Oblomovism

We analyse whether higher or lower beta strategies have outperformed...

Update
06 May 2025

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The term 'Oblomovschina'—sometimes translated into English as 'Oblomovism'—refers to the extreme inertia embodied by Ilya Ilyich Oblomov, the main character of the eponymous 19th-century Russian novel Oblomov. A member of the landed gentry, Oblomov lives off the income from his country estate and rarely leaves his bed, with his first physical movement in the story—from bed to chair—occurring only after roughly 50 pages.

His behaviour stands in stark contrast to that of his childhood friend, Andrei Ivanovich Stolz, a diligent and practical man who consistently attempts to help Oblomov reform and solve his problems. Ultimately, Oblomov dies unfulfilled, having missed opportunities for success, personal growth, and love—losing his fiancée to Stolz, who, in contrast, builds a successful career.

Arguably, Oblomov and Stolz can be seen as personifications of a fund's beta, with Oblomov representing a low beta strategy—one that moves less than the market—and Stolz embodying a high beta strategy, which, conversely, moves more than the market. However, the world of investment management operates according to a different logic than that of 19th-century Russian literature.

To investigate whether higher systematic risk (high beta) consistently drove superior performance or if lower risk (low beta) resulted in better outcomes, we analysed key developed market equity sectors. To identify the investment companies with the lowest and highest betas in each sector, we used the benchmark most commonly used by sector constituents and measured beta over a five-year period (ending 31/03/2025). For example, in the AIC Europe sector, we have measured beta relative to the FTSE World Europe ex UK Index, as it serves as benchmark for three of the six constituents. We also examined rolling three-year returns over the past 15 years (to 31/03/2025)—when data was available or the number of sector constituents was sufficient—to assess the consistency of performance patterns over time.

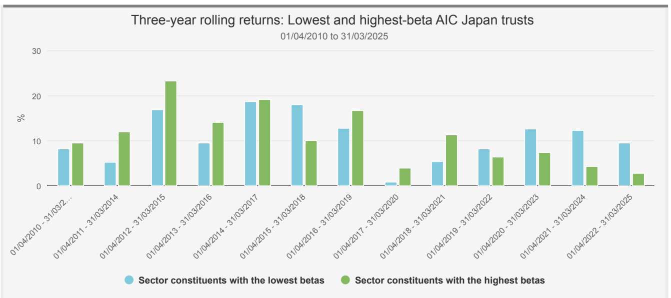
Where Oblomov was rewarded

The AIC Japan sector is notable in that its lower beta constituents have been the strongest performers over the period under review—namely, **CC Japan Income & Growth Trust (CCJI)** and **Schroder Japan Trust (SJG)**. Both have investment approaches that should theoretically lead to lower beta portfolios. Richard Aston, manager of CCJI, invests in what he considers to be high-quality, attractively valued companies, which should bring a bias to more stable businesses operationally and therefore potentially in terms of their share price performance. Similarly, Masaki Taketsume, manager of SJG, focusses on a mixture of value and quality across the entire market-cap spectrum. By contrast, the other sector constituents are growth-oriented strategies, which usually take more market risk than core strategies. As is often the case with stylistic strategies, these approaches can face challenging periods. Notably, the value factor has dominated in the Japanese equity market during the period under review—especially since 2022—resulting in a stylistic headwind for growth strategies and benefitting the more 'core' and valuation-sensitive approaches of CCJI and SJG.

That said, while both trusts have had lower betas than their sector peers, they actually have betas above one, implying they take more market risk than a simple index strategy. We think this reflects the fact that both investment trusts employ gearing, which has amplified the beta of the NAV. Over the five years to 31/03/2025, CCJI's average gearing was c. 19%, and SJG's c. 12%, compared with a simple average of c. 16% for the AIC Japan sector.

This is just one five-year period, of course. It covers the post-pandemic global recovery and the dramatic rise in US interest rates following the lifting of lockdowns. It is interesting that in Japan, lower beta strategies seem to have done the best, which may reflect Japan's particular economic situation over this period. We decided to look back over the past 15 years to see if this was a longer pattern: have lower beta strategies always done best in Japan? The chart below compares the average performance of the two constituents of the AIC Japan sector with the lowest and highest betas, across three-year rolling periods over the past 15 years. It shows that the lowest beta strategies underperformed their highest beta peers in eight out of 13 periods, with the most recent period of underperformance occurring between 01/04/2018 and 31/03/2021. So higher beta was a better bet on average in Japan.

Fig.1: Rolling Returns



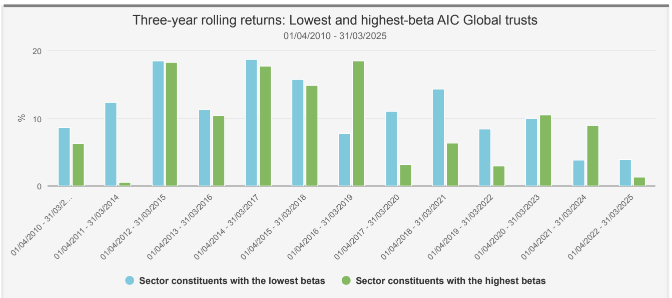
Source: Morningstar
Past performance is not a reliable indicator of future results.

In the AIC Global sector, **AVI Global Trust (AGT)** - which exhibited a beta of 0.84 over the five years to 31/03/2025—emerges as the lowest beta constituent and the best performer. Unlike in Japan, however, there was no consistent pattern of strategies with lower betas delivering stronger returns across the sector. We believe AGT's unique strategy and the composition of the AIC Global sector may explain why it combined both low beta and high performance.

AGT focusses on high-quality companies that its managers believe are overlooked by the market and trade at a discount to their intrinsic value. In our view, this emphasis on undervalued businesses likely contributed to its lower beta, as such stocks may be less reactive to broad market swings, even if they are not immune to them. By contrast, the sector is largely composed of core strategies—whose betas tend to be closer to one—and growth-oriented trusts, which typically are more volatile.

Interestingly, in the AIC Global sector, looking at three-year periods over the past 15 years, we note that the lowest beta strategies have generally delivered better returns than their higher beta sector peers, outperforming in nine out of 12 periods. We believe this may reflect the fact that quality stocks—which are often lower beta—have been in favour over much of the past 15 years. One standout period, however, was 01/04/2016 – 31/03/2019, during which higher beta strategies strongly outperformed their lower beta peers. This period captured a broad recovery—typically favourable to higher beta stocks due to their greater sensitivity to market movements—following the 2016 market dip, as well as an ultra-low interest rate environment that encouraged risk-taking. Since the post-COVID reopening, however, there has been no consistent pattern of outperformance by either lower or higher beta strategies. This inconsistency reflects rapidly shifting market conditions. The 2022 bear market had a particularly negative impact on higher beta growth stocks but was followed by the dominance of the 'Magnificent Seven'—especially NVIDIA—which tend to be higher beta names. This was in turn followed by a sell-off in early 2025, amid rising trade tensions that prompted investors to reduce risk.

Fig.2: Rolling Returns



Source: Morningstar
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Where Stolz prevailed

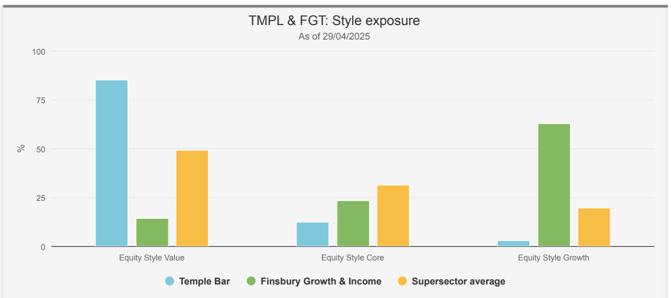
Interestingly, in the UK we observe the exact opposite pattern from these two sectors over the same timeframe. Note that we have grouped the AIC UK All Companies and AIC UK Equity Income sectors in a single UK 'supersector', as the constituents of the two sectors share the same investable universe. In this supersector, **Temple Bar (TMPL)**, the investment trust with the highest beta relative to the FTSE All-Share Index—at 1.24—was also the best performer. TMPL's unabashed value strategy has led it into cyclical sectors over the past five years, which has brought high beta as well as good returns. The trust has significant exposure to the financials and energy sectors, accounting for 32.4% and 15.1% of the portfolio respectively as of 31/03/2025. In addition, TMPL's average gearing of c. 7.5% over the five-year period may have further contributed to the trust's higher beta.

TMPL is managed by Ian Lance and Nick Purves at Redwheel, who aim to identify quality companies trading at significant discounts to intrinsic value and to hold them until their share prices more accurately reflect that value. While constituents of the supersector lean toward the value factor on average, TMPL has the highest exposure to value stocks, which we believe partly explains its strong outperformance. As the value factor dominated market returns in the period under review—similarly to Japan—TMPL benefitted from a stylistic tailwind. That said, the trust also returned c. 1.6× the 92.7% returns of the MSCI UK Value Index (in the five years to 31/03/2025), which we believe highlights that the trust's performance was driven by alpha as well as its style bias.

The investment trust in our UK supersector that exhibited the lowest beta over the review period was **Diverse Income Trust (DIVI)**, with a beta of 0.77 over the five years to 31/03/2025. We believe this low beta is largely attributable to DIVI's strong exposure to micro-cap stocks, which are less frequently traded due to their lower liquidity and therefore tend to move less than the large-cap stocks that dominate the FTSE All-Share Index. In addition, DIVI has maintained a net cash position throughout the period, further reducing its sensitivity to market movements.

As a result, we also examined the trust with the next lowest beta in the supersector - **Finsbury Growth & Income (FGT)** - with a beta of 0.83. In many ways, FGT stands in stark contrast to TMPL, with the highest allocation to growth stocks in the supersector, as illustrated in the chart below. Managed by Nick Train since 2000, FGT runs a concentrated portfolio of 19 holdings (as of 31/03/2025), selected for their quality characteristics and growth potential. The portfolio has historically had little or no gearing, avoiding an increase in market exposure.

Fig.3: Style Exposure

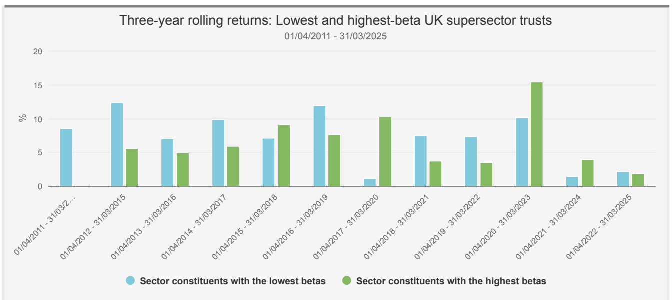


Source: Morningstar

While quality stocks, such as those Nick aims to hold, tend to be less sensitive to market fluctuations, they have largely been out of favour during the period under review. As a result, FGT has faced a stylistic headwind, which we think partly explains its underperformance of every other constituent in the AIC UK Equity Income sector over this timeframe. It is interesting how quality worked in Japan, but not in the UK over this five-year period.

While high beta has outperformed over the past five years in the UK, a lower beta approach has generally outperformed over the past 15 years (in eight of the periods). However, two of the three periods in which higher beta strategies outperformed occurred during timeframes that encompass the post-COVID era. This coincided with the strong performance of cyclical sectors—such as energy and financials—which tend to include higher beta stocks.

Fig.4: Rolling Returns



Source: Morningstar

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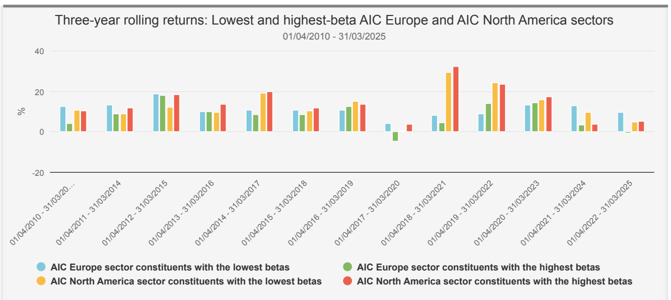
Where neither Oblomov nor Stolz stood out

In the remaining AIC sectors examined in this research, neither a lower nor a higher beta consistently corresponded with the best or worst performance. For example, in the AIC Europe sector, the top performer was **JPMorgan European Growth & Income (JEGI)**, which had a beta of 1.02 relative to the FTSE World Europe ex UK Index—broadly in line with the sector median of 1.03. Managed by Alexander Fitzalan Howard, Zenah Shuhaiber and Timothy Lewis, JEGI follows a core strategy that blends JPMorgan's investment principles of quality, value and momentum. In our view, this balanced approach—combined with moderate gearing—may have helped the trust navigate a value-driven market environment more effectively than the more volatile high-growth strategies and the lower beta, quality-focussed peers also present in the sector.

For the AIC North America sector, we excluded strategies focussed on Canadian equities. Similarly to Europe, the best-performing investment trust in North America was **JPMorgan American (JAM)**, a core strategy, whose beta of 1.10 relative to the S&P 500 Index was above the curated sector's simple average of 1.02 but not the highest in the sector. This higher beta can likely be attributed to the presence of income strategies within the sector, which tend to be less volatile due to their emphasis on stable, dividend-paying companies, as well as JAM's use of gearing, which averaged 5.1% over the past five years—the highest in the sector. That said, JAM still exhibited a lower beta than **Baillie Gifford US Growth (USA)**, a trust focussed on high-growth stocks.

Over the past 15 years, low beta strategies have generally outperformed in Europe, while high-growth strategies have typically performed better in North America. This reflects the markedly different economic environments in these regions over the period, as well as the distinct nature of their equity markets. Since the global financial crisis in 2008, Europe has experienced sluggish economic growth, which has favoured defensive sectors such as consumer staples and healthcare—areas that typically exhibit lower betas than the broader market. In contrast, the US has enjoyed more resilient GDP growth and a stock market rich in growth-oriented sectors such as technology, where stocks tend to have higher betas, where Europe arguably does not offer as much. Another contributing factor may be the more risk-tolerant mindset of US investors, who are generally more willing to accept market risk in pursuit of higher returns.

Fig.5: Rolling Returns



Source: Morningstar

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Conclusion

While there has been no clear evidence that either lower or higher beta strategies consistently led to better performance over the past five years (to 31/03/2025), longer-term patterns suggest that lower beta strategies have usually been the better bet. However, the one big counter-example has been the US, which would have been the key driver of any portfolio returns over the past five or 15 years.

In the AIC Global and AIC Europe sectors, as well as in the UK supersector, low beta strategies most often outperformed. We think this is likely due to the prominence of low beta quality stocks, particularly in Europe and the UK, operating in regions where economic growth was subdued. While higher beta strategies have performed better in post-COVID periods in the UK—driven by investment trusts focussed on cyclical, higher beta sectors—this trend is less apparent in the AIC Europe sector. The post-COVID picture is also mixed in the AIC Global sector. Higher beta strategies saw periods of outperformance during the dominance of the Magnificent Seven—which tend to be higher beta stocks, albeit with some variation between them. However, the bear market of 2022 and recent turbulence caused by rising trade tensions have once again favoured lower beta strategies.

A possible conclusion is that, unlike in Ivan Goncharov's novel, being as indolent as Oblomov or as driven as Stolz has not been predictive of performance. Instead, factors such as the macroeconomic environment, the nature of the equity market, and investment style may have played a more prominent role. However, the US stands out as a region where higher beta strategies have consistently outperformed, reflecting both a stronger economic backdrop and the nature of its equity market, which offers a rich pipeline of growth opportunities. When it comes to investing for the next five years, we think it will be important to consider whether the environment is more likely to be like the ones that we saw in the UK and Europe over the past 15 years, or more like the one we saw in the US.

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