BostonPartners

White Paper | October 2020

The Case for Value in Non-U.S. Equities

Section

I. The Concept of Valuation

The pronounced underperformance of value equities over the past several years has caused some clients to question if there is still a strategic, long-term case for non-U.S. value allocations. For any asset allocator to fully appreciate why value should have a place in portfolios, it is important to differentiate between some of the more traditional and simplistic definitions of value, and a more holistic approach to value which we feel is more appropriate. It is therefore useful to first understand how Boston Partners builds portfolios for its clients and specifically how we think about value. The investment philosophy and process that we employ is applied to all our products across the entire firm. It is anchored in what we call the three "fundamental truths." First, low valuation stocks outperform high valuation stocks. Second, companies with strong business fundamentals outperform companies with poor fundamentals. Finally, stocks with positive business momentum, which we define as improving trends, positive earnings and sales estimate revisions, and tangible catalysts, outperform stocks with negative momentum. We call these three factors – valuation, fundamentals and momentum – the "three circles." They are distinct factors from a quantitative perspective but are deeply interconnected in theory and practice. Our investment team analyzes companies using bottom up fundamental research anchored in the three circles, relying on various quantitative inputs to improve efficiency and manage risk within portfolios. We then construct portfolios on a stock by stock basis that exhibit valuation, business fundamental, and momentum characteristics that are better than the investment universe.

Although we will discuss briefly how the fundamental and momentum factors that we focus on are valued by the market, both historically and at the present time, the focus of this paper is value. Often, when individuals think about value investing, they think about a group of stocks with low price to book ("P/B") ratios or low price to earnings ("P/E") ratios. An international value portfolio could then easily be constructed from European and Japanese banks, energy, materials, autos, tobacco, and maybe a couple telecom companies. This allocation could even be achieved through passive investments, and the value add of an active manager would therefore be minimal. We believe this assumption is overly simplistic and fraught with potential unintended risk, and we think about value a little bit differently than that. So while it's true that we want our portfolios to consistently have lower valuation multiples and better free cash flow yields than the market, on an individual stock level we are looking for stocks that trade at a discount to their intrinsic value, or in other words our best guess of what that business is worth. A melting ice cube may have a low price to earnings multiple, but that doesn't mean it is a good investment. And importantly, we believe growth in future earnings is a component of valuation, as well as the inherent risk of the investment.

At its most basic level, intrinsic value is ultimately the growth in retained earnings plus dividends. So, one company paying no dividends and generating 20% retained earnings growth is worth more than another company paying a 10% dividend but no retained earnings growth. By this logic, we can also say that not all growth stocks are expensive, some can certainly justify their high valuation multiples through their business fundamentals and earnings growth characteristics. It is important to also make a distinction between growth and momentum: because it is hard to predict future earnings growth, momentum is both a qualitative and quantitative tool for avoiding value traps (or businesses that are having issues and are cheap for a reason) and increasing exposure to successful businesses (where positive momentum can be persistent). Lofty expectations, high valuation multiples and disappointing results can be a recipe for disaster, and momentum indicators can help flag these issues.

An analogy that might be helpful is to think of real estate. Most people reading this have at some point probably made a decision about buying or renting a home. If you are buying a home, you will likely conduct research and observe values of comparable homes in the area, and then compare what amenities this home may have versus other homes. How big is the home? How well was the home constructed? And then there are things that take a bit more judgement. Does the home have a nice view? Is the neighborhood improving? These are examples of the fundamental and momentum variables that you are weighing when you decide how much that home is worth, not only to you, but to other potential homeowners in the marketplace. Just because one home has a lower price per square foot does not mean that the cheaper one is a better value. And the same goes for value investing in the stock market, a lower P/E or P/B multiple does not mean the stock is a better value, as it only matters in relation to the business and its prospects.

This is why we firmly believe that value investing works on a stock by stock basis. You want to buy good businesses at prices that reflect a discount to their intrinsic value – which typically occurs when expectations are low. And if you are right in your assessment of what that business is worth and you can identify a catalyst to re-rate the security, that has been, in our experience (and should remain to be), a winning investment strategy over time. This is the way that we build portfolios through our bottom up process, as we have been doing consistently since the inception of the firm in 1995 without drifting from our investing philosophy.

II. The Performance of Value in the Last Decade

The single largest driver of factor performance in the stock market has been, in our opinion, the decision by central banks in most developed markets to move to zero or negative interest rates and undertake massive quantitative easing ("QE"). The ultimate goal of this exercise is to drive higher gross domestic product ("GDP") growth, increase employment, avoid deflation, and hopefully devalue future liabilities. Or at least, that is the official rationale for QE.

As we have witnessed, global GDP growth did not accelerate as quickly as expected, and in fact trended below long run averages for most of the past decade. Meanwhile, the discount rate used to value future cash flows came way down as interest rates plummeted. These two trends conspired to make company level profit growth more scarce (this company level growth scarcity was exacerbated in recent years) and future cash flows more valuable (think about the drivers of your basic discounted cash flow model – that terminal value calculation beyond the final year of the projection period is massively impacted by the discount rate). And so, we witnessed a huge expansion in the valuation multiples of growth companies. I was tempted to say profit multiples instead of valuation multiples, but that would imply that all these businesses actually make money.

Broadly speaking, the experience with QE so far has favored the asset markets over the real economy. The nuance is that businesses tied to low volatility (for example the bond proxies such as Utilities and Consumer Staples) and businesses with a longer duration calculation of intrinsic net worth (in other words, high revenue growth stocks) have seen multiple expansion while shorter duration stocks have not. These shorter duration stocks have tended to be your classic value stocks tied to the real economy, which as we know has been sluggish. With trillions of dollars' worth of bonds trading with negative yields and many parts of the market on record multiples, the market has seemingly become one large duration trade.

Other themes that have been detrimental to value recently include the impact of yield curves on the profitability of the financial sector, and the impact of booming asset markets versus a weaker real economy on the spending power of consumers by income bracket. Developed markets, services, value added technology and luxury goods have been favored.

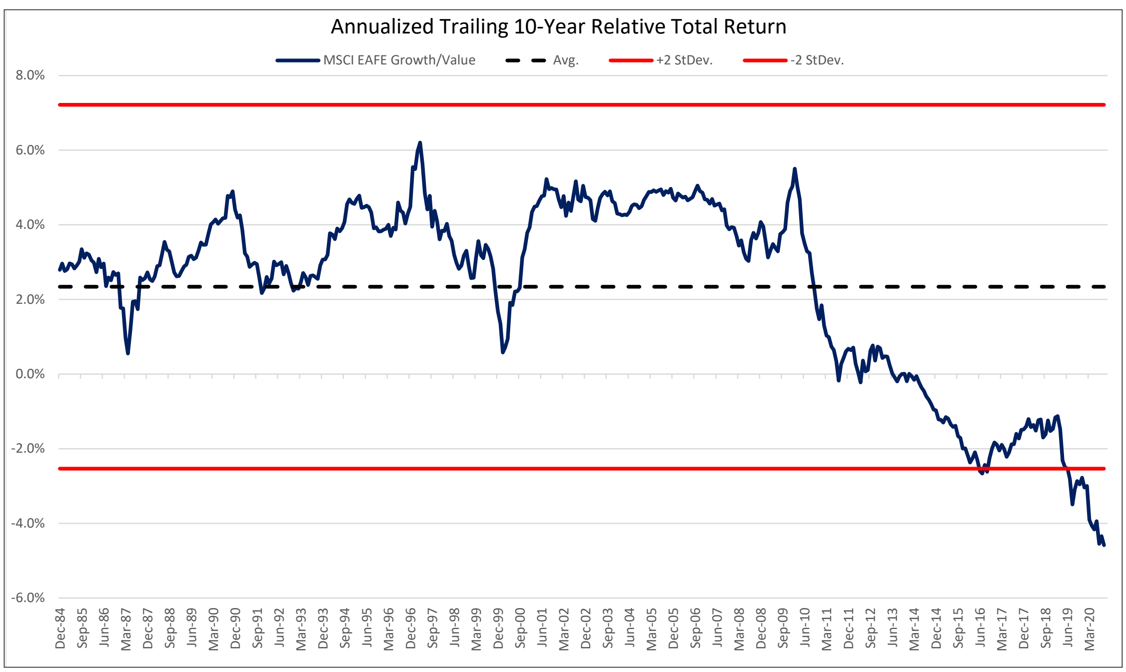
This dynamic has led to an outperformance of growth and share price momentum against value in the more traditional and simplistic sense. However, we have also observed at an individual security level that certain stocks with similar fundamentals, earnings growth, and business momentum have re-rated while others have been left behind. In this environment, some businesses are trading above their intrinsic value, and others, below. This is the opportunity for value investors like Boston Partners in the short-term. From a bigger-picture standpoint, many of the macroeconomic drivers of the previously discussed duration trade are approaching extreme levels and have a higher than normal probability of becoming tailwinds for value over the medium term as we will discuss below.

III. Observations on the Current Market Environment

This brings us to where we are today, as you can see in **Exhibit 1**, Value is oversold against Growth.

You can see that up until the financial crisis, value had tended to perform quite well against growth, and over the past decade has deteriorated to all-time lows. What is probably most important is the large deviation from trend that has occurred in the last three years. It can be argued that the starting point for value in 2007 with an overweight to problematic banks and commodity companies was relatively poor. Banks and commodities have had a difficult period while technology and consumer companies have had relatively better earnings growth. In fact, the BP International strategy performed well through the early parts of the "growth cycle" because of an underweight to banks and commodities and an overweight to technology. We made these decisions because, having considered the probable business fundamentals and business momentum of the individual securities, the cheap valuations on offer in areas like banks and commodities were relatively unattractive in terms of expected return.
In other words, they did not represent good value. It was only recently that we began warming up to the idea of owning European banks at prominent weights in the portfolio. For much of the decade they were value traps in our opinion, optically cheap stocks but poorly capitalized and unable to return cash to shareholders. Recently, our view has changed in that several banks are well capitalized and beginning to return more capital to shareholders, while valuations against the broader market are at historically low levels. COVID-19 represents a speed bump (a significant speed bump to be sure) for the thesis, but not a derailment. The broader point being, the performance of the strategy through the financial crisis, the euro crisis and up until the end of 2017 had been quite good, most definitely against other value investors and even the core indices. Our quantitative models produced alpha and our definition of value through the three circles lens continued to produce positive results.

Exhibit 1:
Value is Oversold: MSCI EAFE Growth Index vs. MSCI EAFE Value Index
December 1984 through September 2020

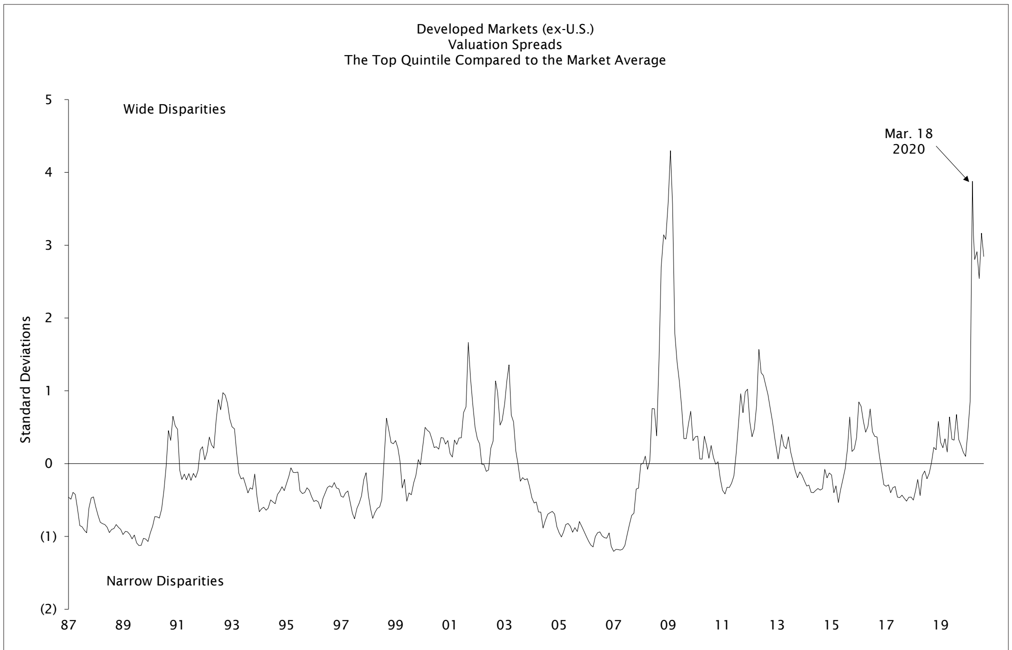


Data as of September 30, 2020. Source: MSCI; Boston Partners.
Past performance is not an indication of future results. Please refer to the disclosures on the last page for more important information.

Exhibit 2:

Valuation Spreads are at Extreme Levels, Historically a Favorable Starting Point for Value

January 1987 Through August 2020



Data as of September 30, 2020. Source: Empirical Research Partners Analysis.
The spread is measuring a combination of price to book, earnings yield and FCF Yield of the largest 1,500 stocks. Past performance is not an indication of future results. Please refer to the disclosures on the last page for more important information.

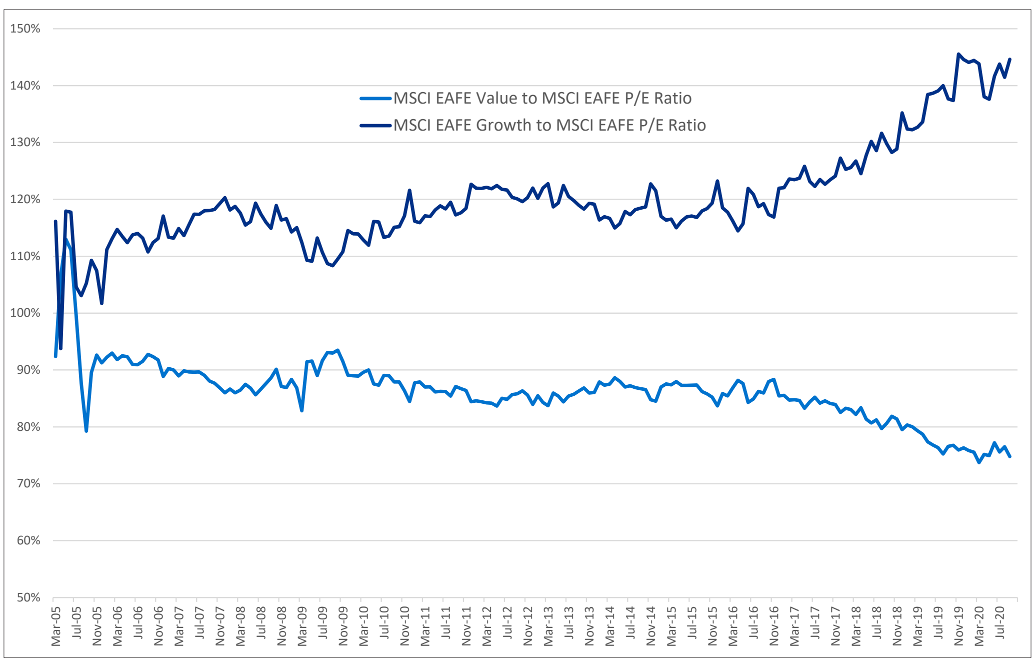
In **Exhibit 2** we included a chart from Empirical Research Partners showing simply the valuation spread between the cheapest quintile and the market average. This chart illustrates that we have only seen the least expensive 20% of stocks in the market this inexpensive on a relative basis once before in 2009 (with the Tech Bubble being less pronounced in non-U.S. markets).

Exhibit 3 illustrates today's incredibly wide valuation spreads from another angle (albeit a simplistic one). Here we show the relative P/E multiples of the MSCI EAFE Growth and MSCI EAFE Value Indices versus the MSCI EAFE Index since 2005.

Exhibit 3:

Forward Price/Earnings Ratio Comparison: MSCI EAFE Value and MSCI Growth Indices

March 2005 through September 2020



Data as of September 30, 2020. Source: Bllomberg; MSCI.
Relative Fiscal Year 1 Price/Earnings Ratio of the MSCI EAFE Value Index to MSCI EAFE Index and MSCI EAFE Growth Index to MSCI EAFE Index: December 31, 2005 through September 30, 2020. Past performance is not an indication of future results. Please refer to the appendix for other important disclosures.

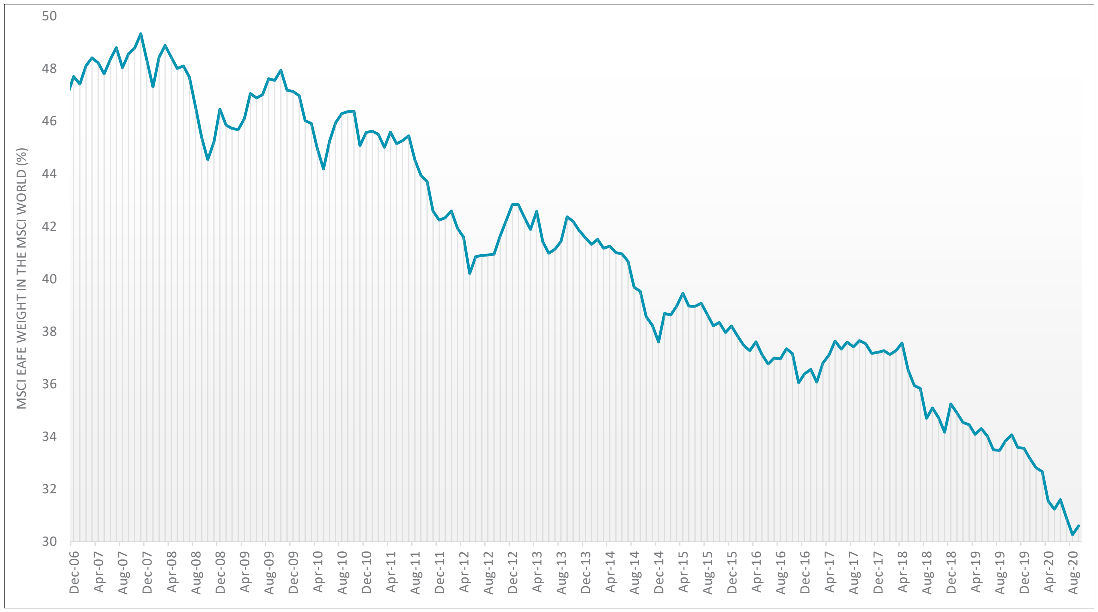
While this should not surprise anyone, it is noteworthy that over the past three to four years there has really been an acceleration in the trend. This has not been as extreme as in the U.S. market, but certainly significant. The market has fully embraced the mantra of the last 11 years: QE, low rates and disruptive trends, and it has run with it. What this has produced, at least from our observations both qualitatively and quantitatively is a market almost solely focused on price momentum at the expense of valuation. From what we have seen the returns to growth in the last three to four years have almost entirely come via multiple expansion.

We know it isn't a mystery that there are many large and mega cap, high valuation stocks listed in the United States that have done exceedingly well over the past decade, as the weight of MSCI EAFE stocks within the MSCI World Index has moved from 49% in 2007 to just under 32% today as seen in **Exhibit 5.**

Exhibit 5:

The Weight of International Stocks in the MSCI World Index has been Declining for Many Years

November 2006 through September 2020



Data as of September 30, 2020. Source: MSCI, FactSet, Boston Partners Global Investors.
Please refer to the disclosures on the last page for more important information.

Regions like Europe, the UK, Japan, and Australia have fewer growth stocks than the U.S. – especially as measured by market cap – and have been shunned by investors during the shift from value to growth. MSCI EAFE and EAFE Value Indices have been largely excluded from the massive bull market of the past decade. Certainly, the strength of the U.S. dollar has not helped either. What we're getting at here is the starting point for an international value strategy, today, in 2020, is promising on a historical basis.

We thought it would be useful to assess the market environment using Boston Partners data and through the lens of the attractive three circles attributes which we seek. We created the following exhibits with our proprietary quantitative model. First, we want to provide a bit of background on our quantitative system which we utilize primarily to screen the universe for new ideas and monitor existing holdings and portfolios to ensure we always adhere to our three circles methodology. We are looking at three factor groups including valuation, fundamentals/quality, and momentum. Within each of those categories there are subfactors that we have back tested for efficacy and weighted accordingly. The model spits out a ranking from 1 to 100 for each of the factors (valuation, fundamentals, and momentum), where 1 is the best, 100 is the worst. It then combines those factors to get a composite score for every stock in the universe and these are then ranked. We typically break down the ranking into deciles, 1 through 10, with 1 the best and 10 the worst. This process gives us an unbiased look at what is happening both in the market and at an individual stock level, and keeps us honest in the way that we invest (in other words, preventing style drift). We don't make decisions solely based on the quant model because you can have false positives or false negatives – it is the bottom up fundamental research that leads to investment decisions, but the quantitative model is a tool that helps us get to our conclusions more efficiently and tilts the odds in our favor.

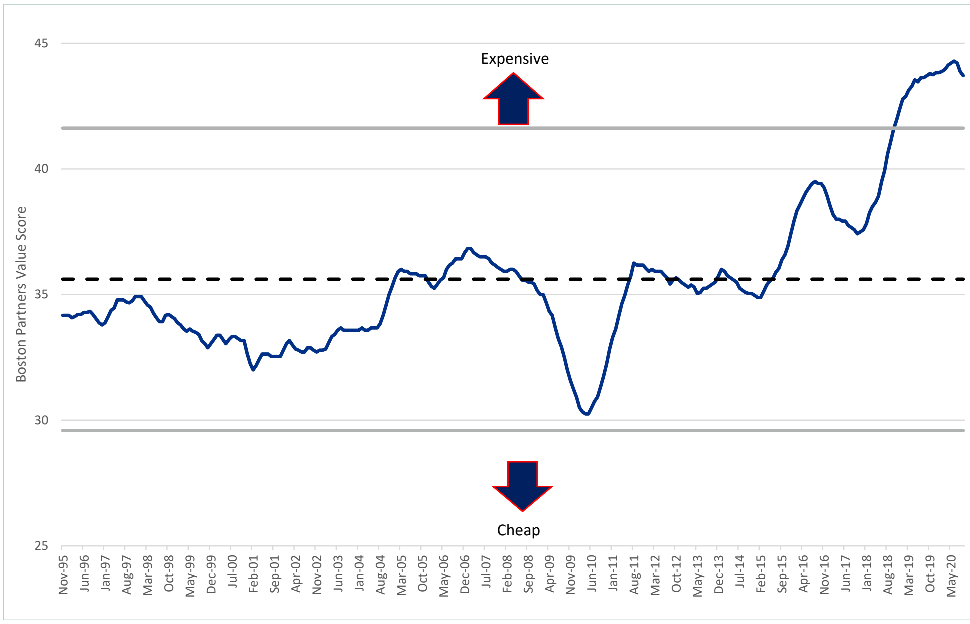
With that said, **Exhibit 6** shows the value ranking for the stocks within the top three deciles of fundamental rankings. In other words, take every stock in the universe that has a fundamental ranking of 1-30 out of 100, and then take the median valuation score of that cohort, and that number is shown on this chart over time. So, as you can see, you could actually purchase stocks with attractive fundamentals for a reasonable price for two decades according to our model. In the past several years, and especially since 2018, the highest quality businesses have become much more expensive to own. This is something that I think people realize is happening in the market today, but it is statistically supported by our own data.

Exhibit 6:

Boston Partners Global Developed ex-U.S. Universe:

Value rank of stocks with attractive fundamental scores - rolling 12 month average

December 1994 through September 2020



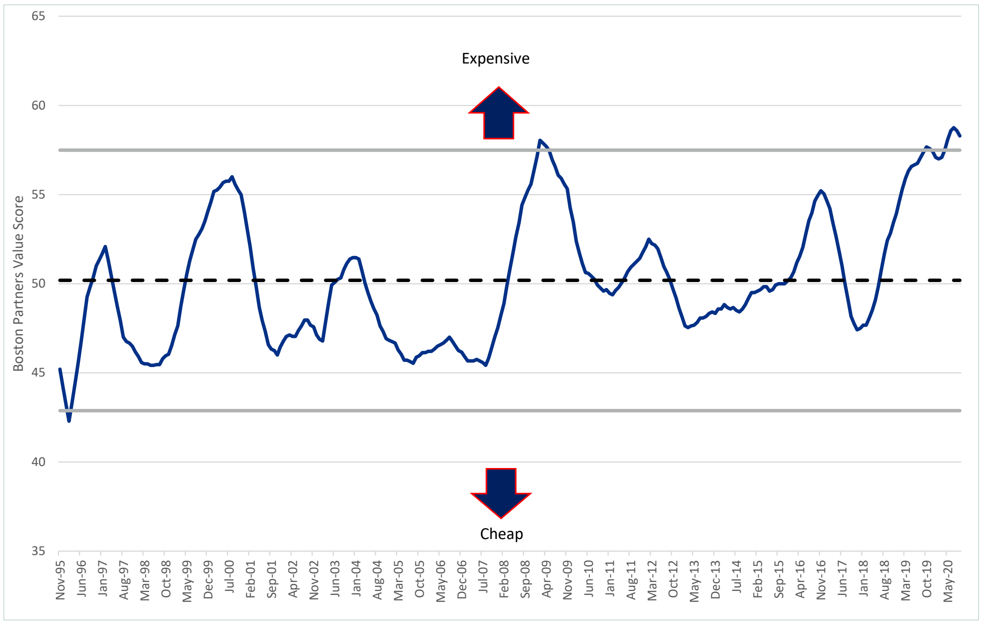
Source: Boston Partners; FactSet.The chart above illustrates the median Value code of stocks in the Boston Partners Global Developed ex-U.S. Universe with attractive Fundamental codes. The Boston Partners Global Developed ex-U.S. Universe includes all global developed traded stocks, except U.S. stocks, with a market capitalization greater than $750 million. The Value and Fundamental codesare results generated by the Model and are achieved by means of a mathematical formula. Several metrics are used in scoring Valuation and Fundamental characteristics and can differ depending on the industry and region. A stock receives Valuation and Fundamental scores from 1 (good/attractive) through 100 (bad/unattractive). While we have been utilizing a derivation of this model since the firm's inception in 1995, significant model revisions went into effect on December 31, 2013. Results prior to that date are hypothetical back-test returns, while data displayed beyond this date is not back-tested, but is still generated by the Model. All data shown above does not represent the results of actual trading or anyportfolio or investment strategy. In fact, actual results could differ substantially, and there is the potential for loss as well as profit. Stocks with attractive Fundamental Scores are stocks within the Boston Partners International universe that score in the top 30% based on the Boston Partners Fundamental Model Score.

Exhibit 7 is the same chart but instead of fundamentals we are looking at the best three deciles of momentum. These stocks are outright expensive on an absolute basis, not just relative to history. If you asked us where is there a bubble today in the stock market, the most obvious answer is within price momentum. The level of exuberance in momentum stocks today looks about on par with the Tech Bubble and the Great Financial Crisis; both of those periods were good starting points for a value-based strategy over subsequent years.

Exhibit 7:

Boston Partners Global Developed ex-U.S. Universe: Value rank of stocks with attractive momentum scores - rolling 12 month average

December 1994 through September 2020



Source: Boston Partners; FactSet.The chart above illustrates the median Value code of stocks in the Boston Partners Global Developed ex-U.S. Universe with attractive Momentum codes. The Boston Partners Global Developed ex-U.S. Universe includes all global developed traded stocks, except U.S. stocks, with a market capitalization greater than $750 million. The Value and Momentum codes are results generated by the Model and are achieved by means of a mathematical formula. Several metrics are used in scoring Valuation and Momentum characteristics and can differ depending on the industry and region. A stock receives Valuation and Momentum scores from 1 (good/attractive) through 100 (bad/unattractive). While we have been utilizing a derivation of this model since the firm's inception in 1995, significant model revisions went into effect on December 31, 2013. Results prior to that date are hypothetical back-test returns, while data displayed beyond this date is not back-tested, but is still generated by the Model. All data shown above does not represent the results of actual trading or any portfolio or investment strategy. In fact, actual results could differ substantially, and there is the potential for loss as well as profit. Stocks with attractive Momentum Scores are stocks within the Boston Partners International universe that score in the top 30% based on the Boston Partners Momentum Model Score.

IV. The Opportunity Ahead

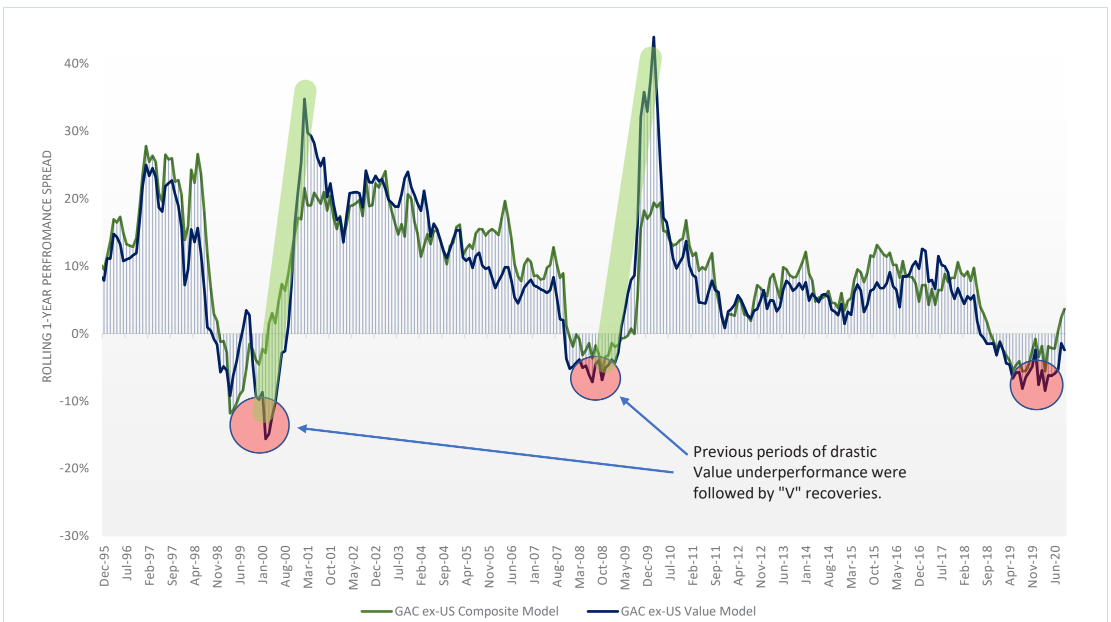
Past episodes of value underperformance by similar magnitudes have been followed by sharp recoveries, as evidenced in Exhibit 8.

Exhibit 8 illustrates the rolling 1-year performance of the best ranked stocks (or the top three deciles) of our value model, and the composite model which is a combination of value, momentum, and fundamentals/quality, relative to the MSCI EAFE Index. As you can see, the value model has underperformed the Index over the past three years, which has dragged down the relative performance of the composite model as well. You might be more surprised to see that the value model which we employ outperformed from 2009 until roughly 2017. As we mentioned earlier, the performance of our strategy was significantly better during that time period versus the past three years. And as you can see, the model's relative performance turned negative in 2018. When this happened in the past, a sharp "V-shaped" recovery in the relative performance of the most attractively valued stocks ensued; trying to time the inflection point is difficult, but we can take steps to ensure that we participate in any recovery that may be forthcoming.

Exhibit 8:

Global All-Cap Developed ex-US Stock Selection Model: Rolling 1-year top ranking less the MSCI EAFE Index (hypothetical)

June 1994 through September 2020

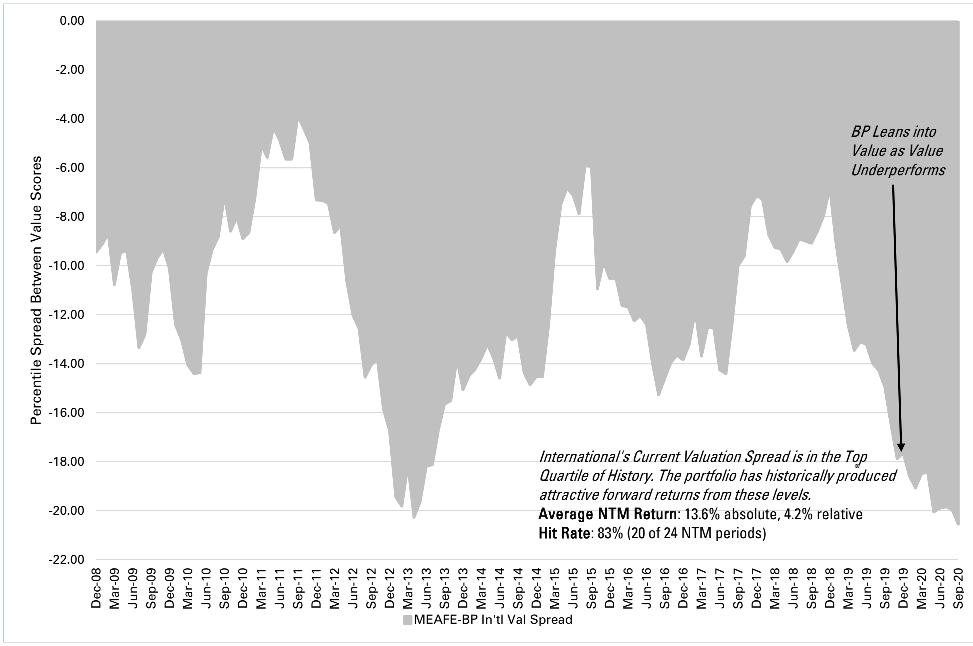


Data as of September 2020. Source: Boston Partners.The chart above illustrates the equal weighted performance of the best ranked stocks (deciles1-3) in the Boston Partners International Developed Model (Composite) and the Boston Partners International Developed Value Model (Value). Performance is relative to the MSCI EAFE Index. Results generated by the Models and are achieved by means of a mathematical formula. The investment universe is all non-U.S. Developed traded stocks with a market capitalization greater than $750 million and is rebalanced monthly. Several metrics are used in scoring valuation, momentum and fundamental characteristics and can differ depending on the industry and region. Results represented by the GAC ex-U.S. Composite Model encompass all three characteristics; The GAC ex-U.S. Value Model only represents the value component of the Composite Model. While we have been utilizing a derivation of this model since the firm's inception in 1995, significant model revisions went into effect on December 31, 2013. Performance prior to that date is hypothetical back-test returns, while data displayed beyond this date is not back-tested, but is still generated by the model. All data shown above does not represent the results of actual trading or any portfolio or investment strategy. In fact, actual results could differ substantially, and there is the potential for loss as well as profit. The performance does not reflect management fees, transaction costs, and other fees and expenses a client would have to pay, which reduce returns.

Exhibit 9 illustrates how we are positioned for a value recovery, as it depicts the spread between the value ranking of the Boston Partners International Equity portfolio versus the MSCI EAFE Index. This is a function of both what we own, but also what we don't own.

Exhibit 9:

Boston Partners International Equity Increased its Valuation Advantage as Value Fell Further out of Favor: Valuation spread:
Boston Partners International Equity minus MSCI EAFE Index
December 2008 through September 30, 2020.



Data as of December 2008 through September 30, 2020. Source: Boston Partners. Valuation spread is defined as the aggregate value score of the Boston Partners International Equity portfolio less the aggregate value score of the MSCI EAFE Index as determined by Boston Partners' valuation model. Results generated by the Models and are achieved by means of a mathematical formula. Several metrics are used in scoring valuation characteristics and can differ depending on the industry and region. Stocks are ranked 1 (good/attractive) -100 (bad/unattractive). While we have been utilizing a derivation of this model since the firm's inception in 1995, significant model revisions went into effect on December 31, 2013. Performance prior to that date is hypothetical back-test returns, while data displayed beyond this date is not back-tested, but is still generated by the model. All data shown above does not represent the results of actual trading or any portfolio or investment strategy. In fact, actual results could differ substantially, and there is the potential for loss as well as profit. The performance does not reflect management fees, transaction costs, and other fees and expenses a client would have to pay, which reduce returns. Please refer to the appendix for other important disclosures. *A GIPS® compliant report is contained herein. Returns reflect composite results, gross of fees, and individual portfolio results may vary. Past performance is not an indication of future results.

As you can see, we are leaning into value today and doing so without making sacrifices when it comes to fundamentals/quality and momentum, as evidenced by the metrics depicted in **Exhibit 10.**

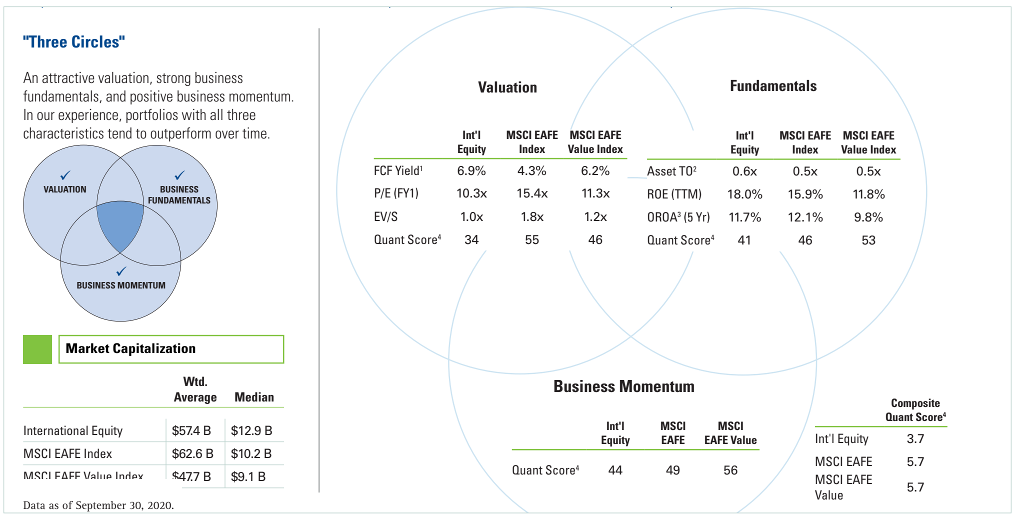
This exhibit depicts the characteristics of the Boston Partners International Equity portfolio through the lens of our "three-circles" process and philosophy. As we mentioned, our team of fundamental research analysts look for investments that exhibit good and improving business fundamentals, positive business momentum with a catalyst, and an attractive valuation. The end result of all that is a portfolio that also has these characteristics. The valuation of the portfolio appears attractive relative to the MSCI EAFE and EAFE Value Indices. Even with a portfolio that has an overall valuation a little bit better than the EAFE Value Index, we have maintained fundamentals/quality and momentum attributes that are slightly better than the MSCI EAFE Index and meaningfully better than the EAFE Value Index.

Exhibit 10:

Portfolio Characteristics - International Equity:

A proof statement that the stock selection process results in a "three-circle" portfolio:

December 2008 through September 30, 2020.



Data as of September 30, 2020. [1] FCF Yield is reported as median excluding financials of the underlying securities. [2] Asset Turnover. [3] Operating Return on Operating Assets. [4] Quant scores indicate Boston Partners' proprietary methodology for assessing and ranking companies. The current results are generated by our Global DMxU.S. All-Cap Model. The results do not reflect actual trading, were achieved by means of a mathematical formula, and are not indicative of actual future results which could differ substantially. Companies are scored between 1 and 100 with lower measurements ranking more favorably than higher measurements. Each key factor: value, fundamentals, and momentum receives an individual score based on a number of different factors. In addition, the composite score incorporates all three factors into one measure between 1 and 10. As with the individual factor scores, lower is more favorable for the composite score.Portfolio characteristics are from a representative account in the Boston Partners International Equity composite. Individual portfolio characteristics may vary. A GIPS® compliant report is contained herein. Please refer to the disclosures on the last page for more important information.

"..we are leaning into value today and doing so without making sacrifices when it comes to fundamentals/quality and momentum..."

A valuation advantage coupled with strong fundamentals/quality and better momentum is what we believe sets Boston Partners apart from some other value investors. We certainly are not deep value investors trying to catch a falling knife or sit on dead money value investments for years. We make sure that we maintain our advantage versus the MSCI EAFE Index on business quality and business momentum within our value-oriented portfolios. And while we would prefer a value driven market to really see our performance improve on a relative basis, we have been able to keep pace during periods of moderate value headwinds. We do that by going where we see the best combinations of fundamentals/quality, value, and momentum. This is part of the reason why we believe our style of value investing is more durable over a cycle. This strategy has been dynamic in terms of sector weights, regional weights, market cap category weights, and has tried to maintain high active share.

Exhibit 11 breaks out performance across annualized periods and calendar years:

Exhibit 11:
Investment Performance - International Equity:
As of September 2020
Annualized and Calendar Years

Annualized Performance (%)	3Q 2020	YTD 2020	1 Year	3 Year	5 Year	7 Year	10 Year	Since Inception[1]
International Equity - Gross of Fees	2.75	-11.97	-4.34	-4.02	2.27	2.13	5.52	2.82
International Equity - Net of Fees	2.58	-12.41	-5.00	-4.70	1.53	1.39	4.75	2.05
MSCI EAFE Index - Net[2]	4.80	-7.09	0.49	0.62	5.26	3.01	4.62	2.36
MSCI EAFE Value Index - Net[2]	1.19	-18.31	-11.93	-5.86	1.14	-0.33	2.10	0.40

Calendar Year Performance (%)	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
International Equity - Gross of Fees	16.69	-18.07	26.38	0.76	3.54	-3.65	31.47	18.67	-6.20	10.63
International Equity - Net of Fees	15.86	-18.67	25.49	0.01	2.77	-4.37	30.51	17.79	-6.89	9.73
MSCI EAFE Index - Net[2]	22.01	-13.79	25.03	1.00	-0.81	-4.90	22.78	17.32	-12.14	7.75
MSCI EAFE Value Index - Net[2]	16.09	-14.78	21.44	5.02	-5.68	-5.39	22.95	17.69	-12.17	3.25

[1] Inception date is July 1, 2008.
[2] Net total return indices reinvest dividends after the deduction of withholding taxes using (for international indices) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.
Boston Partners has prepared and presented this report in compliance with GIPS®. Returns reflect composite results and individual portfolio results may vary. Performance for periods one year and over are annualized; returns for periods less than one year are not. Past performance is not an indication of future results. Please refer to the disclosures on the last page for more important information..

Earlier we noted periods of moderate value headwinds and how we have traditionally been able to keep pace due to our focus on momentum and fundamentals, and that is how we would characterize the period from 2010-2017 overall. 2018-2020 has really been a period of severe and systemic value underperformance that has been extremely difficult for our investing style. And not only have the last two years been difficult in terms of growth's price performance versus value, but the return for growth has been more due to valuation multiple expansion, and less from underlying earnings revisions or earnings growth – the areas we tend to focus the most on within our momentum framework. Factor leadership in recent years has mostly been stock price momentum and thematic stories more so than anything else.

We know it's not as relevant for the EAFE universe, but as an experiment it would be interesting to give a group of equity analysts the financial statements for Apple without any company information attached to them – just the income statement, balance sheet, cash flow statement and share count, and ask them to give a fair value for the security without knowing the name of the company. I personally did this exercise with Enron in a university course and was trying to parse out what was going on with the cash flow statement and balance sheet. Apple has not grown its profits since 2015, and fundamentally it's difficult to understand why exactly it is worth four times its 2016 market cap; it shows how powerful a good story and strong share price momentum has been in recent times. These types of price momentum markets generally don't end well. That said, since the market bottomed this past spring, we have seen much better relative returns in this portfolio, and it does seem like our three-circle, value-oriented investing style is starting to come back into favor.

So why would that be happening today? Well as we mentioned previously, the starting point in March was exceptional for value, but mean reversion can only get you so far and is not a thesis in and of itself. The most powerful driver for value over the next several years will be a cyclical recovery out of a 2020 trough for company earnings and global GDP. We don't think we need to tell anyone just how bad it has been this year. We want to make sure we position ourselves to ride positive earnings momentum in cyclical businesses at reasonable valuations. Earnings growth was scarce the past several years and investors hid in the only places they could find growth or stability. This is starting to change and profit growth should be more widespread as the world inevitably returns to normal.

Number two, governments and central banks will try to get more money into the real economy, and this has already started with stimulus checks in the U.S. The Federal Reserve is also messaging they will let inflation run hot if it starts to pick up. These are both good things for value. It is very difficult to say exactly when we will see inflation accelerate, as many strategists hypothesize that a COVID-19 vaccine will be the catalyst, and we honestly don't know the answer. But almost certainly, inflation would be a boon for your traditional value sectors like energy, materials and financials; in such a regime, across all sectors you would likely prefer shorter duration, high cash flow producing assets against growth stories where the payoff is in the distant future. Currently, five-year forward inflation expectations are higher than they were before the pandemic started while unemployment is higher, a potential harbinger of stagflation.

In drawing from other historical analogs, the two largest growth cycles were the late 1960's "Nifty Fifty" period and the late 1990's "Tech Bubble." In a lot of ways this period looks more similar to the nifty fifty period as the growth companies dominating the market were highly productive real companies (unlike the dot.com bubble) and the consensus was that you had no choice but to own them at any price as they would continue to dominate their respective industries. That cycle was broken in the early 1970's when inflation accelerated and the U.S. Fed was forced to respond. The tech bubble was broken by a stronger economy and tightening measures by the Fed. So, it's reasonable to assume that given the weak economy, central banks and governments will remain easy, thus leaving the better analogy likely being the nifty fifty period. Back then, debt levels were lower and the duration effect was smaller so inflation accelerated from 3-4% to high single digits. Today, moving from inflation expectations of 1-2% to 3-4% would likely have a similar tectonic impact on markets.

Regardless of whether you believe our analogy, we think the old Wall Street adage "nobody rings a bell" at market turning points is very applicable here. The shift in leadership away from U.S.-centric growth stocks with a strong USD, low inflation, plummeting interest rates, and weak GDP growth and towards the opposite of that, should come eventually, but the exact timing is impossible to pinpoint. Market shifts are a process, not a single point in time. Given that the global economy is likely entering a period of cyclical recovery, it appears that process is starting, but it remains difficult to handicap just how sustained value leadership might be. Both previous growth cycles eventually gave way to some of the best value cycles of all time and that was in conjunction with a weak USD period, providing an extra kicker that favored non-U.S. value over U.S. value. There are a host of variables to consider as there always are. However, we do know that today we have a favorable starting point on a historical basis, and even just a little mean reversion will be a substantial move. The world today is filled with uncertainty, and that actually plays well into the Boston Partners investment philosophy. Our process and our wealth of experience in applying that process, allows us to cut through the chaos and noise, and exploit valuation dislocations at the individual security level. It is what we have done as a firm since our inception, and we will continue to execute on that strategy going forward.

Important Disclosure Information

Boston Partners Global Investors, Inc. ("Boston Partners") is an SEC-registered Investment Adviser. Registration does not imply a certain level of skill or training. 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. In addition to Boston Partners value equity strategies, the Boston Partners brand includes Weiss, Peck & Greer Partners ("WPG Partners") Small & Micro Cap Value strategies. The investment processes of Boston Partners and WPG Partners are separate and independent, enabling clients to fully benefit from each specialist expertise.

The views expressed in this commentary reflect those of the author as of September 30, 2020. Any such views are subject to change at any time based on market and other conditions and Boston Partners disclaims any responsibility to update such views. Discussions of securities, market returns and trends are not intended to be a forecast of future events or returns.

About Boston Partners

Boston Partners specializes in traditional value investing, with an investment process and philosophy that was established more than 25 years ago. The source of our investment returns is security selection achieved through bottom-up fundamental analysis guided by quantitative methods. The team's process systematically blends fundamental research with quantitative screening to identify undervalued stocks throughout the capitalization spectrum.

About the Author

Joshua White, CFA
Portfolio Manager

Mr. White is a portfolio manager on Boston Partners Global Equity and International Equity strategies. Prior to this role, he was a global generalist providing fundamental research on global equities. Prior to this, Mr. White, managed a portion of the Boston Partners Long/Short Research strategy while covering multiple economic sectors including basic industries, consumer durables, and capital goods. Mr. White holds a B.A. degree in mathematics from Middlebury College. He holds the Chartered Financial Analyst® designation and has fourteen years of industry experience.

Boston Partners | One Beacon Street, Boston, MA 02108 tel: 617-832-8200
www.boston-partners.com

Definitions

P/B: The price-to-book ratio, or P/B ratio, is a financial ratio used to compare a company's current market price to its book value.

P/E: The price-to-earnings ratio shows the multiple of earnings at which a stock sells. Determined by dividing current stock price by current earning per share (adjusted for stock splits).

Interest Rate: the percentage of the face value of a bond or the balance in a deposit account that you receive as income on your investment.

Quantitative Easing (QE): monetary policy in which the central bank engages in open market transactions aimed at increasing money supply in the economy. Easing could also involve direct money creation (printing).

Gross Domestic Product (GDP): The market value of final goods and services produced over time including the income of foreign corporations and foreign residents working in the U.S. but excluding the income of U.S. residents and corporations overseas.

Deflation: A reduction in consumer or wholesale prices. The term generally applies to more than just a temporary decline. Compare inflation.

Discount Rate: The interest rate that the Federal Reserve charges a bank to borrow funds when a bank is temporarily short of funds. Collateral is necessary to borrow, and such borrowing is quite limited because the Fed views it as a privilege to be used to meet short-term liquidity needs, and not a device to increase earnings.

Bond Yield: The income one receives from a bond investment, rather than its capital appreciation. The yield is calculated as the coupons the investor receives in a year expressed as a percentage of the cost of the investment.

Yield Curve: he graphic depiction of the relationship between the yield on bonds of the same credit quality but different maturities.

Standard Deviation: The square root of the variance. A measure of dispersion of a set of data from its mean.

MSCI EAFE Growth: The MSCI EAFE Growth Index captures large and mid cap securities exhibiting overall growth style characteristics across developed Markets countries around the world, excluding the US and Canada.

MSCI EAFE Value: The 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.

MSCI EAFE Index: The MSCI EAFE Index is an equity index which captures large and mid cap representation across 21 Developed Markets countries*around the world, excluding the US and Canada.

MSCI World Index: The MSCI World Index captures large and mid-cap representation across 23 Developed Markets (DM) countries.

Free Cash Flow: A measure of a company's ability to generate the cash flow necessary to maintain operations. There is more than one way to calculate free cash flow, but perhaps the simplest is to subtract a company's capital expenditures from its cash flow from operations.

Asset Turnover: The ratio of net sales to total assets.

Enterprise Value to Sales (EV/S): A ratio of a company's enterprise value to its sales. The enterprise value is the theoretical price of a takeover and includes a wide variety of assets and liabilities, while sales is the value of the products the company sells in a given year.

Operating Return on Operating Assets: Operating return on assets (OROA), an efficiency or profitability ratio. OROA measures the level of profits relative to the company's assets but using a narrower definition of its assets.

Inflation: A general increase in the price level of goods and services. Unexpected inflation tends to be detrimental to security prices, primarily because it forces interest rates higher.

Stagflation: An economic condition that is characterized by slow growth, rapidly rising consumer prices, and relatively high unemployment

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Boston Partners claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Boston Partners has been independently verified for the periods 2007 through 2018. Before then, Boston Partners Asset Management ("BPAM"), the previous entity name, and WPG were independently verified on an annual basis from 1995 through 2006 and 1993 through 2006, respectively. A firm that claims compliance with the GIPS must establish policies and procedures for complying with all the applicable requirements of the GIPS. Verification provides assurance on whether a firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report. The Boston International Equity Composite has had performance examinations for 2008 to 2018. The verification and performance examination reports are available upon request. A list of composite descriptions is available upon request. GIPS® is a registered trademark of the CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy of quality of the content contained herein. 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 information purposes only.

Composite Construction

The Boston Partners International Composite includes all separately managed and commingled vehicles, fully discretionary, fee-paying accounts under management with a similar investment mandate and an account market value greater than $1 million. The composite contains proprietary assets. The inception date and creation date of the Boston Partners International Composite is July 1, 2008. This strategy is unconstrained and primarily invests in equity securities in the global market without using hedges on currency. The strategy is benchmarked against the MSCI EAFE Index. From July 1, 2008 to June 30, 2010 the primary benchmark was MSCI EAFE Value Index and on July 1, 2010 the primary benchmark changed to the MSCI EAFE. This change to the MSCI EAFE Index was made retroactively to July 1, 2008. Performance and performance related statistics are against MSCI EAFE Index - Net. The MSCI EAFE Value Index-Net is presented as supplemental information.

Benchmark

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 index does not have costs, fees, or other expenses associated with its performance. In addition, securities held in the index may not be similar to securities held in the composite's accounts. The MSCI EAFE Index is broadly recognized as the pre-eminent benchmark for U.S. investors to measure international equity performance. It comprises the MSCI country indexes capturing large and mid-cap equities across developed markets in Europe, Australasia and the Far East, excluding the U.S. and Canada. MSCI value style securities are categorized using a multi-factor approach, which uses three variables (book value to price, 12-month forward earnings to price and dividend yield) to define the value investment style. Net total return indexes reinvest dividends after the deduction of withholding taxes, using (for international indexes) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

Calculation Methodology

Composite returns are asset value weighted and composite account returns are calculated on a total return, time-weighted basis using trade date valuations. Effective January 1, 2011, Boston Partners adopted a significant cash flow policy. Accounts are temporarily removed from the composite when a significant external cash flow occurs, which is typically defined as a flow that is greater than or equal to 10% of the beginning market value of the portfolio on the day of the flow; and greater than or equal to 10% of the beginning market value of the composite for that month. An account is generally added back to the composite as of the first full month following the significant cash flow. Returns reflect the reinvestment of dividends and other earnings and are expressed in U.S. Dollars. Additional information regarding policies for valuing portfolios, calculating performance, and preparing compliant reports is available upon request.

Fees and Expenses

Composite returns are provided on a gross and net of fee basis. Account returns will be reduced by any fees and expenses incurred in the management of the account. Net of fee composite returns are asset weighted and reflect the deduction of management fees--which may include performance-based fees--commissions and transaction costs, and are calculated by deducting actual fees charged to composite accounts. Net of fee returns for commingled vehicles that are members of a composite are calculated using a model fee that is the highest tier in the separate account fee schedule for the strategy. Gross composite returns are calculated by deducting commissions and transaction costs charged to composite accounts. Fees are applied to gross returns at month end. Actual fees may vary depending on the applicable fee schedule and portfolio size. Additional information regarding policies for valuing portfolios, calculating performance, and preparing compliant reports is available upon request. Investment advisory fees are listed herein and are fully described in Boston Partners' Form ADV, Part 2.

Composite Dispersion

The measurement of composite dispersion is calculated by the weighted average standard deviation of the annual account gross-of-fee 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". The three-year annualized standard deviation measures the variability of the composite and the benchmark returns over the preceding 36-month period. This calculation has been adopted effective with the period ended December 31, 2011.

International Equity:

	# of Accts. in Comp.	Total Assets in Comp.	Comp. Dispersion	Comp. 3-Yr. Std. Dev.	Bench. 3-Yr. Std. Dev.	% of Firm AUM
2018:	6	$1.4 bn	0.05%	11.98%	11.24%	2%
2017:	5	$1.2 bn	0.10%	11.31%	11.83%	1%
2016:	3	$603 mm	N/A	11.81%	12.48%	1%
2015:	1	$261 mm	N/A	11.07%	12.47%	0%
2014:	2	$33 mm	N/A	11.77%	12.99%	0%
2013:	2	$20 mm	N/A	14.28%	16.21%	0%
2012:	2	$18 mm	N/A	18.16%	19.34%	0%
2011:	1	$6 mm	N/A	21.73%	22.40%	0%
2010:	1	$6 mm	N/A	N/A	N/A	0%
2009:	1	$6 mm	N/A	N/A	N/A	0%

Firm Assets:

Year	Assets (mm)	Year	Assets (mm)
2018:	$81,550	2013:	$52,334
2017:	$99,241	2012:	$29,023
2016:	$87,222	2011:	$21,098
2015:	$78,363	2010:	$18,419
2014:	$73,250	2009:	$17,207

Other Disclosures

GICS (Global Industry Classification Standard) sector classification is used for the International Equity Composite. 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.

Foreign investors may have taxes withheld. Investing involves risk including the risk of loss of principal. Value investing involves buying the stocks of companies that are out of favor or are undervalued. This may adversely affect the portfolio value and return. Stock values fluctuate in response to issuer, political, regulatory, market or economic developments. The value of small and mid-capitalization securities may be more volatile than those of larger issuers, but larger issuers could fall out of favor. Investments in foreign issuers may be more volatile than in the U.S. market, and international investing is subject to special risks including, but not limited to, currency risk associated with non - US dollar denominated securities, which may be affected by fluctuations in currency exchange rates, political, social or economic instability, and differences in taxation, auditing and other financial practices. Investments in emerging markets may increase risks. Derivative investments may involve risks such as potential illiquid markets and additional risk of loss of principal.

Boston Partners changed the names of its composites in August 2016 after the firm changed its name.

Boston Partners participates in Initial Public Offerings (IPOs) as described in its Form ADV, Part 2. 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 Boston Partners' Form ADV Part 2, are: 75 basis points ("bp") on the first $25 million; 65 bp on the next $25 million; 55 bp on the next $50 million; 50 bp thereafter.