



HYBRID RELATIVE VALUE

White Paper

Abstract

In depth insight of PoMaTo Hybrid Relative Value Equity model

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PoMaTo's Equity Model

WHITE PAPER

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1 Executive Summary

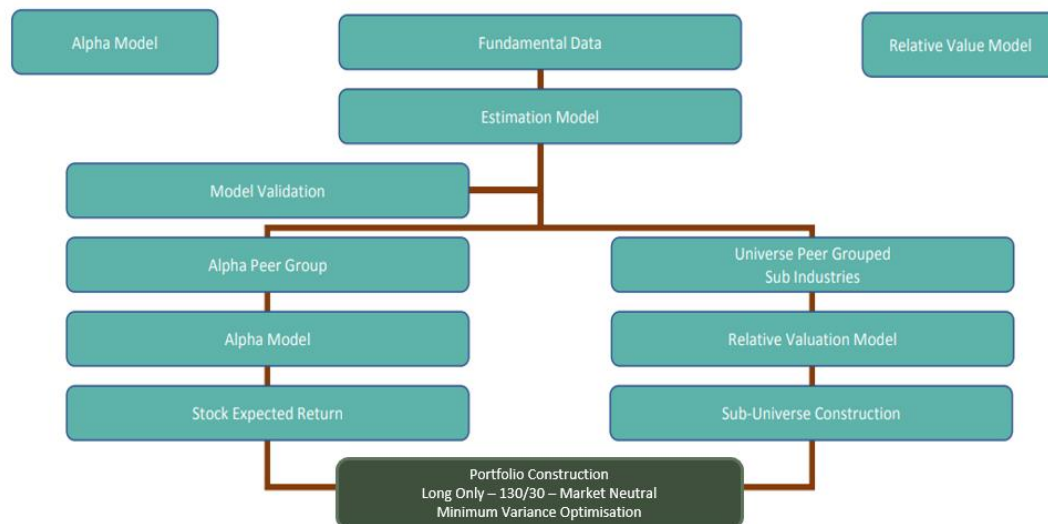
Traditional investment processes often combine portfolio construction, risk management, and alpha generation into a single framework. The HRV framework separates these functions. Risk architecture defines the structural portfolio constraints and diversification profile, while the alpha engine generates differentiated investment signals through a relative value process.

Hybrid Relative Value (HRV) represents one implementation of this modular alpha layer. The framework combines bottom-up fundamental analysis with adaptive quantitative techniques to identify relative mispricing opportunities across peer groups and industry structures.

The objective is not to forecast markets broadly, but to identify companies whose current valuation appears inconsistent with their underlying financial trajectory and relative positioning. The framework is designed to adapt across changing market conditions while maintaining a disciplined and consistent analytical process.

2 PoMato HRV Equity Model Overview – Framework Architecture

The HRV framework separates stable portfolio risk architecture from the adaptive alpha layer. This modular structure allows the investment process to evolve without requiring structural changes to the portfolio construction framework.



3 Introduction

The HRV model focuses on identifying companies with attractive asymmetric risk-adjusted return characteristics through a disciplined bottom-up framework. Rather than relying primarily on broad market or sector directionality, the model evaluates individual businesses relative to carefully defined peer groups.

The analytical process combines balance sheet analysis, forward-looking financial estimation, relative valuation techniques, and adaptive factor sensitivities to identify relative mispricing opportunities. The framework seeks to maintain consistency in risk discipline while allowing the alpha layer to evolve across changing market environments.

3.1 Data Collection

The model begins with a broad investment universe and aggregates standardized company-level financial information, including balance sheet and income statement data. Market data such as share price, market capitalization, shares outstanding, and trading activity are also incorporated.

These inputs provide a normalized analytical foundation designed to support consistent cross-sectional comparison across industries and peer groups.

3.2 Peer Group Definition

Companies are organized into peer groups based on core business activity and operating characteristics. The classification framework supports analysis at both industry and sub-industry levels, enabling more consistent relative value comparisons.

The objective is to establish meaningful like-for-like comparisons while preserving sufficient granularity to identify differentiated valuation opportunities.

3.3 Balance Sheet Analysis

Balance sheet analysis represents a central component of the framework. Historical and forward-looking financial relationships are evaluated to identify companies with improving operating dynamics relative to peers.

The model focuses on changes in key financial metrics and evaluates how these changes may influence future earnings potential, valuation, and market perception.

3.4 Forecasting Framework

The forecasting process focuses on short-horizon financial estimation using historical reporting trends, seasonality patterns, and company-specific operating dynamics.

The framework generates forward-looking estimates for key financial variables while maintaining consistency across the investment universe. Sector-specific indicators may also be incorporated where relevant to improve comparability and analytical robustness.

3.5 Relative Value Framework

Relative valuation analysis is applied across peer groups to identify companies whose market valuation appears inconsistent with their financial trajectory and competitive positioning.

The process combines value and growth perspectives using standardized financial data constructed from reported results and internally generated estimates. The objective is to identify relative mispricing while maintaining balanced comparisons across comparable businesses.

3.6 Alpha Generation

The alpha generation process estimates model-implied valuation potential by analysing how changes in company fundamentals have historically translated into market valuation.

The framework applies statistical techniques across multiple financial indicators to estimate the sensitivity of valuation to changes in underlying business fundamentals. Rather than imposing static factor assumptions, the framework allows the relative importance of financial drivers to evolve dynamically over time.

The resulting expected return differential between current valuation and model-implied valuation represents the estimated alpha opportunity.

3.7 Uniqueness of the HRV Framework

The HRV framework combines traditional bottom-up investment analysis with adaptive quantitative techniques. Unlike traditional factor-driven quantitative approaches, the framework does not rely on a single static set of factor exposures as the sole source of alpha generation.

Instead, different factor families contribute across different stages of the investment process, with their relative importance evolving across changing market regimes, including relative value analysis, portfolio construction support, and risk management.

This hybrid structure allows the framework to remain adaptive across changing market conditions while maintaining analytical consistency and disciplined portfolio construction.

3.8 Practical Applications of HRV

The HRV framework is designed to support multiple investment use cases across different portfolio management environments. While the framework can be applied as a standalone investment process, it can also function as a complementary analytical layer within existing investment workflows.

Potential applications include:

- Identification of differentiated equity opportunities
- Portfolio idea generation and investment screening
- Relative valuation analysis across peer groups
- Portfolio monitoring and risk review
- Support for both benchmark-aware and benchmark-independent investment approaches

The modular structure of the framework allows users to adapt the analytical outputs according to their own investment objectives, constraints, and decision-making processes.

3.9 Model Validation

The framework is evaluated through directional accuracy, excess return persistence, hit ratios, and stability across different market environments.

This validation process is intended to measure the consistency, robustness, and stability of the analytical framework over time rather than optimize for isolated short-term outcomes.

4 Validation Results – Model vs Actual Outcomes

Estimated in Q3_2025											Reported in Q4_2025			Diff%			AVG	
Year	BSQtr	TickerRootOrTicker	SecurityID	BSCCY	BSRate	DividendCCY	DivRate	Sales	Earning	BookValue	BSRate	Sales	Earning	BookValue	Sales	Earning	BookValue	Diff
2025	4	BMW GY	100092	EUR	1	EUR	1	136390.4571	7355.42197	94518.85146	1	133453	7294	95697	-2.15%	-0.84%	1.25%	-0.58%
2025	4	ALV GY	100095	EUR	1	EUR	1	108265.4954	10499.99265	61155.8517	1	108474	10603	62722	0.19%	0.98%	2.56%	1.24%
2025	4	AI FP	100135	EUR	1	EUR	1	27197.25234	3444.248955	25212.61393	1	26940.2	3517.9	26213.9	-0.95%	2.14%	3.97%	1.72%

PoMaTo Model vs Actual (2025)

