevance of a multi-factor approach[10]. For example, many stocks score differently on supposedly highly-correlated low-risk factors, such as beta and volatility. This phenomenon is most prominent in the European Financials sector. Moreover, we aim to avoid low-risk stocks that have a demanding valuation level, which is currently the case in the Consumer Staples sector, or are in a downward trend. This is why value and momentum play a significant role in our selection process, leading to a portfolio with good scores on these factors.

We also showed that Robeco European Conservative Equities is able to find attractive low-risk stocks in every corner of the European stock market. Because our positions in individual stocks deviate significantly from their weight in the MSCI Europe Index, stock selection effects typically dominate any allocation effects from our active sector and country tilts.

[10] The factors and variables considered in this brief article are just a selection of the total list of variables we consider in our Conservative Equities strategies. For example, we look at different lookback periods when considering volatility and beta. Moreover, we did not analyze distress risk scores and we did not consider variables like payout yield, analyst revisions and credit momentum, which are all included in the model.

Appendix: A proven track record since September 2007

Robeco QI European Conservative Equities started in September 2007 and has lived up to its investment objective of achieving a higher Sharpe ratio than its reference index, the MSCI Europe Index, through showing equity-like or higher returns at lower risk. Especially in more volatile periods like 2008, 2011 but also in the recent turbulent Q4 2018, the strategy showed its value by losing less in a down market. This has resulted in good compounded long-term relative returns. The charts below illustrates this, showing risk and return since inception of the strategy.



Source: Robeco Performance Measurement and MSCI as of 31 December 2018. Monthly data in EUR, gross of fees. In reality costs (such as management fees, transaction- and other costs) are charged. These have a negative effect on the returns shown. The value of your investments may fluctuate. Results obtained in the past are no guarantee for the future.

The table below shows the total and excess returns since inception versus the MSCI Europe and the MSCI Europe Minimum Volatility Index. The strategy has shown a similar risk level as the Minimum Volatility Index since inception, but with higher returns. The yearly deviations from both indices can be quite high, as Conservative Equities has a unique investment process of selecting low-risk stocks that also exhibit good value and momentum exposure. The inclusion of the latter two factors did not contribute positively in 2018, but has led to good results since inception, also for our other Conservative Equities strategies with a long track record, such as our global strategy since 2006 and our EM strategy since 2011.

28-02-2019	Total return						Risk-return inception	
	YTD	1Y	3Y	5Y	10Y	Inception	Volatility	Return/vol
QI European Conservative Equities	8.50%	2.79%	4.86%	6.64%	11.03%	5.56%	11.08%	0.50
MSCI Europe	10.60%	1.26%	6.84%	4.67%	9.98%	2.64%	15.00%	0.18
MSCI Europe MinVol	7.83%	6.59%	4.84%	7.02%	10.15%	4.39%	11.34%	0.39

28-02-2019	Excess return						Risk-return inception	
	YTD	1Y	3Y	5Y	10Y	Inception	Beta	Alpha
Versus MSCI Europe	-2.10%	1.53%	-1.98%	1.96%	1.05%	2.93%	0.70	3.25%
Versus MSCI Europe MinVol	0.67%	-3.80%	0.03%	-0.38%	0.88%	1.17%		

Source: Robeco Performance Measurement. Monthly data since inception September-07, gross of fees, based on net asset value of Robeco European Conservative Equities Fund. In reality costs (such as management fees and other costs) are charged. These have a negative effect on the returns shown. The fund and reference indices are unhedged for currency risk as of June 30 2012. The value of your investments may fluctuate. Results obtained in the past are no guarantee for the future. MSCI Minimum Volatility base currency for optimization is EUR. Inception date of this index is June 2011, prior index data based on backfilled results as provided by MSCI.

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