The Growth Strength™ Index: A Higher Quality Approach to Growth

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Index Overview

Since its launch on September 25, 2022, The Growth Strength Index (NQCAPSG™) has demonstrated an ability to provide upside growth exposure while mitigating downside risk, expanding beyond what many investors consider necessary for an effective standalone growth strategy. This growth strength index uses robust quality checks as a precursor to rank and select by growth factors as described in detail below.

Introducing Growth Strength

Quality Checks for Strong Balance Sheets

Prior to assessing growth, constituents are narrowed down using various quality checks to ensure that each constituent has a strong balance sheet. A security must have at least $1 billion (USD) in cash or short-term investments, long-term debt to market cap ratio less than 30%, a positive shareholder equity, and a return on equity (ROE) greater than 15%. These terms result in a list of high quality and dependable constituents to be considered for inclusion in the index.

Requirement	Quality Indicator
Cash or Short-term Investments >= $1 billion (USD)	Indicates a security's liquidity and financial stability
Long-term debt to market cap ratio < 30%	Indicates that a company's financial leverage is low and is primarily funded by equity
Positive shareholder equity	Indicates a company's financial health, suggests a relatively low level of risk
Return on Equity > 15%	Indicates strong financial performance, company is effectively using its shareholder investments to generate profit

What are the determinants of Growth Strength?

Rather than focusing on traditional determinants of growth like growth in earnings per share, intermediate momentum, or return on capital (ROC) to name a few, NQCAPSG takes three-year cashflow percent growth and three-year revenue percent growth into account. Though traditional metrics can be skewed by timing expenses to fit a company's narrative, cashflow and revenue are less subject to manipulation. This gives NQCAPSG a relatively unbiased perspective when it comes to calculating growth rankings.

Once the list of securities that meets the eligibility criteria is finalized, the selection process begins. Each security is given two ranks, one by three-year cash flow percentage growth and one by three-year renevue percentage growth. The two ranks are summed into a single combined rank which is used for consitutent selection, more details on the selection and weighting processes can be found in the methodology section.

Variable	Growth Indicator
Three-Year Cashflow Percent Growth	Reflects the company's ability to generate and accumulate cash from its operations over time, a key indicator of financial health and profitability
Three-Year Revenue Percent Growth	Provides a summary of the company's revenue performance, a positive growth rate signifies increasing revenue

Figure 1: Five Year Correlation of Daily Returns

	Growth Strength	Value	Momentum	High Yield	Low Volatility	Growth	Quality
Growth Strength	1.00						
Value	0.63	1.00					
Momentum	0.82	0.38	1.00				
High Yield	0.58	0.91	0.30	1.00			
Low Volatility	0.71	0.64	0.50	0.71	1.00		
Growth	0.87	0.48	0.89	0.41	0.51	1.00	
Quality	0.83	0.77	0.55	0.79	0.84	0.63	1.00

The table shows the 5-year correlation of daily returns among The Growth Strength Index and the Nasdaq Factor Family Indexes. (Data through 3/31/2025) (Source: Nasdaq Global Indexes)

Legend:

Growth Strength – The Growth Strength Index TR Index (NQCAPSGT)

Value – Nasdaq Factor Family US Value TR™ Index (NQFFUSVT™)

Momentum – Nasdaq Factor Family US Momentum TR™ Index (NQFFUSMT™)

High Yield – Nasdaq Factor Family US High Yield TR™ Index (NQFFUSHYT™)

Low Volatiliy – Nasdaq Factor Family US Low Volatiliy TR™ Index (NQFFUSLVT™)

Growth – Nasdaq Factor Family US Growth TR™ Index (NQFFUSGT™)

Quality – Nasdaq Factor Family US Quality TR™ Index (NQFFUSQT™)

Index Methodology

The NQCAPSG methodology combines three-year cash flow percentage growth and three-year revenue percentage growth to create a single combined growth strength rank. To be eligible for inclusion in NQCAPSG, a security must first be a member of the Nasdaq US Benchmark™ Index (NQUSB™).

Base Universe	Eligibility Criteria	Security Ranking	Selection	Weight
Member of the Nasdaq US Benchmark Index (NQUSB)	At least $1 billion (USD) in cash or short-term investments, after removing restricted cash Long term debt-to-market ratio less than 30% and positive shareholder equity Return on equity greater than 15%	Three-year cash flow percentage growth rank Three-year revenue percentage growth rank The two ranks are summed to obtain a single rank	Securities ranked outside the lowest 15 by Combined Rank within each FTSE ICB Industry are excluded The 50 securities with the lowest Combined Ranks are selected	The Index is an equal-weighted index The Index is reconstituted and rebalanced on a quarterly basis

Once a security is deemed eligible for inclusion, it is given two ranks: a three-year cash flow percentage growth rank and a three-year revenue percentage growth rank. The two ranks are then summed to obtain a single combined rank. Since ranks of one indicate the highest values, securities ranked outside the lowest fifteen combined ranks within each ICB industry are excluded[1]. Finally, the 50 securities with the lowest combined ranks are selected and weigthed equally. Click here for more details on the NQCAPSG methodology.

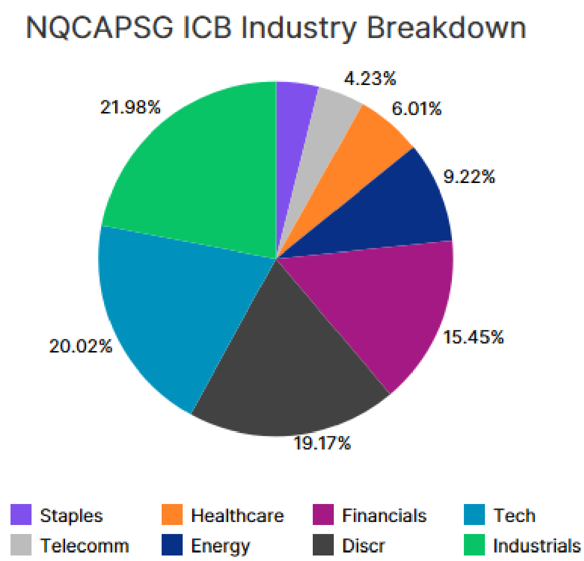
Index Composition

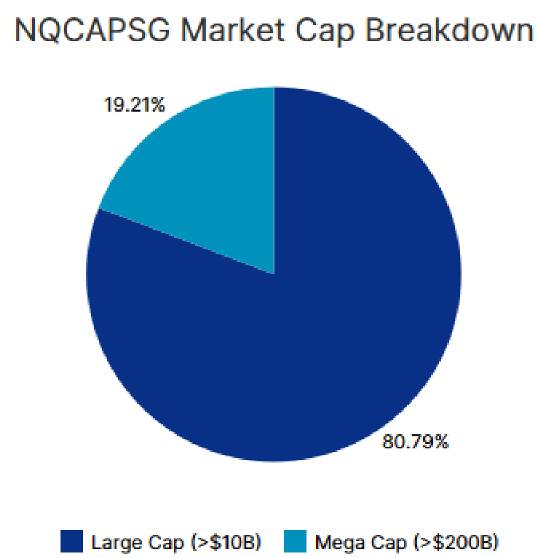
NQCAPSG has broad ICB Industry exposure with the largest weight contributions from Industrials (21.98%), Technology (20.02%), and Consumer Discretionary (19.17%). After those top three industries, Financials follow close behind contributing 15.45% of the index weight. In the mix, we also see contributions from Energy, Healthcare, Telecommunications, and Consumer Staples.

When considering the market cap breakdown, we see just over 80% of constituents by weight fall into the large cap range ($10-200B), averaging $63B among all large cap securities. The remaining nearly 20% of constituents by weight fall into the mega cap range (>$200B), averaging $1,320B among all mega cap securities. In a later portion of the research, we will dig into why this is so significant in the context of the Growth Strength Index.

1 as determined by the Industry Classification Benchmark (ICB), a product of FTSE International Limited that is used under license.

Figure 2: NQCAPSG Composition by ICB Industry and Market Capitalization

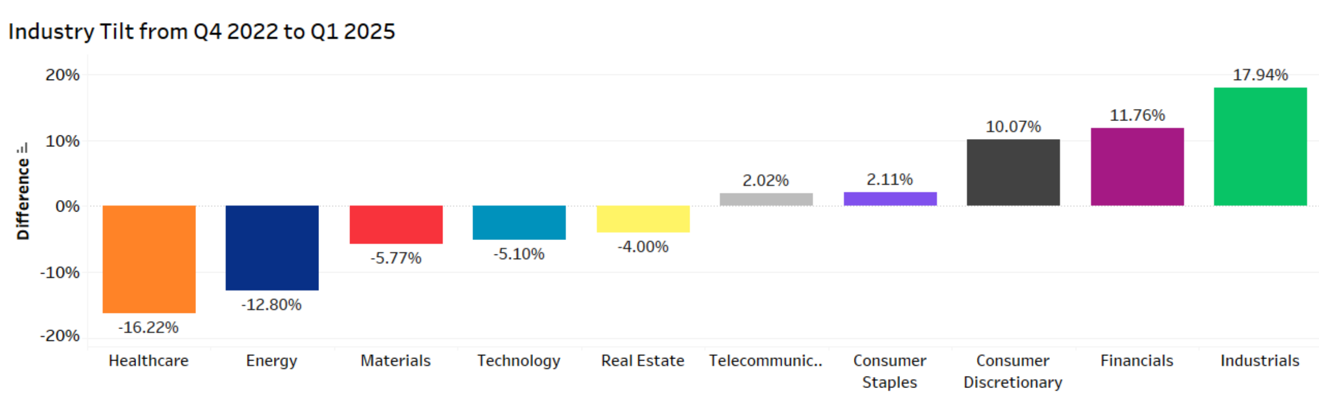




In Figure 3, the NQCAPSG portfolio at launch in Q4 2022 is compared to the portfolio during Q1 2025. This chart displays the tilt in ICB Industry allocation between the two portfolios which can be telling of where market trends are going and how the index keeps up with such industry trends.

Since inception, we see the largest changes in Healthcare (-16.22%) and Industrials (+17.94%). This could be attributed to the post-COVID landscape where big pharma companies were rapidly developing new vaccines adding momentum to the healthcare space. As we move forward and out of the pandemic mindset, we see the market shift to accommodate for new infrastructure with specific focuses on industrial support services, transportation, industrial engineering, construction and materials, aerospace and defense, and general industrials as defined by the ICB Sectors[2].

Figure 3: NQCAPSG Composition by ICB Industry over time



Growth Strength Data Review:

2 See in depth ICB methodology here: https://www.lseg.com/content/dam/ftse-russell/en_us/documents/other/icb-taxonomy-overview-cut-sheet.pdf

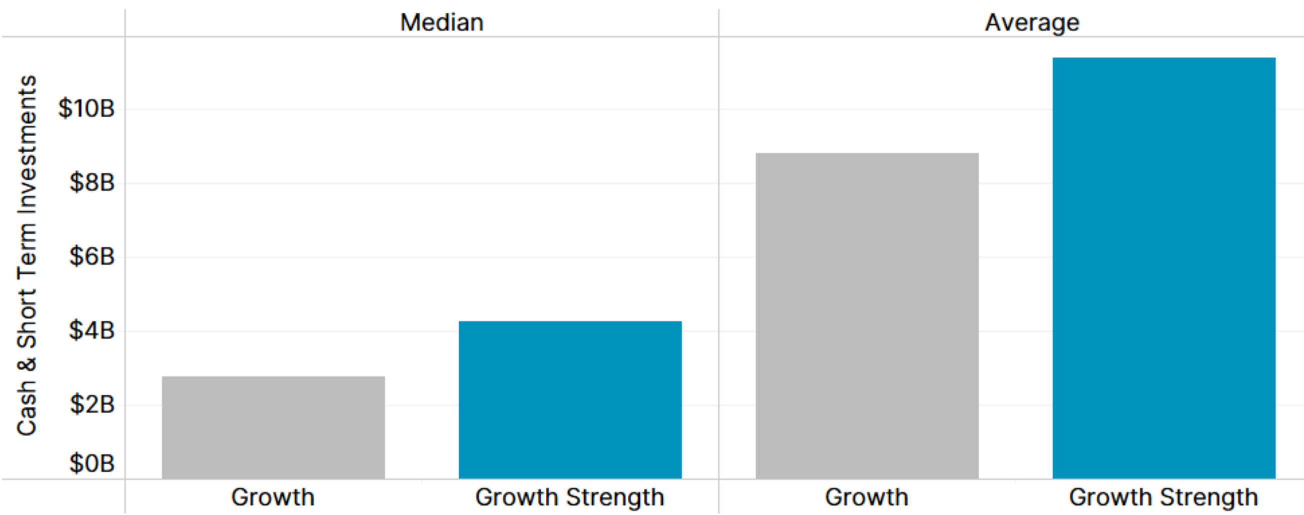
The following review compares The Growth Strength Index (NQCAPSG) with the Nasdaq US Large Cap Growth™ Index (NQUSLG™). Both indices are derived from the Nasdaq US Benchmark Index (NQUSB), but we see significant methodology differences. NQUSLG incorporates typical growth metrics like trailing 3-year sales growth, earnings-per-share growth, and intermediate momentum. Click here for more details on the NQUSLG methodology.

Cash and Short-Term Investments:

One requirement in The Growth Strength Index is for companies to have at least $1 billion (B) in cash or short-term investments. This quality check demonstrates liquidity and financial stability, which correlates to a company's ability to survive downturns in the market.

When comparing NQUSLG and NQCAPSG on average and median cash & short term investments, NQCAPSG outperforms by 54.5% and 29.4%, respectively. Both the median and average provide strong evidence in favor of The Growth Strength consitutents coming in at $4.3B and $11.4B, respectively.

Figure 5: Cash & Short-Term Investments

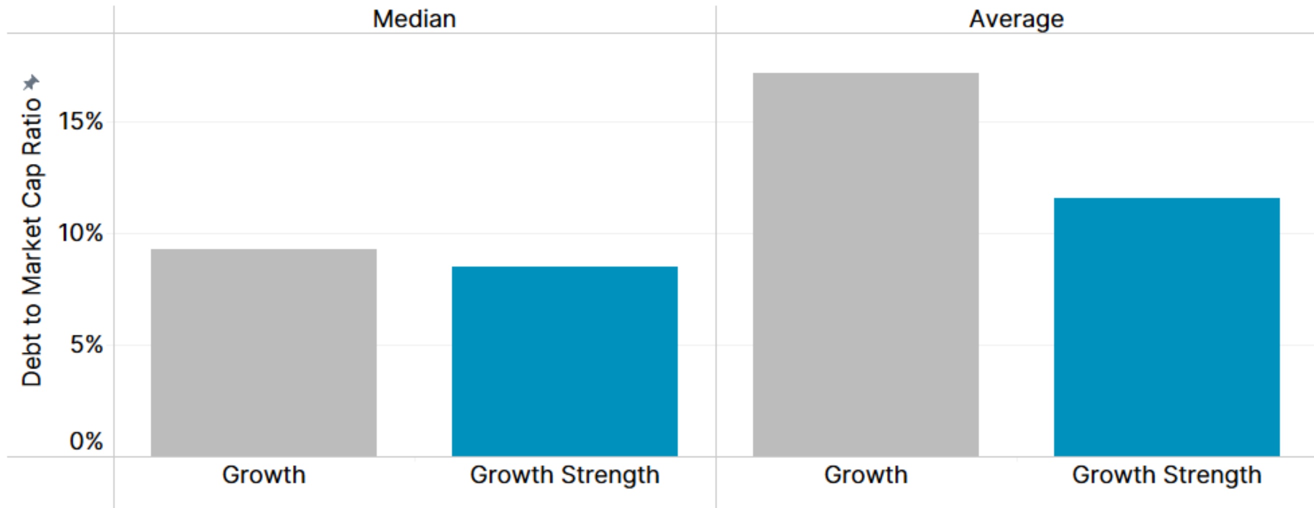


Long-Term Debt-to-Market Cap Ratio (%):

Another requirement in The Growth Strength Index is for companies to have a long-term debt to market cap ratio of less than 30%. This quality reveals the extent of a company's overall financial leverage; when a growth company's financial leverage is lower, it is better positioned to generate sustainable growth even in the face of rising interest rates, lower credit availability, or other tightening financial conditions as a result of macroeconomic deterioriation.

NQCAPSG's constituents median and average long-term debt to market cap ratios come in nearly 9% and 32% lower than NQUSLG, respectively. A long-term debt to market cap ratio below 30% indicates less reliance on debt, suggesting financial stability and a healthy mix of debt and equity in its capital structure.

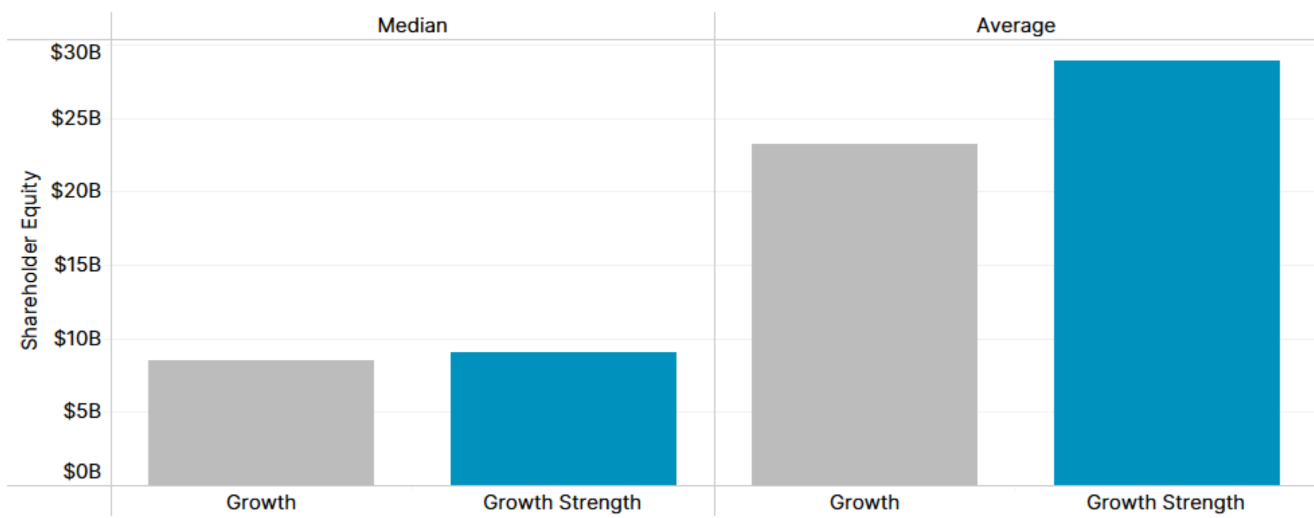
Figure 6: Long Term Debt-to-Market Capitalization



Shareholder Equity:

The third requirement in The Growth Strength Index is for companies to have positive shareholder equity. This quality indicates a company's financial health and suggests a relatively low level of risk. Securities in NQCAPSG have 7% higher median and 24% higher average shareholder equity than the securities in NQUSLG.

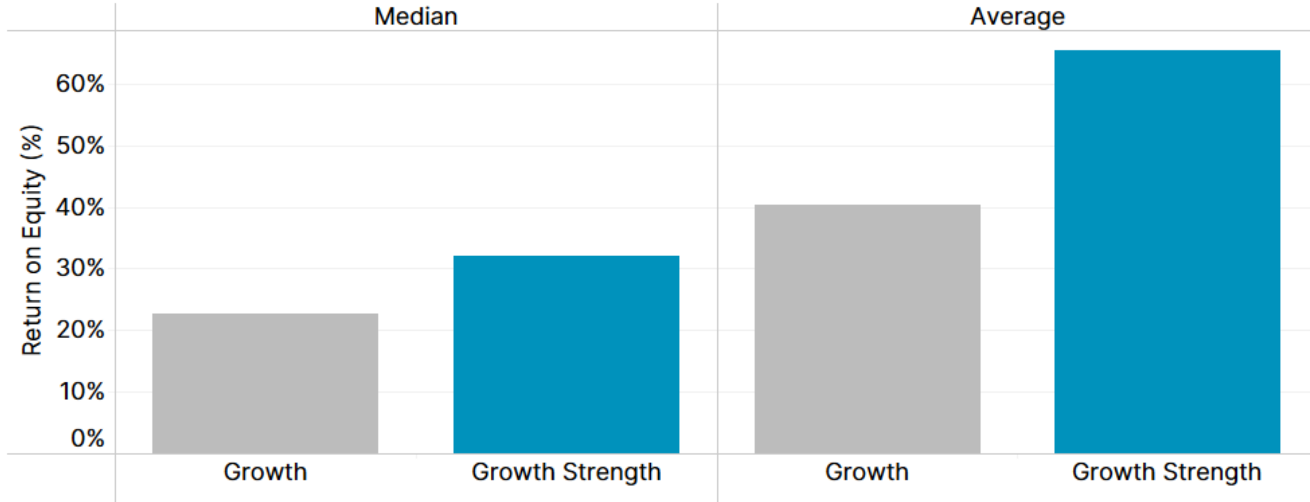
Figure 7: Shareholder Equity



Return on Equity (ROE):

The final quality requirement in The Growth Strength Index is for companies to have greater than 15% return on equity. This metric reflects robust financial performance, indicating that the company is efficiently utilizing its shareholder investments to generate profit. Here we see both the average (>60%) and median ROE (>30%) for NQCAPSG is substantially higher than NQUSLG.

Figure 8: Return on Equity

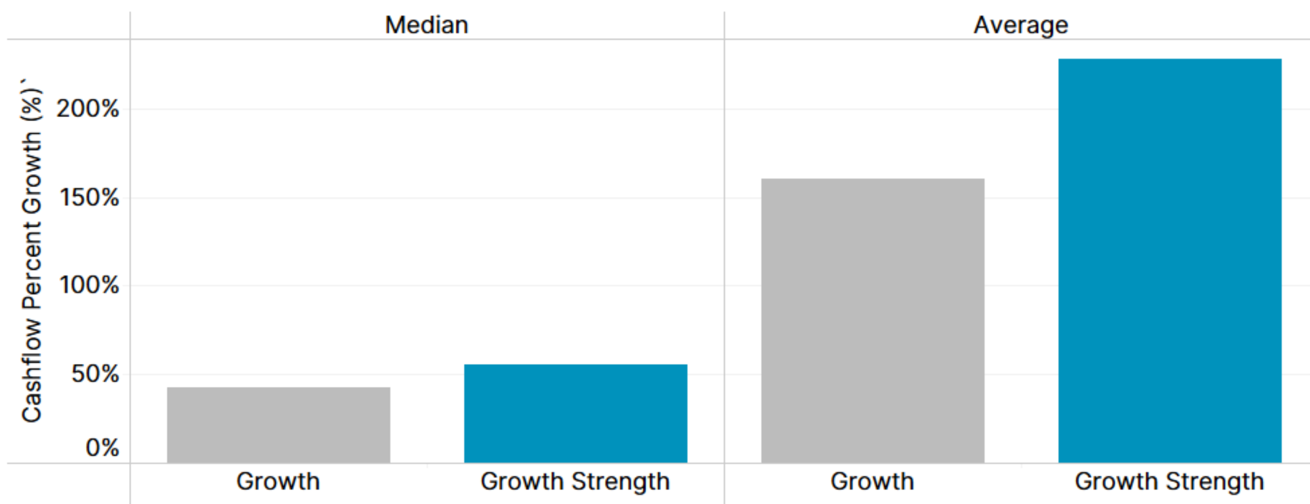


Three Year Cashflow Percent Growth:

Three-year cashflow percent growth is one of two growth scores that help determine inclusion in The Growth Strength Index. This metric reflects a company's ability to generate and accumulate cash from its operations over time, a key indicator of financial health and profitability.

NQCAPSG securities outperform NQUSLG securities when looking at the average and median values. The superior ability of NQCAPSG companies to maintain and increase cashflow is a major differentiator compared to NQUSLG and similar plain-growth benchmarks.

Figure 9: Growth Strength Shows Stronger Three-Year Cashflow Growth

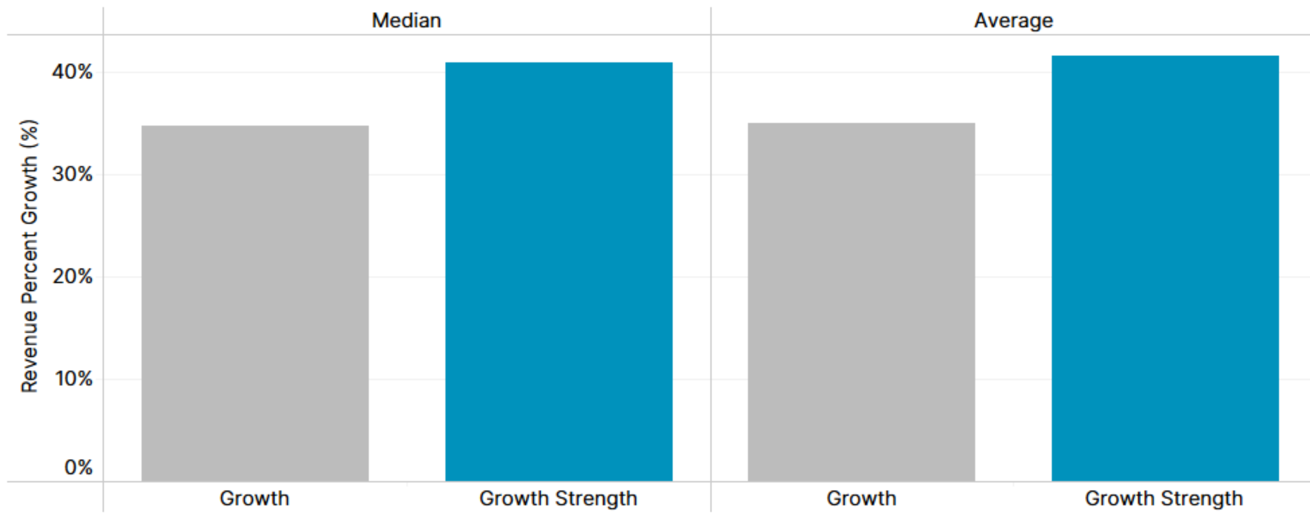


Three Year Revenue Percent Growth:

Three-year revenue percent growth is the second growth score determining inclusion in The Growth Strength Index. This metric provides a summary of the company's revenue performance; a positive growth rate reflects a company's ability to continue expanding in either existing or new markets for its products and services.

NQCAPSG outperforms NQUSLG by nearly 20% when looking at the average and median values. These consistently higher growth profiles illustrate the superior growth trajectory of a typical NQCAPSG company compared to NQUSLG and similar benchmarks.

Figure 10: Strong Revenue sets Growth Strength Apart



Performance Comparative Analysis: Growth vs Growth Strength

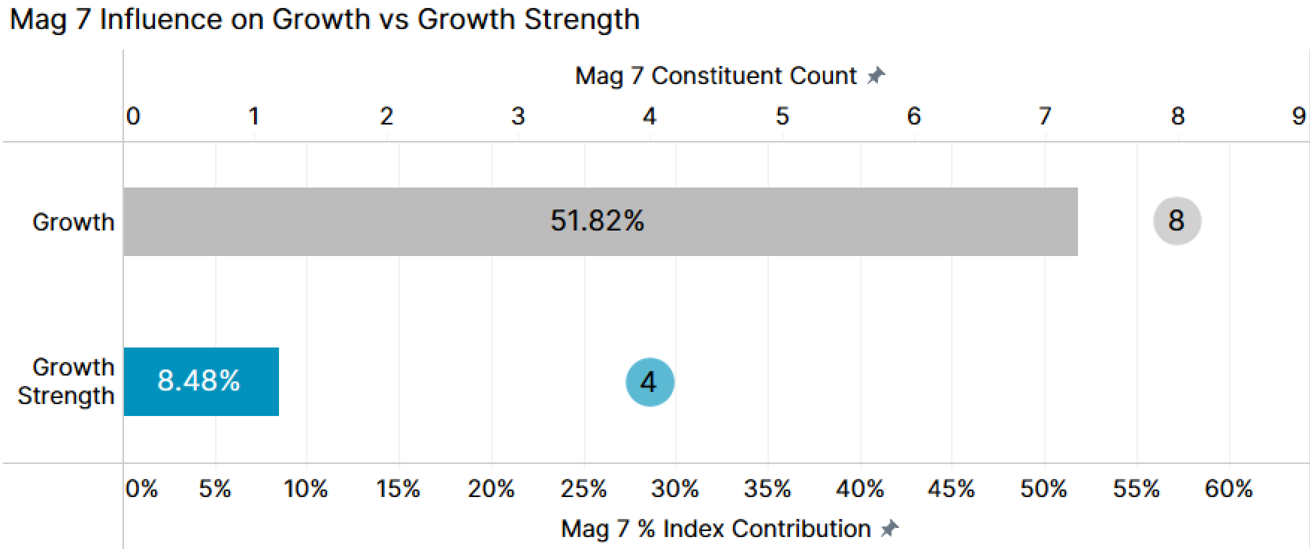
The Influence of Mega Caps: Mag 7 and Growth

In addition to the differences in determinants between traditional growth and growth strength, another major difference that impacts the performance of the indexes is their weighting schemes. Though most growth indexes are market-cap, modified market-cap, or free float market-cap weighted, the growth strength index is equally weighted.

The equal weighting scheme benefits the portfolio through diversification. By using an equal weighting scheme, each company has an equal impact, regardless of market capitalization. This provides higher exposure to the "smaller" companies in the portfolio and mitigates the risk of drawdowns based on historical data. Though equally weighted exposure may often increase volatility in a multi-cap portfolio, all securities in NQCAPSG are classified as large or mega cap, neutralizing the potential risk contribution of more volatile small and mid caps.

In the case of NQCAPSG, the equal weighting scheme also limits the impact of the historic concentration in mega caps, which have proven to be more volatile than other parts of the market as a function of their valuation premiums. In recent years, we've seen these companies – and by extension the tech sector – dominate the market, so it's useful to have alternative growth benchmarks like NQCAPSG to help investors navigate the extremes.

Figure 11: Mag 7 Influence on Growth vs Growth Strength

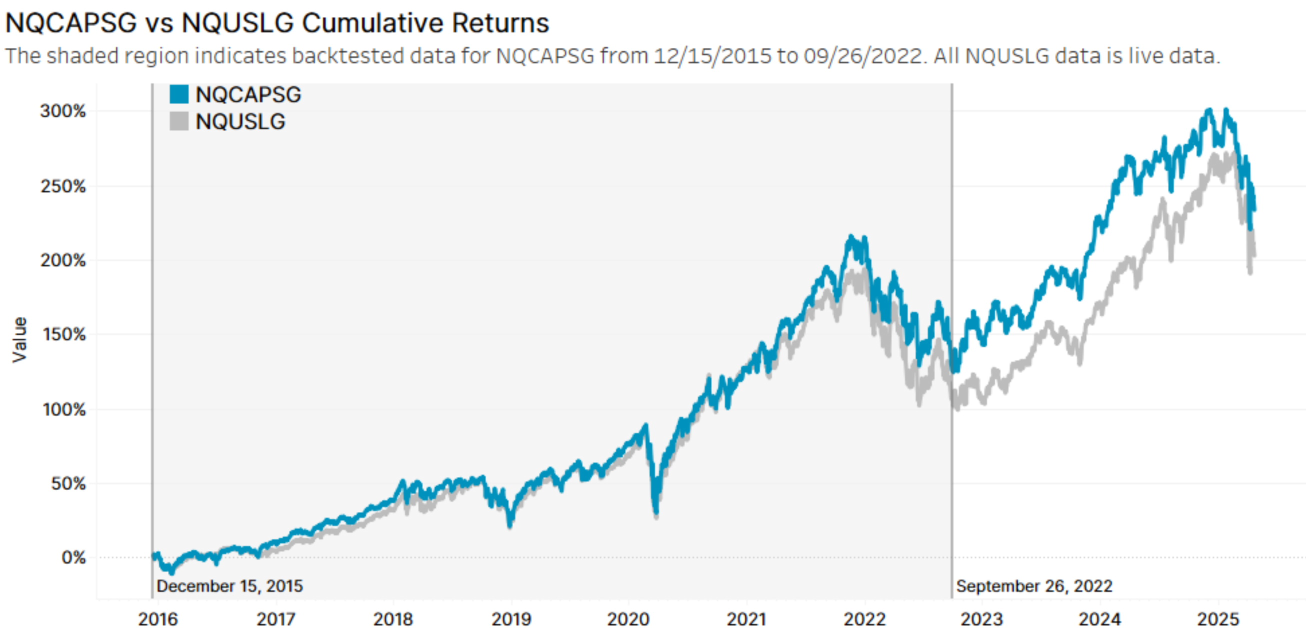


Historical Performance

As of December 31, 2024, 26 of the 50 securities in NQCAPSG overlap with NQUSLG, with different weight contributions to each index. The 26 overlapping securities contribute a total weight of nearly 40% in NQUSLG while in NQCAPSG the same constituents comprise just over 53% of the index.

There are 24 remaining unique securities in NQCAPSG and 138 remaining securities in NQUSLG. As mentioned earlier in the data review, each portfolio differs in weighting scheme and constituent count. Though these two indexes vary dramatically when considering methodology and composition, NQUSLG tracks very closely with NQCAPSG, with the latter slightly outperforming as seen in Figure 12 below.

Figure 12: Historical Performance: December 15, 2015 - April 21, 2025

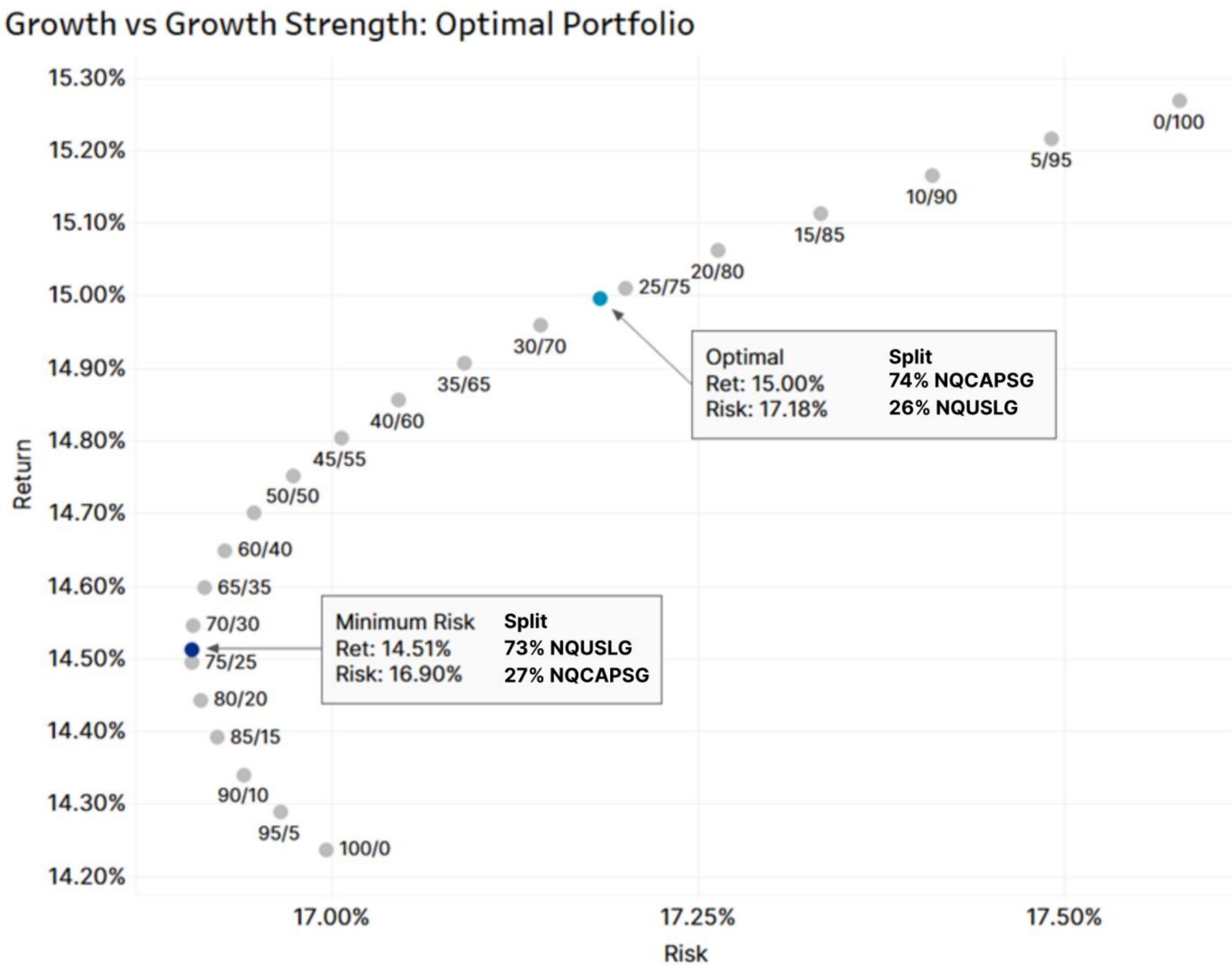


Portfolio Optimization

Modern portfolio theory focuses on the relationship between assets in a portfolio and individual risk that each asset carries. The solution to creating balance is often diversification. Though choosing just one of these two portfolios to invest in would lead to above-market performance in recent years, there is an argument for investing different amounts into each to achieve the optimal market portfolio on the efficient frontier. As shown in Figure 13, various combinations of the two portfolios are compelling, but the two to note are the minimal risk portfolio and the optimal portfolio. Depending on your portfolio as a whole, one choice may complement your investments better than the other.

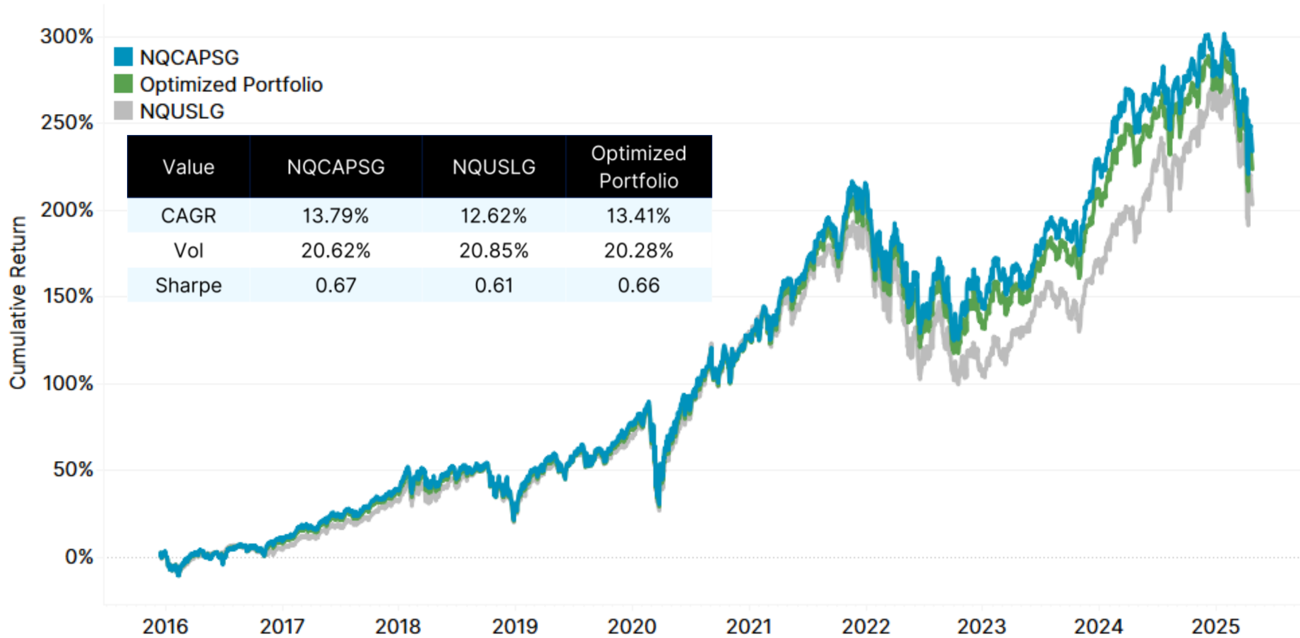
3 https://corporatefinanceinstitute.com/resources/career-map/sell-side/capital-markets/modern-portfolio-theory-mpt/

Figure 13: Optimizing your portfolio



The minimum risk portfolio allocates 73% to NQUSLG and 27% to NQCAPSG while the optimal portfolio allocates 74% to NQCAPSG and 26% to NQUSLG. As seen below in Figure 14, all three portfolios track very closely with similar volatility, CAGR, and Sharpe ratios, with the optimized portfolio bringing in 0.38% lower CAGR and 0.34% lower volatility than NQCAPSG.

Figure 14: Optimal Portfolio Performance



Value	NQCAPSG	NQUSLG	Optimized Portfolio
CAGR	13.79%	12.62%	13.41%
Vol	20.62%	20.85%	20.28%
Sharpe	0.67	0.61	0.66

Growth strategies have been delivering outperformance vs. broad US equity market indexes for the better part of two decades, prompting more investors to question how long growth's market leadership may continueAdditional factor overlays that seek to isolate the highest quality segments of the growth universe may be warranted, especially in the face of increasing market concentration. The Growth Strength Index offers lower volatility and higher returns compared to traditional passive growth benchmarks driven solely by fundamental indicators that may be overly reliant on "growth at all costs," especially earnings or EPS. Instead, NQCAPSG focuses on metrics that demonstrate quality first, such as high cash balances, low debt-to-equity, and high return on equity. Only after screening for the highest quality constituents do considerations around cashflow and revenue growth factor into the index's selection methodology. Aside from the unique selection approach, the index's equal-weighting scheme may substantially mitigate the risk of drawdowns tied specifically to the largest mega caps that have achieved market caps exceeding $1 trillion in recent years, and have come to dominate the exposures of many growth strategies. The Growth Strength Index thus illustrates that there is always room for improvement, even in the case of a very successful standalone factor in the midst of a historically impressive streak of performance.

Products tracking the Growth Strength Index include the First Trust Growth Strength ETF (Nasdaq: FTGS) and the First Trust Growth Strength UCITS ETF (London: FTGS).