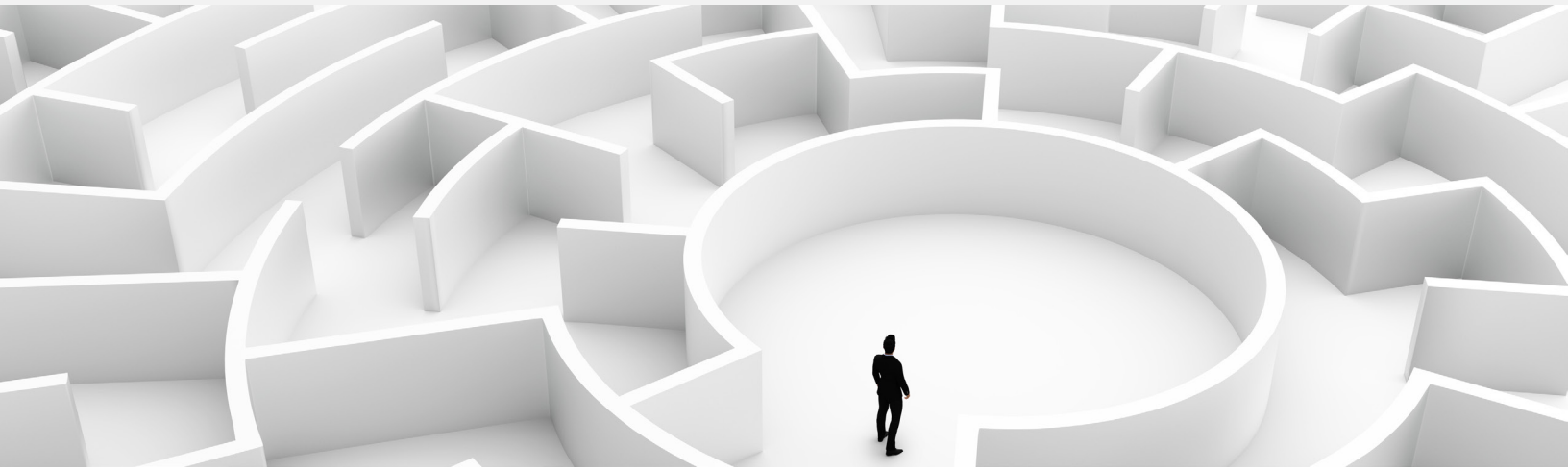


Is Your Portfolio Missing "True" Value Exposure?

Following the announcement of the first COVID vaccine (Pfizer Monday, November 2020), the value style has outperformed the broad market index (MSCI World Value Index vs. MSCI World from October 31, 2020 to June 30, 2023).

As a result of the outperformance and returning relevance of value, some investors and institutional plans may have realized that they either haven't had enough (or any) value exposure, or what they thought was their value exposure turned out to not perform well in a favorable value environment. In hindsight, this may not be too surprising given there had been no reward for investors to have what we consider "true" value exposure (to a manager that tends to outperform the respective value index when it outperforms the broad benchmark) as value underperformed the broad market for over a decade; in other words, some investors may have been rewarded for not being diversified or having more relative or quality value exposure that actually performed more like the broad index during this period.

One useful way to analyze a portfolio's—and individual managers'—true exposure to performance cycles is to break down historical monthly returns into different environments over the past decade. This allows us to see how a manager or investor has done during different favorable environments for the value and growth styles, as well as how they have performed in up and down markets within each of those styles.

We have run this analysis for a variety of portfolios and managers, and the results have been quite interesting. Over the long term, you would likely expect that there would be a roughly equal distribution of pro-value (when the value index outperforms the broad market) and pro-growth (when the growth index outperforms the broad market) months. Indeed, this has been the case if you go back to the inception of performance for the MSCI style indices. However, over the past 10 years, even with the recent performance of value stocks, monthly performance has been decidedly tilted toward growth, with MSCI ACWI Growth outperforming MSCI ACWI Value in at least 60% of the months over the 5- and 10-year periods ending June 30, 2023.

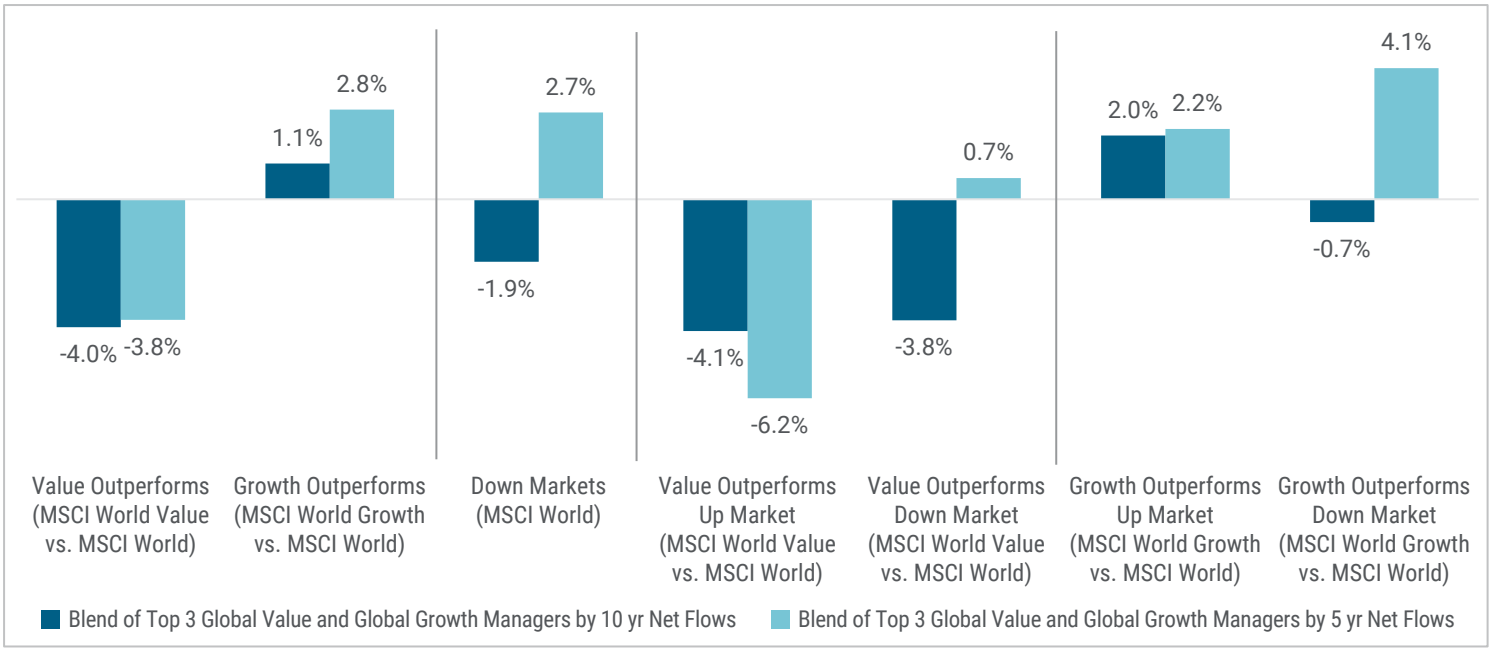
As such, it is not too surprising that investors and institutional plans that had an allocation to a value strategy have likely favored value managers who had stronger relative performance in pro-growth environments than their peers, while performing less well in pro-value environments, as this would have led to a stronger overall track record during the pro-growth period of the past decade. This would be even more likely the case for managers selected prior to Pfizer Monday as value (MSCI ACWI Value) had only outperformed (MSCI ACWI) in one-third of the months over the preceding decade (period ending October 31, 2020).

As seen in the example on the next page, and many other specific examples we have analyzed, this likely led to many investors and institutional plans to have a pro-growth return based exposure demonstrated through positive alpha in pro-growth environments but lower or negative alpha in pro-value environments, likely due to being underweight value or not having true value exposure.

1. Return Pattern Analysis Showing Average Monthly Annualized Alpha During Different Performance Environments – A blended portfolio of the 3 Global Value and 3 Global Growth funds with the highest net flows over the last decade within the Morningstar US Open Ended Fund Universe. The result shows decidedly stronger performance in pro-growth markets vs. pro-value markets.

Blend of Top 3 Global Value and Growth Managers based on Net Flows

10 Year Average Monthly Annualized Alpha vs. MSCI World

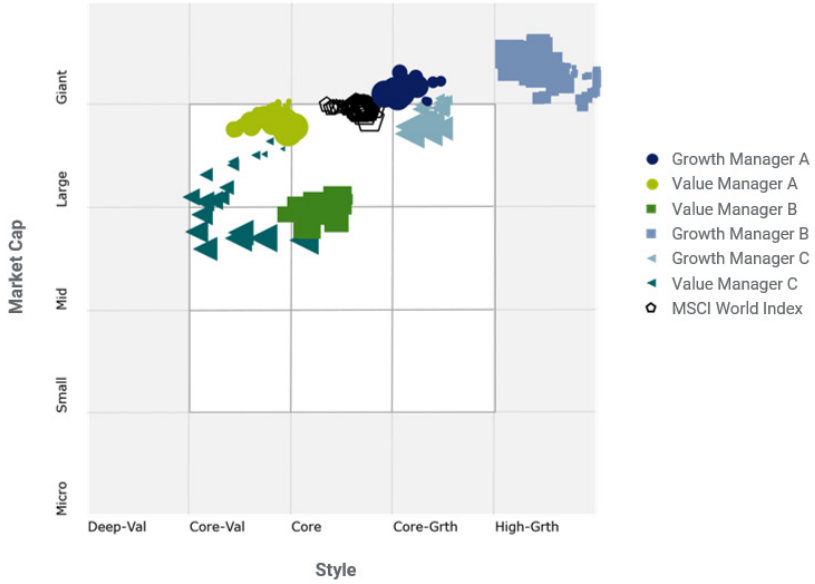


AS OF JUNE 30, 2023 | Source: Morningstar. Net of management fees. Past performance is not a guarantee of future results. It is not possible to invest directly in an index. Top 3 Global Value and Global Growth based on 10 year flows within the Morningstar US Open Ended Fund universe. Blends are an even 50/50 at the beginning of the 10 year period. Blends are measured monthly and rebalanced when the mix exceeds 60/40.

2. A Morningstar holdings based style analysis of the above managers –showing that the performance growth bias may not be surprising as the growth managers tilt growth and the value managers are often closer to core on a holdings basis.

Top 3 Global Value and Growth Managers based on 10 year Flows

Morningstar Holdings-based Style Trail



JUNE 30, 2018 TO JUNE 30, 2023 | Source: Morningstar Direct and eVestment. Data icons reflect aggregate portfolio holdings at a specific quarter-end point with the more recent the holding period, the larger the icon.

3. This is where Brandes strategies, many of which Morningstar has consistently plotted as value, could be a good complement to diversified portfolios that have exhibited the growth bias noted above. In the example below, over the past 10 years our Global Equity Strategy's average alpha was higher than top quartile peers (based on 10 year performance) alpha during months when the value index outperformed the broad market and unlike the top quartile peer average, Brandes Global Equity outperformed the MSCI World Value index when it outperformed the MSCI World Index.

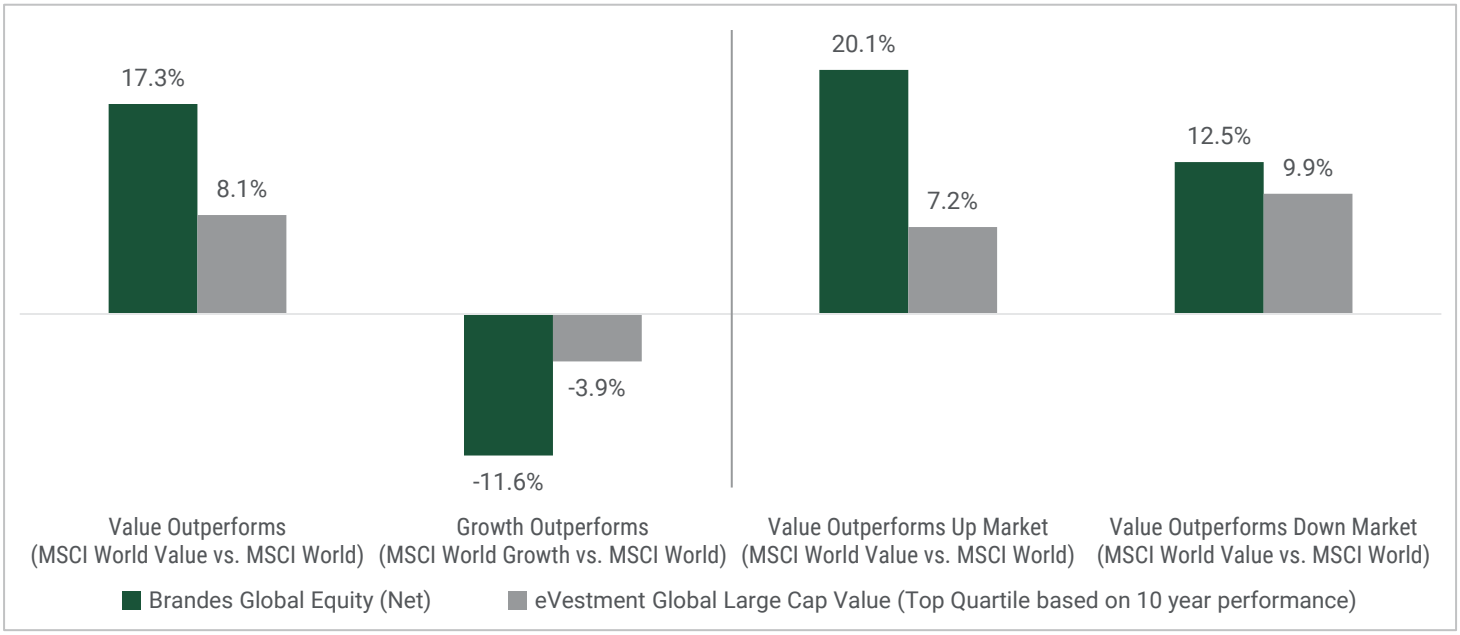
Annualized total return as of June 30, 2023	1-year	5-year	10-year
Brandes Global Equity Composite (net)	17.80%	6.63%	7.21%
Brandes Global Equity Composite (gross)	18.37%	7.18%	7.78%
MSCI World Index	18.51%	9.07%	9.50%

Past performance is not a guarantee of future results. One cannot invest directly in an index. Returns include reinvestment of all dividends and are reduced by any applicable foreign withholding taxes, without provisions for income taxes, if any.

4. Stronger Alpha in both up and down markets than average of top quartile Global Value managers

Brandes Global Equity vs. Top Quartile Global Value Managers

Average Monthly Annualized Alpha (vs. the MSCI World Index)

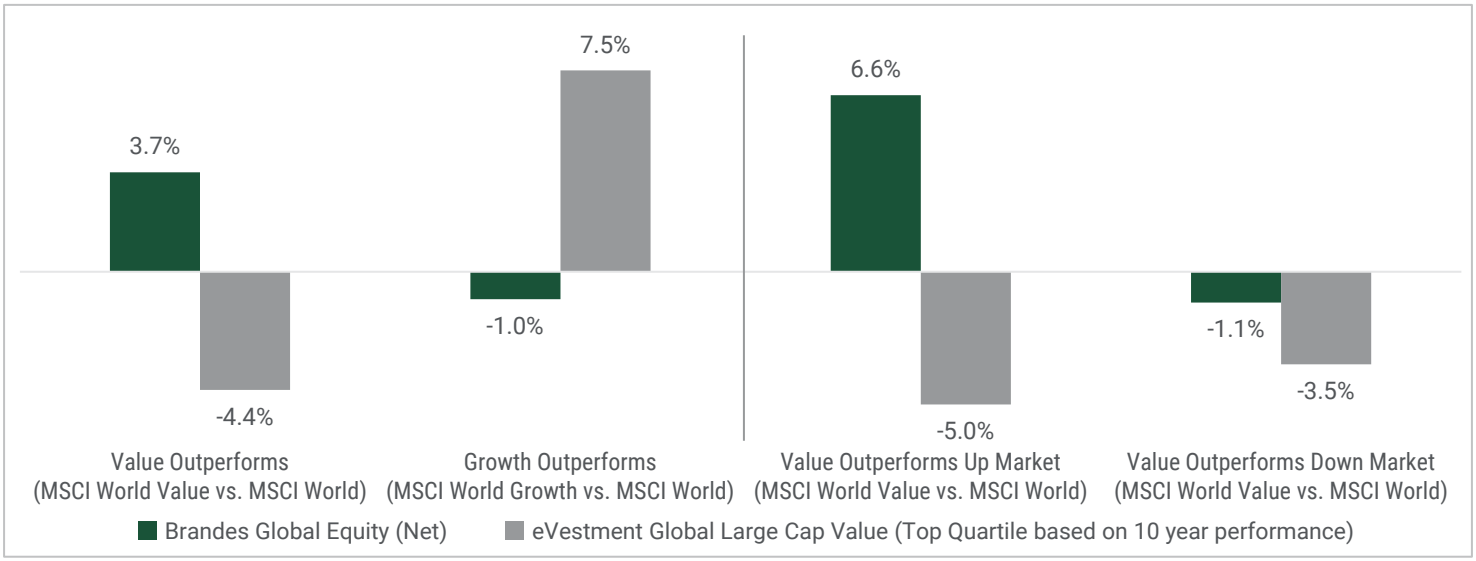


JUNE 30, 2013 TO JUNE 30, 2023 | Source: Brandes, eVestment. Net of management fees. eVestment Global Large Cap Value top quartile represented by the universe in the eVestment database based on absolute performance on a monthly basis. Average monthly annualized alpha is the mean of the monthly alpha of the represented time periods then annualized. Past performance is not a guarantee of future results. It is not possible to invest directly in an index.

5. Return Pattern Analysis vs. the MSCI World Value Index

Brandes Global Equity vs. Top Quartile Global Value Managers

Average Monthly Annualized Alpha (vs. the MSCI World Value Index)



JUNE 30, 2013 TO JUNE 30, 2023 | Source: Brandes, eVestment. Net of management fees. eVestment Global Large Cap Value top quartile represented by the universe in the eVestment database based on absolute performance on a monthly basis. Average monthly annualized alpha is the mean of the monthly alpha of the represented time periods then annualized. Past performance is not a guarantee of future results. It is not possible to invest directly in an index.

6. Holdings based Morningstar Style Chart shows consistent value exposure

Value Consistency

Morningstar Holdings-Based Style Quarterly Time Series

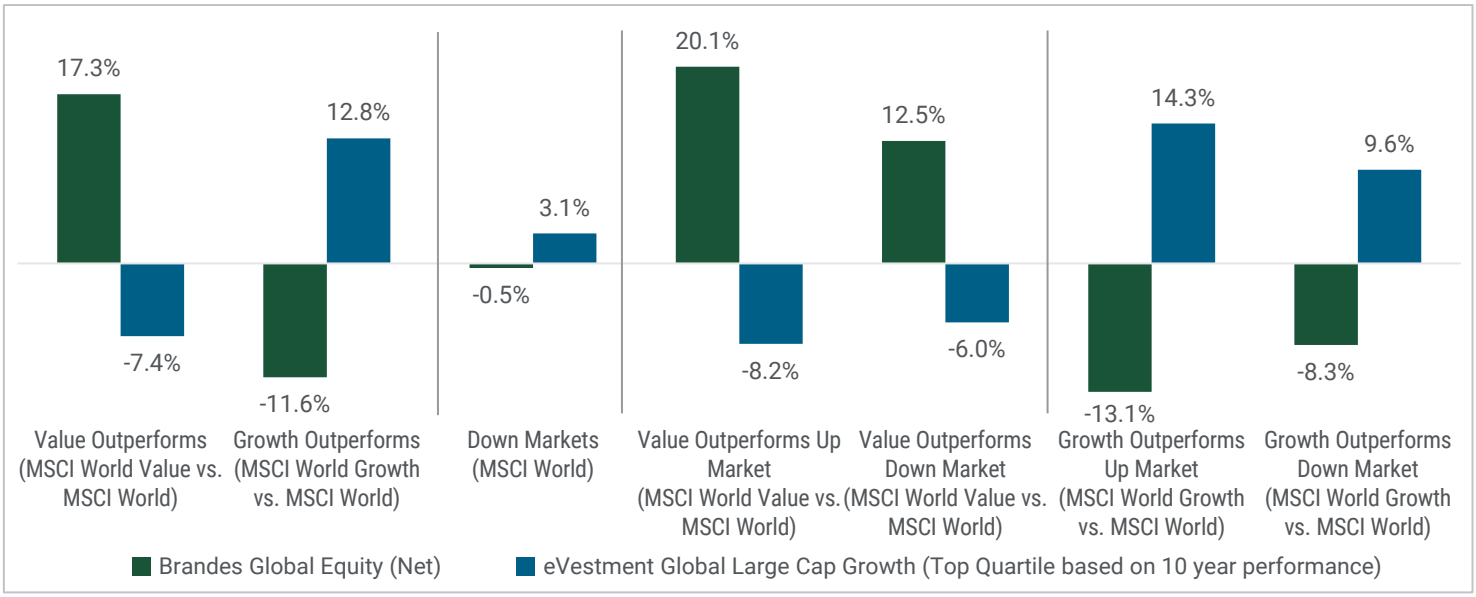
JUNE 30, 2018 TO JUNE 30, 2023 | Source: Morningstar Direct. Data icons reflect aggregate portfolio holdings at a specific quarter-end point with the more recent the holding period, the larger the icon. The portfolio characteristics shown relate to a single account as of date noted, deemed by Brandes to be generally representative of the strategy. Not every account will have these exact characteristics. The actual characteristics with respect to any particular account will vary based on a number of factors including but not limited to: (i) the size of the account; (ii) investment restrictions applicable to the account, if any; and (iii) market exigencies at the time of investment. Data is updated on a quarterly basis.

We believe our performance during pro-value cycles makes us an appealing complement to a portfolio that includes a growth manager. The below example shows how a hypothetical blend of our Global Equity Strategy with the average of the top quartile of global growth managers (by 10 year performance) could have produced more balanced alpha than blending the average of the top quartile growth managers with the average of the top quartile value managers. The hypothetical blend with Brandes had better alpha in pro-value environments, while the one with the top quartile value managers led to a large growth bias (better alpha in pro-growth environments, while negative alpha in pro-value environments).

7. Return Pattern Analysis with the average of the top quartile of Global Growth Managers

Brandes Global Equity vs. Average of Top Quartile Global Growth Managers

Average Monthly Annualized Alpha (vs. the MSCI World Index)

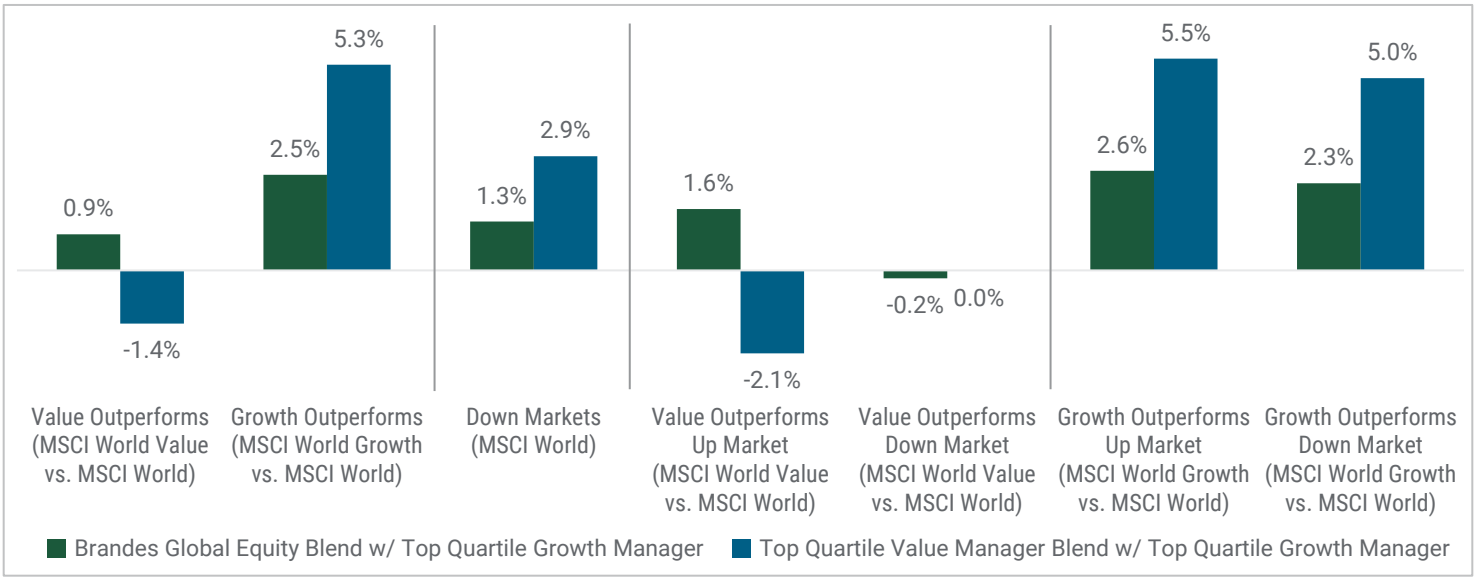


JUNE 30, 2013 TO JUNE 30, 2023 | Source: Brandes, eVestment. Net of management fees. eVestment Global Large Growth top quartile represented by the universe in the eVestment database based on absolute performance on a monthly basis. The top quartile global large cap growth performance was calculated by taking the average monthly performance of each manager in the top quartile based on 10 year performance ending 6/30/2023. Average monthly annualized alpha is the mean of the monthly alpha of the represented time periods then annualized. Past performance is not a guarantee of future results. It is not possible to invest directly in an index. Hypothetical example for illustrative purposes only. Does not represent any specific investment. Actual results will vary.

8. Return Pattern Analysis: 50/50 Blend of Brandes Global Equity and the Top Quartile Global Growth Manager Average vs. 50/50 Blend of the Top Quartile Global Value and Global Growth Manager Average

Brandes Global Equity Could Be a Good Complement

Average Monthly Annualized Alpha (vs. the MSCI World Index)



JUNE 30, 2013 TO JUNE 30, 2023 | Source: Brandes, eVestment. Net of management fees. eVestment Global Value Top Quartile represented by the universe in the eVestment database based on absolute performance on a monthly basis based on 10 year performance ending 6/30/2023. The top quartile global large cap growth performance was calculated by taking the average monthly performance of each manager in the top quartile based on 10 year performance ending 6/30/2023. Blends are an even 50/50 at the beginning of the 10 year period. Blends are measured monthly and rebalanced when the mix exceeds 60/40. Brandes Global Equity Blend w/ Top Quartile Growth is a blend of 50% Brandes Global Equity and 50% top quartile growth managers' average monthly performance. Similarly, the Top Quartile Value Manager Blend w/ Top Quartile Growth is a 50/50 blend of the average of the top quartile value managers' monthly performance and the average of the top quartile growth managers' monthly performance. Average monthly annualized alpha is the mean of the monthly alpha of the represented time periods then annualized. Past performance is not a guarantee of future results. It is not possible to invest directly in an index. Hypothetical example for illustrative purposes only. Does not represent any specific investment. Actual results will vary.

Additionally, a common concern we have heard over the years with our strong value tilt is that investors are concerned with the perceived volatility of true value strategies. However, based on the analysis in the above charts, when paired with a Global Growth manager we provided diversification and a more balanced performance experience, including in down markets. This is an area where we believe we stand out relative to our true value peers. Thus, we think that makes us a potentially good complement to diversified portfolios that are lacking or underweight what we consider true value exposure.

While we can't predict future performance environments, we are optimistic for value, given the higher interest rate environment and current valuation dispersion between value and growth stocks. We believe investors may benefit from having a value option like Brandes to help diversify their portfolio.

Alpha: A measure of performance based on the excess return of an investment relative to the return of a benchmark index.

The MSCI ACWI with net dividends captures large and mid cap representation of developed and emerging markets.

The MSCI World Index with net dividends captures large and mid cap representation of developed markets.

The MSCI World Growth Index with gross dividends captures large and mid cap securities across developed market countries, exhibiting growth style characteristics, defined using long-term forward earnings per share (EPS) growth rate, short-term forward EPS growth rate, current internal growth rate, long-term historical EPS growth trend, and long-term historical sales per share growth trend.

The MSCI World Value Index with net dividends captures large and mid cap securities across developed market countries, exhibiting value style characteristics, defined using book value to price, 12-month forward earnings to price, and dividend yield.

The MSCI ACWI Growth Index captures large and mid cap securities across developed and emerging markets exhibiting growth style characteristics, defined using long-term forward earnings per share (EPS) growth rate, short-term forward EPS growth rate, current internal growth rate, long-term historical EPS growth trend, and long-term historical sales per share growth trend.

The MSCI ACWI Value Index captures large and mid cap securities across developed and emerging markets exhibiting value style characteristics, defined using book value to price, 12-month forward earnings to price and dividend yield.

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