Coverage Universe History

New Constructs was founded in 2002 to provide unrivaled insights into the fundamentals and valuation of public businesses for U.S. institutional fund managers. As a result, we focused our coverage universe on the largest and most actively-traded stocks in the U.S. Over time, as our client base expanded, business model shifted and Robo-Analyst technology evolved, our coverage goals changed.

Below, we provide a brief history and explanation of what our coverage goals were at different times in our history and how that affects the data presented in our backtest data files.

2004 to 2008: Building our Original Coverage Universe

New Constructs' original coverage universe was the S&P 500. We've covered all S&P 500 companies since 2004. When we added companies to coverage between 2004-2008, we added all annual history back to their first available digital filing, which is normally 1998.

Once we completed coverage of the S&P 500, our focus shifted to adding Russell 3000 companies to coverage. We prioritized additions to coverage based on: (1) the largest market cap companies, (2) the largest 3-month average daily dollar volume, and (3) popular client requests. By 2006, we covered 3000 companies, but because of client requests and turnover in the index, our coverage didn't always match the constituents of the Russell 3000.

During this period, we only collected data from annual filings or 10-Ks because they contain much more important data from footnotes and management discussion & analysis (MD&A). We did not collect data from quarterly filings because 10-Qs tend not to disclose much, if any, important footnotes or MD&A data.

Data offered:

- Annual-only coverage of ~3000 US equities (closer to the Russell 3000) from 1998 to present
- Large, popular IPOs

2008 to 2015: Hedge Fund Era

In January 2008, we launched a long/short hedge fund, "the Novo Fund, L.P." Our coverage focus shifted to companies with enough liquidity for the fund to invest regardless of inclusion in the Russell 3000. Too often, we found that many companies in the Russell 3000 did not have enough liquidity for even a small fund like ours to build a meaningful position without creating slippage. We also found that many of these companies stopped trading more often than larger cap companies for a variety of reasons (acquisition, bankruptcy, etc). As a result, we stopped prioritizing the addition of Russell 3000 companies to coverage. Instead, we focused on maximizing the size of the investable universe for the Novo Fund by adding companies with the largest 3-month average daily dollar volume.

Data offered:

- Annual-only coverage of around 3000 US equities from 1998 to present
- Large, popular IPOs

2015 to 2016: Adding Quarterly Data & More ADR Coverage

In 2015, we closed our hedge fund and focused on adding quarterly filings to our models and coverage of companies. We also continued to add companies to coverage based on client requests.

At the time, our clients were more interested in large cap ADR coverage than the small cap companies in the Russell 3000. We prioritized ADR coverage additions by market cap and 3-month average daily dollar volume.

In 2015, our improved ability to automatically process filings led us to add quarterly data to our system. Specifically, in 4Q 2015, we completed a project to add quarterly data back to 2012 for all companies (alive and dead) under coverage at the end of 2015. The situations where we added more or less quarterly data during this time generally arise from the testing we did to determine whether we should add more quarterly data after we finished the 4Q15 project.

- We tested the process for adding additional (before 2012) quarterly data on several companies to determine the time cost of adding this additional data.
- For this testing, we randomly selected a variety of companies we thought representative of the general parsing process, but mostly focused on large cap, S&P 500 companies, as we felt these companies would be more valuable to our clients.
- Most of the testing focused on going back to 2009, but we tested going back farther for some, randomly selected, companies.
- In all cases, we added the data directly to live company coverage as we completed/parsed each filing. We did not make the updates in bulk, but on an as-completed basis.

Note that our initial coverage of quarterly filings only included data points from the income statement and balance sheet due to lack of footnote disclosures in quarterly filings compared to annual filings. Data from these two statements, along with the ability to estimate data not reported in quarterly filings from data found in annual filings provided adequate information to build quarterly models. For more information on quarterly data estimates, click here.

Data offered:

- Annual-only coverage of ~3000 US equities from 1998 to 2011
- Quarterly and annual data/models beginning in fiscal year 2012 and trailing-twelve-months models (TTM) beginning in fiscal year 2013 to present.
    - Quarterly models are based on reported quarterly income statement and balance sheet data along with adjustments estimated from annual filings.
- Large, popular IPOs

Jan 2016 to May 2018: New Coverage With Quarterly Data

From the beginning of 2016 to May 2018, whenever we added companies to coverage, we only added the quarterly data from 2012 onward.

May 2018 to April 2022: Only 5 Years of History Added for New Coverage

From May 2018 to April 2022, whenever we added companies to coverage, we only added 5 years of history. Both annual and quarterly documents were added to coverage. The idea of adding only 5 years of coverage came at the request of a large client that wanted us to add a lot of companies to coverage quickly and only wanted 5 years of history. We kept that policy in place for multiple years since it allowed us to add more companies to coverage.

April 2022 to Present: All History Added for New Coverage

From April 2022 to the present, based on client feedback, we realized we should add all history (annual and quarterly) whenever we add a new company to coverage. So, if a company has reported financial filings back to 1998, we would add all that data (quarterly and annual) when we add that company to coverage.

1st Quarter 2020 to Present: Adding Cash Flow Statement & Footnotes Data from Quarterly Filings

Beginning in 1Q20, we expanded the amount of data collected from quarterly filings (driven by further improvements in our data collection technology) to include the entire cash flow statement.

Beginning in 1Q21, we further expanded the data collection process for quarterly filings to include data found in the footnotes and MD&A, which matches our data collection policy for annual filings.

IPO Coverage

Our coverage of Initial Public Offerings (IPOs) has been, and remains, very popular with our clients and the media. We've added IPOs to coverage according to the following guidelines throughout our history:

- IPOs with an expected market cap of greater than $10bn
- IPOs below the $10bn threshold with significant media interest.

General Notes

Due to client requests, changes to our business model and staff, there are numerous other situations that lead to our coverage of companies and/or the data for those companies not being explained by the situations above.

The main explanation for our inconsistent coverage is that we did not realize the importance of strict adherence to clear coverage rules until numerous quant clients approached us for our data after reading the Harvard Business School and MIT Sloan paper published in The Journal of Financial Economics in December 2021.

We plan to backfill more/all quarterly data for all companies. Based on client feedback, we've prioritized adding more companies to our current coverage universe over adding additional quarterly history to existing coverage.

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Many firms claim their research is superior, but none of them can prove it with independent studies from highly-respected institutions as we can. Three different papers from both the public and private sectors show:

1. Legacy fundamental datasets suffer from significant inaccuracies, omissions and biases.
2. Only our "novel database" enables investors to overcome these flaws and apply reliable fundamental data in their research.
3. Our proprietary measures of Core Earnings and Earnings Distortion materially improve stock picking and forecasting of profits.

Best Fundamental Data in the World

Forthcoming in The Journal of Financial Economics, a top peer-reviewed journal, Core Earnings: New Data & Evidence proves our Robo-Analyst technology overcomes material shortcomings in legacy firms' data collection processes to provide superior fundamental data, earnings models, and research. More details.

Key quotes from the paper:

- "[New Constructs'] *Total Adjustments* differs significantly from the items identified and excluded from Compustat's adjusted earnings measures. For example… 50% to 70% of the variation in *Total Adjustments* is not explained by *S&P Global's (SPGI) Adjustments* individually." – pp. 14, 1st para.
- "A final source of differences [between New Constructs' and S&P Global's data] is due to data collection oversights…we identified cases where Compustat did not collect information relating to firms' income that is useful in assessing core earnings." – pp. 16, 2nd para.

Superior Models

A top accounting firm features the superiority of our ROIC, NOPAT and Invested Capital research to Capital IQ & Bloomberg's in Getting ROIC Right. See the Appendix for direct comparison details.

Key quotes from the paper:

- "…an accurate calculation of ROIC requires more diligence than often occurs in some of the common, off-the-shelf ROIC calculations. Only by scouring the footnotes and the MD&A [as New Constructs does] can investors get an accurate calculation of ROIC." – pp. 8, 5th para.
- "The majority of the difference…comes from New Constructs' machine learning approach, which leverages technology to calculate ROIC by applying accounting adjustments that may be buried deeply in the footnotes across thousands of companies." – pp. 4, 2nd para.

Superior Stock Ratings

Robo-Analysts' stock ratings outperform those from human analysts as shown in this paper from Indiana's Kelley School of Business. Bloomberg features the paper here.

Key quotes from the paper:

- "the portfolios formed following the buy recommendations of Robo-Analysts earn abnormal returns that are statistically and economically significant." – pp. 6, 3rd para.
- "Our results ultimately suggest that Robo-Analysts are a valuable, alternative information intermediary to traditional sell-side analysts." – pp. 20, 3rd para.

Our mission is to provide the best fundamental analysis of public and private businesses in the world and make it affordable for all investors, not just Wall Street insiders.

We believe every investor deserves to know the whole truth about the profitability and valuation of any company they consider for investment. More details on our cutting-edge technology and how we use it are here.

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