Q&A | May 2015

Q&A: Chris Hart, Portfolio Manager
Global Equity and International Equity Products

Boston Partners Global Long/Short Fund: BGRSX (Investor Class); BGLSX (Institutional Class)
Boston Partners Global Fund: BPGRX (Investor Class); BPGIX (Institutional Class)
John Hancock Disciplined Value International Fund: JDVIX (Institutional Class)

Q: Boston Partners has distinguished itself for its consistency of returns, both across products and across cycles. To what do you attribute the firm's steady performance?

A: It all goes back to our process. We operate under a philosophy that is unique to Boston Partners and our process is applied universally across all of our products. We call it our "three-circle" approach, which is characterized by the lenses through which we analyze and assess potential investments. Quite simply, we're looking to assemble high-quality portfolios comprised of companies that exhibit strong business fundamentals, positive momentum in the form of steady earnings growth or catalysts for growth, and hold attractive value characteristics.

And we stick to our disciplines. If the markets are going through short-term changes and certain strategies seem to be working better than others, you're not going to see us alter our philosophy. We won't be chasing new themes that are outside of our proficiencies or modifying what has worked for us over time. We trust that our process works. We're bottom-up investors, and there is no confusion – among our investment team, among our analysts, or across our organization – that we're a value-oriented firm.

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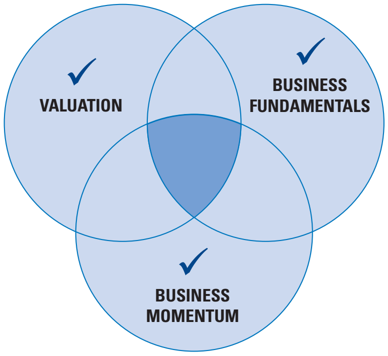

Q: As such, can you discuss your approach to identifying value and where it fits in in relation to the other two lenses you apply as part of Boston Partners' investment process?

A: Like I said, it's a bottom-up process, so it begins with our quantitative front-end analysis that creates a target-rich environment; a subset of stocks from within our coverage universe that possess the characteristics we look for. This first step, whether it's looking for longs or shorts, focuses on the tails of the valuation distribution, with those in the middle representing stocks that we believe to be fairly valued.

While we're focused on value, our aim is not solely to target inexpensive stocks. Our goal is that the overall portfolio is inexpensive relative to the market. There is an inherent bias for high-quality assets, with positive catalysts in place that support earnings growth and momentum.

Our value orientation is key and this lens represents the first step for us. That being said, when you look at it from a 20,000-foot view, our process incorporates a combination of three investment styles. Our focus on value, make no mistake, is central to our philosophy, but on top of that we layer in a core investment style, to capture strong business fundamentals, as well as a growth component in which we seek out drivers of positive earnings momentum.

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Also, we are not deep value investors. We're essentially trying to find companies that are trading at a 20% discount to market; assets in which there may be some sort of broadly held skepticism that results in the undervaluation of a company's shares.

Taken together, though, research has shown that over time, stocks with low valuations will outperform stocks with high valuations. We also know that stocks with high and sustainable earnings will outperform those with weaker fundamentals, and that stocks with positive momentum will outperform those showing negative trends. So when you apply these lenses, and do so without exception as part of a rigorous process, I think that speaks to the consistency of our returns.

Q: Building off of that, can you talk about how Boston Partners defines quality as part of your fundamental analysis?

A: We place a lot of emphasis on asset quality. We look for companies that generate a high level of return on their embedded assets and on their invested capital. We want to see profitability levels that are higher than the market and cash flow generative capabilities that exceed market peers.

We place a lot of emphasis on asset quality.

We tend to be skeptical when looking at a company's return on equity. I don't think it's the best metric, necessarily, since it doesn't provide any color into the underlying quality of the assets. In fact, you'll often see a fair amount of accounting manipulation that can enhance a company's ROE but fails to reflect the true state of a company's profitability.

We also don't try to predict the future. For instance, when you look at pharmaceutical stocks and participate on the conference calls, you'll hear analysts dig into some esoteric Phase II trial and then make investment decisions based on science that has neither been proven nor even induced a consensus conviction among the scientific community. We think we're much better off looking at the stock and gaining a rich understanding of the underlying fundamentals than we would be trying to divine the likelihood that some new chemical entity will become the next Lipitor.

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The same is true in other sectors. Among materials stocks, you'll see people trying to make guesses around oil prices or commodities. Among global stocks, investors can get fixed on foreign exchange or interest rate regimes. You'll also see investors look at DCF models to predict potential M&A events, but your model is only as strong as your inputs.

We focus on fundamentals because we don't want to hazard guesses around binary outcomes; trying to predict the future is an inherently flawed philosophy.

Q: Regarding the last of the three circles, how do you identify momentum and catalysts for growth when it comes to Boston Partners' investment strategy?

A: As I mentioned earlier, we employ a quantitative front-end system, and beyond the valuation characteristics, we're able to flag corporate events such as earnings revisions, upward changes in sales estimates, or trends such as earnings growth and share price momentum. We won't even consider companies that show negative sales growth or have downward earnings revisions, because we're not going to try to predict a bottom. We're looking for companies that are either recovering or showing growth, because we believe that these characteristics can be effectively modeled quantitatively.

From there, we'll perform a qualitative assessment to understand a company's underlying business fundamentals. Obviously, we want to focus on companies that are improving, but we also want to know how they are improving. Is the top line accelerating? Are profitability characteristics gaining strength? Is free cash flow growing? If these questions are answered affirmatively, then a company should be showing earnings growth.

We'll also look at how companies deploy capital. At different points in their respective lifecycles -- and at different points within the broader economic cycle -- companies can utilize capital in various ways. It's part and parcel to our bottom-up analysis, as we'll look into how management teams and boards use excess capital, whether it's to increase dividends or buy back stock. It could also alter the company's capital structure to invest in organic growth or even pursue M&A opportunities. We are by no means activist investors, but we want to see that companies are utilizing their free cash flow in a shareholder friendly manner.

Q: We've discussed what goes into investment decisions. Can you discuss what drives exit decisions as you rotate out of particular holdings?

A: When it comes to exiting or trimming our stock positions, we are again highly sensitive to valuation. If a particular stock reaches our target price at which it is fairly valued, then we'll sell down to zero. A lot of times, these companies will continue to do very well, but our discipline around our "three-circle" strategy extends to our decisions to exit investments and really serves as a key differentiator for Boston Partners.

Many core managers own high-quality companies at valuation levels that range from fair value to expensive. We won't do that because we always want to maintain a portfolio with the value characteristics discussed earlier, even if a company's fundamentals and business momentum remain strong.

Q: How does the macro-economic environment impact your investment strategy?

A: We don't chase markets. We rely on bottom-up fundamental analysis of individual companies to drive our investment decisions, and our "three-circle" approach is designed to deliver consistent performance.

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Given that context, the macro-economic environment can impact our exposures, and in certain markets, you'll see significant levels of active and underweight exposures. For instance, at any given point in time, we may not have any exposure to a given segment in a particular market if there are structural issues that broadly affect the earnings potential. In the first quarter of 2015, for instance, we didn't own any stock of European financial institutions. Some might see value in that segment, but we need to have confidence in the business fundamentals and see catalysts for positive change and, at that point in the business cycle, we were unable to find those characteristics.

Q: On average, how many holdings will your fund have at one time and how does this reflect the goal of the portfolio?

A: Typically, we'll have about 100 holdings in our fund at any given point in time, which is out of a coverage universe of approximately [8,000] companies. We've had as few as 85 individual holdings and as many as 125. The lower number will typically reflect that there are more large-cap stocks in the portfolio, whereas the smaller number indicates more small-cap exposure.

Within the framework of our individual security selection, we want to ensure that we have diversification and that the three pillars of our "three-circle" approach are optimized across our portfolio.

We have a general belief that you win in markets by not losing. You don't win by attempting to swing for the fences. If you regularly try to hit singles and doubles, employing a pattern of security selection that leads to consistent returns that then compound at a very high level, you will realize very strong medium to long-term performance.

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About Boston Partners:

Boston Partners is a premier provider of value equity investment products that are firmly rooted in fundamental research and are based on a disciplined investment philosophy and process. Boston Partners, which currently manages $74.5 billion*, is focused on investing in companies with attractive value characteristics and strong business fundamentals, where there is a catalyst for positive change. The firm, founded in 1995, has a longstanding reputation for superior client service. Boston Partners is part of Netherlands-based Robeco Group, one of the largest European asset management firms.

** As of March 31, 2015.*

About the Author:

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Mr. Hart is an equity portfolio manager for Boston Partners Global Equity and International Equity products. Prior to this, he was the portfolio manager for the Boston Partners International Small Cap Value product and before that, an assistant portfolio manager for the Boston Partners Small Cap Value products for three years. Previously, he was a research analyst and specialized in conglomerates, engineering and construction, building, machinery, aerospace & defense, and REITs sectors of the equity market. He joined the firm from Fidelity Investments where he was a research analyst. Mr. Hart holds a B.S. degree in finance, with a concentration in corporate finance from Clemson University. He holds the Chartered Financial Analyst® designation. He has twenty-four years of investment experience.

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The investment return and principal value of an investment will fluctuate so that shares, when redeemed, may be worth more or less than their original cost. The value of a fund's investments will vary from day to day based on many factors.

International investing is subject to special risks including, but not limited to, currency risk associated with securities denominated in other than U.S. dollar, which may be affected by fluctuations in currency exchange rates, political, social or economic instability, and differences in taxation, auditing and other financial practices. Investment in emerging market securities may increase these risks. The Fund may invest in small and mid-cap companies which tend to be more volatile and may fluctuate in the opposite direction of the broader stock market average, and in illiquid securities which involves risk of limitations on resale and uncertainty determining valuation.

More complete information about the Fund, including objectives, risks, charges and expenses, is provided in the Prospectus, which can be found at http://www.boston-partners.com/publications-mutual-funds/. It should be read carefully before investing

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