

JANUARY 2026 MEETING OF THE MINDS

To Quant, or Not to Quant

With the Equity Team



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In this edition of Meeting of the Minds, our equity team turns its attention to one of the more common questions emerging in client conversations today: should investors revisit quantitative equity (quant) investment strategies?

Quant strategies are receiving renewed attention as allocators reassess what drives durable equity alpha in an environment marked by rapid style rotations, evolving market leadership, and persistent line-item fatigue.

After a prolonged period of skepticism, quantitative equity is being viewed through a more contemporary lens. Advances in transparency, more robust risk controls, and improvements in how leading managers navigate shifting market regimes have reshaped the opportunity set. Against this backdrop, clients are increasingly seeking guidance on how quant fits within a modern equity framework and whether it can provide the diversification, discipline, and balance that many equity portfolios continue to seek.



To Quant, or Not to Quant? That is the question.

It is a question that has resurfaced as quantitative equity managers show signs of a real comeback, stealing the spotlight from highly concentrated fundamental style managers. Periods such as the quant winter, which refers to long stretches when factor returns stalled and signals failed to produce meaningful results, together with more acute quant crises like the disruptions in 2007 and during parts of 2008 and 2009, shaped how institutional investors came to view these strategies. Those periods revealed that some models moved together at the exact moments when diversification was needed most. Instead of delivering uncorrelated sources of return, many quant portfolios stumbled in unison and often without clear explanations. These experiences created a period of hesitation amongst some allocators, leading stewards of capital to view quant as opaque and unfamiliar, which reinforced a reluctance to embrace strategies they viewed as difficult to interpret.

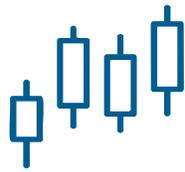
Compared to the quant of yesteryear, today's industry is defined less by opacity and more by results. A subset of quant managers has delivered strong, repeatable performance, particularly during periods when many traditional active managers struggled to generate consistent excess returns. That performance has been a powerful driver of asset growth, prompting allocators to reexamine earlier assumptions about what quant strategies can deliver and to engage more deeply with the space.

Transparency has reinforced that momentum. Leading quant platforms now walk investors through how models work, how signals behave across market environments, and how risks are designed and managed. This openness marks a clear departure from the pre-"quant crisis" era. By pairing demonstrated performance with thoughtful, transparent communication around research, portfolio and risk management processes, today's leading quant firms have not only attracted assets but also built durable investor confidence, helping retain sophisticated institutional capital through market cycles.

What's your flavor?

As investors reengage with quantitative equity, the more practical question is not whether to allocate to quant, but which kind of quant best fits the role public equities are meant to play in the portfolio.

Quantitative strategies are not monolithic. They differ meaningfully across several dimensions, including time horizon, degree of active risk, portfolio construction, and how quantitative signals interact with fundamental judgment. Understanding these design choices helps investors align a quant allocation with their objectives for return, diversification, and implementation risk.



Trading

Low-Frequency vs. High-Frequency

At a high level, quant strategies can be distinguished by how frequently they trade and how quickly they respond to new information. Low-frequency approaches typically rebalance monthly or quarterly and focus on persistent signals such as valuation, quality, or momentum. These strategies may look and behave more like traditional long-only equity portfolios.

High-frequency or faster-moving strategies operate on much shorter time horizons and rely on rapid signal decay and execution efficiency. While these approaches can target different sources of alpha, they introduce additional considerations around turnover, capacity, and operational complexity. For many institutional portfolios, the distinction between slower, structural signals and faster, more tactical ones is an important starting point.



Degree of Active Risk

Enhanced Indexing vs. Full Active

Another key dimension is how much active risk the strategy is designed to take relative to its benchmark. On one end of the spectrum are enhanced indexing approaches, which remain tightly anchored to the benchmark and seek incremental excess returns with low tracking error. These strategies often serve as core equity exposures where consistency, liquidity, and risk control are priorities.

At the other end are higher octane systematic strategies that allow models to take larger over- and underweights, pursue broader stock universes, and target higher alpha. These approaches are more expressive by design and can play a role similar to traditional high-conviction active managers, but with a rules-based implementation.

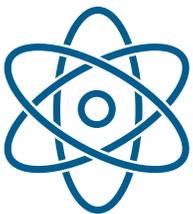


Portfolio Construction

Long-Only vs. Alpha Extension

Quant strategies also differ in how they express their views within the portfolio. Many are long-only, using stock selection and weighting to generate excess return while remaining fully invested. Others employ alpha-extension structures, such as 130/30 strategies, which use limited short positions to expand the opportunity set while maintaining a market beta close to one, similar to a long only mandate. Some also employ futures for beta and currency management.

These designs aim to separate stock-selection skill from benchmark constraints and can offer a different balance between risk, flexibility, and complexity.



Philosophy

Fundamental, Quantamental, and Pure Quant

Finally, strategies vary in how quantitative models relate to fundamental insight. Some approaches are purely systematic, relying entirely on data-driven signals and predefined rules. Others are quantamental, blending quantitative models with fundamental research, portfolio manager oversight, or discretionary risk management. At the most traditional end, some managers use quantitative tools primarily to support fundamentally driven portfolios rather than to dictate outcomes.

Questions one may want to ask to find their Quant “Flavor”

1. Role in the Portfolio

What role do we want public equities to play, and how can quant support or enhance that role?

2. Tracking Error Comfort

How much deviation from the benchmark are we willing to tolerate across different quant approaches?

3. Conviction in Systematic Alpha

Do we believe rules-based signals and factor premiums can persistently generate excess returns?

4. Style and Factor Alignment

Which factor exposures do we want to emphasize or avoid, and how does each quant flavor shape those tilts?

5. Governance Readiness

Do our committees have the comfort and tools needed to evaluate systematic strategies over time?

6. Active Risk Budgeting

How much of our active risk budget should be allocated to quantitative equity relative to fundamental managers?

7. Complementarity

How will a chosen quant approach interact with our existing manager lineup and diversification goals?

8. Risk Return Objective

Do we require benchmark stability and tight tracking error, or are we seeking a higher alpha target?

9. Organizational Capacity

Do staff and boards have the bandwidth to oversee more complex or higher-octane systematic approaches?

10. Long-Term Alignment

If quant underperforms for a period, do we have processes in place to evaluate and stay the course if warranted?

Blurring the Lines

How AI Is Pulling Fundamental and Quant Strategies Together

The line between quantitative and fundamental investing once felt clear.

Quantitative approaches were defined by models, structured data pipelines, and portfolio optimizers. Fundamental investing emphasized qualitative insights from company visits, management conversations, and detailed financial statement analysis. Today, that distinction is far less rigid. A growing middle ground has emerged that blends systematic discipline with fundamental judgment, and advances in Artificial Intelligence (“AI”) are accelerating that convergence.

Fundamental managers remain grounded in business understanding, competitive positioning, and qualitative assessment. What has changed is not the objective, but the toolkit. The traditional set of inputs has expanded dramatically, as fundamental investors increasingly incorporate the same alternative data sources once viewed as the domain of quantitative strategies.

Credit card transaction data and point-of-sale information are now routinely used to monitor consumer spending trends well before they appear in reported results. Foot-traffic data, store-level heat maps, and geolocation analytics help assess retail performance in near real time.



Quantitative Managers Move Toward Fundamental Insight

While fundamental teams add more data science, quantitative managers are ‘quantifying’ more fundamental insight. Modern quant teams are no longer limiting themselves to price signals or traditional factor inputs. They are integrating forms of information that historically lived within qualitative realms.

Several examples illustrate the trend. Quants now analyze earnings transcripts with advanced language models to extract sentiment or detect meaningful shifts in tone. They examine sell-side analyst forecasts not only for the forecasts themselves but for the conviction and consistency behind each analyst. They incorporate qualitative signals from management commentary and corporate announcements. These elements bring a more fundamental texture to what used to be strictly systematic processes.

Quant firms that once depended on cleaner, more structured data now use large language models to interpret narrative content. Fundamental managers that once focused on qualitative assessment by individual analysts now leverage big data. Both sides are trying to solve the same challenge: how to capture information that is timely, predictive, and scalable. The result of these developments is a spectrum where fundamental and quantitative managers no longer sit at opposite ends. Instead, they meet in the middle.

The Burden of Explaining Style Cycles

For many institutions, the simplest version of active equity construction has long been the pairing of style managers: growth and value, small and large. In theory, the approaches offset each other. In practice, factor definitions evolve, and shifting style regimes with unpredictable timing can create long stretches of discomfort.



One quarter, value looks broken and the value manager becomes the focus of scrutiny. A few meetings later, growth falls out of favor and the growth manager takes their turn in the spotlight. The conversation repeats. The explanations repeat. The pressure repeats. And over time, patience wears thin.

Even when conviction in individual managers is retained, defending that conviction in front of boards and committees becomes harder. When underperformance lasts three years and longer, human tolerance often falls short of the theoretical ideal.

Quant as a Relief Valve for Line-Item Pressure

This is where quant has entered the conversation in a meaningful way. Core quant managers have often functioned as a stabilizer within a portfolio because for the most part they are designed to neutralize style tilts and avoid the large factor swings that cause committee anxiety. They may provide breadth, systematic diversification across hundreds or thousands of securities, and a disciplined approach to risk.

Breadth has always been an advantage for systematic managers. Quantitative processes can forecast across wide universes and benefit from the inefficiencies in areas with shallower coverage, such as international small cap and emerging markets small cap. These segments have long been fertile ground for quant outperformance, particularly as managers point to declining sell side coverage which helps widen information gaps.

More recently, the appeal has expanded beyond those pockets. Quant has done well across various equity universes vis-a-vis its style-based fundamental counterparts, particularly the best ideas portfolios from high conviction, concentrated managers who struggle against the backdrop of index concentration and rapid and unpredictable factor rotations. A core quant approach has the potential to be the ballast of the portfolio and reduce the odds that line items suffer from sharp style swings. For committees who want less volatility in their public equity lineup, a rule-based systematic approach can be very attractive.

Bigger Picture

Is Growth and Value a Dated Concept in Equity Portfolio Construction and is that Driving Interest in Quantitative Approaches?

The traditional growth and value pairing has been a 'simple marriage' in public equity portfolio construction for decades. It is familiar. It is intuitive. And it offers a straightforward framework for committee discussions. Yet more investors and research teams are beginning to ask a simple question: Is this framework too simplistic?

The original premise behind pairing growth and value was that the two styles are complementary to smooth overall performance. When one disappointed, the other often helped carry the load. That relationship has weakened. Market structure has evolved, so have factor definitions. Technology leadership has reshaped index composition. Factor cycles have become more unpredictable and reversals more abrupt. Sector concentration has increased. As a result, the perfect balancing act that underpinned the framework has eroded.

Many core fundamental strategies tend to run into similar challenges. Even when labeled neutral, many core fundamental managers still exhibit style biases because



of natural investor leanings and/or the characteristics of their opportunity set. A single portfolio may tilt toward quality, or profitability, or a certain mix of cyclicality under the “core” umbrella. The broad labels do not fully capture underlying exposures.

In practice, growth and value have become catchall descriptions for a much more complex set of underlying overlapping factors. Profitability, investment intensity, balance sheet strength, earnings variability, reinvestment behavior, durability of cash flows, and sensitivity to interest rates all influence equity performance. These forces rarely map cleanly to old style boxes.

This is where quantitative approaches may have an advantage. Quant strategies tend to have exposures to a broad array of factors including common style ones. Their disciplined risk management approach often helps effectively control contribution to risks dynamically from duration exposure to profitability, or other fundamental risk building up over time. These insights can help reduce the negative surprises and the frustration that inevitably follows.

The Road Ahead for Quant **And the Future of Equity Allocation**

Taken together, these shifts may point toward a broader transformation in equity portfolio construction. Quant managers are benefiting not only from stronger research and better data, but also from a desire for stability, clarity, and staying power in an environment where style cycles test patience. Meanwhile, the boundary between fundamental and quantitative investing has thinned as AI pushes both disciplines toward a shared center. This evolution has made the old growth and value playbook feel increasingly incomplete, as investors search for frameworks that can adapt to faster cycles, richer data, and more complex sources of risk. Quantitative core strategies offer tools that align with this reality. As institutions approach a new year, the more important question may not be whether to allocate to systematic strategies, but how to revisit equity portfolio structure and determine whether quantitative strategies can serve as an additional tool for navigating the years ahead.



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