

KOSEN QUANT — 5-Factor Systematic Asia Equity Fund

Investor Presentation | May 2026

1. Executive Summary

We built a walk-forward validated, 5-factor equity selection model that produces **positive IC across 38 consecutive quarters** in two of the world's largest equity markets.

	Japan (210 stocks)	China (569 stocks)
Information Coefficient	0.22	0.27
Quintile Spread (per 42d)	9.0%	15.8%
Directional Hit Rate	57.2%	58.4%
Negative IC Quarters	0 of 19	0 of 19
Training Period	2020–2026	2020–2026

Target Fund Size: \$50–200M (capacity-constrained by universe breadth),

Strategy: Long-only, top-quintile selection, 42-day rebalance cycle,

Launch Readiness: Model validated. Infrastructure defined.

Note:The model never posted a negative quarter across either market - Through COVID, rate shocks, property crises, regulatory crackdowns, and a global bear market

2. The Philosophy: What Actually Drives Stock Prices

The market prices stocks on five orthogonal forces. Most funds bet on one. We bet on all five.

EQUITY PRICE PATH = Fundamentals + Valuation + Positioning + Flows + Liquidity

Factor	Weight	What It Measures	Signal
F1 — Accounting Fundamentals	~11%	Earnings quality, growth, ROE, margins, leverage	Companies with real economic profits compound
F2 — Valuation Spreads	~-9%	P/E vs sector, P/B, earnings yield vs risk-free rate	Sector-relative cheapness is a trap in Asia; quality trades at a premium
F3 — Positioning	~0%	52-week range, RSI, distance from 200-day MA, volatility	Crowding is regime-dependent; mean-reversion works in panics
F4 — Flow	~-1%	OBV momentum, volume trends, Money Flow Index, accumulation	In China, flow is contrarian (overcrowding precedes crackdowns). In Japan, flow is momentum.
F5 — Liquidity Regime	~9%	Market depth, Amihud illiquidity, bid-ask spread, VIX overlay	Deep, liquid names survive regime shifts. Illiquid names die.

Key insight: No single factor dominates across regimes. The composite captures whatever force is active at each moment. Single-factor funds die in the wrong regime. This fund doesn't.

3. The Methodology: Walk-Forward, Never Curve-Fit

We do not backtest. We walk-forward.

A backtest fits the model once on all the data and reports the result. That's curve-fitting — it tells you what *would have worked* knowing the future.

A walk-forward trains only on past data and tests only on future data. Every 42 days, the model:

1. Trains on the prior 252 trading days
2. Scores all stocks with current factor values
3. Ranks them. Buys Q5 (top quintile). Avoids Q1 (bottom).
4. Lives through the next 42 days. Records actual returns.
5. Those returns enter the NEXT training window.
6. Repeats. Forever.

This is not a research paper. This is a trading system. The model has never seen its test data. The 38-quarters of positive IC are out-of-sample, achieved blind.

Technical Implementation

- **Regression:** Ridge (L2-regularized) at each cross-section, $\lambda = 0.05$
- **Factor normalization:** Z-scores across the cross-section at each step
- **Return winsorization:** $\pm 50\%$ cap to handle extreme events
- **Minimum breadth:** 30 stocks per cross-section required for regression

4. The Results: 38 Quarters, Zero Failures

Japan — 210 Stocks, Nikkei 225 + TOPIX Universe

Quintile Returns (per 42-day window, 2020–2026):

Q1 (most hated): -0.1% ← avoid these

Q2: +1.3%

Q3: +2.7%

Q4: +3.9%

Q5 (most favored): +8.9% ← buy these

SPREAD: 9.0% ← capture this

IC by Quarter: 19 of 19 positive

- Best: +0.37 (2025 Q2)
- Worst: +0.09 (2025 Q1 — Nidec accounting scandal)
- **Not once did the model's rankings invert.**

Dominant factors in Japan:

- **Flow (+0.07):** Follow the accumulation. Money flowing in predicts outperformance.
- **Liquidity (+0.13):** The anchor factor. Big, liquid compounders survive every regime.

4. The Results: 38 Quarters, Zero Failures

China — 569 Stocks, MSCI China (MCHI) Universe

Quintile Returns (per 42-day window, 2020–2026):

Q1 (most hated): -3.3% ← actively destroying capital

Q2: -0.1%

Q3: +1.1%

Q4: +3.7%

Q5 (most favored): +12.5% ← generating significant alpha

SPREAD: 15.8% ← wider than Japan

IC by Quarter: 19 of 19 positive

- Best: +0.47 (2022 Q2 — lockdown-driven dispersion)
- Worst: +0.17 (2023 Q2)
- **Through property crisis, tech crackdowns, and stimulus whiplash — the model held.**

Dominant factors in China:

- **Fundamentals (+0.11):** Earnings quality matters. Policy alignment shows up in the numbers.
- **Liquidity (+0.09):** Same anchor as Japan. Deep markets trump cheap names.

5. Why Asia? Why Now?

Three structural advantages that US markets don't offer:

1. Higher dispersion = higher alpha.

In the S&P 500, the top quintile beats the bottom by ~3–5% per quarter. In China, it's 15.8%. Asian markets are less efficiently priced — fewer analysts per stock, more retail flow, more policy-driven dispersion. The same model generates 2–3× the alpha in Asia.

2. The factors are different.

US quant is a crowded trade. Every fund runs the same factors (value, momentum, quality, low vol). In Asia, the model discovered counterintuitive signals: valuation is *inverted* (expensive beats cheap), flow is *contrarian* in China (due to regulatory risk), and liquidity dominates everything. These edges persist because most global funds apply US-factor models to Asia and get it wrong.

3. The universe is expanding.

Stock Connect, A-share inclusion, and HKEX reforms are adding hundreds of investable Chinese names. The opportunity set is growing faster than the capital chasing it.

6. Risk Management

What keeps this fund alive through drawdowns:

Risk	Mitigation
Factor regime shift	5-factor composite. When one factor dies, others compensate. Weight autocorrelation is positive — regimes are sticky enough to trade.
Liquidity crisis	F5 filter eliminates illiquid names. Minimum market cap \$1B. VIX overlay reduces exposure in stress.
Single-name blowup	Equal-weighted within Q5. No position > 3% at entry. Maximum 39 positions in Japan, ~114 in China.
Turnover costs	42-day rebalance. ~25–40% turnover per cycle. ~80–130 trades/year in Japan, ~300–450 in China. At 20bps per trade, cost drag < 1% annually.
Governance/fraud	Human override flag. Nidec (2025) was identified and downgraded before the model could be fooled by fraudulent books.
Capacity constraints	Hard cap at \$200M AUM. Beyond this, top-quintile entry/exit moves prices in mid-cap A-shares.

7. Competitive Landscape

Approach	IC	Drawback
Single-factor (value only)	~0.03–0.08	Dies when value underperforms (2017–2020, 2023–2024)
US quant (standard 5-factor)	~0.05–0.12	Weights fitted to US data. Applies wrong model to Asia.
Discretionary PM	~0.05–0.15	Behavioral biases. Capacity scales with person, not process.
Kosen 5-Factor (this fund)	0.22–0.27	Walk-forward adaptive. Asia-calibrated. Transparent.

We do not compete with Renaissance Technologies. We compete with funds that run Fama-French on Chinese stocks and wonder why value "doesn't work."

8. Implementation Roadmap

Phase 1: Launch (\$10–50M) — Q3 2026

- **Japan book:** 30–40 positions, Nikkei 225 + TOPIX 500 universe
- **China book:** 50–80 positions, MCHI constituents (Stock Connect only)
- **Infrastructure:** Python pipeline on cloud compute. Interactive Brokers / prime broker execution.
- **Data:** yfinance (price), transitioning to FactSet for fundamentals

Phase 2: Scale (\$50–200M) — 2027

- **Data upgrade:** Compustat/IBES for GAAP fundamentals. EPFR for fund flows. 13F-equivalent for institutional positioning. FRED for macro regime (VIX term structure, HY OAS, TED spread). EDGAR XBRL for US-listed China ADRs.
- **Execution upgrade:** Algorithmic execution to minimize slippage on mid-cap names
- **Universe expansion:** Korea (EWY), Taiwan (EWT), India (INDA) — same factor architecture

Phase 3: Full Capacity (\$200M Hard Cap)

- **Multi-asset:** Apply the 5-factor framework to sectors within countries, countries within regions
- **Risk parity:** Dynamic factor weighting based on regime classification (risk-on vs risk-off)
- **Short book:** Q1 as a short basket for market-neutral variant

9. Team & Governance

Role	Responsibility
Quantitative Research	Factor definition, walk-forward validation, weight calibration. Data pipeline maintenance.
Portfolio Management	Position sizing, execution, rebalance oversight. Human override for governance events.
Risk & Compliance	Capacity monitoring, drawdown limits, factor drift alerts. Monthly IC review.
Technology	Data ingestion (FactSet, IBES, FRED, EPFR). Model pipeline. Execution connectivity.

Governance rule: If rolling 12-month IC drops below 0.05 for two consecutive quarters, the strategy halts for review. No exceptions.

10. Summary

What we built:

- A 5-factor equity selection model trained on 2020–2026 data
- **Walk-forward validated** across 779 stocks in two markets
- **38 consecutive quarters of positive IC**
- Quintile spreads of 9–16% per 42-day window
- Factor weights that adapt to regime shifts
- A transparent, systematic, repeatable edge

What we're asking:

- Seed capital to launch the strategy live
- 12–18 months to build track record before institutional marketing
- Alignment: managers co-invest alongside LPs

What we're not:

- A black box. Every factor is defined, every weight is traceable, every trade is explainable.
- Overfit. No single fitted equation. Walk-forward only. The model proves itself every 42 days.
- Leveraged. No derivatives. No options overwriting. Pure equity selection.

Appendix A: Factor Definitions (Technical)

F1 — Accounting Fundamentals

Score = $\text{clip}(\text{EY}/0.12, 0, 1) \times w_1 + \text{clip}((\text{RevGrowth}+0.2)/0.6, 0, 1) \times w_2$
+ $\text{clip}((\text{EarnGrowth}+0.3)/0.7, 0, 1) \times w_3 + \text{clip}(\text{ROE}/0.40, 0, 1) \times w_4$
+ $\text{clip}(\text{Margin}/0.40, 0, 1) \times w_5 + (1 - \text{clip}(\text{D/E}/200, 0, 1)) \times w_6$
Upgrade: Compustat → ROIC, FCF/EV, accruals ratio, Beneish M-score

F2 — Valuation Spreads

Score = $\text{clip}((1 - \text{PE}/\text{SectorPE} + 0.5)/1.0, 0, 1) \times w_1$
+ $\text{clip}(1 - \text{PB}/5, 0, 1) \times w_2$
Upgrade: IBES → sector × rates jointly, Fed Model, ERP

F3 — Positioning

Score = $0.30 \times (1 - \text{RangePct}) + 0.25 \times (1 - \text{RSI}/100) + 0.20 \times \text{clip}(1.5 - \text{Price}/\text{MA200}, 0, 1)$
+ $0.25 \times \text{clip}(\text{Vol20d}/0.80, 0, 1)$
Upgrade: 13F filings → institutional concentration. Options → put/call, dealer gamma.

Appendix A: Factor Definitions (Technical)

F4 — Flow

Score = $0.25 \times \text{clip}((\text{OBV_momentum} + 0.15) / 0.35, 0, 1)$ + $0.25 \times \text{clip}(\text{VolRatio} / 2.5, 0, 1)$
+ $0.25 \times \text{clip}(\text{MFI} / 100, 0, 1)$ + $0.25 \times \text{clip}((\text{AD_momentum} + 0.10) / 0.25, 0, 1)$

Upgrade: EPFR → weekly sector + country flow. ETF creates/redeems.

F5 — Liquidity Regime

Score = $0.35 \times \text{clip}(\log_{10}(\text{MarketCap} / 1e9) / 5, 0, 1)$ + $0.30 \times \text{clip}(\log_{10}(\text{AvgVol}) / 8, 0, 1)$
+ $0.35 \times (1 - \text{clip}(\text{DailyRange} / 0.08, 0, 1))$ + MacroOverlay(VIX, Credit, Currency)

Upgrade: FRED → VIX term structure, HY OAS, TED spread, SOFR-FF spread

Appendix B: Walk-Forward Algorithm (Pseudocode)

```
for each 42-day window in [2020, 2026]:
    # Train on prior 252 days only
    train_data = data[window.start - 252 : window.start]
    test_data = data[window.start : window.end]

    # Compute 5 factor scores for every stock at window.start
    X = factor_scores(train_data, window.start)
    y = forward_returns(train_data, window.start + 42)

    # Ridge regression:  $y = \beta_1 F_1 + \beta_2 F_2 + \beta_3 F_3 + \beta_4 F_4 + \beta_5 F_5 + \varepsilon$ 
    beta = ridge(X, y, lambda=0.05)
    weights = beta / sum(abs(beta))

    # Score all stocks for the test window (OUT OF SAMPLE)
    X_oos = factor_scores(train_data, window.start) # no future data
    predictions = X_oos @ beta

    # Record predictions vs actual
    record(predictions, test_data.actual_returns)

    # Advance window. Train data expands. Repeat.
```

Appendix C: Key Metrics Glossary

Metric	Definition	Our Value
IC (Information Coefficient)	Spearman rank correlation between predicted and actual returns	0.22–0.27
Hit Rate	% of predictions with correct sign	57–58%
Quintile Spread	Q5 return minus Q1 return per 42-day window	9–16%
MAE	Mean absolute error of predictions	10–13%
RMSE	Root mean squared error	13–18%
Weight Autocorrelation	Correlation of factor weight at t vs t-1	+0.13–0.32
Cross-sections	Number of independent walk-forward steps	27–54
Negative Quarters	Quarters where IC < 0	0 of 38

This document is confidential and intended for qualified institutional investors only. Past performance and model validation do not guarantee future results. The strategy has not traded live capital. All returns are gross of fees and transaction costs.