Q&A

ROBECO

# An Interview with Steve Pollack on Robeco Boston Partners Mid Cap Value Equity Investing

October 2013

**Steve Pollack, the Portfolio Manager of the Robeco Boston Partners Mid Cap Value Equity Strategy for more than a decade, explains what makes mid-sized companies with market caps between $1 and $20 billion attractive and how he chooses the winners. Steve shares his insight below.**

**Q: The Russell Midcap® Index outpaced both the large cap S&P 500 Index and the small cap Russell 2000® Index in the three, five, ten, and twenty year periods ending on December 31, 2012. What explains the success of this asset class?**

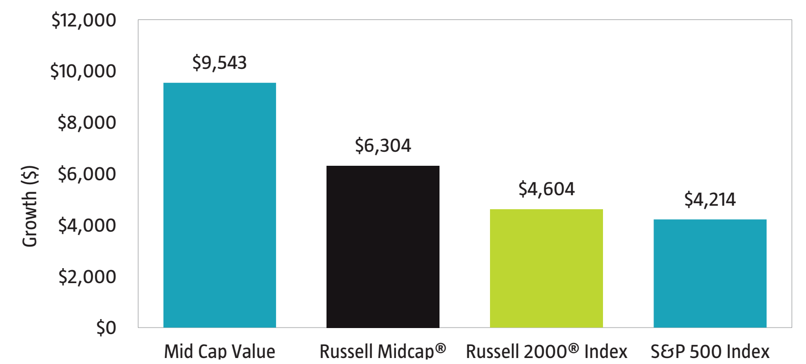
A: The approximately 2,000 publically traded mid cap companies in the U.S. are in what we call a "sweet spot" that is often overlooked by investors. These companies are usually covered by an average of 10 Wall Street analysts, compared to the 15 on average that cover large caps. This gives us an opportunity to exploit inefficiencies through stock selection grounded in rigorous fundamental research. Many of the mid caps are successful small cap companies that have grown out of the small cap index and are continuing to grow, usually with less volatility than you see in typical small caps. There are also some high quality large cap companies that have come down in size for temporary reasons. We also find some niche businesses with incumbent advantages that fall into this size range. In addition, some companies in the mid cap size range are attractive takeover targets for large cap companies looking to grow.

**Q: What does the volatility look like for mid caps?**

A: The historically strong performance of mid caps has not involved an inordinate amount of volatility. It is only slightly higher that large caps and much less than small caps. Looking at Sharpe ratios, the measure of risk-adjusted performance, mid caps have a superior risk return profile than that of both large and small caps when measured over multiple time periods.

> Our approach to investing in value equities has been consistently used across all of the Robeco Boston Partners portfolios for almost 30 years and we are all deeply **committed to consistently following our process.**

## Growth of $1,000: *U.S. Equity Asset Classes*




This information is supplemental to the GIPS® compliant presentation found herein.
Data presented are from June 1995 through June 2013. (Inception date of the Russell Midcap® Index)
Mid cap is defined as companies between $1 billion and $20 billion in equity market capitalization.
Past performance is not an indication of future results. Please refer to page 5 for other important disclosures.

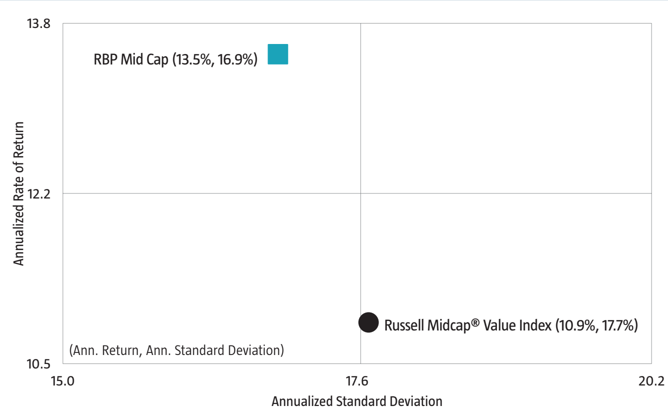
### Q: Your portfolio ranks in the top quartile of all Mid Cap Value Managers. Tell us about the criteria you use to evaluate stocks for your mid cap portfolio.

A: At Robeco Boston Partners, we are active, bottom-up stock pickers with focus on generating strong returns while preserving capital. We look for three very specific characteristics in each company we invest in: strong business fundamentals; attractive valuations; and a near-term catalyst for change or momentum factors that we believe will move the stock price.

Quantitative screens are used to narrow down the mid cap universe to a target-rich subset of names that exhibit the three key characteristics. Then, our team of analysts uses a very rigorous, fundamental stock analysis process to vet bona fide opportunities. We place a high emphasis on strong returns on invested capital and also on competitive position and capital structure. During this process we determine the company's intrinsic value and set a target price for the names we purchase. We maintain a highly diversified portfolio with over 100 holdings.

This approach to investing in value equities has been consistently used across all of the Boston Partners portfolios for almost 30 years[1] and we are all deeply committed to consistently following this process.

## Risk-Adjusted Performance: *10-Year Period*




Data presented are from June 2003 through June 2013. Returns are gross of fees and calculated on a monthly basis. Past performance is not an indication of future results. Please refer to page 5 for other important disclosures.

### Q: What defines value vs. growth in the mid cap space?

A: Ultimately value is defined by the price you pay for an investment relative to its future earnings potential. The most important factor determining the success of any investment is the price paid. So we have a bias towards value. But we do not view value and growth as mutually exclusive. We like and search for companies that are growing earnings and gaining market share; we are looking for attractive rates of return on invested capital, and positive trends in earnings per share. We are just mindful of the price we are willing to pay for that growth since very often future growth rates don't match expectations. This focus on value gives you some downside protection should that growth fail to materialize - a longer term problem for many growth-oriented strategies.

These characteristics make the mid cap sector very appealing to us. We can always find enough opportunities that are attractively valued to build a diverse portfolio. But we can also find a significant number of companies still looking to grow their earnings, invest in the expansion of the business, gain market share, and seek out new markets.

### Q: Do you sell if a stock goes up in price and is no longer considered mid cap?

A: We hold onto stocks for their investment merit and won't use capitalization as a reason to sell a stock with the characteristics we like. Having said that, we closely monitor our average capitalization in the portfolio, which is typically pretty close to the benchmark, and we rarely own stocks above $30 billion in market capitalization.

[1] Key investment professionals have worked together since the founding of Boston Partners in 1995 and years before at a prior firm, where the investment philosophy was established.

## Q: What does trigger a decision to sell a holding?

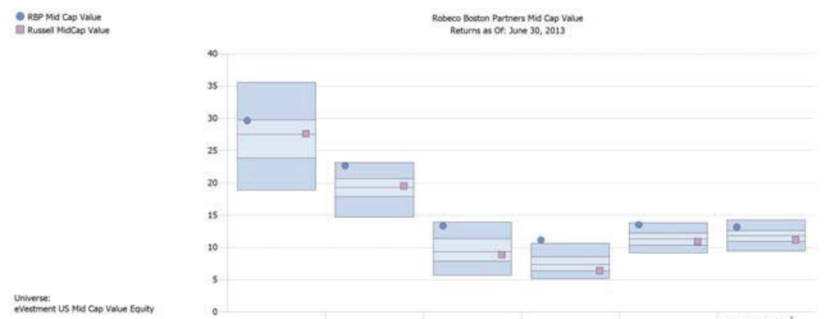
A: We sell when any one of the three characteristics we like changes. That would be valuation – we've reached our price target; business fundamentals have weakened; or there has been a reversal of the catalyst for change that we initially identified.

## Q: Are you fully invested at all times?

A: Yes, and we never try to time the market. We have long experience with market volatility and have performed very well through turbulent times. We stick to our philosophy of buying good companies at the right price and managing risk to preserve capital. As bottom-up stock pickers we look for price dislocations during adverse periods to enhance the portfolio's upside return potential over time.

It's worth noting that industry data show that over long time periods a very small number of days accounts for the equity market's return. For example, if an investor was out of the market for the best 50 days between November 1984 and December 2009, he/she would have earned an annualized return of 0.1% instead of the 10.0% the S&P 500 Index returned during that time period. *(Bloomberg)*

### Robeco Boston Partners Mid Cap Value: *Industry Ranking*




| | VT | RM | 1 Year | Rk | 3 Years | Rk | 5 Years | Rk | 7 Years | Rk | 10 Years | Rk | Since Inception [1] 18 Years | Rk |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 5th percentile | | | 35.64 | | 23.19 | | 13.95 | | 10.69 | | 13.84 | | 14.27 | |
| 25th percentile | | | 29.77 | | 20.67 | | 11.40 | | 8.59 | | 12.23 | | 12.62 | |
| Median | | | 27.57 | | 19.33 | | 9.36 | | 7.40 | | 11.32 | | 11.84 | |
| 75th percentile | | | 23.81 | | 17.89 | | 7.85 | | 6.40 | | 10.35 | | 10.95 | |
| 95th percentile | | | 18.89 | | 14.69 | | 5.71 | | 5.13 | | 9.19 | | 9.45 | |
| # of Observations | | | 122 | | 118 | | 110 | | 106 | | 85 | | 24 | |
| RBP Mid Cap Value | SA | GF | 29.66 | 27 | 22.69 | 7 | 13.36 | 8 | 11.17 | 3 | 13.54 | 6 | 13.19 | 17 |
| Russell MidCap Value | IX | IX | 27.65 | 49 | 19.53 | 46 | 8.87 | 57 | 6.45 | 74 | 10.92 | 60 | 11.17 | 72 |

Results displayed in US Dollar (USD)

[1] 7/1995 - 6/2013

Data presented are as of June 2013.
Past performance is not an indication of future results. Please refer to page 5 for other important disclosures.

## Q: How do you manage risk?

A: We focus on mitigating two principal risks: loss of capital and significant shortfalls versus the benchmarks. Preservation of our clients' capital is paramount. We believe that by consistently executing the characteristics-based approach I described earlier and having a broadly diversified portfolio, we are reducing both of these risks and the portfolio will outperform over time. In terms of diversification, we usually have over 100 holdings, and limit exposure to any one industry to 25% of the portfolio.

## Q: What are some of the sectors you like?

A: We like Financials; prices are still very depressed on P/B and P/E basis but we're confident ROEs will improve, driving better valuations. Health Care is also an attractive sector because many of these companies have excellent free cash flow and the concern over health care reform is depressing valuations. We believe managed care companies and drug distributors are part of the solution to drive down health care inflation. In the Technology sector, we are attracted to companies with excellent balance sheets and strong cash flow even if their growth rates have slowed somewhat. Managements are starting to understand that excess cash flow belongs to shareholders and as a result are providing large dividends increases and share repurchases. We think the European recovery should improve demand for technology products. Our portfolio also holds some Consumer companies, in particular, retail and media. These companies still have attractive valuations, strong profitability and good chance for better than expected growth as U.S. consumers increase spending and Europe rebounds.

## Q: Do you expect the mid cap outperformance anomaly to continue?

A: Historically mid cap has had the best risk adjusted returns and I don't know why that would not continue. The combination of profitability and earnings growth compares favorably to large caps with more predictability and less volatility than small caps. Another reason to be bullish on this asset class is that fewer investors dedicate assets to mid caps compared to small or large cap stocks. If this disparity between market cap and asset allocation lessens and results in increased flows into mid caps, there will be additional support for long-term performance.

### **Robeco Boston Partners Mid Cap Value Equity** Investment Performance

Annualized Performance (%)

| | 2Q 2013 | YTD 2013 | 1 Year | 3 Year | 5 Year | 7 Year | 10 Year | Since Inception* |
|---|---|---|---|---|---|---|---|---|
| Mid Cap Value - Gross of Fees | 3.96 | 17.23 | 29.66 | 22.69 | 13.36 | 11.16 | 13.53 | 13.54 |
| Mid Cap Value - Net of Fees | 3.87 | 16.96 | 28.88 | 21.83 | 12.57 | 10.41 | 12.76 | 12.78 |
| Russell Midcap® Value Index | 1.65 | 16.10 | 27.65 | 19.53 | 8.87 | 6.44 | 10.92 | 11.44 |

Calendar Year Performance (%)

| | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 |
|---|---|---|---|---|---|---|---|---|---|---|
| Mid Cap Value - Gross of Fees | 19.78 | 1.68 | 24.79 | 42.04 | -31.84 | 6.24 | 18.78 | 11.37 | 22.41 | 37.31 |
| Mid Cap Value - Net of Fees | 18.9 | 0.88 | 23.93 | 41.13 | -32.36 | 5.57 | 18.06 | 10.62 | 21.54 | 36.37 |
| Russell Midcap® Value Index | 18.51 | -1.38 | 24.75 | 34.21 | -38.45 | -1.42 | 20.22 | 12.65 | 23.71 | 38.07 |

* May 1, 1995
Data as of June 30, 2013.
Robeco Boston Partners has prepared and presented this report in compliance with the GIPS®. Returns reflect composite results and individual portfolio results will vary.
Past performance is not an indication of future results.

Robeco Investment Management ("RIM" or the "Firm") is an Investment Adviser registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940. RIM is a subsidiary of Robeco Groep N.V. ("Robeco"), a Dutch investment management firm headquartered in Rotterdam, the Netherlands. Prior to January 1, 2007, RIM was the parent entity to three separate SEC-Registered Investment Advisers: Weiss, Peck & Greer Investments ("WPG"), Boston Partners Asset Management, LLC ("BPAM"), and Robeco-Sage Capital Management, LLC ("Sage"). These three companies were merged into RIM in order to simplify corporate structure and are considered divisions of the Firm. The merger did not affect investment activities or business functions of the divisions. Sage, which exclusively manages funds of hedge funds, was removed from the GIPS® definition of the Firm due to differing business strategies on August 31, 2010.

RIM claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS® standards. RIM has been independently verified for the periods 2007 through 2012. BPAM and WPG were verified by an independent verifier on an annual basis from 1995 through 2006 and 1993 through 2006, respectively. Verification assesses whether (1) the Firm has complied with all the composite construction requirements of the GIPS® standards on a firm-wide basis and (2) the Firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS® standards. The RIM Mid Cap Value Equity composite has been examined for the periods 1995 to 2006 and 2010 to 2012. The verification and performance examination reports are available upon request.

Past performance is not indicative of future results. This document is not an offering of securities nor is it intended to provide investment advice. It is intended for informational purposes only.

The inception and creation date of the RIM Mid Cap Value Equity composite is May 1, 1995. Performance results attained at BPAM have been linked to the results achieved at RIM beginning on January 1, 2007. Effective March 1, 2006, the Mid Cap Value Equity strategy is composed of securities primarily in the same market capitalization range, at time of purchase, as the Russell Midcap® Value Index. The composite includes all fully discretionary, fee-paying accounts under management, both separately managed and commingled, with a similar investment mandate and an account market value greater than $1 million. Prior to January 1, 2007, the minimum account size for inclusion in the composite was $5 million.

Account returns are market value weighted and calculated on a total return basis using trade date valuations. Returns reflect the reinvestment of dividends and other earnings, and are net of commissions and transaction costs. Performance is expressed in U.S. Dollars. Additional information regarding policies for valuing portfolios, calculating performance, and presenting compliant presentations is available upon request.

Composite returns are provided on a gross and net of fees basis. Account returns will be reduced by any fees and expenses incurred in the management of the account. In general, actual fees may vary depending on the applicable fee schedule and portfolio size.

Effective January 1, 2005 the RIM Mid Cap Value Equity composite revised its benchmark from the Russell 2500™ Value Index to the Russell Midcap® Value Index. The Russell Midcap® Value Index has less of a bias toward smaller capitalization stocks and thus more accurately reflects the composition of RIM holdings.

The Russell Value Indices typically measure the performance of universes of stocks displaying low price-to-book ratios and low forecasted growth values. The Russell 2500™ Value Index measures the performance of those Russell 2500 companies with lower price-to-book ratios and lower forecasted growth values. Index returns are provided for comparison purposes only to show how the composite's returns compare to a broad-based index of securities, as the indices do not have costs, fees, or other expenses associated with its performance. In addition, securities held in either index may not be similar to securities held in the composite's accounts.

## Composite Dispersion

The measurement of composite dispersion is calculated by the weighted average standard deviation of the annual account returns within the composite. Dispersion in composites with less than five accounts included for the entire year is not considered meaningful and is denoted with "N/A". Prior to January 1, 2007, the measurement of composite dispersion was calculated by determining the difference between the highest and lowest annual account returns within the composite. The three-year annualized standard deviation measures the variability of the composite and the benchmark returns over the preceding 36-month period.

## Mid Cap Value

| | # of Portfolios in Composite | Total Assets in Composite | % of Firm AUM | Composite Dispersion |
|---|---|---|---|---|
| **2012:** | 9 | $2.9 b | 9% | 0.01% |
| **2011:** | 4 | $1.0 b | 4% | n/a |
| **2010:** | 3 | $306 mm | 1% | n/a |
| **2009:** | 3 | $127 mm | 1% | n/a |
| **2008:** | 3 | $85 mm | 1% | n/a |
| **2007:** | 2 | $86 mm | 0% | n/a |
| **2006:** | 1 | $35 mm | 0% | n/a |
| **2005:** | 3 | $128 mm | 1% | 0.64% |
| **2004:** | 4 | $128 mm | 1% | 0.32% |
| **2003:** | 5 | $122 mm | 1% | 0.07% |

## Other Disclosures

RIM has adjusted the S&P and Russell sector classifications to group stocks according to similar business product lines and correlation of stock returns. RIM's classifications are similar to the major market indices in terms of breadth but may differ in terms of composition. All product characteristics and sector weightings are calculated using a representative portfolio. Risk statistics are calculated using composite data. Portfolio composition is subject to change and information contained in this publication may not be representative of the current portfolio.

RIM participates in Initial Public Offerings (IPOs) as described in its Form ADV, Part II. IPO contributions to performance vary from year to year depending on availability and prevailing market conditions. IPO contributions may have a significant positive effect on performance when initially purchased. Such positive performance should not be expected for future performance periods.

## Annual Fee Schedule

Investment advisory fees, which are more fully described in RIM's ADV Part II are: 80 basis points ("bp") on the first $25 million of assets; 60 bp thereafter.

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