



## INSEAD Professors' Fund Ranked Number One

### Investing in companies announcing share buybacks as a strategy is returning market-beating results

The recent rise of the Dow to its highest level since 2007 and climb in the S&P 500 to a 5-year high have raised questions over valuations. The current Price-to-Earnings (P/E) ratio of the S&P is around 15; reasonable say market participants. But if one were to turn to the Shiller P/E Ratio, which is based on average inflation-adjusted earnings from the previous 10 years, a different story unfolds. Using the Shiller P/E, widely watched by fund managers as an important gauge of valuation, one can see how a company has fared throughout a whole business cycle and take a long-term view. Currently, the Shiller P/E stands at 22.8, well above its historical average of 16.5. This is worrying some fund managers who say the prospects of economic improvement in 2013 could already be priced into equities. So is there value left in US stocks? INSEAD Finance Professors, **Urs Peyer** and **Theo Vermaelen** think so, but in a niche area. Their US market stock buyback fund (DIM Sicav SIF - SCA PV Buyback USA M) posted returns of nearly 21 percent for the calendar year 2012. This performance beat the Russell 2000 Index by 7 percent, and the fund was ranked #1 out of 70 similar funds for 2012 by Citywire, a UK-based fund advisory service. The fund is made up of 55 positions in small and mid-cap companies announcing share buybacks, which Vermaelen and his colleague Urs Peyer believe are undervalued. These determinations are based on their own

proprietary research and on publically-available information on share buy-backs in the marketplace. "This is the first full calendar year that we have been able to measure performance and we are pleased that the buyback strategy still works. In a world where investors are excessively risk averse and companies are awash with cash there are indeed a lot of opportunities for companies to take advantage of misvaluation," Vermaelen said. Companies buy back stock for a variety of reasons from earnings-per-share enhancement to lack of share price growth. The professors' fund uses an index to measure the likelihood that a buyback is being driven by undervaluation and incorporates past price behaviour, firm size, market to book and stated motivation. Instituted in June 2011, the buyback fund is incorporated in Luxembourg and has realised a return since its inception of 7.9 percent. The fund charges a 10 percent performance fee if the fund outperforms the Russell 2000 Index in absolute terms and 10 percent of the managers' performance fee will be donated to INSEAD's endowment to help MBA students in need. Monthly performance reports and other information on the fund and others can be found at <http://www.dimfunds.com>.

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