

# ENHANCED INDEX INVESTING

*A long-term investment strategy  
that always works*



# INTRO- DUCTION



## DO YOU BELIEVE THAT

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Our long-standing experience of the markets enables us to predict their future trends?

We can predict the trend in interest rates and euro exchange rates?

We can foretell which shares will deliver the best performances?

**IN THAT CASE, A SUCCESSFUL INVESTMENT RECOMMENDATION WOULD BE BASED ON THE ABILITY TO PREDICT THE FUTURE.**

## AN INNOVATIVE APPROACH

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Wouldn't it make more sense to adopt an innovative and more rational approach which relies on financial science?

*“ The idea that a single individual without extra information or market power can beat the market is unlikely.*

*Yet the market is full of people who think they can do it and full of other people who believe them...*

*Why do people believe they can do the impossible?*

*And why do other people believe them? ”*

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Daniel H. KAHNEMAN  
*Nobel Prize in Economic Sciences, 2002*

The past teaches us that it is practically impossible achieving consistently higher returns on a long-term basis by market timing and stock picking.

Nevertheless, market-timers and stock-pickers try to obtain an outperformance by foreseeing rising or falling share prices or by trying to identify under- or overvalued stocks. Statistics from Standard & Poor's show that these performances ultimately turn out to be disappointing when compared with market returns.

#### SPIVA EUROPE SCORECARD: YEAR-END 2021

Percentage of European Equity Funds Outperformed by Benchmarks

Fund Category	Comparison Index	One-Year	Three-Year	Five-Year	Ten-Year
Europe Equity	S&P Europe 350®	74,79	62,22	72,63	83,23
Eurozone Equity	S&P Eurozone BMI	65,43	72,47	83,36	93,20
France Equity	S&P France BMI	83,33	71,69	93,18	92,86
Germany Equity	S&P Germany BMI	40,45	49,48	62,64	76,34
Global Equity	S&P Global 1200	80,35	68,97	76,83	89,69
Emerging Markets Equity	S&P/IFCI Composite	66,19	59,24	70,35	86,11
U.S. Equity	S&P 500	82,41	67,80	73,84	94,74

SOURCE: S&P DOW JONES INDICES LLC, MORNINGSTAR. DATA FOR PERIODS ENDING DEC. 31, 2021. OUTPERFORMANCE IS BASED ON EQUAL-WEIGHTED FUND COUNTS. INDEX PERFORMANCE BASED ON TOTAL RETURN. PAST PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS. TABLE IS PROVIDED FOR ILLUSTRATIVE PURPOSES.

*“ Our model of investment is not based on speculation, but on the science of capital markets. ”*

*"Because we cannot predict the future, we diversify."*

PROF. PAUL SAMUELSON *Nobel Prize in Economic Sciences, 1970*

Harry M. MARKOWITZ was awarded the Nobel Prize in Economic Sciences for his work on optimal diversification. He argued that much higher returns can be achieved by controlling risk.

Eugene F. FAMA, Nobel Prize in Economic Sciences 2013, from the University of Chicago Booth School of Business and Kenneth R. FRENCH from Dartmouth College observed that two types of stocks, *small caps* and *value caps*, tended to perform better than the market as a whole. Their research findings have provided a better understanding of the factors that drive asset management performance.

### S & P 500 INDEX 1928-2022

Data provided by  
Standard & Poor's Index Service Group



### DIMENSIONAL US LARGE CAP VALUE INDEX 1928-2022

Index data compiled by Dimensional.



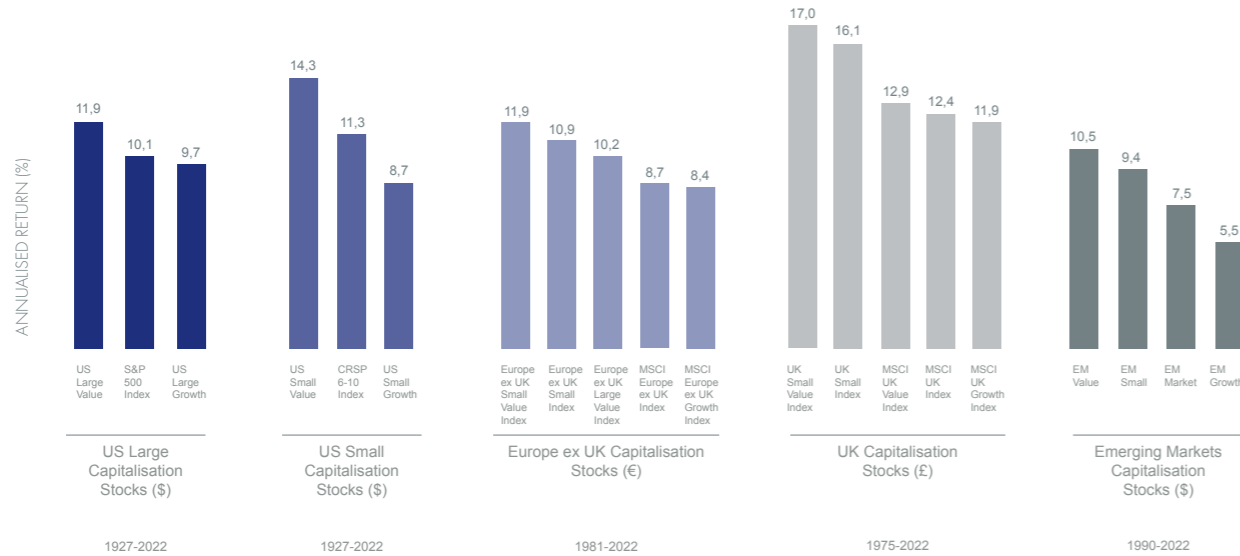
### DIMENSIONAL US SMALL CAP INDEX 1928-2022

Index data compiled by Dimensional.

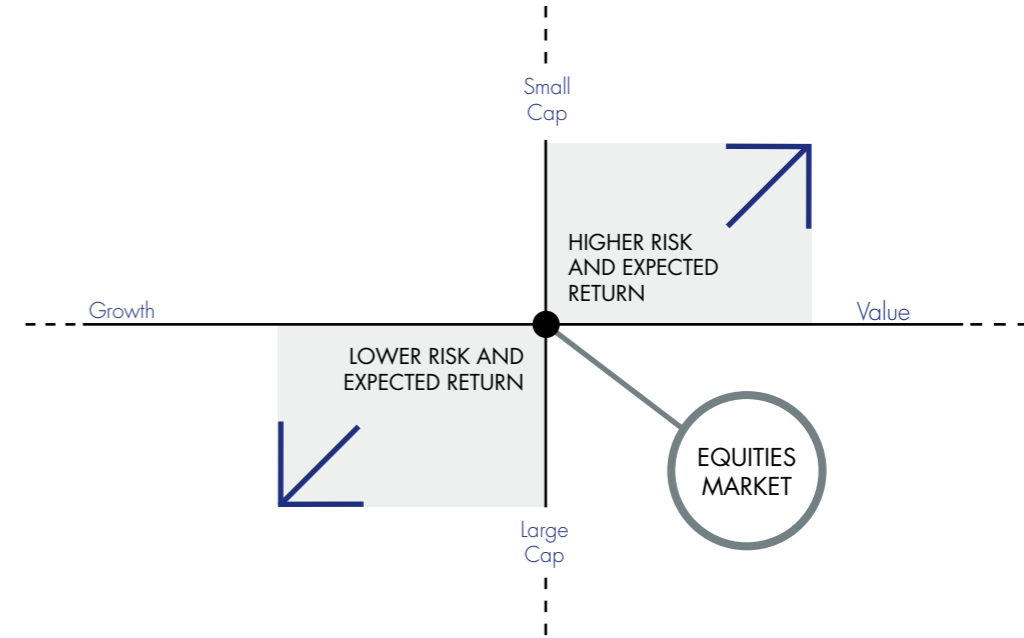


OUR INVESTMENT PHILOSOPHY STRICTLY ADHERES TO THE FOLLOWING CORE PRINCIPLES:

- Risks and returns are interrelated.
- Small caps have a higher expected return than large caps.
- Cheaper value stocks have a higher expected return than more expensive growth stocks.



HISTORICAL RETURNS AROUND THE WORLD; ANNUAL DATA; % PER ANNUM  
SOURCE: DIMENSIONAL



To guarantee long-term asset growth, investors need to maintain an optimally diversified portfolio, according to MARKOWITZ'S theory.

To maximise the future value of any investment, Tareno (Luxembourg) S.A. established **two sub-funds investing in the equities and bond markets respectively**. Both sub-funds invest in the best-performing funds, based on a stringent selection process by Tareno (Luxembourg) S.A..

## STRUCTURE OF THE ENHANCED INDEX INVESTING EQUITIES SUB-FUND AND IMPACT OF DIVERSIFICATION ON RETURNS AND RISK.

This example demonstrates the positive impact of optimal diversification on the fund's performance and volatility. By investing 100% in Example 1, the annualised performance over the period is +4,18% with a volatility of 15,27%.

Example 2, which is more diversified, offers a better return over the period, with no significant increase in volatility.

Examples 3 and 4 show the same trend. Each time we increase the level of diversification, we note an improvement in returns.

For our **Enhanced Index Investing Equities sub-fund**, we have taken this argument to its logical conclusion to achieve a **maximum return**, while maintaining a **similar level of volatility** to Example 1.

The need for a well-diversified investment portfolio is a prudent principle and a key component of our investment philosophy.

We aim to provide the best framework for your optimal asset allocation.

monthly: 01/1999-12/2022; in Euros

	EXAMPLE 1	EXAMPLE 2	EXAMPLE 3	EXAMPLE 4	EXAMPLE 5
MSCI EUROPE INDEX (NET DIV.)	100%	50%	40%	30%	13%
MSCI EUROPE EX UK INDEX (NET DIV.)					14%
MSCI EUROPE SMALL CAP INDEX (NET DIV.)			6%	10%	8%
MSCI EUROPE VALUE INDEX (NET DIV.)			7%	16%	20%
MSCI EMERGING MARKETS INDEX (NET DIV.)		20%	20%	17%	10%
MSCI EMERGING MARKETS VALUE INDEX (NET DIV.)					10%
MSCI PACIFIC SMALL CAP INDEX (NET DIV.)					6%
MSCI USA SMALL CAP INDEX (NET DIV.)			3%	6%	6%
MSCI WORLD INDEX (NET DIV.)		30%	24%	21%	13%
<b>TOTAL</b>	100%	100%	100%	100%	100%
ANNUALISED PERFORMANCE	4,18%	5,65%	6,00%	6,16%	6,27%
ANNUALISED STANDARD DEVIATION	15,27%	15,05%	15,33%	15,54%	15,52%



OPTIMAL STRATEGIC ALLOCATION ENABLES THE EQUITIES SUB-FUND TO SIGNIFICANTLY OUTPERFORM ITS BENCHMARK INDEX.

PERFORMANCE OF AN INITIAL INVESTMENT OF 1EUR

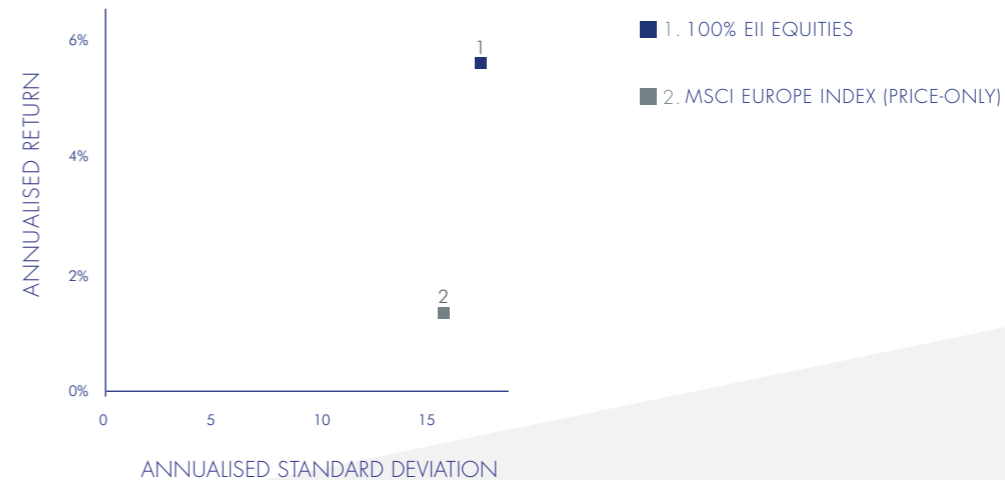
monthly: 01/1999-12/2022; in Euros



OVER THE PERIOD 1999 TO 2022, THE EII EQUITIES SUB-FUND OFFERED THE BEST RISK-RETURN RATIO

RETURN-STANDARD DEVIATION CHART

monthly: 01/1999-12/2022; in Euros



(BACK-TESTING 1999-2006; FUTURE PERFORMANCES MAY BE HIGHER OR LOWER)



## PERFORMANCE OF A DIVERSIFIED PORTFOLIO 50% EQUITIES; 50% BONDS

We created two sub-funds: an equity sub-fund, as it makes sense to invest a portion of a portfolio in asset classes with higher expected returns, **and a bond sub-fund, to reduce the portfolio's overall volatility.**

As an independent asset management company, Tareno (Luxembourg) S.A. will offer you the best possible advice to help you achieve an optimal balance between equities and bonds, while taking into consideration your risk tolerance, your liquidity needs and your investment horizon.

This is where index investing comes into its own, as it allows for considerable flexibility in the review process. Your advisor's role is to ensure strict compliance with the asset allocation implemented and to closely monitor your risk spread over time.

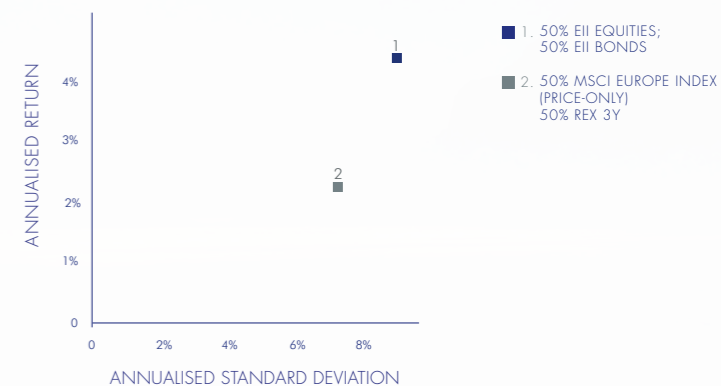
The example on the next page illustrates the relative performance of a diversified Tareno portfolio, invested 50% in equities and 50% in bonds, compared to its benchmark indices. (The REX 3Y index represents 3-year German Government Bonds)

PERFORMANCE OF AN INITIAL INVESTMENT OF 1EUR  
monthly: 01/1999-12/2022; in Euros



(BACK-TESTING 1999-2006; FUTURE PERFORMANCE MAY BE HIGHER OR LOWER)

RETURN-STANDARD DEVIATION CHART  
monthly: 01/1999-12/2022; in Euros



ANNUAL RETURNS FOR THE MIXTURE OF BOTH SUB-FUNDS BONDS & EQUITIES

	100% EII BONDS 0% EII EQUITIES	90% EII BONDS 10% EII EQUITIES	80% EII BONDS 20% EII EQUITIES	70% EII BONDS 30% EII EQUITIES	60% EII BONDS 40% EII EQUITIES	50% EII BONDS 50% EII EQUITIES	40% EII BONDS 60% EII EQUITIES	30% EII BONDS 70% EII EQUITIES	20% EII BONDS 80% EII EQUITIES	10% EII BONDS 90% EII EQUITIES	0% EII BONDS 100% EII EQUITIES
1999*	-0,62%	4,40%	9,41%	14,43%	19,44%	24,46%	29,48%	34,49%	39,51%	44,52%	49,54%
2000*	6,07%	5,03%	3,99%	2,94%	1,90%	0,86%	-0,18%	-1,23%	-2,27%	-3,31%	-4,35%
2001*	5,88%	4,57%	3,25%	1,93%	0,61%	-0,71%	-2,03%	-3,35%	-4,67%	-5,99%	-7,30%
2002*	8,68%	5,03%	1,38%	-2,27%	-5,92%	-9,57%	-13,22%	-16,88%	-20,53%	-24,18%	-27,83%
2003*	4,61%	6,47%	8,33%	10,19%	12,05%	13,90%	15,76%	17,62%	19,48%	21,34%	23,20%
2004*	6,81%	7,62%	8,43%	9,24%	10,06%	10,87%	11,68%	12,49%	13,30%	14,11%	14,92%
2005*	3,71%	6,71%	9,72%	12,73%	15,74%	18,75%	21,76%	24,77%	27,77%	30,78%	33,79%
2006*	2,66%	4,02%	5,38%	6,75%	8,11%	9,47%	10,83%	12,19%	13,55%	14,91%	16,28%
2007	-1,76%	-1,18%	-0,59%	0,00%	0,59%	1,18%	1,77%	2,36%	2,95%	3,54%	4,13%
2008	-2,43%	-6,88%	-11,33%	-15,78%	-20,23%	-24,68%	-29,13%	-33,57%	-38,02%	-42,47%	-46,92%
2009	8,27%	11,85%	15,43%	19,01%	22,60%	26,18%	29,76%	33,34%	36,92%	40,50%	44,08%
2010	1,57%	3,41%	5,25%	7,09%	8,93%	10,76%	12,60%	14,44%	16,28%	18,12%	19,95%
2011	0,09%	-1,33%	-2,75%	-4,16%	-5,58%	-7,00%	-8,41%	-9,83%	-11,25%	-12,66%	-14,08%
2012	5,69%	6,84%	7,98%	9,12%	10,26%	11,41%	12,55%	13,69%	14,84%	15,98%	17,12%
2013	-0,46%	1,18%	2,82%	4,45%	6,09%	7,73%	9,37%	11,01%	12,65%	14,28%	15,92%
2014	5,74%	6,04%	6,35%	6,65%	6,95%	7,25%	7,55%	7,85%	8,15%	8,45%	8,75%
2015	0,81%	1,32%	1,84%	2,35%	2,86%	3,37%	3,88%	4,40%	4,91%	5,42%	5,93%
2016	2,19%	2,94%	3,70%	4,46%	5,22%	5,98%	6,74%	7,49%	8,25%	9,01%	9,77%
2017	-1,88%	-0,68%	0,51%	1,71%	2,91%	4,11%	5,31%	6,50%	7,70%	8,90%	10,10%
2018	-1,51%	-2,60%	-3,70%	-4,79%	-5,88%	-6,97%	-8,06%	-9,16%	-10,25%	-11,34%	-12,43%
2019	3,77%	5,70%	7,64%	9,57%	11,50%	13,44%	15,37%	17,31%	19,24%	21,17%	23,11%
2020	-1,11%	-1,23%	-1,35%	-1,47%	-1,59%	-1,71%	-1,84%	-1,96%	-2,08%	-2,20%	-2,32%
2021	1,17%	3,52%	5,87%	8,23%	10,58%	12,93%	15,28%	17,63%	19,98%	22,34%	24,69%
2022	-7,14%	-7,53%	-7,92%	-8,31%	-8,70%	-9,09%	-9,49%	-9,88%	-10,27%	-10,66%	-11,05%
ANNUALISED RETURN	2,04%	2,62%	3,15%	3,64%	4,08%	4,48%	4,84%	5,14%	5,40%	5,60%	5,74%
CUMULATED RETURN SINCE 31/12/98	62,55%	85,95%	110,48%	135,75%	161,28%	186,49%	210,71%	233,21%	253,14%	269,66%	281,84%
ANNUALISED STANDARD DEVIATION	2,86%	3,50%	4,63%	5,97%	7,42%	8,93%	10,48%	12,07%	13,69%	15,35%	17,03%

(BACK-TESTING 1999-2006, FUTURE PERFORMANCES MAY BE HIGHER OR LOWER)



Whether you are a private or institutional investor, Tareno (Luxembourg) S.A. will guide you in developing a high-performance portfolio management strategy that will maximise the future value of your investment.

For more detailed information, please refer to our website [www.eii.lu](http://www.eii.lu) or contact Guy Kieffer ([guy.kieffer@tareno.lu](mailto:guy.kieffer@tareno.lu)) or Marc Wagener ([marc.wagener@tareno.lu](mailto:marc.wagener@tareno.lu))

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3, rue de la Poste • L-2346 Luxembourg • T +352 26 86 67-1 • F +352 26 86 67-67  
E [info@tarenolu.lu](mailto:info@tarenolu.lu) • [www.tarenolu.lu](http://www.tarenolu.lu) • [www.eii.lu](http://www.eii.lu)