



# ALPHA PREDICTOR

*A new tool for fund selection*

30 April 2026

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CAPITAL

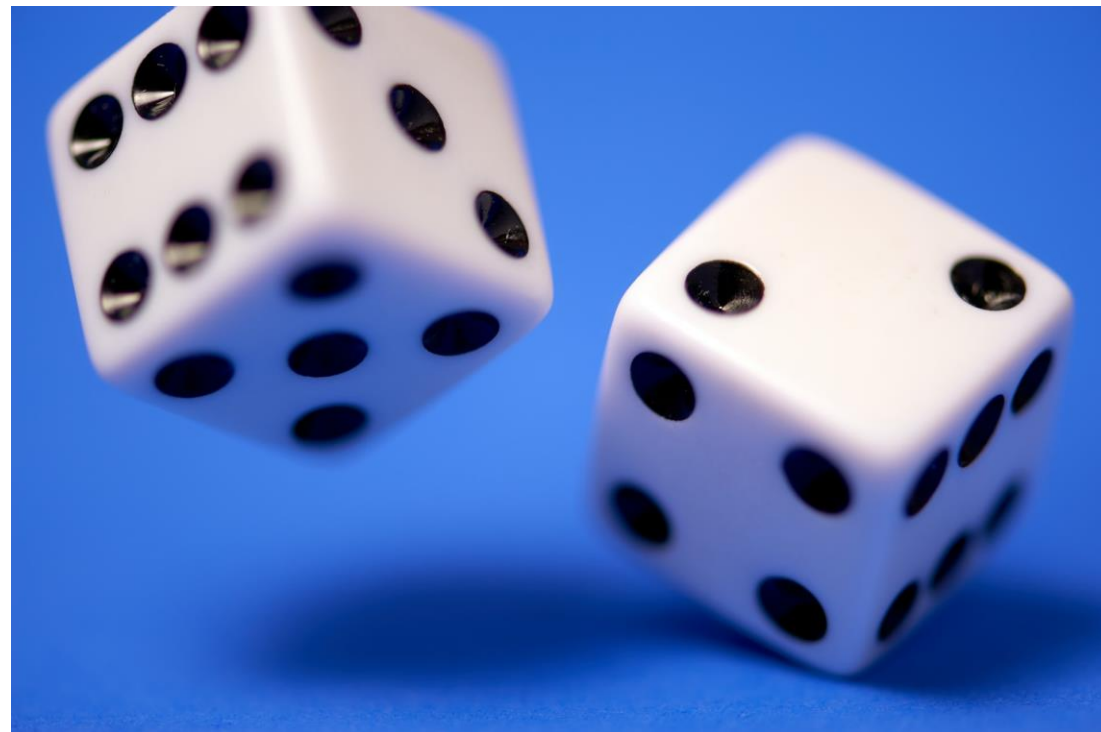
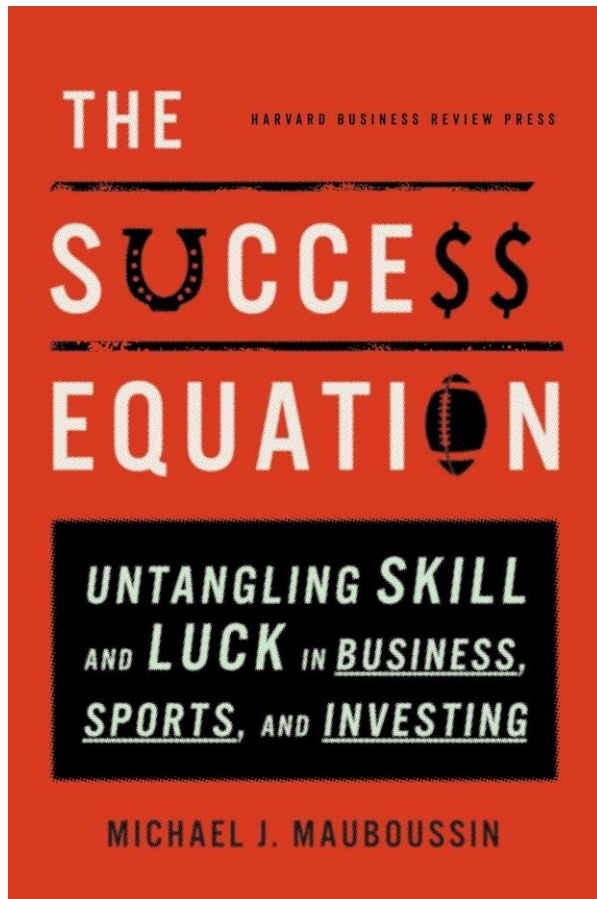


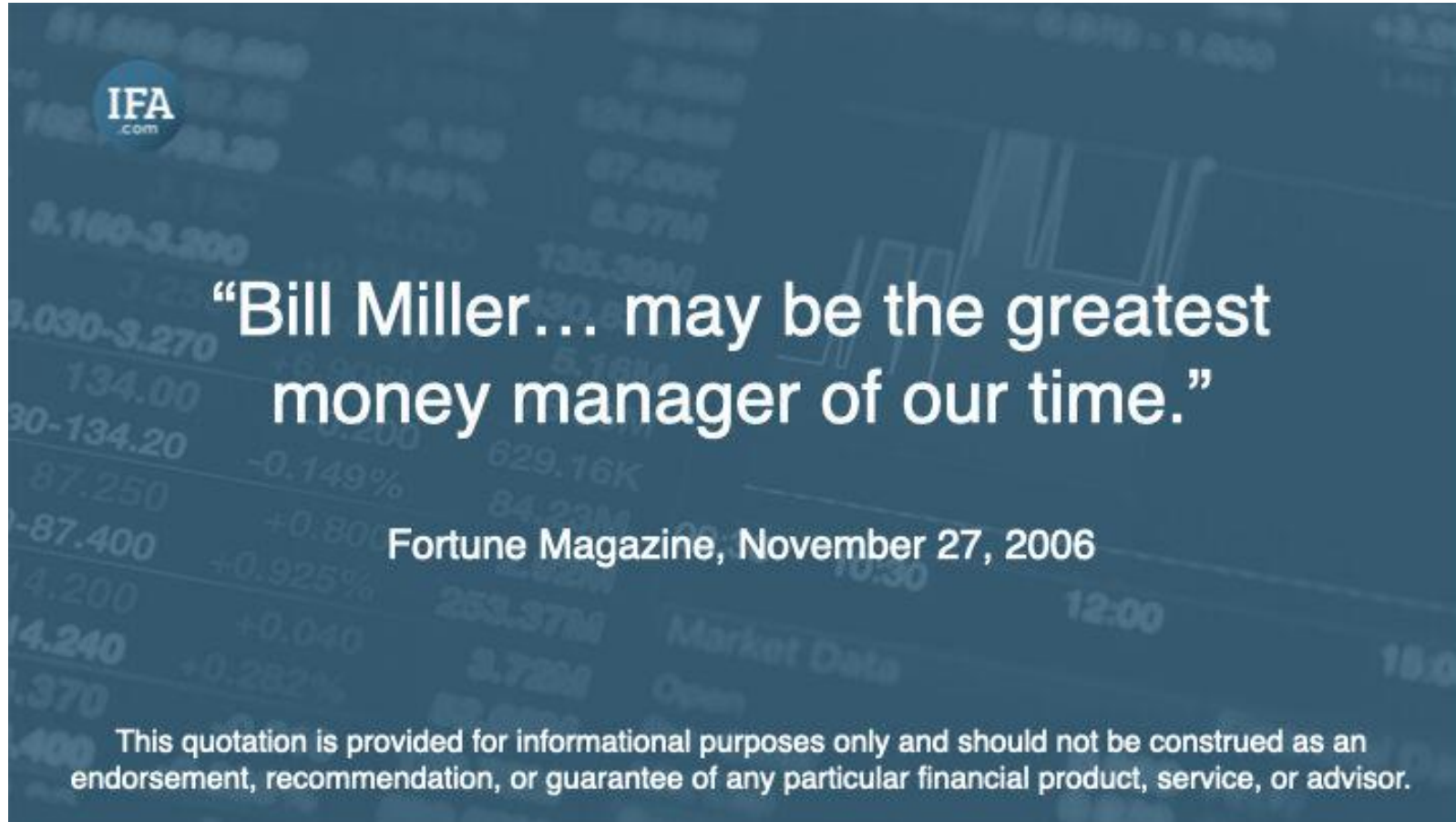
Steven Goldin  
Managing Partner  
**Parala Capital LLP**  
[steven@parala.com](mailto:steven@parala.com)



Dr. James Chu CFA  
Director  
**Tricio Investment Advisors Ltd.**  
[James.chu@tricio-advisors.com](mailto:James.chu@tricio-advisors.com)

## Skill or luck?





**IFA**  
com

**“Bill Miller... may be the greatest money manager of our time.”**

Fortune Magazine, November 27, 2006

This quotation is provided for informational purposes only and should not be construed as an endorsement, recommendation, or guarantee of any particular financial product, service, or advisor.

## The story behind



**ALPHA**  
PREDICTOR

## FIRM, PEOPLE AND HISTORY OF ALPHAPREDICTOR®

### About the firm

Parala was established nearly twenty years ago by a collaboration of experienced industry professionals and world class academics in the field of financial market behaviour

Our investment strategy is firmly rooted in academic research, and has been honed over a decade through practical experience

Parala advises on \$2.7 billion of assets, including discretionary funds

### Origins of AlphaPredictor® for forward-looking fund rankings

- 2006 – Methodology published by our academic founders in Journal of Financial Economics highlighting the predictability of fund manager skills and building Alpha generating portfolios
- 2008 – Parala founded to build the AlphaPredictor® technology, launch forward-looking fund ratings and help investors select better funds and build better portfolios
- 2013 – Mass affluent digital service launched by Pure Research that harnessed AlphaPredictor® covering 40 fund peer groups registered for sale in the UK and introducing the market to forward-looking fund ratings
- 2016 – Parala begins providing asset allocation services and multi-asset strategies for institutional investors
- 2026 – Launch of AlphaPredictor® Insights as a dedicated fund selection tool with Tricio



## PARALA'S TEAM

**Ben Gillen: Portfolio Optimization** – Professor of Economics at Claremont McKenna College. Expert in applying Bayesian probabilistic estimations when dealing with covariance matrices for large data sets. Extensive experience in portfolio optimization techniques

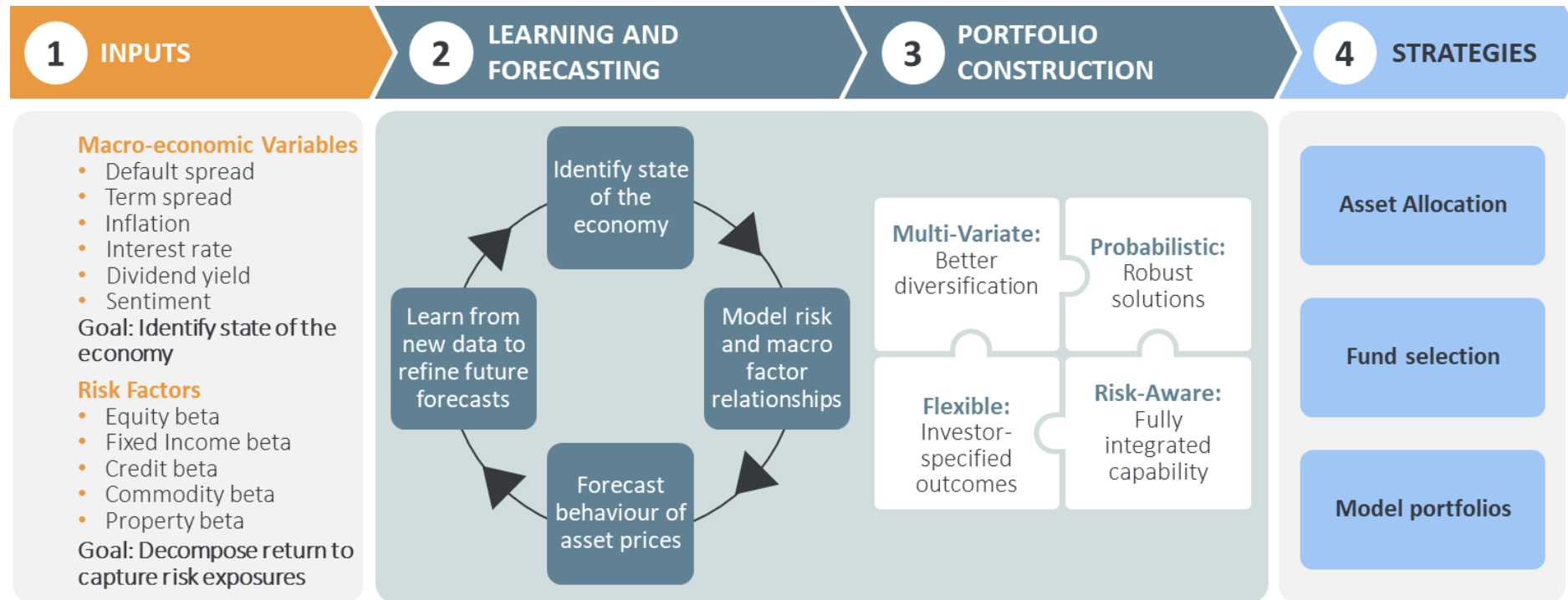
**Steven Goldin: Strategy and Product Design** – Expert in asset allocation, portfolio construction and investment product design. Extensive experience in creating smart beta indices through his leadership of the Strategy Index business at S&P

**Allan Timmermann: Forecasting Market Behavior** – Atkinson Epstein professor of Finance at UCSD. Recognised as a leader in applying econometric forecasting techniques to identify factors that determine the behavior of prices and expectations in financial markets. Has developed new methods to forecast under structural breaks, to use forecast combinations and to evaluate predictive skills

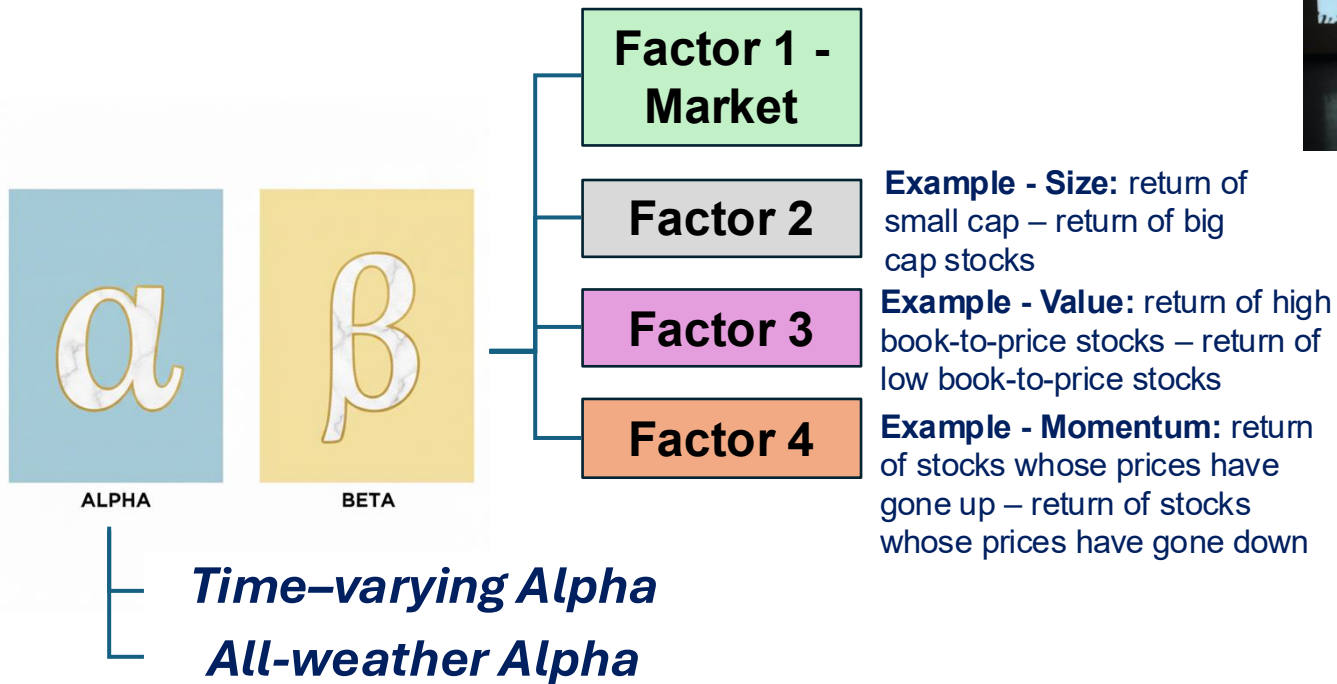
**Reza Vishkai: Investment Management** – Extensive investment management experience through leadership positions in two of the largest global asset managers. Set up and managed the Structured Solutions and Hedge Fund businesses at Schrodgers and oversaw and managed the Specialist Investment team at Insight Investment that comprised the firm's absolute return, equities, and private investment capabilities.

**Russ Wermers: Modelling Market and Investor Behavior** – Bank of America Professor of Finance and Director, Center for Financial Policy at the Smith School of Business, University of Maryland. Expert in analyzing financial market behavior with a focus on designing and evaluating investment strategies. Has published extensively on Bayesian investing with predictability in returns

## Overview of the AlphaPredictor® model



## Breaking down excess return of a fund (with examples of some Beta factors)

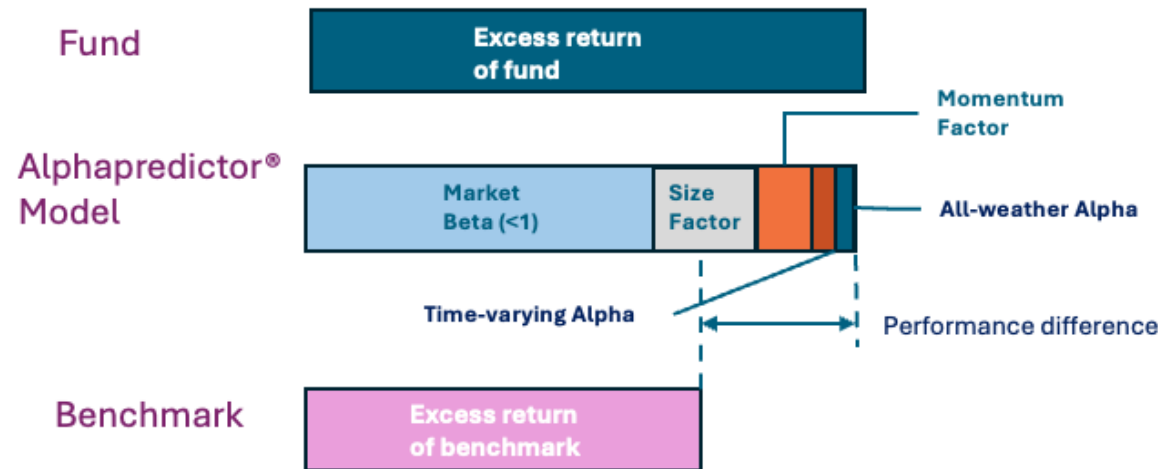


By including outlook and expectations in a business cycle ...



AlphaPredictor® provides insights in how a fund would perform on a forward-looking basis

## From CAPM to AlphaPredictor®





**Beta factors** explain the manager’s asset allocation vs benchmark, and the manager’s style preferences/constraints

**Time-varying Alpha** explains the manager’s skills in navigating across business cycles (for example, sector tilts)

**All-weather Alpha** explains the manager’s security selection skills

$$\begin{aligned}
 \text{Expected Return} = & \text{Risk Free Rate} + \sum (\text{Beta Factor} \times \text{Expected change on that Beta Factor}) \\
 & + \sum (\text{Time-Varying Alpha Sensitivity} \times \text{Expected change on the macroeconomic factor}) \\
 & + \text{All Weather Alpha}
 \end{aligned}$$

# Applying AlphaPredictor® : The Monthly AlphaPredictor® Insights

**AlphaPredictor® Insights**

**Our latest AlphaPredictor® insights**  
Investment Association Sector: UK Equity Income  
Forecast horizon: 3-month ahead forward-looking view  
Date: March 2025

**Three Key Takeaways**

**1. The Anatomy of Alpha: All-Weather Selection Skills versus Macro Timing Skills**  
The analysis decomposes Alpha into two distinct components, allowing advisors to assess how managers generate excess returns:  
**All-weather Alpha (Security Selection):** Premier Mton UK Multi Cap Income leads with the highest all-weather Alpha (0.48%), indicating strong stock-picking skill. See page 3.  
**Time-varying Alpha (Macro Navigation):** TM Redwheel UK Equity Income exhibits the strongest time-varying Alpha (0.45%), reflecting effective cycle positioning. See page 3 and page 6.  
**Bottom Quartile Risk:** Four of five bottom-quartile funds show negative all-weather Alpha, signalling weak core investment processes. See page 3.

**2. Style Drift and Income Misalignment**  
Several expected underperformers show a mismatch between their income label and actual factor exposure:  

- Income Paradox:** Funds such as Fidelity Enhanced Income and Liontrust Income have negative exposure to high-dividend stocks. See page 5.
- Macro Sensitivity:** If term spreads widen, abrdn UK Income Equity and Liontrust Income may generate negative Alpha and the same for BlackRock UK Income and Premier Mton Optimum Income funds if dividend yields fall. See page 7.

Top versus Bottom Quartile Characteristics	Expected Top Quartile	Expected Bottom Quartile
<b>Primary Alpha Source</b>	Positive all-weather and time-varying skills	Mostly negative across both skill types
<b>Dividend Exposure</b>	Positive tilt to higher-yielding stocks	Low to negative dividend exposure
<b>Style Profile</b>	Income / value biased	Drifting toward blend / growth
<b>Key Macro Sensitivity</b>	Positive if term spreads widen	Negative if term spreads widen

**3. The Inflation Sensitivity Health Check**  
The following breakdown highlights which funds are positioned to benefit from or be penalized by changes in UK inflation:

**Potential Winner: Resilience to Declining Inflation**

- TM Redwheel UK Equity Income Fund:** This fund is the standout beneficiary in a cooling inflation environment. It is expected to generate higher Alpha than its peers when inflation is declining. See page 6.

**Potential Losers: Vulnerability to Declined Inflation**

- Fidelity Enhanced Income Fund:** This fund has a positive sensitivity to UK inflation, meaning it tends to perform better when inflation is rising. Consequently, it is predicted to generate significant negative time-varying Alpha if UK inflation continues to decline. See page 7.
- Premier Mton Optimum Income Fund:** Similar to Fidelity, this fund has a positive sensitivity to inflation changes. Consequently, it is currently forecast to see an Alpha drag specifically attributed to the downward trend in UK inflation. See page 7.

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THE OLD TOWN HALL MARKET PLACE, OUNCE, RE5 4BA

PARALA CAPITAL LLP  
MIDDY LODGE, 31 HOLLAND STREET, LONDON W8 7JH

WWW.TRICIO-ADVISORS.COM

WWW.PARALA.COM

INFO@TRICIO-ADVISORS.COM  
020 386 9860



INFO@PARALA.COM  
020 7070 0963

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- Every month, AlphaPredictor® will be used to review retail funds in one universe
- The model analyses **what drives the performance** of all the funds in that universe.
- Compute expected return of each fund in next 3 months, based on parameters at current business cycle
- Rank the expected return of the funds, screen out funds that are too small / new
- Identify representative funds in the top quartile and bottom quartile
- Report the expected return and the breakdown in different Beta factors and Alpha

# What's inside our Monthly AlphaPredictor® Insights

## Summary on front page – including three key takeaways

### AlphaPredictor® Insights

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**Top versus Bottom Quartile Characteristics**

Feature	Expected Top Quartile	Expected Bottom Quartile
Primary Alpha Source	Positive all-weather and time-varying skills	Mostly negative across both skill types
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PARALA CAPITAL LLP  
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020 3853 5850

WWW.PARALA.COM  
020 7070 9983

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**Our latest AlphaPredictor® insights**  
Investment Association Sector: UK Equity Income  
Forecast horizon: 3-month ahead forward-looking view  
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# What's inside our monthly AlphaPredictor® Insights

## Recapping the model

## Expected return of representative funds top and bottom quartiles

## Contribution from Beta factors to expected returns (from style tilts etc.)

## Contribution from the two components of Alpha to expected returns

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### AlphaPredictor® Insights

**Our latest AlphaPredictor® insight**  
Investment Association: Global UK Equity Income  
Forecast horizon: 3-month ahead forward-looking view  
Date: March 2024

**How were these funds selected?**  
The funds below were selected from the UK Equity Income peer group. Five funds were chosen to represent the top and bottom quartiles based on their 3-month expected return settings, with a minimum track record of at least 175 weeks and a historical ranking within one quartile of their forward-looking ranking.

**About the AlphaPredictor® Methodology**  
AlphaPredictor® is an advanced learning methodology collaboratively developed by leading academics and experienced practitioners. It decodes investment asset behaviour across the business cycle and adapts rapidly to changing market conditions. In the case of active managed funds, AlphaPredictor® can help identify the future "best" performers and avoid underperformers. The methodology is also used for asset allocation and portfolio construction to select the best combination of assets to hold at any point in the business cycle while diversifying against different economic outcomes.

**1 INTENT** **2 LEARNING AND FORECASTING** **3 PORTFOLIO CONSTRUCTION** **4 STRATEGIES**

**Model selection objectives:** Global UK Equity Income, 3-month ahead forward-looking view, 175+ weeks track record, historical ranking within one quartile of forward-looking ranking.

**Asset Allocation:** Global UK Equity Income

**Fund Selection:** Five funds representing top and bottom quartiles

**Market Position:** Top and bottom quartiles

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### AlphaPredictor® expected return breakdown for each fund shows a monthly return contributions

Representative expected top quartile funds

Fund Name	Expected Return (%)	All-weather Alpha (%)	Time-varying Alpha (%)	Beta System (%)	Risk-Neutral (%)
Janus Henderson UK Equity Income	1.25%	0.15%	0.25%	0.65%	0.20%
Pharos UK Income Fund	1.20%	0.10%	0.20%	0.60%	0.10%
First Sentier UK Income Fund	1.15%	0.05%	0.15%	0.55%	0.05%
Paragon UK Income Fund	1.10%	0.00%	0.10%	0.50%	0.00%
First Sentier UK Income Fund	1.05%	-0.05%	0.05%	0.45%	-0.05%

**Comments:**

- All representative funds in the expected top quartile have higher expected returns and total Alpha than the peer group average with the exception of the Main Income Fund whose performance is primarily pure Beta.
- J O Hambro UK Equity Income has the largest total Beta return among the expected top quartile funds with small but positive all-weather and time-varying Alpha.
- Janus Henderson UK Equity Income and Growth is the only fund among the expected top quartile funds with negative all-weather Alpha due to greater security selection.
- Pharos UK Income Fund has the highest expected return and all-weather Alpha associated with good stock selection.
- First Sentier UK Equity Income has the largest time-varying Alpha related to navigating changes in the business cycle after observed through sector tilts.

Representative expected bottom quartile funds

Fund Name	Expected Return (%)	All-weather Alpha (%)	Time-varying Alpha (%)	Beta System (%)	Risk-Neutral (%)
Pharos UK Income Fund	0.75%	0.10%	0.15%	0.50%	0.10%
First Sentier UK Income Fund	0.70%	0.05%	0.10%	0.45%	0.05%
Janus Henderson UK Equity Income	0.65%	0.00%	0.05%	0.40%	0.00%
Paragon UK Income Fund	0.60%	-0.05%	0.00%	0.35%	-0.05%
First Sentier UK Income Fund	0.55%	-0.10%	-0.05%	0.30%	-0.10%

**Comments:**

- Four of five representative expected bottom quartile funds have lower total returns than the Peer Group average.
- The expected bottom quartile funds have negative time-varying Alpha which from quarterly weighting changes in the business cycle due to the funds' more negative all-weather Alpha than the peer group average.
- BlackRock UK Income is the only fund with a non-negative all-weather Alpha.
- Fidelity Enhanced Income has the lowest expected return among the expected bottom quartile funds because of its negative Alpha and lower expected total Beta return.
- Lionel International Fund has small negative all-weather and time-varying Alpha.
- Pharos UK Income Fund has the most negative combined all-weather and time-varying Alpha and the largest total Beta return from a higher than average exposure to smaller cap companies.

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### AlphaPredictor® Beta factor contributions to fund expected returns

Representative expected top quartile funds

Fund Name	Total Return (%)	UK Equity Market (%)	Small Cap (%)	Mid-Cap (%)	Dividend (%)
Janus Henderson UK Equity Income	1.25%	0.65%	0.20%	0.25%	0.15%
Pharos UK Income Fund	1.20%	0.60%	0.10%	0.20%	0.10%
First Sentier UK Income Fund	1.15%	0.55%	0.05%	0.15%	0.05%
Paragon UK Income Fund	1.10%	0.50%	0.00%	0.10%	0.00%
First Sentier UK Income Fund	1.05%	0.45%	-0.05%	0.05%	-0.05%

**Comments:**

- The high intrinsic low (HML) Dividend factor (also Dividend) is not expected to perform strongly over the next 3 months. This is why the funds also have small expected returns from this factor.
- The largest portion of the expected top quartile funds have higher total Beta returns than the bottom quartile funds and the peer group average.
- J O Hambro UK Equity Income, Janus Henderson UK Equity Income, Growth, Main Income, Pharos UK Income, Main Income and Growth have higher expected total Beta returns because of their larger exposure to smaller cap stocks which small caps are expected to outperform the broad market.
- The Rescaled UK Equity Income is the only expected top quartile fund with a lower total Beta return than the Peer Group average. Its expected outperformance comes from its higher Alpha.

Representative expected bottom quartile funds

Fund Name	Total Return (%)	UK Equity Market (%)	Small Cap (%)	Mid-Cap (%)	Dividend (%)
Pharos UK Income Fund	0.75%	0.50%	0.10%	0.10%	0.05%
First Sentier UK Income Fund	0.70%	0.45%	0.05%	0.05%	0.00%
Janus Henderson UK Equity Income	0.65%	0.40%	0.00%	0.00%	0.00%
Paragon UK Income Fund	0.60%	0.35%	-0.05%	-0.05%	-0.05%
First Sentier UK Income Fund	0.55%	0.30%	-0.10%	-0.10%	-0.10%

**Comments:**

- The Representative expected bottom quartile funds have been expected returns associated with the Small Cap Premium than the top quartile funds. Pharos UK Income is the only outperformer.
- Fidelity Enhanced Income has the lowest expected returns from total Beta, UK Equity Market Beta and the Small Cap Premium.
- Pharos UK Income is the only expected bottom quartile fund with a higher total Beta return than the Peer Group average.

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**How were these funds selected?**  
The funds below were selected from the UK Equity Income peer group. Five funds were chosen to represent the top and bottom quartiles based on their 3-month expected return settings, with a minimum track record of at least 175 weeks and a historical ranking within one quartile of their forward-looking ranking.

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**Model selection objectives:** Global UK Equity Income, 3-month ahead forward-looking view, 175+ weeks track record, historical ranking within one quartile of forward-looking ranking.

**Asset Allocation:** Global UK Equity Income

**Fund Selection:** Five funds representing top and bottom quartiles

**Market Position:** Top and bottom quartiles

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### Fund time-varying Alpha from navigating changes in the business cycle

The AlphaPredictor® methodology provides the unique ability to identify managers with skills which will perform well given different but plausible economic outcomes. Time-varying Alpha measures skill associated with navigating changes in the business cycle and is often demonstrated by sector tilts or security selection within sectors. Macro Alpha sensitivities reflect the portion of a manager's skill which is correlated (positively or negatively) with important macroeconomic variables. By pairing macroeconomic variable changes with a fund's Macro Alpha sensitivities, you can gain insights about their Alpha generation in different environments. The table below shows the Macro Alpha return contributions and sensitivities of each fund to changes in important macroeconomic variables. An arrow indicating the trend in each macroeconomic variable is also shown.

**Understanding how a fund's Alpha might be impacted as the business cycle evolves can help a fund selector pick winners and avoid funds whose Alpha may deteriorate in specific environments. The AlphaPredictor® model is an advanced learning model and it will learn over time as relationships between Alpha and macroeconomic variables evolve.**

**Representative expected top quartile funds macro Alpha and macro sensitivities**

Fund Name	Expected Return (%)	Macro Alpha (%)	Real GDP (%)	Real GDP Growth (%)	Real GDP Growth Rate (%)	Real GDP Growth Rate Change (%)	Real GDP Growth Rate Change Rate (%)
Janus Henderson UK Equity Income	1.25%	0.15%	0.10%	0.10%	0.10%	0.10%	0.10%
Pharos UK Income Fund	1.20%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%
First Sentier UK Income Fund	1.15%	0.05%	0.05%	0.05%	0.05%	0.05%	0.05%
Paragon UK Income Fund	1.10%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
First Sentier UK Income Fund	1.05%	-0.05%	-0.05%	-0.05%	-0.05%	-0.05%	-0.05%

**Comments:**

- The low expected top quartile funds all have positive time-varying Alpha.
- Except for Janus Henderson UK Equity Income, these funds will generate negative Alpha when credit risk is declining, real GDP is growing and real GDP growth is positive Alpha in periods of rising credit risk.
- Main Income Fund performance is mainly from its Beta exposure. Its largest time-varying Alpha component is from its sensitivity to changes in dividend yields.
- Pharos UK Income Fund has the highest time-varying Alpha among the representative expected top quartile funds from navigating changes in term spreads.
- Other factors in declining, TM Rescaled UK Equity Income may generate higher Alpha than the other funds.
- The top quartile funds have macro Alpha sensitivities that are notably different to the bottom quartile funds.
- Four of the top quartile funds have positive sensitivities to both interest and real GDP growth rate changes in the dividend yield. If the term spread is widening and/or the dividend yield is falling, these funds are more likely to generate positive Alpha.

**Representative expected bottom quartile funds macro Alpha and macro sensitivities**

Fund Name	Expected Return (%)	Macro Alpha (%)	Real GDP (%)	Real GDP Growth (%)	Real GDP Growth Rate (%)	Real GDP Growth Rate Change (%)	Real GDP Growth Rate Change Rate (%)
Pharos UK Income Fund	0.75%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%
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The funds below were selected from the UK Equity Income peer group. Five funds were chosen to represent the top and bottom quartiles based on their 3-month expected return settings, with a minimum track record of at least 175 weeks and a historical ranking within one quartile of their forward-looking ranking.

**About the AlphaPredictor® Methodology**  
AlphaPredictor® is an advanced learning methodology collaboratively developed by leading academics and experienced practitioners. It decodes investment asset behaviour across the business cycle and adapts rapidly to changing market conditions. In the case of active managed funds, AlphaPredictor® can help identify the future "best" performers and avoid underperformers. The methodology is also used for asset allocation and portfolio construction to select the best combination of assets to hold at any point in the business cycle while diversifying against different economic outcomes.

**1 INTENT** **2 LEARNING AND FORECASTING** **3 PORTFOLIO CONSTRUCTION** **4 STRATEGIES**

**Model selection objectives:** Global UK Equity Income, 3-month ahead forward-looking view, 175+ weeks track record, historical ranking within one quartile of forward-looking ranking.

**Asset Allocation:** Global UK Equity Income

**Fund Selection:** Five funds representing top and bottom quartiles


**Market Position:** Top and bottom quartiles


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PARALA CAPITAL LLP | THE OLD TOWN HALL, MARKET PLACE, CHELSEA, LONDON SW1R 9JH | WWW.PARALACAPITAL.COM | 5  
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# What's inside our monthly AlphaPredictor® Insights

## Glossary and definitions

## A check on historical predictive power of the model of that universe





**GLOSSARY**

**Beta risk factors**

- Market Beta – MSCI UK Index
- Small Cap Premium – MSCI UK Small Cap Index returns minus MSCI UK Large Cap Index returns
- HML Dividend Premium – FTSE 350 High Dividend Index returns minus the MSCI FTSE 350 Low Dividend returns

**Alpha**

- All-weather Alpha – Fund manager security selection skill which is independent from the business cycle
- Time-varying Alpha – Fund manager skill from dynamically timing industries and sectors over the business cycle. Macroeconomic state variables such as the default spread, term spread, short interest rate, dividend yield, inflation and economic sentiment can be used to identify funds likely to generate superior performance.

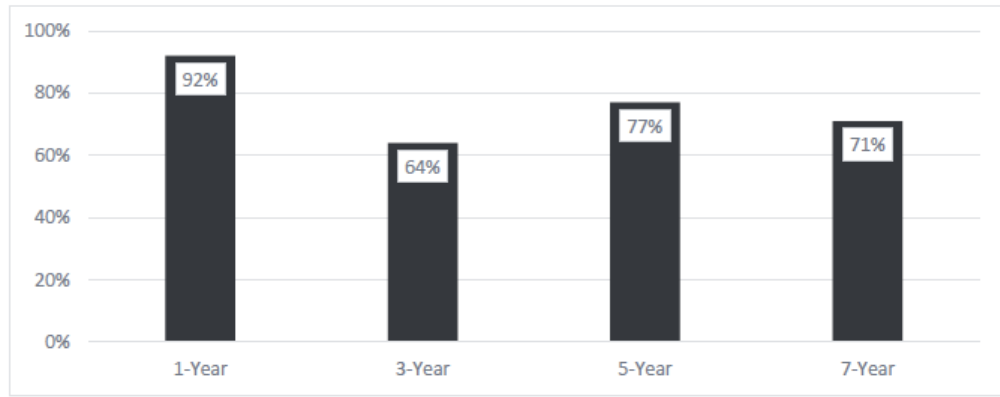
**Macroeconomic state variables**

- Default spread – The difference between the yield on global investment grade corporate bonds and global treasury bonds. It is a measure of credit risk and stresses in the financial system. It is counter-cyclical tending to widen in recessions and shrink in expansions.
- Term spread – The difference between global long and short-term government bond yields. Academic research has found it to be a predictor of economic growth as well as turning points in the economy.
- Short rate – The yield on short-term global government bonds. Short term interest rates are closely linked to monetary policy. Falling short term interest rates have been associated with rising stock and bond markets in subsequent periods. Higher short rates may signal reduced capital investment by firms as well as lower consumption in the economy.
- Dividend yield – The dividend yield on a broad index of UK equities. A measure of relative equity valuations. It is counter-cyclical tending to widen in recessions and shrink in expansions
- Inflation – UK CPI harmonized with the EU which tracks prices across a wide range of common items including food, energy, housing, and transport.
- OECD Leading Economic Indicator – A composite indicator for UK economic growth

**Quantifying the Predictive power of the AlphaPredictor® forward-looking rankings for the UK Equity Income peer group**

We calculated the performance of the top quartile predicted 3-month ahead funds versus the bottom quartile predicted funds over the last seven years ending December 2025 and then looked at the consistency of the outperformance of the top versus bottom quartile funds ranked by 3-month expected returns. The chart below shows the frequency of outperformance over 3-, 12-, 36-, 60- and 84-month periods.

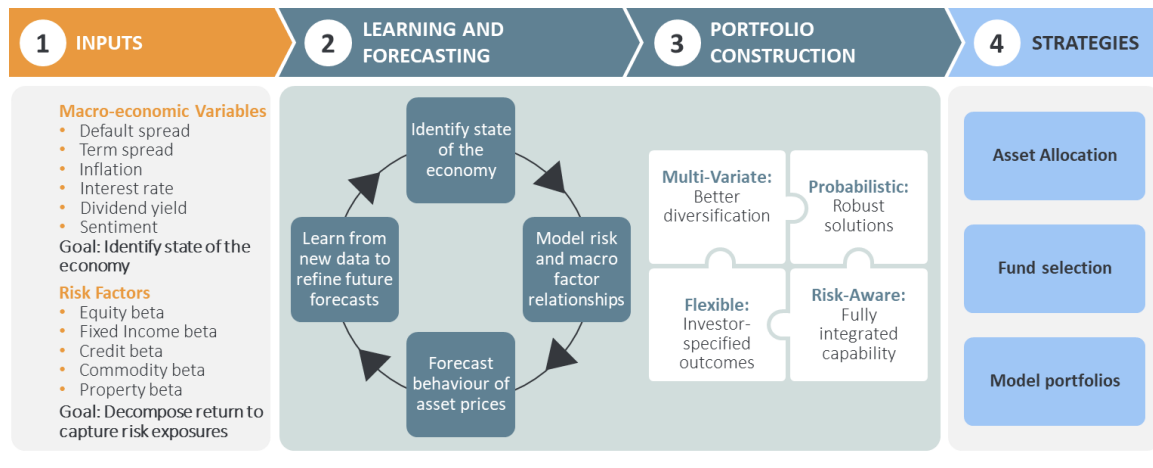
Percentage of times that the top quartile predicted funds outperformed bottom quartile predicted funds



Period	Percentage of Outperformance
1-Year	92%
3-Year	64%
5-Year	77%
7-Year	71%

## Beyond AlphaPredictor® Insights ...

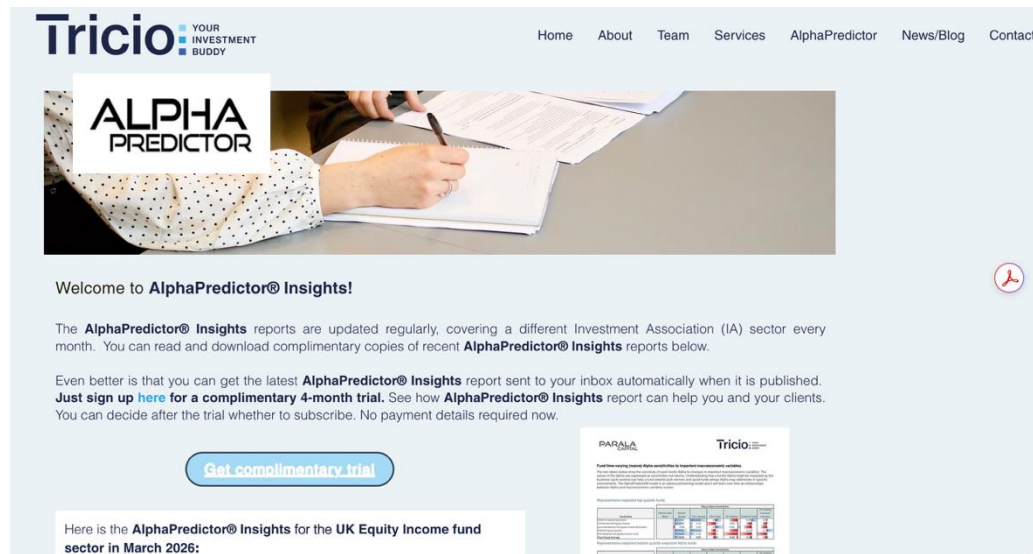
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Steven Goldin  
Managing Partner  
**Parala Capital LLP**  
[steven@parala.com](mailto:steven@parala.com)



Dr. James Chu CFA  
Director  
**Tricio Investment Advisors Ltd.**  
[James.chu@tricio-advisors.com](mailto:James.chu@tricio-advisors.com)



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