

Growth Profitability Premium Strategy

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Executive Summary



Strategy

This strategy targets companies demonstrating the highest **gross profitability relative to total assets**, screened through **value filters** to avoid overpaying. This profitability-tilted portfolio is designed to outperform the S&P 500 through exposure to companies with **superior economic efficiency** and **attractive valuations**.



Performance

This strategy shows strong performance with a **489.38% total return**, and a **Sharpe Ratio of 0.75**, indicating solid long-term risk-adjusted returns relative to the benchmark over the prior 10-year period.



Recommendation

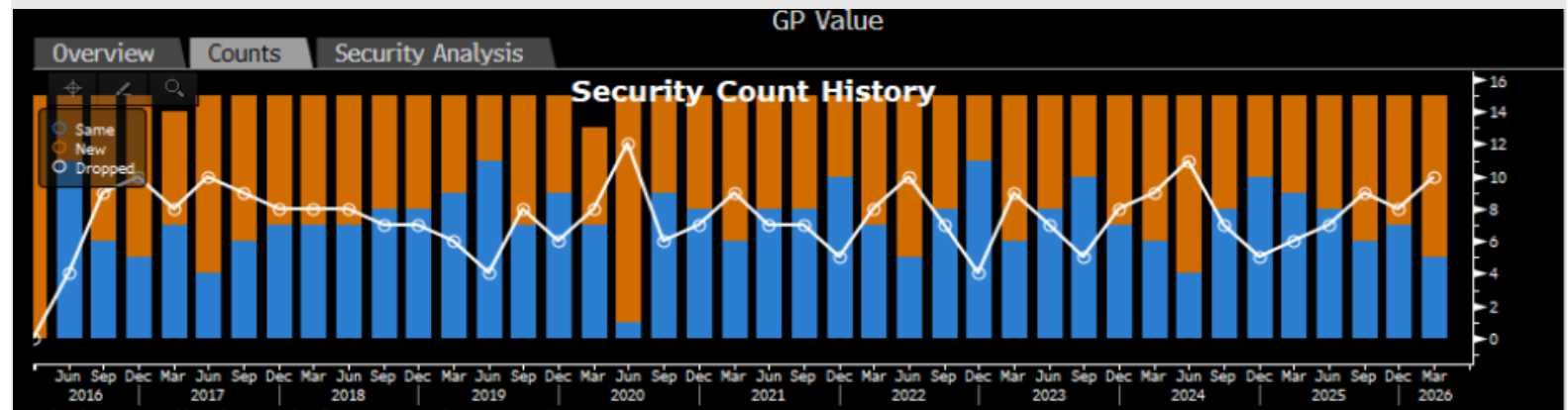
BUY \$45,000 by using cash

Strategy Rationale

[The Other Side of Value: Good Growth and the Gross Profitability Premium | NBER](#)

Key Takeaways:

- Gross Profits-to-Assets Has Roughly the Same Power as Book-to-Market Predicting Cross-Sectional Returns
- Combining Profitability Screening with Value Filters Eliminates "Expensive Growth" Traps and Improves Risk-Adjusted Performance
- The Profitability Premium Persists Even Among the Largest, Most Liquid Stocks



Strategy Design

Description

- This is a long-only U.S. equity strategy that selects companies with the highest gross profits relative to total assets, filtered through valuation screens. Gross profitability is the cleanest accounting measure of true economic productivity, and Novy-Marx (2010) demonstrates it has roughly the same power as book-to-market predicting future returns. Value filters ensure we capture "good growth" — firms that are highly productive but not overpriced.

Origin

- We found an NBER working paper titled "The Other Side of Value: Good Growth and the Gross Profitability Premium" by Robert Novy-Marx (2010).

Goal

- Our hypothesis is that we can beat the S&P 500 by screening for the highest gross profitability and applying valuation filters to avoid overpaying for productive assets.

Parameters

- We screen U.S. equities by ranking gross profits divided by total assets, applying price-to-book and EBITDA/EV yield filters, and selecting the top 15 names. The portfolio is equal-weighted and rebalanced quarterly.

Back-testing Parameters

| Parameter | Description | Stock Universe |
|-------------------------------------|--|----------------|
| Price 1 Day ago | > 5 | 9,234 stocks |
| Volume 3 Months ago | ➤ 5,000,000 | 233 stocks |
| Current Price to Book Ratio | Top 50 Sequential Percentile Rank, (Higher is Better) | 71 stocks |
| Current EBITDA/EV Yield Adjusted | Top 50 Sequential Percentile Rank, (Higher is Better) | 23 stocks |
| Gross Profit Premium | Top 15 Sequential Rank, (Higher is Better) | 15 stocks |

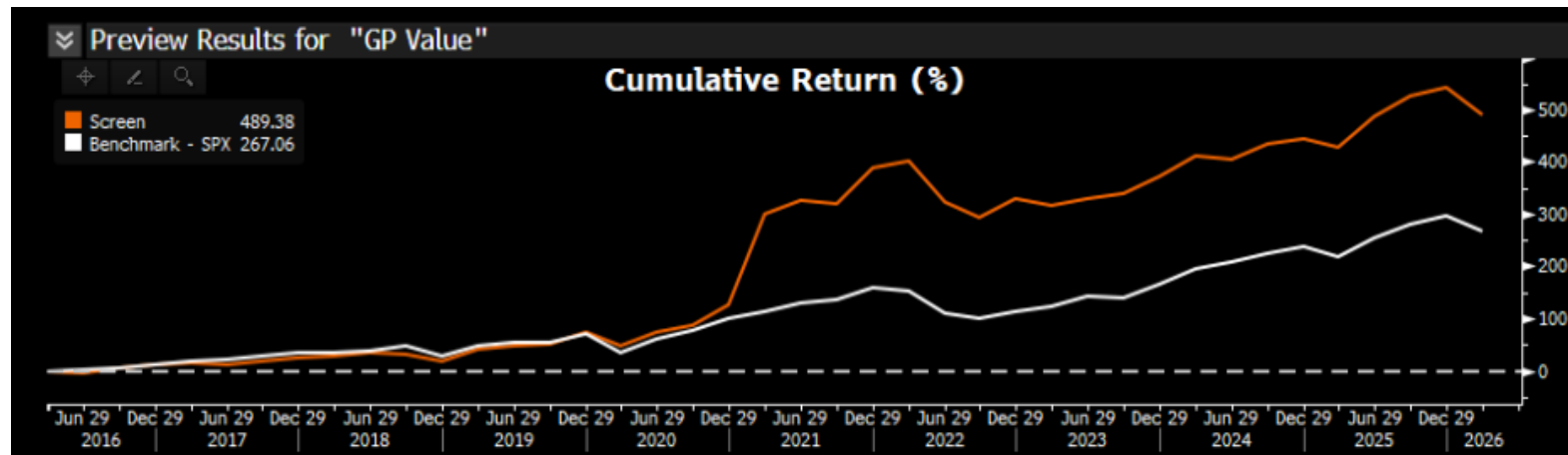
Back-testing Parameters

| ID | Expression | IBM US | VOD LN | 700 HK | |
|------|---|---------------|---------------|---------------|---|
| EXP1 | GROSS_PROFIT(CRNCY='USD',FUND_PER='LTM') | 3929700000... | 1409372101... | 5882073706... | ⊗ |
| EXP2 | BS_TOT_ASSET(CRNCY='USD',FUND_PER='LTM') | 1518800000... | 1514995263... | 2917381168... | ⊗ |
| EXP3 | EXP1 / EXP2 | 0.258737 | 0.093028 | 0.201622 | ⊗ |
| EXP4 | GROUP.RANK(EXP3, UNIV=CALC_UNIV, SORT=DESC) | 1.000000 | 3.000000 | 2.000000 | ⊗ |
| EXP5 | EXP4 <= 15 | 1.000000 | 1.000000 | 1.000000 | ⊗ |
| EXP6 | | | | | |

(Usage: **In Use**, Unused/Unreferenced)

Formula Definition
 (GROUP.RANK(((GROSS_PROFIT(CRNCY='USD',FUND_PER='LTM')) / (BS_TOT_ASSET(CRNCY='USD',FUND_PER='LTM'))), UNIV=CALC_UNIV, SORT=DESC)) <= 15

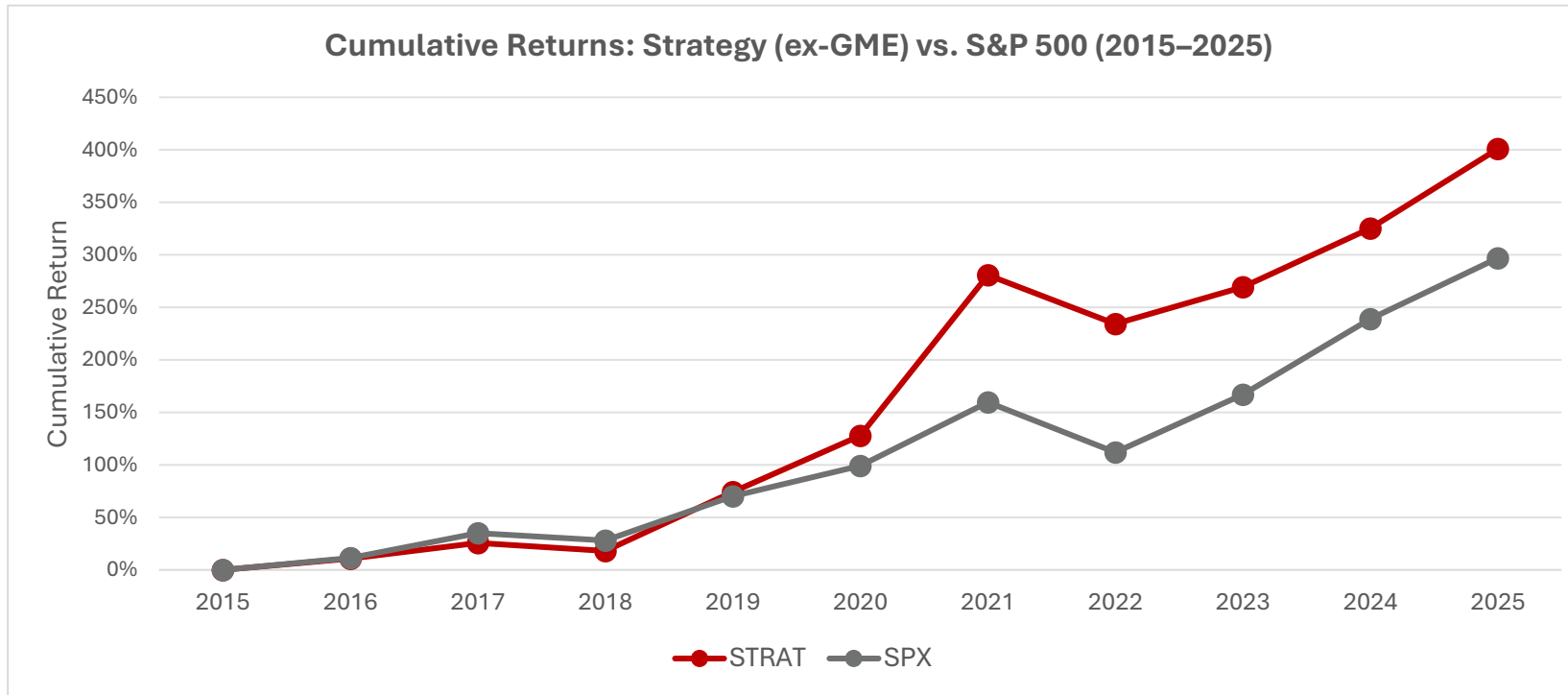
Back-testing Results - Performance



| Year | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 YTD | Cumm. | Avg |
|-------|--------|--------|--------|--------|--------|---------|---------|--------|--------|--------|----------|---------|--------|
| STRAT | 10.76% | 13.58% | -6.22% | 47.65% | 30.78% | 114.45% | -12.21% | 10.43% | 15.14% | 17.82% | -8.27% | 489.38% | 24.22% |
| SPX | 11.24% | 21.26% | -5.20% | 32.96% | 17.14% | 30.42% | -18.37% | 25.95% | 26.88% | 17.12% | -7.51% | 267.06% | 15.94% |

| Period | Return | α^* | β^* | σ^* | Max DD* | Sharpe* |
|------------|--------|------------|-----------|------------|---------|---------|
| STRAT 1yr | 11.73% | -2.84% | 0.97 | 21.29% | -8.27% | 0.49 |
| 1yr SPX | 15.53% | 0.00% | 1.00 | 13.43% | -9.80% | 0.88 |
| STRAT 10yr | 23.02% | 11.58% | 0.81 | 30.19% | -15.86% | 0.75 |
| 10yr SPX | 15.94% | 0.00% | 1.00 | 15.35% | -49.11% | 0.70 |

Back-testing Results – Performance – No GME



| Year | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 YTD | Cumm. | Avg |
|--------------|--------|--------|--------|--------|--------|--------|---------|--------|--------|--------|----------|---------|--------|
| STRAT | 10.76% | 13.58% | -6.22% | 47.65% | 30.78% | 67.15% | -12.21% | 10.43% | 15.14% | 17.82% | -8.27% | 400.82% | 19.49% |
| SPX | 11.24% | 21.26% | -5.20% | 32.96% | 17.14% | 30.42% | -18.37% | 25.95% | 26.88% | 17.12% | -7.51% | 267.06% | 15.94% |

Back-testing Results - Current Holdings

GP Value

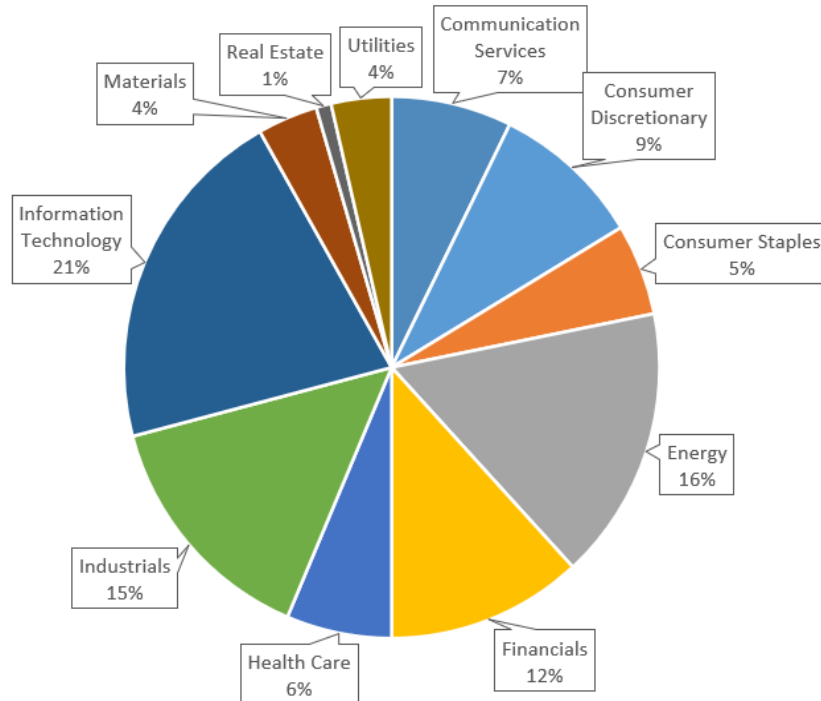
Overview | Counts | Security Analysis

Securities **In** | Rebalance Period << < 03/29/2026 > >>

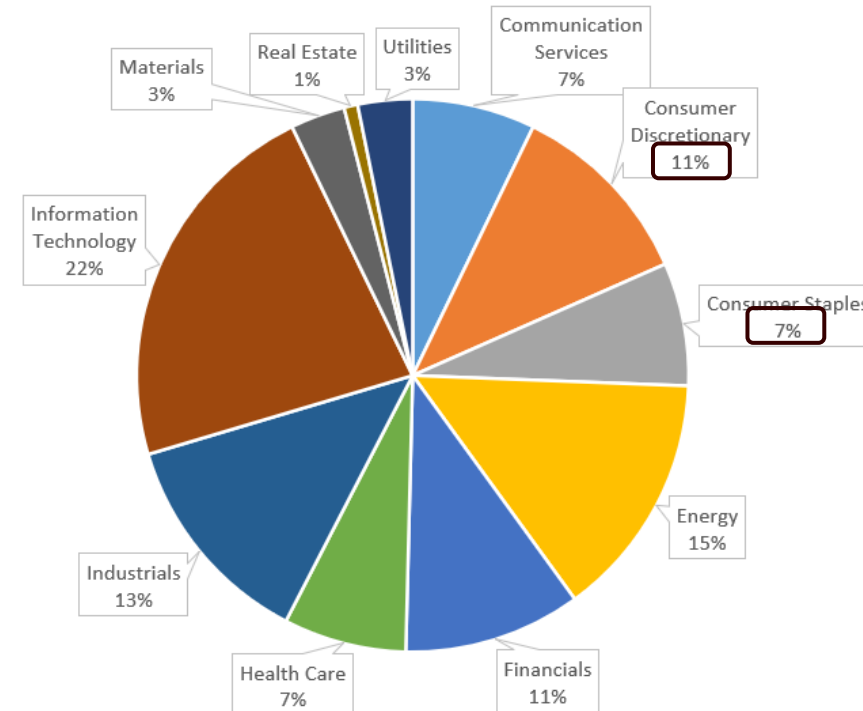
| | | | Rebalance Period: 03/29/2026 | | | In/Out | |
|----------|---------------------|-------------|------------------------------|--------|----------|--------|--|
| Ticker | Short Name | Market Cap | Weight | Return | Previous | Next | |
| 1) ACI | US ALBERTSONS COS-A | 8.772497B | 6.666667 | -- | Out | Out | |
| 2) AMZN | US AMAZON.COM INC | 2.139899T | 6.666667 | -- | In | Out | |
| 3) BMY | US BRISTOL-MYER SQB | 119.523194B | 6.666667 | -- | Out | Out | |
| 4) CMG | US CHIPOTLE MEXICAN | 40.192774B | 6.666667 | -- | Out | Out | |
| 5) CSCO | US CISCO SYSTEMS | 315.675452B | 6.666667 | -- | Out | Out | |
| 6) KO | US COCA-COLA CO/THE | 325.867414B | 6.666667 | -- | Out | Out | |
| 7) LRCX | US LAM RESEARCH | 264.002677B | 6.666667 | -- | In | Out | |
| 8) META | US META PLATFORMS-A | 1.330259T | 6.666667 | -- | In | Out | |
| 9) MRK | US MERCK & CO | 295.772255B | 6.666667 | -- | Out | Out | |
| 10) MSFT | US MICROSOFT CORP | 2.649242T | 6.666667 | -- | Out | Out | |
| 11) MU | US MICRON TECH | 402.849158B | 6.666667 | -- | Out | Out | |
| 12) NCLH | US NORWEGIAN CRUISE | 8.423039B | 6.666667 | -- | Out | Out | |
| 13) NKE | US NIKE INC -CL B | 76.047295B | 6.666667 | -- | In | Out | |
| 14) SNDK | US SANDISK CORP | 94.461169B | 6.666667 | -- | Out | Out | |
| 15) WMT | US WALMART INC | 979.728543B | 6.666667 | -- | In | Out | |

Effect on the Portfolio

Original Sector Allocations



Adjusted Portfolio



| Portfolio | Exp. Return | St. Dev [*] | Beta [*] | Sharpe Ratio [*] | Idio. Risk [*] |
|-----------|-------------|----------------------|-------------------|---------------------------|-------------------------|
| Existing | 9.15% | 11.14% | 0.85 | 0.19 | 5.68% |
| Adjusted | 10.29% | 12.65% | 0.89 | 0.23 | 6.00% |

Risks

| Risk Category | Description | Impact on Strategy | Mitigants |
|----------------------------------|--|--|--|
| Factor Concentration Risk | Focus on profitability only | If the profitability factor stops working, returns can drop significantly. | Combine with value/momentum |
| Measurement Risk | Gross profitability may not fully reflect true firm quality | Accounting differences can distort signals | Use multiple metrics to evaluate performance and cross check |
| Sector Skew Risk | Profitable firms often cluster in certain industries (e.g. tech) | Can lead to overexposure and higher risk in these industries | Diversify and apply sector limits |
| Growth vs Value Risk | Profitable firms tend to look like growth stocks | Strategy may underperform when value outperforms | Combine profitability with value |

Summary & Recommendation

Strategy Merits



- **Performance**

23.02% 10-year return vs benchmark of 15.94%



- **Risk**

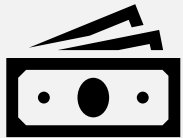
The strategy relies heavily on profitability and growth, so it may underperform if these factors reverse.



- **Effects on Portfolio**

Delivers higher returns with improved risk-adjusted performance and lower downside compared to the benchmark.

Action Plan



- **Recommendation: Buy**

Allocate \$45,000 by using cash