

Entry Points Alert | Dissecting Passive Performance

Transcript



John C. Forelli, CFA
Director of Portfolio Research

Inflation, Rising Rates and the Return of the Value Cycle

Director of Portfolio Research John C. Forelli, CFA, dissects active management performance across sectors, regions, and style.

Catalysts in Play | Many investors, frustrated by their seeming inability to beat the S&P 500 Index, have come to believe that passive indexing is a better solution. But when we took a closer look, we noticed something interesting: Value managers have actually been very successful at beating the benchmark for years.

Entry Points | While passive strategies gained popularity among investors in recent decades, the case for active management remains strong for value investors. In contrast to both growth and core managers, active value funds have consistently demonstrated an ability to generate alpha returns due to stock selection.

Consistent outperformance over time | When we dissected the performance of large-cap value, growth, and core managers, we found that less than 10% of growth managers beat the S&P 500 benchmark over the last five, 10, and 15 years. In contrast, over 60% of large-cap value managers outperformed over the same periods.

Consistent outperformance across cap sizes and regions | Within value, more than 50% of active small- and mid-cap managers also outperformed their benchmarks over the past five, 10, and 15 years. Similarly, more than 60% of international equity value managers beat their benchmarks over those time periods without exception.

The case for active value | While active value managers have been able to use stock selection to drive excess returns, large-cap growth managers have been hampered by the strong

performance of FAANG stocks (Facebook/Meta, Apple, Amazon, Netflix, and Alphabet), which have been difficult to overweight in their portfolios.

Active Strategy | Since our inception in 1995, Boston Partners has been committed to delivering strong returns in active value equity strategies. Across all capitalizations and geographies, we have consistently strived to deliver excess returns, net of fees, relative to our respective benchmarks. We maintain that active value management belongs in everyone’s portfolio, and forgoing an active value manager could potentially leave money on the table.

John C. Forelli, Director of Portfolio Research at Boston Partners

Investors are frustrated that they can’t beat the S&P 500. This has made them believe that indexing may be a better solution. We think investors should be taking a closer look. I’m John Farrell, director of portfolio research at Boston Partners. On this episode of Entry Points, we’re going to be dissecting active management by sector, region and style.

Looking at the large cap value sector, we’ve created a heatmap looking at what percentage of core growth and value managers have beaten the benchmark over the last five, ten and 15 years. As you can see, about a

Value Active Management Net of Fees has Fared Well vs. Benchmarks while Growth has Struggled

	Value		Growth		Core	
Benchmark	Russell 1000® Value Index	Universe	Russell 1000® Growth Index	Universe	Russell 1000® Index	Universe
Universe	US Large Cap Value Equity	Size	US Large Cap Growth Equity	Size	US Large Cap Core Equity	Size
5 yr Rank	62	357	8	261	29	305
10 yr Rank	61	319	9	222	21	241
15 yr Rank	64	250	5	191	24	178

- >75% of managers beating benchmark
- 51% to 75% of managers beating benchmark
- <25% of managers beating benchmark

Source: eVestment ranking of the respective index compared to the eVestment universe for active managers. 5 Year, 10 Year, and 15 Year time periods are as of June 30, 2023. All data is net of fees. Please refer to the end of the document for other important disclosures.

quarter of core managers have beaten the benchmark, while less than 10% of growth managers have beaten the benchmark over that time period. On the other hand, when we look at value, we get a much different story. The value managers have been very successful beating the S&P 500. In fact, over 60% of large cap value managers had beaten the benchmark over the last five, ten and 15 years.

We’ve extended this heat map to different styles, capitalizations and regions around the globe. And here you can see that in the value sector, more than 50% of active managers have beaten the benchmark without exception over that time period. Very much in contrast to growth managers that have struggled mightily over that time period and core managers as well.

Active value managers have fared better than growth managers because of their ability to use stock selection as a driver of their excess returns. Large cap growth managers have been hampered by the fact that the FAANG stocks have done so well and it has been difficult for them to outperform the benchmark because it’s been very difficult for them to be overweight in those large cap FAANG names in their portfolios.

At Boston Partners were proud to say we’ve been very successful creating excess returns in the value space. In fact, across all capitalizations and all geographies over multiple time frames and over multiple strategies, we have delivered excess returns, net of fees relative to respective benchmarks since inception. We believe active value management has a place in everyone’s portfolio, and if you don’t hire an active value manager, you are leaving money on the table.

Value Active Management Net of Fees has Fared Well vs. Benchmarks while Growth has Struggled

Key	
	>75% of managers beating benchmark
	51% to 75% of managers beating benchmark
	26% to 50% of managers beating benchmark
	< 25% of managers beating benchmark

	Value			Growth			Core		
Large	Benchmark	Russell 1000 [®] Value Index	Universe	Russell 1000 [®] Growth Index	Universe	Russell 1000 [®] Index	Universe		
	Universe	US Large Cap Value Equity	Size	US Large Cap Growth Equity	Size	US Large Cap Core Equity	Size		
	5 yr Rank	62	357	8	261	29	305		
	10 yr Rank	61	319	9	222	21	241		
15 yr Rank	64	250	5	191	24	178			
Mid	Benchmark	Russell Midcap [®] Value Index	Universe	Russell Midcap [®] Growth Index	Universe	Russell Midcap [®] Index	Universe		
	Universe	US Mid Cap Value Equity	Size	US Mid Cap Growth Equity	Size	US Mid Cap Core Equity	Size		
	5 yr Rank	60	89	45	90	57	58		
	10 yr Rank	52	80	48	80	52	44		
15 yr Rank	66	65	47	70	50	35			
Small	Benchmark	Russell 2000 [®] Value Index	Universe	Russell 2000 [®] Growth Index	Universe	Russell 2000 [®] Index	Universe		
	Universe	US Small Cap Value Equity	Size	US Small Cap Growth Equity	Size	US Small Cap Core Equity	Size		
	5 yr Rank	81	208	89	160	88	164		
	10 yr Rank	74	183	86	138	78	136		
15 yr Rank	84	150	83	117	76	104			
Global	Benchmark	MSCI World Value Index	Universe	MSCI World Growth Index	Universe	MSCI World Index	Universe		
	Universe	Global Value Equity	Size	Global Growth Equity	Size	Global Core Equity	Size		
	5 yr Rank	60	162	11	200	30	393		
	10 yr Rank	66	119	20	120	27	259		
15 yr Rank	69	77	36	65	37	145			
International	Benchmark	MSCI EAFE Value Index	Universe	MSCI EAFE Growth Index	Universe	MSCI EAFE Index	Universe		
	Universe	EAFE Value Equity	Size	EAFE Growth Equity	Size	EAFE Core Equity	Size		
	5 yr Rank	68	83	30	52	38	196		
	10 yr Rank	76	60	44	37	65	149		
15 yr Rank	82	49	62	29	78	109			
Emerging	Benchmark	MSCI EM Value Index	Universe	MSCI EM Growth Index	Universe	MSCI EM Index	Universe		
	Universe	Global Emerging Mkts All Cap Value Equity	Size	Global Emerging Mkts All Cap Growth Equity	Size	Global Emerging Mkts All Cap Core Equity	Size		
	5 yr Rank	82	33	58	51	66	131		
	10 yr Rank	88	23	45	35	69	104		
15 yr Rank	84	13	75	15	67	54			

Source: eVestment ranking of the respective index compared to the eVestment universe for active managers. 5 Year, 10 Year, and 15 Year time periods are as of June 30, 2023. All data is net of fees. Please refer to the end of the document for other important disclosures.

Boston Partners AI: Alpha Innovation Excess Return Net of Fees Relative to Respective Benchmarks Since Inception

BP Strategy	1 Year	3 Year	5 Year	10 Year	15 Year	20 Year	25 Year	Since Inception
Large Cap Value vs. Russell 1000 [®] Value Index	3.89	5.01	1.26	0.92	1.40	1.61	1.64	1.25
Premium Equity vs. Russell 3000 [®] Value Index	4.14	4.07	1.52	1.62	2.49	2.58	3.44	2.86
Mid Cap Value vs. Russell Midcap [®] Value Index	7.92	4.11	2.49	2.15	2.65	2.13	1.49	1.68
Small Cap Value vs. Russell 2000 [®] Value Index	6.99	1.77	2.30	0.57	1.97	1.38	1.35	2.04
Global Equity vs. MSCI World Value Index-Net	7.04	4.80	1.56	1.89	2.04			2.07
International Equity vs. MSCI EAFE Value Index-Net	1.98	1.69	1.51	1.71	1.53			1.66
Emerging Markets vs. MSCI Emerging Markets Index-Net	6.62	3.47	2.36					0.97

Above benchmark net of fees
 Below benchmark net of fees

Data as of September 30, 2023. Source: Boston Partners.

Returns reflect composite results net of fees and individual results may vary. A GIPS[®] compliant report is contained herein. Past performance is not an indication of future results. Inception dates: Large Cap Value is June 1, 1995; Premium Equity is June 1, 1995; Mid Cap Value is May 1, 1995; Small Cap Value is July 1, 1995; Global Equity is July 1, 2008; International Equity is July 1, 2008; and Emerging Markets is July 1, 2017. Please refer to the end of the document for other important disclosures.

John C. Forelli, CFA | Senior Portfolio Manager

Mr. Forelli is the Head of Portfolio Research Group for Boston Partners. In this position, he directs our team of investment professionals in formulating, developing, and communicating the investment narrative for Boston Partners. Prior to this role, he was a senior portfolio analyst and has extensive experience with all of the firm's strategies. Mr. Forelli has 12 years of experience as a portfolio manager focused on large cap equities. He joined the firm in May 2010 from Independence Investments where he was large cap core portfolio manager, senior partner and member of the investment committee. Mr. Forelli was also a research analyst specializing in health care, chemical, capital goods and industrial companies. He began his career as an investment banker with Prudential Securities focusing on raising capital for emerging growth companies and merger and acquisition transactions. Mr. Forelli holds a B.A. degree in economics from Dartmouth College and an M.B.A. degree from the Tuck School of Business at Dartmouth College. He holds the Chartered Financial Analyst® designation and FINRA licenses 7 and 66. Mr. Forelli began his career in the investment industry in 1984.

Disclosure

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Value Active Management Net of Fees has Fared Well vs. Benchmarks While Growth has Struggled: Comparison of the eVestment Ranking Universe

Ranking of the respective Index compared to the eVestment universe of active managers for the 5 Year, 10 Year and 15 Year time periods. Results as of June 30, 2023 are as follows:

Large Cap Value: Russell 1000® Value Index/US Large Value Equity Universe 5-year 62/375; 10-year 61/319; 15-year 64/250. Russell 1000® Growth Index/US Large Growth Equity 5-year 8/261; 10-year 9/222; 15-year 5/191. Russell 1000® Core Index/US Large Core Equity 5-year 29/305; 10-year 21/241; 15-year 24/178.

Mid Cap Value: Russell Midcap Value Index/US Mid Cap Value Equity 5-year 60/89; 10-year 52/80; 15-year 66/65. Russell Midcap Growth Index/US Mid Cap Growth Equity 5-year 45/90; 10-year 48/80; 15-year 47/70. Russell Midcap Index/US Mid Cap Core Equity 5-year 57/58; 10-year 52/44; 15-year 50/35.

Small Cap Value: Russell 2000® Value Index/US Small Cap Value Equity 5-year 81/208; 10-year 74/183; 15-year 84/150. Russell 2000® Growth Index/US Small Cap Growth Equity 5-year 89/160; 10-year 86/138; 15-year 83/117. Russell 2000® Index/US Small Cap Core Equity 5-year 88/164; 10-year 78/136; 15-year 76/104.

Global Equity: MSCI World Value Index/Global Value Equity 5-year 60/162; 10-year 66/119; 15-year 69/77. MSCI World Growth Index/Global Growth Equity 5-year 11/200; 10-year 20/120; 15-year 36/65. MSCI World Index/Global Core Equity 5-year 30/393; 10-year 27/259; 15-year 37/145.

International Equity: MSCI EAFE Value Index/EAFE Value Equity 5-year 68/83; 10-year 76/60; 15-year 82/49. MSCI EAFE Growth Index/EAFE Growth Equity 5-year 30/52; 10-year 44/37; 15-year 62/29. MSCI EAFE Index/EAFE Core Equity 5-year 38/196; 10-year 65/149; 15-year 78/109.

Emerging Markets: MSCI EM Value Index/Global Emerging Mkts All Cap Value Equity 5-year 82/33; 10-year 88/23; 15-year 84/13. MSCI EM Growth Index/Global Emerging Mkts All Cap Growth Equity 5-year 58/51; 10-year 45/35; 15-year 75/15. MSCI EM Index/Global Emerging Mkts All Cap Core Equity 5-year 66/131; 10-year 69/104; 15-year 67/54.

Index Definitions

Alpha: A measure of performance on a risk-adjusted basis. Alpha takes the volatility (price risk) of a product and compares its risk-adjusted performance to a benchmark index. The excess return of the product relative to the return of the benchmark index is the alpha.

S&P 500® Index: The S&P 500® Index is a registered trademark of the McGraw-Hill Companies, Inc. and is an unmanaged Index of the common stocks of 500 widely held U.S. companies.

FAANG+: FAANG is an acronym referring to the stocks of the five most popular and best-performing American technology companies: Meta (formerly known as Facebook), Amazon, Apple, NVIDIA, and Alphabet (formerly known as Google).

MSCI EAFE (Europe, Australasia, Far East) Index: A free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada.

MSCI EAFE Value Index: Captures large and mid cap securities exhibiting overall value style characteristics across developed markets countries around the world, excluding the US and Canada. The value investment style characteristics for index construction are defined using three variables: book value to price, 12-month forward earnings to price and dividend yield.

MSCI EM (Emerging Markets) Index: Captures large and mid cap representation across emerging markets countries covering approximately 85% of the free float-adjusted market capitalization in each country.

MSCI EM Currency Index: The MSCI Global Currency indices are constructed with an objective to reflect an investment process that uses a combination of monthly trades of currency forwards against the home currency and home currency Libor deposits to capture currency and interest rate returns.

The MSCI world index, which is part of The Modern Index Strategy, is a broad global equity index that represents large and mid-cap equity performance across 23 developed markets countries. It covers approximately 85% of the free float-adjusted market capitalization in each country and MSCI world index does not offer exposure to emerging markets.

MSCI World Net Return Index: Captures large and mid cap representation across developed market countries covering approximately 85% of the free float-adjusted market capitalization in each country.

Russell 1000® Growth Index: Measures the performance of the largecap growth segment of the U.S. equity universe. It includes those Russell 1000 companies with relatively higher price-to-book ratios, higher I/B/E/S forecast medium term (2 year) growth and higher sales per share historical growth (5 years).

Russell 1000® Value Index: The Russell 1000® Value Index contains stocks included in the Russell 1000® Index displaying low price-to-book ratios and low forecasted growth values.

Russell 2000® Index: The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index.

Russell 2000® Growth Index: The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The Russell 2000® Growth Index contains stocks included in the Russell 2000® Index displaying high price-to-book ratios and high forecasted growth values.

Russell 2000® Value Index: The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The Russell 2000® Value Index contains stocks included in the Russell 2000® Index displaying low price-to-book ratios and low forecasted growth values.

Russell 3000® Index: The Russell 3000® Index measures performance of the 3,000 largest U.S. companies based on total market capitalization. The Russell 3000® Index measures performance of the 3,000 largest U.S. companies based on total market capitalization.

Russell 3000® Growth Index: The Russell 3000® Index measures performance of the 3,000 largest U.S. companies based on total market capitalization. The Russell 3000® Growth Index contains stocks included in the Russell 3000® Index displaying high price-to-book ratios and high forecasted growth values.

Russell 3000® Value Index: The Russell 3000® Index measures performance of the 3,000 largest U.S. companies based on total market capitalization. The Russell 3000® Value Index contains stocks included in the Russell 3000® Index displaying low price-to-book ratios and low forecasted growth values.

Russell 3000® Value Index: Measures the performance of those Russell 3000® Index companies with lower price-to-book ratios and lower forecasted growth values. The stocks in this index are also members of either the Russell 1000® Value or the Russell 2000® Value Indices.