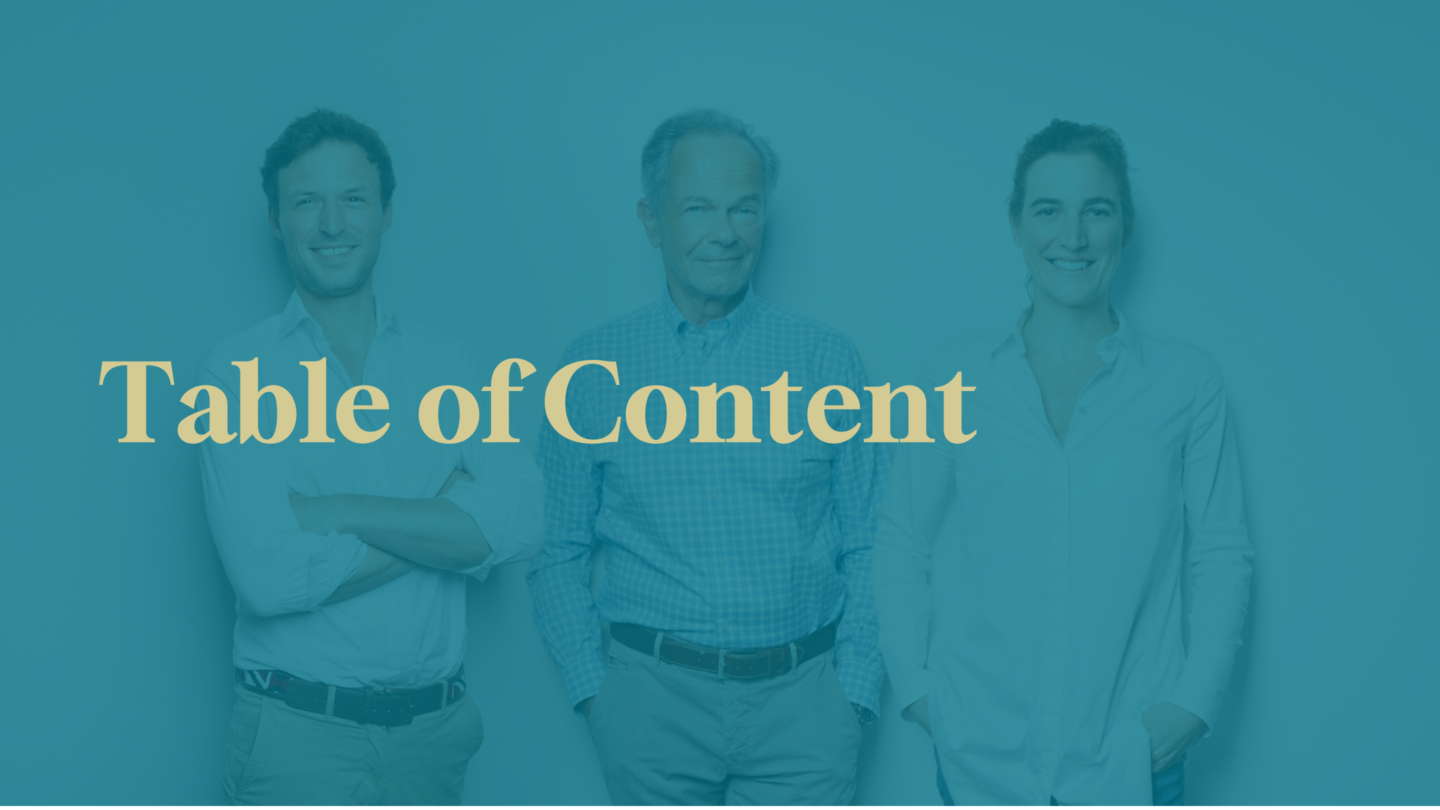
froots
Investment Approach



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Introduction

froots, founded in 2020, is the only truly independent asset manager from Austria, serving clients across Europe. Aiming to eliminate conflicts of interest in asset management, froots offers not only independent asset management but also personalized advice to individuals, family offices, and institutions for effective asset growth.

At the core of froots' philosophy is the apparent paradox that investing is never a goal of itself, and that a mutual understanding of the client's real objectives is essential for effective investment. froots takes the time to understand clients' needs and limitations, ensuring the creation of truly tailored portfolios.

This white paper provides an in-depth look at froots' investment philosophy, methodologies, and value proposition, showcasing our expertise and dedication to helping clients achieve their financial goals. It aims to help you determine if froots is a fit for your personal financial journey.

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Company Principles

Despite the focus of this paper being on our investment approach, we think that our general company principles cannot go unmentioned, since without them, our sophisticated investment approach would not suffice to do the best possible job for our clients. froots operates by four principles that are paramount, withhout consessions.

froots always follows four basic principles

Full Independence

We never buy our own products for clients or accept kickbacks, ensuring we always act in your best interest.

Skin in the Game

Our founders and investment team invest their own funds alongside our clients, aligning our goals and ensuring total commitment to achieving the best outcomes.

Tailored Solutions

We believe in open and honest communication to fully understand your objectives before constructing a solid portfolio tailored to your needs.

Attractive Pricing

Technological efficiency allows us to offer tailored solutions with great service at lower prices, reaching a broader audience.

Investments harbour price, currency, liquidity, creditworthiness and interest rate risks.

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Investment Philosophy

Our investment philosophy is built on four foundational pillars. These pillars, —Value-Driven, Systematic, Personalized, and Passive/Active— are at the bases of any investment decision.

Value-Driven

At the core of Froots' investment philosophy is a commitment to value. We believe, with endless data to back this up, that over the long run, value is the most important predictor of future returns. Great businesses can be terrible investments, and mediocre businesses can be great investments, depending on the price that one pays. Therefor without valuation, investing becomes mere speculation.

Systematic

Our approach is systematic, ensuring that every decision is repeatable and methodical. By adhering to a disciplined investment process, we have the strength to act countercyclically and consistently apply our strategies across varying market conditions. Our framework is supported by comprehensive in-house research and provides a continuous feedback loop, allowing us to learn from past mistakes and refine our methodologies. This process enhances our decision-making capabilities over time.

Personalized

By understanding what client want to achieve, we can tailor investment strategies to align with their specific goals and risk tolerance. This approach allows us to manage risk effectively instead of trying to avoid it. Accepting volatility so long as this is beneficial and phasing it out as soon as it becomes a risk is only possible if a mutual understanding between the client and the manager is achieved.

Passive/Active

froots combines the best of passive and active investing. We leverage the advantages of ETFs, such as low costs and broad market exposure, while also incorporating active management when opportunities arise. By taking contrarian positions instead of following the crowd, we capitalize on market inefficiencies. This balanced approach allows us to benefit from stable, long-term growth while simultaniusly aiming for higher returns with more moderate volatility.

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Investment Methodology

Regardless of the specific objecives of a client, portfolio construction and management always happen according to the following four steps.

4.1 Definition of Investment Universe

When selecting investment assets, it is essential to understand their interrelationships. Historical correlation data indicates which asset classes work well together and how they fit into various strategies. Since correlations change with different market conditions, maintaining the optimal combination of asset classes is always a dynamic process.

Correlation Matrix

	U.S. L.Cap	EAFE	EME	Bonds	Corp. HY	Munis	Curr.	EMD	Comm.	REITs	H. Funds	P.E.	Gold	Ann. Volatility
U.S. L.Cap	1,00	0,89	0,80	0,32	0,86	0,42	-0,47	0,76	0,40	0,78	0,82	0,79	0,24	15%
EAFE		1,00	0,90	0,34	0,86	0,48	-0,62	0,80	0,42	0,67	0,80	0,78	0,31	16%
EME			1,00	0,31	0,83	0,42	-0,69	0,80	0,46	0,55	0,75	0,76	0,40	18%
Bonds				1,00	0,42	0,88	-0,42	0,68	-0,29	0,50	-0,03	0,14	0,60	5%
Corp. HY					1,00	0,48	-0,52	0,88	0,45	0,70	0,76	0,72	0,34	9%
Munis						1,00	-0,46	0,75	-0,26	0,61	0,09	0,26	0,46	5%
Currencies							1,00	-0,62	-0,35	-0,31	-0,28	-0,55	-0,61	7%
EMD								1,00	0,18	0,67	0,54	0,59	0,52	8%
Commodities									1,00	0,67	0,63	0,58	0,19	17%
REITs										1,00	0,56	0,61	0,24	17%
Hedge Funds											1,00	0,80	0,08	5%
Private Equity												1,00	0,10	9%
Gold													1,00	13%

Source: JP Morgan - Guide to the Markets Q4 2024

4.2 Valuation of Asset Classes

To understand value, two key concepts are essential:

01 The price paid for current and future cash flows is the most reliable predictor of future returns—the cheaper an asset is purchased, the higher its expected future return.

02 Emotional biases heavily influence the valuations of individual assets and entire asset classes, causing prices to deviate significantly from their fair value.

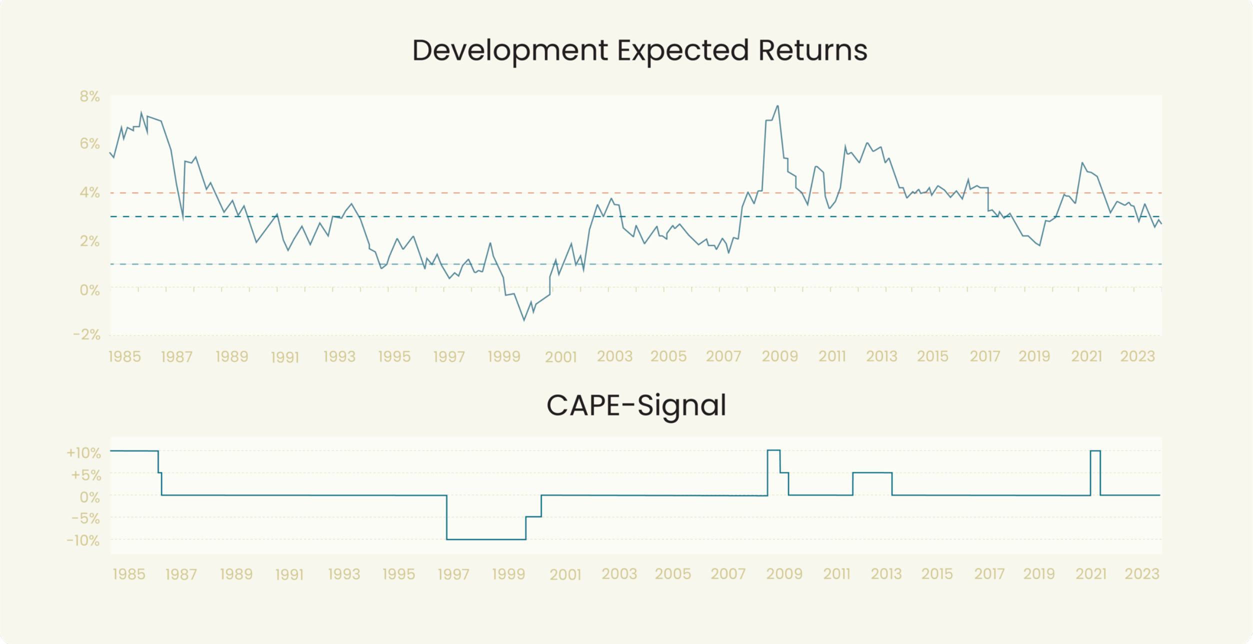
froots applies these principles in its countercyclical approach. When asset classes, regions, or sectors become expensive, we reduce exposure to mitigate risk. Conversely, when these assets are attractively priced, we increase exposure to capitalize on higher expected returns.

Important to note, is that we are not traders, and that we recognize that markets are incredibly efficient. But at the same time, we refuse to naively follow the masses. Therefore, we only act in extreme situations.

The first graph illustrates how the attractiveness of equities relative to fixed income changes over time. A higher Equity Risk Premium (ERP) indicates higher expected future returns for equities compared to fixed income.

The second graph shows our data-driven signal's historical response to changes in equity attractiveness compared to fixed income. When equities became expensive, the portfolio temporarily shifted towards fixed income until normalization. Conversely, when equities were exceptionally attractive, as after the 2008 global financial crisis, the signal increased equity exposure until expected returns normalized.

This countercyclical approach helps optimize market participation without taking unnecesary risk.

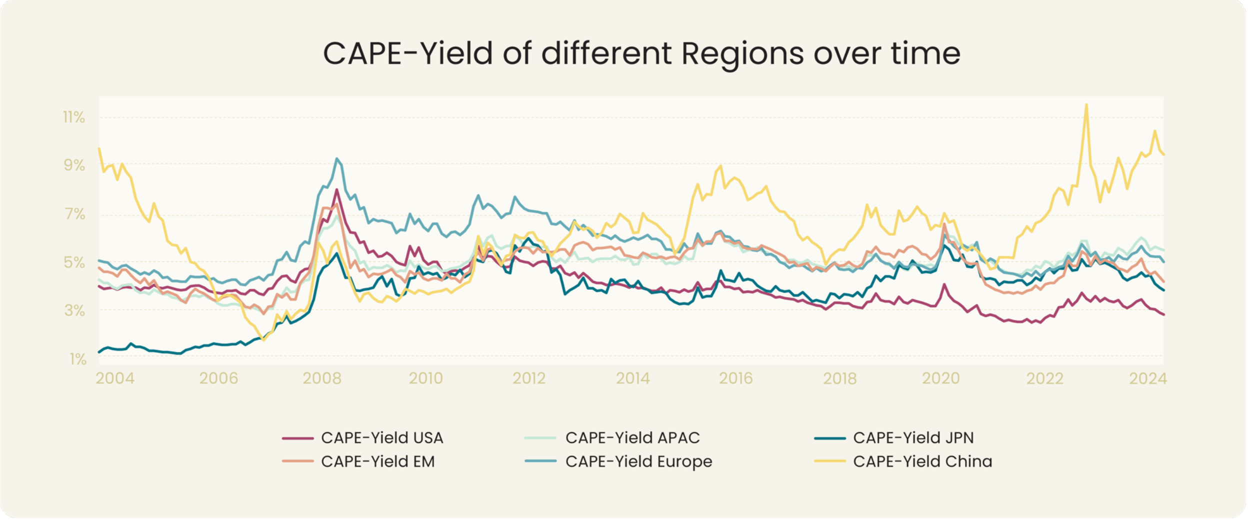


Source: Internal Calculations, Capital IQ, Factset.

4.3 Valuation within Asset Classes

Once the proportions of different asset classes are determined, we assess the relative attractiveness of regions within the equity stake. Historically, valuation has been the most reliable predictor of future returns at this level. Therefore, we overweight more attractive regions and underweight more expensive ones. Currently, US equities are the most expensive, while Emerging Markets are the most attractive. Consequently, we have underweighted US equities and overweighted Emerging Markets.

In addition to regional adjustments, we make sector and scale adjustments to move away from the most overpriced companies and towards more attractive ones. For example, within the US, a small group of the largest companies are both incredibly expensive and constitute a significant part of the total US market. Therefore, we currently have an overweight in small-cap stocks to avoid excessive exposure to these few mega companies.



Source: Barclays, CAPE-ratio global regions, Internal Analysis

4.4 Independent Product Selection

We believe that independent product selection is one of the greatest advantages of an independent digital wealth manager like froots. This independence enables us to align fully with our clients' objectives and avoid conflicts of interest. Additionally, it allows us to consider any financial product globally, provided it suits the client's goals, rather than being limited to in-house products or those with the best sales incentives. Below are the four most important factors considered in our product selection process:

Cost

Fees and expenses associated with the ETF should always be as low as possible as they can significantly impact overall returns over time.

Liquidity

The more an ETF is traded, the easier it can be bought or sold in the market without affecting its price. High liquidity is crucial for minimizing trading costs and ensuring smooth transactions. gewährleistet einen reibungslosen Handel.

Tracking Error

This is the difference between the ETF’s performance and the performance of its benchmark index. A lower tracking error indicates the ETF is more accurately replicating the index, which is what we are looking for.

Risk of synthetic Replication

froots examines the structure of financial products to avoid unnecessary risk. Derivatives can carry risks that are difficult to estimate, so they should be avoided if the structure doesn't add value.

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Personal Service

We strongly advocate for purpose-driven investing, where objectives are clearly defined from the outset. Initial discussions with clients often reveal that their core goals differ from our initial assumptions, highlighting the invaluable role of personalized service.

Once we've tailored an appropriate portfolio, transparent communication becomes essential for the ongoing success of our partnership. Regardless of portfolio size or complexity, clients are encouraged to ask questions and receive timely updates on our strategies and decisions.

In some instances, our services extend beyond traditional investment management. We assist clients in setting up tax-efficient funds, conducting comprehensive analyses of existing portfolios to uncover hidden risks and opportunities, and facilitating asset transfers between financial institutions. Our expertise in these areas aims to streamline bureaucratic processes and save valuable time.

Many of our clients entrust us to handle their investments with the assurance that they won't have to worry about them again. Therefore, our service has to go well beyond mere investment management.

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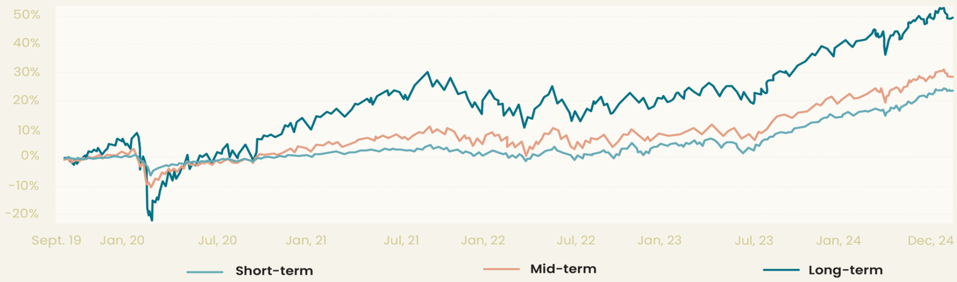
Historical Performance

froots has been invested since September 2019. Despite the uncertainty in recent years, through Covid, exploding inflation and the war in Ukraine, our portfolios have had incredible risk-adjusted performance.

Past Performance



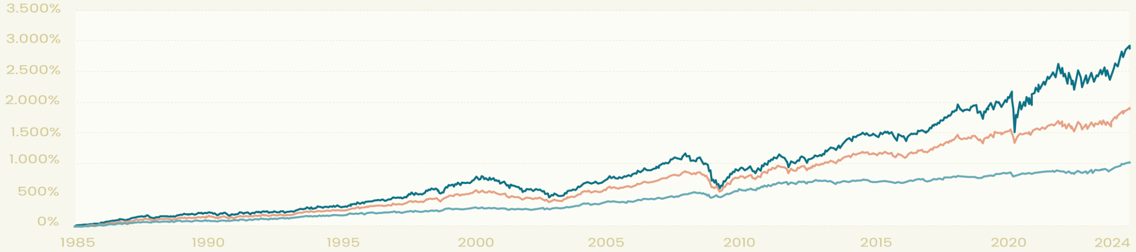
	Short-term	Mid-term	Long-term
2019 Sep-Y/E	+0,2%	+1,8%	+4,6%
2020	+0,1%	+0,6%	+4,2%
2021	+1,8%	+8,6%	+17,2%
2022	-1,7%	-5,0%	-8,5%
2023	+8,6%	+9,9%	+12,5%
2024	+13,4%	+11,9%	+13,3%

	Short-term	Mid-term	Long-term
LTD	**23,9%**	**30,6%**	**51,7%**
LTD p.a.	3,6%	4,6%	7,6%
Volatility p.a.	4,7%	6,7%	11,7%
Max Drawdown	-7,4%	-13,1%	-28,7%
Sharpe Ratio	0,16	0,27	0,42

Source: froots. Performance until 30.11.2024 Historical performance is not a reliable indicator of future performance. This is the gross performance, which does not take into account any fees and taxes incurred.

Because our approach is systematic, we can see how froots would have performed if we had started 40 years ago. On this time frame one can see the incredible impact of smart market exposure in the long run.

Backtest since 1985



	Short-term	Mid-term	Long-term
LTD Performance	**1026,7%**	**1922,1%**	**2916,6%**
Performance p.a.	6,3%	7,9%	9,0%
Volatility p.a.	6,1%	9,6%	12,7%
Max Drawdown	-17,4%	-33,4%	-44,7%

Source: froots Calculation. The figures refer to simulated performance. Historical performance is not a reliable indicator of future performance. This is the gross performance, which does not take into account any fees and taxes incurred.

07

Team and Expertise

Our investment committee consists of four investment professionals that combined have over 60 years of experience in quantitative investing. They are supported by a research team that works day and night to clean data and deliver independent investment research. Because all members of the committee have a completely different vantage points, their combined output is far greater than the sum of their individual contributions. Below you find a brief profile of all investment committee members.

DAVID MAYER-HEINISCH

Previously, David was responsible for a quantitative long-only equity fund in Germany that managed more than 4 billion AUM. David has spent his entire career in asset management and specialises in value investing.

GORAN VASILJEVIC

Goran served as Chief Investment Officer (CIO) at Lingohr & Partners, where he managed assets worth over 12 billion euros for sovereign wealth funds and university endowments. He is currently a board member of the Ben Graham Centre for Value Investing.

ALEXANDER SCHUESSLER

Dr. Schüssler is a Professor of Behavioural Finance and has many years of experience in portfolio management. His academic background and research work bring considerable added value to the committee.

THOMAS MEICHL

Thomas brings many years of international financial experience to froots, including 10 years at JP Morgan in Singapore and portfolio management positions at banks and hedge funds in Vienna, London and Hong Kong.

ANDREAS TREICHL

Previous CEO Erste Group

KIRIL KLATUROV

Founding Partner Revetas Capital

REINHOLD BAUDISCH

Founder Durchblicker

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Risk Management

As countercyclical investors, we recognize that past performance does not guarantee future investment success. In fact, the opposite is often true: when an investment has performed well, expectations about its future tend to increase, driving up its current price and thereby decreasing future returns.

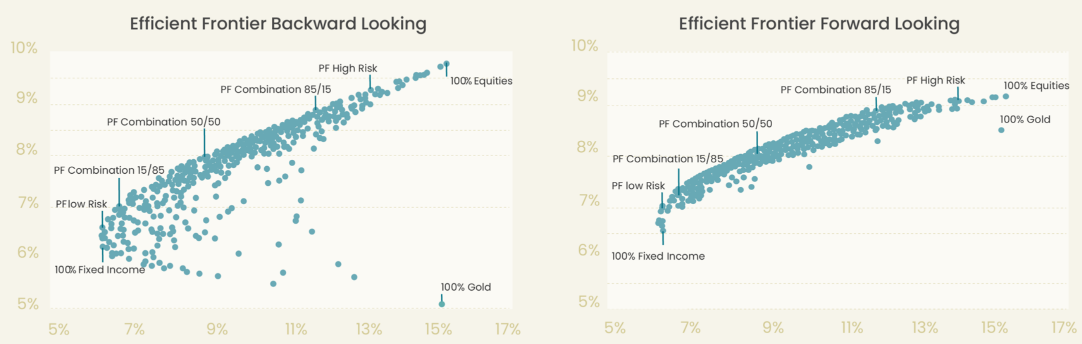
Today, possibly the most widely accepted theory for portfolio construction is Nobel Prize-winning Modern Portfolio Theory (MPT). In a nutshell, MPT aims to maximize returns for a given level of risk by using historical data to predict future performance. While MPT has had a groundbreaking impact on portfolio construction, it has one significant limitation: it assumes that future market behavior will mirror the past, thereby completely ignoring market cyclicality.

At froots, we don't simply apply MPT. Instead, we incorporate the current attractiveness of investments into our data, providing a much more realistic picture of future expectations and indicating us how to act countercyclically.

In the end, countercyclicality is nothing more than refusing to naively follow the masses. The more optimistic the market becomes about a certain investment, the less eager froots will be to have significant exposure. Conversely, when there is panic in the market, we opportunistically increase exposure because we focus on value, not the sentiment of the crowd.

Below one can see the impact of incorporating current valuations into MPT, effectively flipping the model from backward looking to forward looking.

Our Efficient Frontier Both Looks Backward & Forward



Source: Barclays, Capital IQ, Own Calculation

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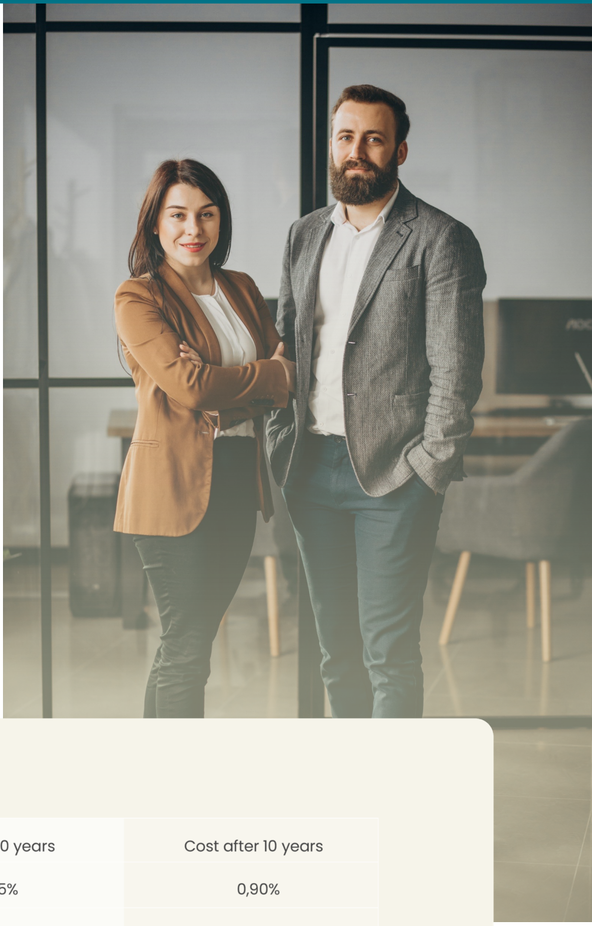
Pricing

Transparency and alignment with our clients are core principles at froots, clearly reflected in our pricing structure. Overpaying can negate the benefits of a solid investment approach, so froots charges a single fee over assets under management (AuM). This fee never exceeds 1% and decreases over time as assets grow. From this single fee, froots covers all costs, including custodial fees, transaction fees, account opening and closing fees, and other hidden charges, ensuring clients can achieve the returns they invest for without unexpected costs.



Pricing

	Cost in first 5 years	Cost 6-10 years	Cost after 10 years
0 - 150k EUR	1,00%	0,95%	0,90%
150k - 500k EUR	0,90%	0,85%	0,80%
500k - 2m EUR	0,80%	0,75%	0,70%
Over 2m EUR	0,70%	0,70%	0,70%
External costs (products)	0,14%	0,14%	0,14%
Spezialfonds (from 10m EUR)	0,50%	0,50%	0,50%

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Zusammenfassung

We are committed to revolutionizing asset management by eliminating conventional conflicts of interest and delivering unparalleled service to our clients. Our dedication to full independence ensures that we always act in your best interests, free from conflicts of interest or hidden agendas.

Through personalized advice and tailored solutions, we empower individuals, families, and institutions to effectively manage and grow their assets. We believe that investing should never be an end in itself but a means to achieve your unique financial objectives.

Our investment philosophy which is value-driven, systematic, and personalized blends the best of passive and active strategies to optimize risk adjusted returns. This approach is complemented by our rigorous investment methodology, which emphasizes thorough research, careful valuation, and independent product selection.

Beyond investment management, we offer comprehensive services including the setup and management of tax-optimized funds, holistic portfolio analysis and seamless asset transfers, ensuring a holistic approach to your financial well-being.

As evidenced by our historical performance through challenging times, our systematic approach has consistently delivered strong risk-adjusted returns. Supported by a seasoned investment committee and a dedicated research team, we are well-positioned to guide you through your financial journey with confidence.

At froots, transparency and fair pricing are fundamental. Our all-in fee structure, capped at 1% over AuM, underscores our commitment to delivering value without hidden charges.

Whether you are new to investing or seeking a change from existing solutions, froots invites you to join us in achieving your financial aspirations. Contact us today to embark on a journey towards smarter, more effective asset management.

Important legal information

This article is a marketing communication.
The information provided here is therefore not to be understood as an investment recommendation and/or investment advice and cannot replace investment advice. The data, analyses data, analyses and conclusions contained herein are of a general nature and are to be non-binding information. They are not customized to the individual needs, knowledge and risk tolerance of the investor and are provided exclusively to the public.
We would also like to point out that the historical data listed and/or used for the analyses and forecasts are not a reliable indicator of future results.

Capital investments harbor risks. Further information on risk warnings can be found at www.froots.io/risikohinweise.