

Old ideas, new applications: the evolution of index and rules-based investing

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In this article we explain how ideas with roots in the 1970s – from factor investing to the foundations of UBS HOLT – are being applied to modern index and rules-based strategies through new data, research and portfolio construction techniques.

The 1970s are commonly associated with: Star Wars and The Godfather, punk rock and disco music, bell-bottom trousers and platform shoes, the foundation of Microsoft and Intel's first general microprocessor.

But that decade also marked several important developments in the investment world:

- In 1971, the first index portfolio was constructed
- In 1976, Stephen Ross introduced the Arbitrage Pricing Theory (APT), showing that multiple risk factors drive asset returns rather than just market beta. The APT helped provide the intellectual foundations for modern multifactor investing
- Throughout the 1970s, Bart Madden and Bob Hendricks developed a unique framework of analysing companies focusing on their cash generating abilities, the precursor to UBS HOLT (HOLT is an acronym from the first letters of the founders' last names: Bob Hendricks, Eric Olsen, Marvin Lipson, Rawley Thomas).

Half a century later and, although the tools have changed dramatically, the underlying questions haven't. Investors still ask: what drives returns, how can companies be compared on a consistent basis, and how can those insights be translated into portfolios without surrendering transparency or discipline?

Indexing and factor investing are well established, but UBS HOLT may be less familiar. It is an objective equity valuation framework used for comparing and valuing companies. At the framework's core is CFROI® (Cash Flow Return on Investment), which is a core proprietary measure of corporate profitability, adjusted to eliminate accounting distortions. CFROI® is a proxy for a company economic return, akin to internal rate of return on a project, but it applies to companies covering their entire capital structure.

The methodology goes beyond traditional accounting information to emphasise cash generating ability and overall potential for value creation. It standardizes global financial data for more than 20,000 stocks covering 98% of the global investable universe, with data going back to the 1950s that benchmarks company life cycles, growth, and risk. The metrics are then used to form a set of HOLT Factors such as HOLT Value Factor, HOLT Quality Factor, and HOLT Momentum Factor.

A distinctive feature of UBS HOLT is the combination of systematic data adjustments made by sector specialists. This helps maintain data integrity and produces a differentiated set of factors for systematic strategies and indices.

An example of the application of metrics is in the construction of the UBS HOLT Value Tilted Developed 1000 Index. The index is broad, transparent, constructed via screens and tilts, selecting and weighting companies from the developed markets universe by their composite HOLT

Value scores. We opted for a composite value score to better capture the multi-dimensionality of the value factor (risky, defensive, pro-cyclical). The HOLT Value score for each company comprises four HOLT Value metrics (Exhibit 1).

Looking beyond accounting noise

Traditional metrics are highly sensitive to differences in accounting standards, capital structures, asset location, asset age and mix, non-cash items, which can distort investors' view of a firm's value. HOLT Value metrics, on the other hand, assess the price of a company relative to its assets, short-term cash flows, long-term cash flows and intrinsic value, by removing key distortions from traditional metrics to ensure better comparability and consistency.

UBS HOLT runs systematic discounted cash flow (DCF) for all companies in the database. This metric is unique and it overcomes major practical limitations due to the data quality and consistent framework that allows for systematic production of reasonable long term cash flow forecasts and the evaluation of a company's long-term value creation potential.

Exhibit 1: UBS HOLT Value metrics

HOLT P/BV

Enterprise Value
Inflation Adjusted Net Assets

- Analogous to a traditional P/BV ratio but incorporates a number of adjustments to mitigate biases resulting from differences in accounting standards, capital structures, asset location, asset age and mix, and non-cash items
- Better reflects firm value by capturing all assets of the firm (rather than just equity), ultimately reducing the volatility and improving the comparability of the metric across firms

HOLT Economic P/E

Enterprise Value
Net Operating Profit after Tax

- Equivalent to HOLT P/BV divided by Forecast CFROI
- CFROI represents the economic rate of return a firm earns on its total capital base.
- Quantifies the premium that investors have assigned to a company's assets after accounting for the forecasted profitability of those assets

Market Implied Yield (DCF)

- The rate that equates the CFROI framework's systematically forecasted net cash receipt stream to the current EV of a firm
- Benefits from the HOLT DCF modeling approach, which explicitly incorporates long-term mean reversion in profitability (CFROI) and asset growth using empirically derived fade rates
- Comparable across markets and throughout time due to a series of accounting and inflation adjustments that are made when measuring a firm's asset base and cash flows

Dividend Yield

Dividend per share
Stock Price

- Most recently paid (annualized) dividend per share divided by the current stock price
- Though past dividends do not ensure future payments, annual dividend payments tend to be less volatile than operating results such as earnings or cash flow, thereby reducing volatility and increasing reliability in the assessment of Value risk

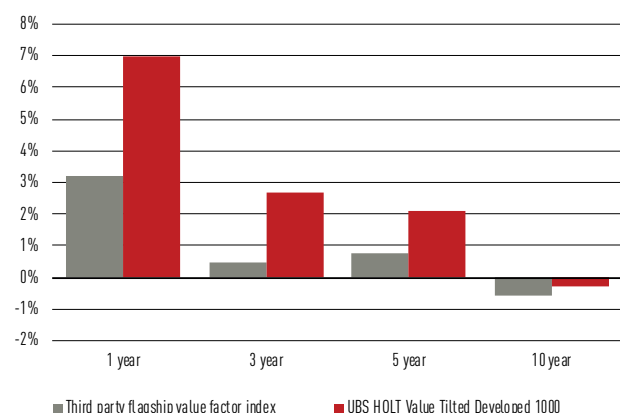
Source: UBS Asset Management, UBS Investment Bank.

Has the higher quality fundamental data contributed to better outcomes in index and rules-based strategies? The performance characteristics of the UBS HOLT Value Tilted Developed 1000 Index support this notion.

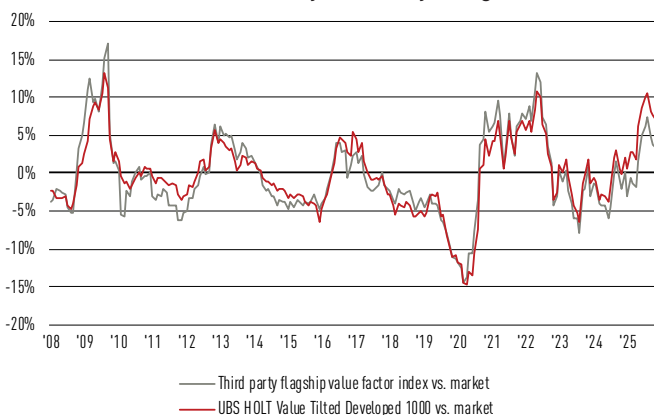
In Exhibit 2 we compare the returns of the UBS HOLT Value Tilted Developed 1000 Index to those of the flagship global value factor index, on an absolute and relative vs. market cap basis. While both indices have displayed similar performance patterns historically, the UBS HOLT Value Tilted has shown a better risk-adjusted return profile, with less amplitude and more gradual returns path over time.

Exhibit 2: performance comparison

Annualised index relative return vs. market in GBP as at 31 May 2026



Value factor indices vs. market: 1 year monthly rolling relative return



10-year annualized data in GBP as at 31 May 2026	Return	Risk	Ex-post TE
MSCI World	14.53%	12.15%	-
Third party flagship value factor index	14.03%	12.21%	5.20%
Solactive UBS HOLT Value Tilted Developed 1000	14.26%	12.33%	4.76%

Source: UBS Asset Management, UBS IB, FTSE Russell, Research Affiliates, MSCI, Solactive, RIMES. Data as at 31 May 2026.

Notes: TR Gross index data in GBP. Annualised standard deviation of index returns is used as a measure of risk. Figures greater than 1 year have been annualised. Solactive UBS HOLT Value Tilted Developed 1000 Index was launched on 23 March 2026. Data prior to the launch is backtested by Solactive. Ex-post TE data vs. global market cap index. Historical tracking error is not a guide to the future. Past performance is not a reliable indicator of future results.

From signals to systematic portfolios

Within systematic, rules-based strategies, UBS HOLT data can serve as a core building block. Our proprietary factor models can combine UBS HOLT insights with other traditional and alternative data sources to generate stock level alpha signals. The objective is not to deviate materially from the market, but to enhance broad equity exposure. Portfolio construction balances expected alpha against risk, transaction costs, diversification requirements, liquidity constraints and turnover considerations. Stronger UBS HOLT scores can lead to overweight positions relative to the benchmark and weaker scores to underweights. Portfolio optimization then determines their magnitude while controlling overall risk. As the framework is transparent and rules-based, it can also be tailored efficiently to different client benchmarks, return objectives, risk budgets and investment restrictions.

More data, same discipline

The investment process draws on several complementary sources of insight. UBS HOLT provides measures of valuation, profitability, growth and momentum; macroeconomic variables provide context on the economic regime and market cycle; while alternative datasets, such as crowding indicators and fund flows, can capture aspects of investor behavior. Machine learning and artificial intelligence can also help test data and identify sentiment, nonlinear relationships and interactions across large datasets. Disciplined testing, human oversight and risk controls remain central to turning these inputs into a scalable and repeatable investment process.

Simulated results from a global multi-factor strategy incorporating systematic factor signal demonstrated annualized returns of 12.71% versus 11.58% for MSCI World Index between 2013 and 2025, generating approximately 1.02% annualized excess return while maintaining similar volatility and modest tracking error.

From research to implementation

UBS HOLT insights can be implemented in different ways. In an index strategy, the signals can be embedded in a defined methodology governing constituent selection, weighting and rebalancing. In a rules-based strategy, they can feed into portfolio construction with explicit objectives around tracking error, turnover, diversification and risk.

In either case, HOLT provides the research input while the investment methodology determines how strongly that input influences holdings and risk. The resulting strategy may then be made available through different investment vehicles.

Investment technology has changed almost beyond recognition since the 1970s. Data is deeper, computing power vastly greater and systematic portfolios can now draw on sources of information that would have been unimaginable when factor investing and the foundations of UBS HOLT first emerged. But the underlying questions are remarkably familiar: how to compare companies consistently, identify what drives returns and translate those insights into disciplined portfolios.

Ultimately, the strongest investment ideas do not endure by remaining unchanged. They endure because they can be tested, refined and applied in new ways. UBS HOLT's cash generating-based framework is one example – a longstanding approach now being combined with modern data, portfolio construction and systematic implementation. In that sense, it is less a break from the past than an evolution of established foundations, with new tools and new applications layered on top.

