Passive as a Panacea, It Is Not What You Think

March 2022

For the past 5 years, passive management - both index providers and ETF vehicles - has fared well relative to active portfolios. These managers have done an excellent job promoting passive management, lower cost beta exposure and competitive performance versus active management. This promotion has contributed to market share gains for passive vehicles at the expense of active management.

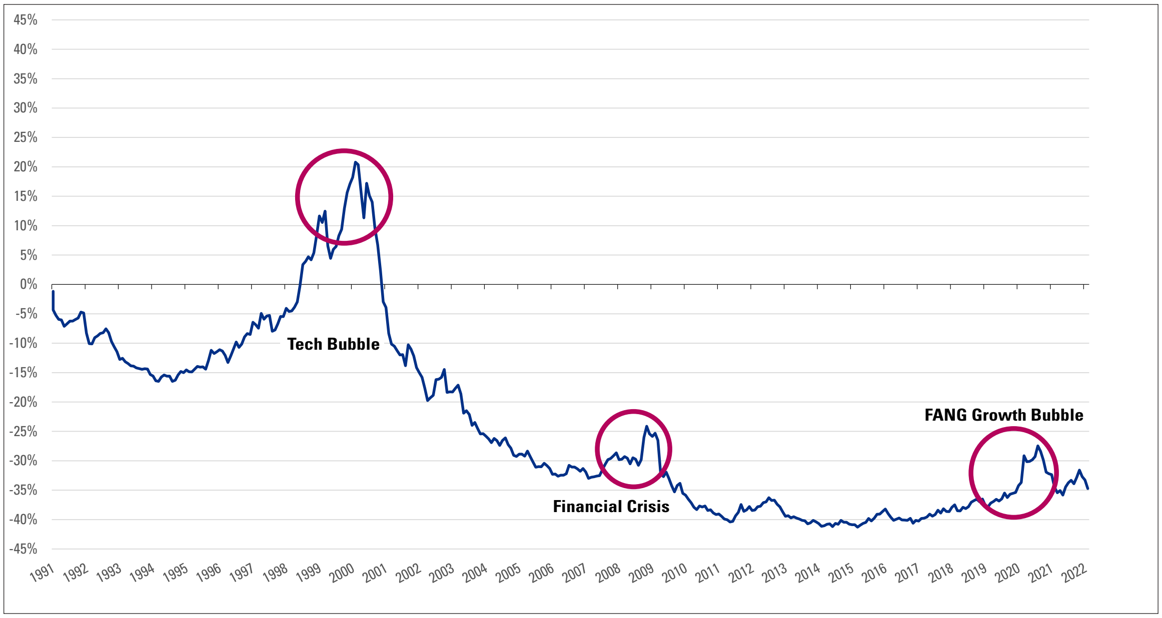
The refrain "the average active manager does not outperform" has been shouted from the mountain tops by the passive providers. Let's analyze the data to understand environments when passive has performed well and periods when you may expect passive to underperform the average active manager.

Equal Weighted vs. Cap Weighted S&P 500 Index Returns

Dating back to 1991, equal weighted S&P 500 Index returns have outperformed the corresponding cap weighted returns by about 1.4% annualized. When the S&P 500 equal weighted Index returns outperformed the cap weighted Index, more than 50% of the stocks in the equal weighted Index outperformed the cap weighted return (broad market). The higher the percentage of stocks that outperformed provided an advantage to active managers. In narrow markets (less than 50% of stocks outperform), it seems active managers have the odds of the "player" at the black jack table, making it difficult to outperform. In broad markets, the probability has historically shifted to "dealer" odds, providing a tailwind for active management. From 2017 through Q2 2020, cap weighted returns of the S&P 500 Index exceeded equal weighted returns by 5.0% annualized, creating an ideal environment for passive strategies to outperform.

Equal-Weighted S&P 500 Index Returns have Outperformed over Cap-Weighted Aside from Extreme Market Environments

Cumulative Returns of S&P 500 Index Cap Weight divided by S&P 500 Index Equal Weight



Data as of February 28, 2022.
Source: Morningstar, Inc.
Past performance is not an indication of future results.

Passive often Underperforms Median Manager – Especially in Value

Examining eVestment competitive rankings - 1 (best) to 100 (worst) – for the period ended December 31, 2021, the respective benchmark has underperformed the median active manager in 7 of 9 style categories for 5-, 10- and 20-year periods. Average underperformance has ranged from 38 basis points (bps) to 379 bps, more than covering typical active management fees in most cases. **Within the value category, the median manager has consistently outperformed in all capitalizations and across all time periods.**

Passive Has Underperformed Median Manager Except for Large Cap Growth and Core

Style	Category	5 Year Rank	10 Year Rank	20 Year Rank	Benchmark Difference to Median (bps)*	Weight of Top 10 Holdings
Core						
S&P 500 Index	U.S. Large Cap Core Equity	40	35	74	21	29%
Russell Midcap® Index	U.S. Mid Cap Core Equity	63	69	76	-56	5%
Russell 2000® Index	U.S. Small Cap Core Equity	73	81	93	-151	3%
Growth						
Russell 1000® Growth Index	U.S. Large Cap Growth Equity	28	27	56	79	48%
Russell Midcap® Growth Index	U.S. Mid Cap Growth Equity	65	62	77	-85	12%
Russell 2000® Growth Index	U.S. Small Cap Growth Equity	91	90	93	-379	6%
Value						
Russell 1000® Value Index	U.S. Large Cap Value Equity	76	70	80	-102	18%
Russell Midcap® Value Index	U.S. Mid Cap Value Equity	61	59	65	-38	6%
Russell 2000® Value Index	U.S. Small Cap Value Equity	71	77	93	-144	5%

Data as of December 31, 2021.
Source: eVestment and Boston Partners. Rankings are based on gross of fee returns.
* Benchmark difference to median is the average difference between the benchmark return and the median return in each category for the 5, 10 and 20 year time periods.
Rankings are from 1 to 100, with 1 being best and 100 being the worst. eVestment Alliance, LLC and its affiliated entities (collectively, "eVestment") collect information directly from investment management firms and other sources believed to be reliable, however, eVestment does not guarantee or warrant the accuracy, timeliness, or completeness of the information provided and is not responsible for any errors or omissions. Performance results may be provided with additional disclosures available on eVestment's systems and other important considerations such as fees that may be applicable.
All categories not necessarily included, totals may not equal 100%.

Only within large cap growth and core categories has passive management outperformed the median active manager. This outcome is influenced by the narrow market from 2017 – 2020 and the concentrated composition of the respective indices. As of December 31, 2021, top 10 holdings in the Russell 1000® Growth Index comprise a whopping 48% of the Index, while top 10 holdings are responsible for 29% of the S&P 500 Index weight. Passive management certainly has had the probabilities in its favor in narrow markets when the mega cap index holdings (FANG stocks) outperformed. It has been difficult for active managers to have positive active positions in these heavily weighted expensive favorites, almost guaranteeing underperformance during these unusual market environments. Meanwhile, in the small cap growth category, the top 10 holdings comprise a mere 6% of the Index as of December 31, 2021. Missing out on a big index name that outperforms has not "cost" the manager much in relative performance in a more equally weighted index. Not surprisingly, active small cap growth managers have fared better versus their benchmark as index concentration and narrow markets have not hindered them.

In the value category, passive management has consistently underperformed. Index concentration is not as much of a factor compared to large cap growth and core, "FANG" stocks comprise a small portion of the value indices, and equal weighted vs. cap-weighted returns have been more even. Without these factors creating impediments, the median value active manager across capitalizations has consistently outperformed over the past 5, 10 and 20 years.

More on Passive within Value

Investors tend to chase performance – they are more interested in purchasing a security or a fund after it has performed well over the past 1- or 3-year period. The active/passive decision is no different. We have witnessed an increase in flows into passive strategies after passive has fared well relative to active management. Not surprisingly, this is exactly the wrong time to allocate toward passive.

Over the past 30 years, there have been 11 periods when the Russell 1000® Value Index has ranked in the top quartile of the eVestment large cap value category of active managers. After those periods, investors are tempted to shift to less expensive passive management. Over the subsequent 1-, 3- and 5-year periods, passive performance has been overwhelmingly in the 3rd and 4th quartiles of competitive performance with average rankings in the 65 to 71 percentile range. This outcome is a clear example of the dangers of chasing 1-year performance.

Russell 1000® Value Index eVestment Rank
January 1991 through December 2021

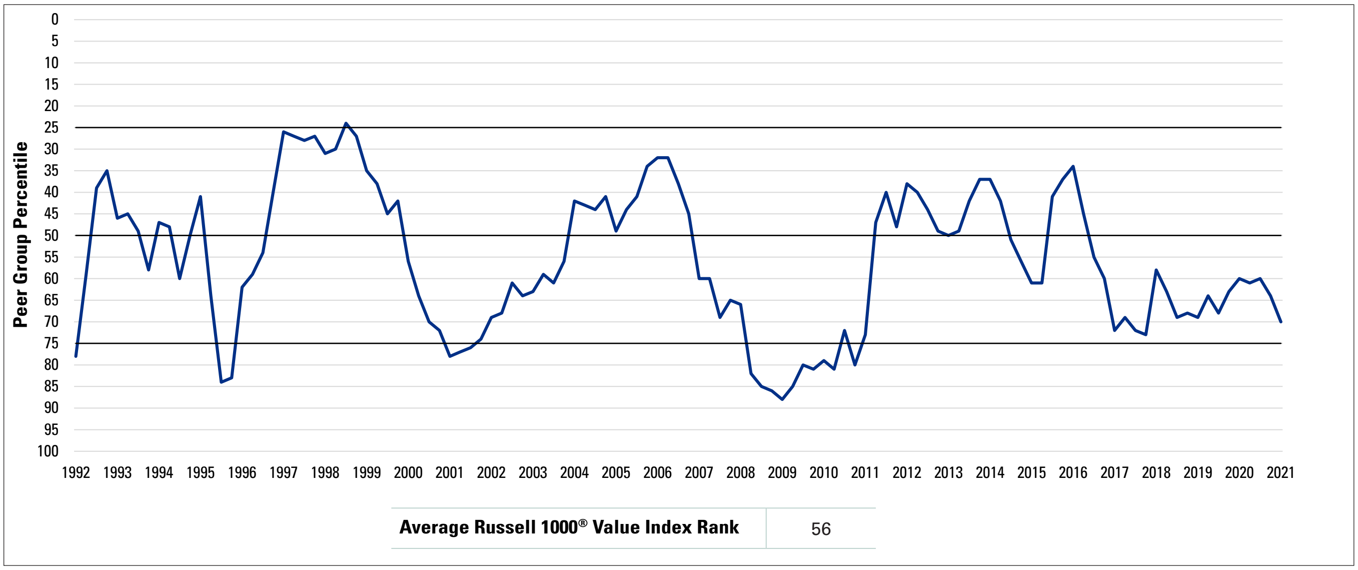
Top Quartile 1 Year Rank		Subsequent Period eVestment Rank		
Period	eVestment Rank	1 Year	3 Year	5 Year
4/92-3/93	14%	55%	58%	44%
7/92-6/93	19%	84%	83%	45%
10/92-9/93	23%	93%	82%	46%
1/97-12/97	17%	43%	56%	70%
4/97-3/98	22%	43%	67%	70%
7/97-6/98	24%	42%	73%	73%
1/06-12/06	15%	77%	88%	83%
4/06-3/07	22%	75%	85%	85%
10/11-9/12	23%	57%	56%	57%
4/12-3/13	18%	63%	61%	70%
1/16-12/16	25%	87%	69%	76%
Average	**20%**	**65%**	**71%**	**65%**

Data as of December 31, 2021.
Source: eVestment Large Cap Value Universe quarterly observations.
Rankings are from 1 to 100, with 1 being best and 100 being the worst. eVestment Alliance, LLC and its affiliated entities (collectively, "eVestment") collect information directly from investment management firms and other sources believed to be reliable, however, eVestment does not guarantee or warrant the accuracy, timeliness, or completeness of the information provided and is not responsible for any errors or omissions. Performance results may be provided with additional disclosures available on eVestment's systems and other important considerations such as fees that may be applicable.
All categories not necessarily included, Totals may not equal 100%. Past performance is not an indication of future results.

Taking a 3-year view, the results are similar. We notice three time periods when the Russell 1000® Value Index 3-year ranking was above median for an extended period – the 1997-Q1 2000 Tech Bubble, the 2007-2009 Financial Crisis and the 2015 to 2016 Brexit Era. During these periods, passive management performed well in competitive ranking tables. At the end of each of these periods, the 3-year ranking of the Index remained below median for the next 4 years. After the most recent strong passive performance period, which ended in early 2017, the 3-year Index ranking sunk below median and remains there today. Switching to passive after strong 3-year performance of the Index also has not paid off for investors.

Russell 1000® Value Index 3 Year Ranking Has Been Just Below Median Since 1992

Russell 1000® Value Index Trailing 3 Year eVestment Category Ranking



Data as of February 28, 2022.
Source: eVestment Large Cap Value universe rankings. eVestment Large Cap Value Universe quarterly observations. eVestment Alliance, LLC and its affiliated entities (collectively, "eVestment") collect information directly from investment management firms and other sources believed to be reliable, however, eVestment does not guarantee or warrant the accuracy, timeliness, or completeness of the information provided and is not responsible for any errors or omissions. Performance results may be provided with additional disclosures available on eVestment's systems and other important considerations such as fees that may be applicable. All categories not necessarily included, Totals may not equal 100%.
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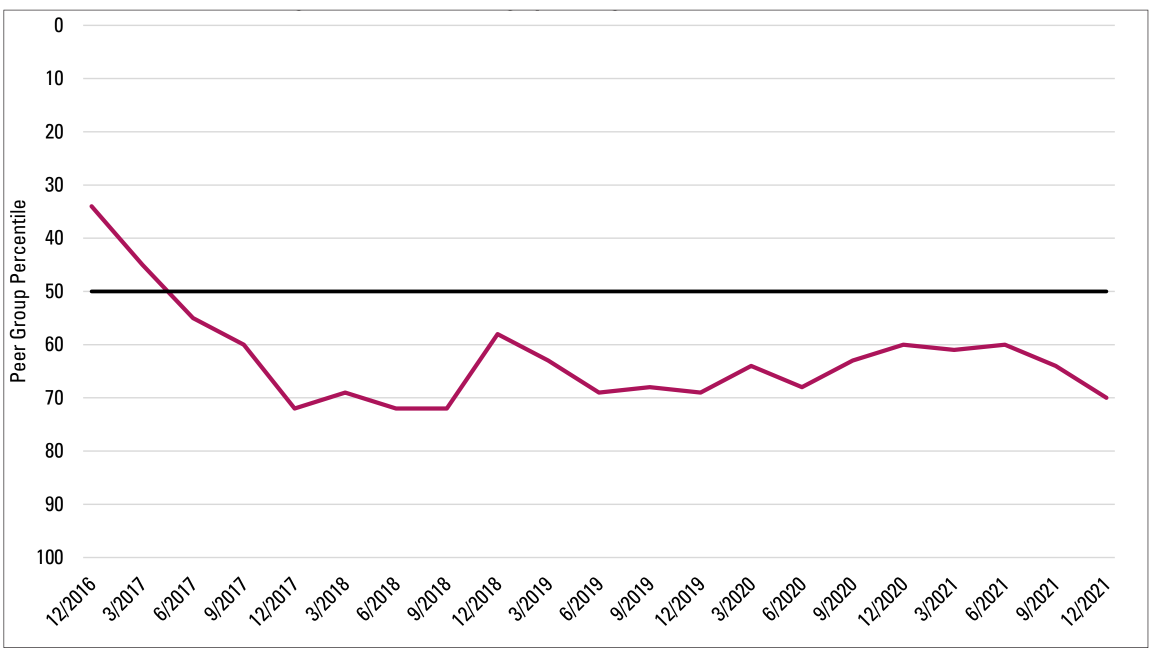
In FANG Growth Bubble, Russell 1000® Value Index 3 Year Rankings Have Been Worse Than Median

Russell 1000® Value Index Trailing 3 Year eVestment Category Ranking



Source: eVestment Large Cap Value universe rankings. eVestment Large Cap Value Universe quarterly observations. eVestment Alliance, LLC and its affiliated entities (collectively, "eVestment") collect information directly from investment management firms and other sources believed to be reliable, however, eVestment does not guarantee or warrant the accuracy, timeliness, or completeness of the information provided and is not responsible for any errors or omissions. Performance results may be provided with additional disclosures available on eVestment's systems and other important considerations such as fees that may be applicable. All categories not necessarily included, Totals may not equal 100%.
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Benefits of Hiring a Better Than Average Active Manager

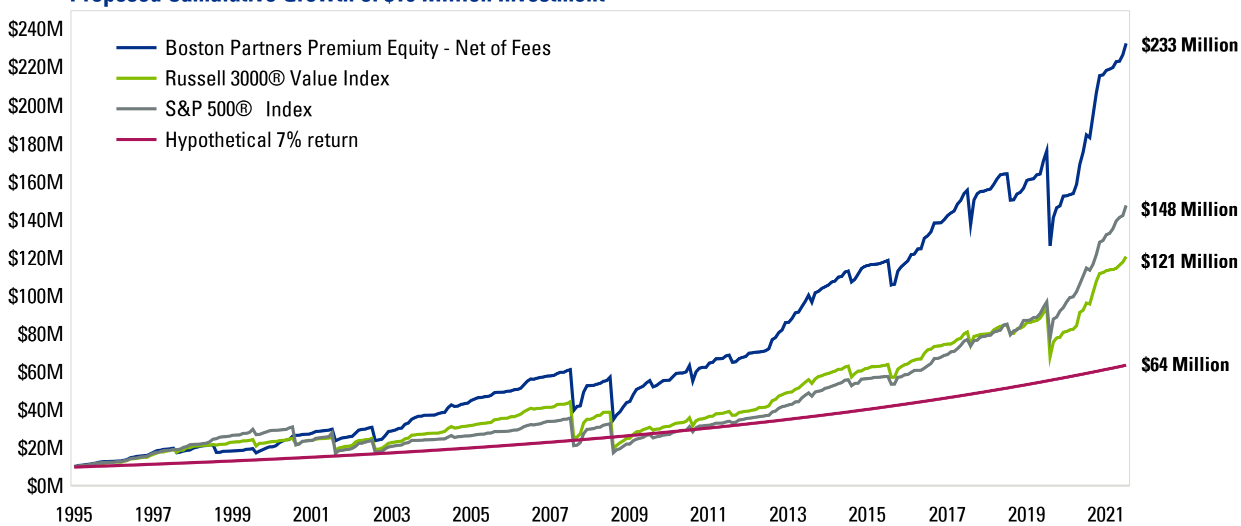
Certain environments seem to favor passive management – narrow markets when cap weighted returns are exceeding equal weighted returns, with highly concentrated indices and when mega cap companies in the index are outperforming by a wide margin. These periods are episodic and do not last long. We believe investors who chase passive management after strong outperformance are typically not rewarded.

The refrain that "the average active manager does not outperform" rang true during those relatively brief periods but has not held up when looking at competitive performance over the past 20 years. But that only addresses part of the active vs. passive debate. Even if we concede that the average active manager may have difficulty outperforming after accounting for fees and survivorship bias, better than average active managers do exist. We have faith that better than average investment advisors with better than average research personnel can use their resources to choose better than average active managers. And the results can be rewarding for clients. The Boston Partners All-Cap Value (Premium Equity) strategy has returned 12.57% net of fees since inception on June 1, 1995 through December 31, 2021, compared to 9.82% for the Russell 3000® Value Index and 10.66% for the S&P 500 Index. A client who had invested $10 million in this strategy at inception would have $233 million after fees at the end of 2021, or $112 million more than if invested in the Russell 3000® Value Index and $85 million more if invested in the S&P 500 Index. Better than average active managers can, and do, outperform, and have created wealth over time.

Potential Benefits of Active Management

Selecting the right manager can lead to higher growth of capital

Proposed Cumulative Growth of $10 Million Investment



eVestment U.S. All Cap Value Universe as of December 31, 2021

	10 year	20 year	Since Inception
Boston Partners Premium Equity	25	14	1

Source: eVestment U.S. All Cap Value Universe quarterly observations. eVestment Alliance, LLC and its affiliated entities (collectively, "eVestment") collect information directly from investment management firms and other sources believed to be reliable, however, eVestment does not guarantee or warrant the accuracy, timeliness, or completeness of the information provided and is not responsible for any errors or omissions. Performance results may be provided with additional disclosures available on eVestment's systems and other important considerations such as fees that may be applicable. All categories not necessarily included, Totals may not equal 100%. Copyright 2012-2021 eVestment Alliance, LLC. All Rights Reserved. Number of portfolios in eVestment All Cap Value category is 72 for 10 years, 36 for 20 years and 20 since inception.

This is a hypothetical illustration of the growth of $10 million had it been invested in the BP Premium Equity composite since inception on June 1, 1995. The results of this illustration may be changed depending on investment guidelines and cash flow. This illustration is net of investment management fees and includes the reinvestment of dividends and other income. Past performance is not an indication of future results.

7% is a representative actuarial rate. Use of 7% is a arbitrary assumption. Results will be different with a different assumption. 7% is based on a study by Milliman Consulting in 2015 of approximately 1,300 multi-employer plans based on form 5500 filings. Based on the conclusions of the study, 7% is a reasonable assumption for this comparison.

Annualized Performance (%)	4Q 2021	1 Year	3 Year	5 Year	10 Year	15 Year	20 Year	Since Inception*
Premium Equity - Gross of Fees	7.84	26.81	19.87	12.74	14.71	10.53	11.38	13.15
Premium Equity - Net of Fees	7.67	26.05	19.16	12.08	14.07	9.92	10.80	12.57
Russell 3000® Value Index	7.54	25.37	17.65	11.00	12.89	7.48	8.40	9.82
S&P 500® Index	11.03	28.71	26.07	18.47	16.55	10.66	9.52	10.66

*Inception date is June 1, 1995.
Past performance is not an indication of future results. Net of fee 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. 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. Returns reflect the reinvestment of dividends and other earnings and are expressed in U.S. dollars. Performance for periods one year and over are annualized; returns for periods of less than one year are not.

Definitions

ETF vehicles: An exchanged-traded fund (ETF) is a type of pooled investment security that typically track a particular index, sector, comodity, or other asset.

Beta exposure: Beta is the return generated from a portfolio that can be attributed to overall market returns. Exposure to beta is equivalent to exposure to systematic risk. Systematic risk refers to the risk inherent to the entire market or market segment.

Equal weighted S&P 500 Index: The equal-weighted version of the widely-used S&P 500 where each company is allocated a fixed weight at each quarterly rebalance.

Tech Bubble: Period from 1997 to Q1 2000 when technology stocks reached historically high valuations.

Financial Crisis: Period from 2007 to 2009 when the elevated real estate prices and risky real estate loans nearly collapsed the global financial system.

FANG Growth Bubble: Period from 2017 to Q1 2020 when large capitalization technology stocks – Facebook, Amazon, Netflix and Google - reached lofty valuations.

Basis point (bps): One basis point is equal to 1/100th of 1%, or 0.01%, or 0.0001, and is used to denote the percentage change in a financial instrument.

Russell 1000® Value Index: Measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.

Russell 1000® Growth Index: Measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

S&P 500 Index (Cap Weighted): An unmanaged index of the common stocks of 500 widely held U.S. companies. The S&P 500 Index uses capitalization-weights, which gives a higher percentage allocation to companies with the largest market caps; stocks are weighted according to the total market value of their outstanding shares.

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.

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.

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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 their performance. In addition, securities held in any Index may not be similar to securities held in the composite's accounts.

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