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How well do you know your value manager?

Executive Summary

Although value managers share some common beliefs about an investment philosophy of buying companies that trade at a discount to their estimate of fair value, their resulting portfolio characteristics and ultimate performance can be drastically different depending on the prevailing market environment and their definition of value. In fact, all managers could technically be considered “value” managers – because no manager says to a client “we buy overvalued stocks.” So, definition matters. Accordingly, although you may have an allocation to a value strategy, do you know what flavor of value that strategy truly employs? Does it behave as it should in differing market environments, i.e., does it defend when it should defend, does it outperform when it should outperform or underperform when it should outperform? As not all value strategies are created equal, some will do better than others in growth environments but fail to keep pace with their peers in a value-led market. Correlations with the value index among some styles of value are surprisingly low. As such, will your strategy outperform in a strong value-led market after many years of weak value returns?

In this paper, we will highlight the differing characteristics across value strategies and how these characteristics contribute to their performance over various market cycles. We will also look at correlations across these styles, knowing that when value comes back into favor, not all these styles will benefit similarly.

Performance of Value Styles

Much has been written over the last several years about growth versus value investing. The unprecedented outperformance of growth stocks over the last decade-plus culminated in 2020, when investors saw the largest divergence between growth and value stocks in any calendar year since the inception of the MSCI World style indexes, with the MSCI World Growth Index outperforming the MSCI World Value Index by nearly 35%. Post this period of strong performance, 2021 saw value and growth stocks largely perform in line until 2022 when markets recognized inflation was not transitory and higher interest rates were likely to be higher for longer.

In 2021, there was a tug of war between the different styles of value as we saw the continuation of traditional value strategies doing well in the first quarter as they did in the final quarter of 2020, then give way to relative value peers in the second quarter with the last two quarters favoring defensive value strategies resulting in all styles largely performing in line with each other.

In 2022, with markets meaningfully down on the back of multiple compression in the more expensive growth stocks, value stocks defended well in this environment and far outpaced their growth peers with the MSCI World Value Index ahead of the MSCI World Growth Index by nearly 23%. However, against that backdrop, only ~35% of value managers in the eVestment Global Value universe outperformed the MSCI World Value Index.



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In 2023 and 2024 there was a strong resurgence in growth stocks on the back of expectations for lower interest rates, lower inflation and Artificial Intelligence capital expenditures. Further, the markets became very narrow in 2024 with market appreciation being driven by a very few highly valued growth stocks. Against this backdrop, nearly 85% of value managers outpaced the MSCI World Value Index in 2023 while in 2024 less than 35% of value managers outpaced the value index as the narrowness of the market extended into some areas of the value market, i.e., Financials. Active management pay off in the value universe rebounded again in 2025 with more than 70% ending the year ahead of the MSCI World Value index.

Accordingly, the questions we pose are: *How well do you know your value manager? Did your value manager perform in line with its stated style over this period? Given the disparity in performance between value managers over the last several years, do you have exposure to a value manager that is positioned to take advantage of a regime change back to value similar to what we saw in 2022?*

Overview

Value managers share a common conviction to invest in stocks trading at a discount to their intrinsic value. Investment philosophies vary, however, between different managers' methods of estimating intrinsic value and the ensuing determinations of how deep a discount from intrinsic value is acceptable. Further, each value manager can establish that intrinsic value by using different assumptions about common fundamentals such as future growth, quality, leverage, etc. Thus, despite the common practice of buying a stock at a discount to intrinsic value, value managers' resultant portfolio characteristics can diverge significantly and may perform very differently depending on the prevailing market environment.

In an attempt to better understand biases of different value strategies and how these biases impact the resulting portfolio characteristics – and thus performance within certain market environments – we have taken a subset of the eVestment Global Value universe and categorized 61 strategies into three types of value – traditional (sometimes called deep value), defensive, and relative value. We believe that, in a broad sense, these three buckets capture many styles across value managers. Although most managers may have stocks from any or all these styles, a manager's selection criteria will generally cause its overall portfolio to fit within one of these three categories.

Value Styles Defined

In considering how a strategy fits into a specific value style, defensive and traditional value managers tend to be the easiest to define based on valuation metrics, beta, upside/downside capture, sector positioning, etc. However, relative strategies are a bit more difficult, as managers of such strategies can have tendencies that cause them to lean toward either defensive or traditional and, in some cases, even more closely to broad benchmark-like exposures.

In defining these styles, it may be helpful to highlight average positioning across a variety of metrics and how this may translate into subsequent performance depending on the prevailing market environment. Table 1 below highlights these sector differences as of June 30, 2026.



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Although sector differences have converged recently, we believe that, on average, some exposures are likely to hold true over the longer term. Typically, defensive strategies will have higher exposure to defensive sectors such as Consumer Staples, Health Care (particularly to traditional peers), Communication Services (typically telecom related stocks), and Utilities, while being underweight relative to the index more cyclical sectors such as Energy, Financials, and Materials

Table 1: Average Sector Weighting
As of June 30, 2026

	Communication Services	Consumer Discretionary	Consumer Staples	Energy	Financials	Health Care	Industrials	Information Technology	Materials	Utilities	Real Estate	Other
Defensive Value	8.0%	6.4%	12.0%	4.2%	19.4%	11.4%	12.4%	17.0%	4.2%	3.3%	1.6%	0.0%
Relative Value	5.9%	9.1%	8.5%	4.3%	21.0%	13.5%	15.7%	15.3%	3.7%	2.3%	0.7%	0.1%
Traditional Value	5.7%	10.4%	7.7%	5.3%	19.0%	13.4%	13.7%	13.4%	6.8%	2.2%	2.3%	0.2%
BHMS GVE*	1.8%	4.8%	9.4%	6.1%	24.2%	12.2%	9.1%	8.3%	9.0%	9.7%	5.3%	0.0%
MSCI World Value	5.8%	4.8%	7.5%	6.6%	25.8%	11.2%	9.9%	17.0%	4.1%	4.5%	2.7%	0.0%
MSCI World	8.2%	8.9%	5.0%	3.6%	15.9%	9.1%	11.7%	30.1%	3.3%	2.6%	1.7%	0.0%

*Barrow Hanley Global Value Equity.

Sources: eVestment, FactSet. Material presented is based on the BH GVE composite and not an individual account.

Conversely, traditional value peers typically have a greater weight to the more cyclical areas of the market such as Energy, Materials, and Financials and less exposure to Consumer Staples, Health Care, and Utilities.

Relative value strategies have stood out over the last several years, though less so recently, in their typically larger ownership within the Information Technology, Communication Services, and Consumer Discretionary sectors, while having less exposure to Financials, Energy, Utilities, and Materials sectors.

While the above generalizations tend to hold true over a longer time period, there may be points in the cycle where relative exposures shift. One example evident in table 1 is the exposure to Health Care sector across the value groupings. While all are overweight relative to the MSCI World index as you may expect, defensive value managers are less exposed than relative and traditional value which is a reflection of recent weakness in the sector and valuations looking very attractive relative to the broad opportunity set and in a traditional value sense. Relative value managers have rotated a fair bit over the last year or so, reflecting higher volatility levels of the market.

Accordingly, given the environment we have seen during the last 3-5 years (with one very strong year favoring value), especially in more defensive and traditional value strategies, relative value strategies have tended to lag their peers over this period.

Considering the sector positioning of the different value strategies, the average valuation profile is unsurprising and is indicative of these strategies' preferences. As seen in Table 2, traditional strategies will tend to trade at a more meaningful discount to the market relative to their defensive and relative value peers.

Table 2: Average Valuation Fundamentals*
As of June 30, 2026



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	PE 12 Mos Forward	Price-to- Book	Dividend Yield
Defensive Value	15.8x	3.2x	2.4%
Relative Value	14.3x	2.8x	2.2%
Traditional Value	13.3x	2.0x	2.4%
BH GVE	13.4x	2.3x	2.3%
MSCI World Value	14.8x	2.7x	2.4%
MSCI World	18.9x	4.1x	1.5%

*Weighted harmonic average.

Sources: eVestment, FactSet. Material presented is based on the BH GVE composite and not an individual account.

As noted earlier, value has been out of favor for quite some time, though the gap between growth and value has come down meaningfully, most recently helped by narrow difference in returns between growth and value in 2025, and value being ahead of growth for the first six months of 2026.. Consequently, the five-year annualized return difference has narrowed significantly with growth's leadership at 140 basis points as of Q2 2026.. Looking at Table 3, which shows how the specific valuation and dividend yield factors have performed over the last five years, this trend is more visible; taking Price-to-Book as an example, the most expensive stocks (Quintile 1) and the cheapest stocks (Quintile 5) have performed the best. Thus, within this environment, Traditional Value managers or those Relative Value managers who have barbelled their portfolio between growthy tech-related names and deeper value stocks have tended to do better. Some things to consider here are: *How has your value manager performed in this recent value environment and, if this value rally continues at the expense of growthier stocks, how is your value manager positioned for that environment?*

**Table 3: MSCI World Quintile Performance
Five Years (Annualized) Ending June 30, 2026**

	NTM P/E	P/B	Dividend Yield
Quintile 1	7.39	14.5%	13.9%
Quintile 2	12.37	8.7%	6.9%
Quintile 3	10.46	10.4%	8.6%
Quintile 4	7.99	6.7%	12.3%
Quintile 5	17.84	14.9%	16.0%

Source: FactSet.

Turning our attention to performance-related measurements across the different styles of value, there is a clearer delineation when looking at upside and downside capture ratios and beta. Comparing the upside/downside capture of these strategies to the MSCI World Value Index to remove style effects, Table 4 highlights how defensive value strategies, on average, defend well in down markets, as seen in their low down-market capture ratios, but fail to keep pace in up markets. Conversely, traditional value strategies, on average, do very well in up markets, capturing a significant amount of upside, as seen in their high upside market capture ratios, but failing to protect in down markets. Relative value strategies, though capturing less upside than traditional



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value peers, do capture more downside than their defensive value peers but less than their traditional value peers. As noted earlier, a relative value bucket tends to have a mix of strategies whereby some strategies will lean toward traditional and others towards defensive; thus, the results have actually changed of late as relative value strategies have failed to capture more than 100% of the market upside which we believe is likely due to their not capturing the upside in the deeper value areas of the market.

We noted in prior writings of this paper that relative value strategies will tend to lean either toward defensive or traditional style. Relative strategies that have done well in a growth environment and thus have higher upside capture and lower downside capture will need to rotate their portfolio from less value to more value-oriented names to do the same in a value-led environment. This top-down overlay is challenging for the very best of investors but, more importantly, is not usually applied by most value managers; hence, these strategies will potentially capture less upside and more downside in a changing market environment which is what we have now seen on average over the last 5 years.

Table 4: Average Up/Down Market Capture % vs MSCI World Value
As of June 30, 2026

	Up Mkt Capture 5 - Year	Down Mkt Capture 5 - Year
Defensive Value	86.5%	90.3%
Relative Value	89.8%	97.6%
Traditional Value	114.4%	100.5%
BH GVE	94.7%	94.3%

Sources: eVestment, FactSet. Material presented is based on the BH GVE composite and not an individual account.

Looking at beta as another metric in defining value strategies, this is also quite linear, with defensive strategies offering lower beta while traditional strategies tend to have higher beta (see Table 5).

Table 5: Average Beta vs MSCI World
As of June 30, 2026

	Beta 3 Yr vs MSCI World Value	Beta 5 Yr vs MSCI World Value
Defensive Value	0.90	0.90
Relative Value	0.98	0.98
Traditional Value	1.09	1.08
BH GVE	0.92	0.95

Source: eVestment. Material presented is based on the BH GVE composite and not an individual account.

The performance of these styles will also differ greatly depending on the prevailing market environment. During those periods in which there are fears in the market, typically regarding economic growth, defensive value strategies will tend to perform better than their relative and



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traditional value peers. We saw this environment in 2001, 2015, and 2018, during which defensively-oriented managers outpaced their traditional and relative value peers. When there is positive sentiment about economic growth/recovery, traditional value strategies tend to outperform their defensive and relative value peers. This was the environment we saw in 2012, 2013, 2016, and 2017. Relative value strategies will tend to do well relative to their peers when the market leans toward favoring growth stocks, such as 2019-2021.

It is worth highlighting the last three years, as these have behaved slightly differently. In 2022, when the markets were meaningfully down, defensive value managers did better than their relative value peers, as expected. However, traditional value managers did better given the move down in markets was driven by Information Technology-related stocks and compressing multiples. Traditional value strategies tend to have lower multiples and thus had less compression. Further regarding the markets in 2022, the lowest quintile of price-to-book far outpaced the rest of the market along with the second quintile and thus favored traditional value peers who tend to have larger exposure to these quintiles, as noted earlier. Despite the strong growth environment in 2023 and 2024, the narrowing/narrowness of the market did allow for pockets of value or those managers who moved into technology-related names early in the period to do well. In this environment, on average, traditional value peers benefited as a few pockets of cyclicality performed very well following the recession fears of 2022. However, in 2023 they tended to lag their defensive peers and in 2024 their relative value peers, as these strategies performed better.

Given the gyrations of markets where value may come in and out of favor, we believe it is important to invest with those managers that adhere to their value discipline throughout the cycle as shifting markets from growth to value can cause those strategies with lower correlations to value to miss out on the initial uptick in value's performance. Table 6 highlights the correlation of excess return over the broad market of value strategies to the excess return of MSCI World Value Index over the broad market. We show five-year average correlations ending Q1 2022 and Q2 2026 to note that after a prolonged period of growth outperformance up to 2021, defensive value strategies on average had lower correlations to the value index. We have seen a meaningful uptick in correlations for defensive value strategies recently.

**Table 6: 5-year Average Excess Return
Correlation with MSCI World Value
Periods Ending June 30, 2026**

	3/31/2022	6/30/2026
Defensive Value	65.8%	71.7%
Relative Value	68.2%	67.3%
Traditional Value	66.4%	65.0%
BH GVE	83.9%	85.3%

Source: eVestment. Material presented is based on the BH GVE composite and not an individual account.

Conclusion



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Investors today are faced with navigating an unusually complex and rapidly changing market backdrop, uncertainties remain at elevated levels with regards to global trade dynamics, geopolitical tensions impacting and reshaping global economics and power balances. While market returns have been largely dominated by a narrow group of large companies in the AI ecosystem, the broader economic backdrop has been resilient, inflation has stabilized and we may be at the start of one of the largest capital expenditure cycles, creating opportunities far beyond the technology industry. Despite many companies outside technology having a prominent role in the AI related infrastructure build-out, many of them trade at substantial discounts and the valuation gap between them and AI headline leaders have widened. We believe this disconnect has created a compelling opportunity for disciplined value investors, who today can access high-quality companies with strong balance sheets, durable cash flows, and direct exposure to long-term AI and infrastructure investment trends at attractive valuations. While periods of market concentration can persist longer than expected, history has consistently shown that fundamentals, earnings growth, and valuation ultimately matter, rewarding investors who maintain their discipline and focus on long-term value creation rather than short-term market enthusiasm.

As noted earlier, given rotations in the market it is important to have a value manager that will adhere to a time tested, structured discipline when navigating volatility. Within this context, we would ask: *how well do you know your value manager and how likely is it that your value manager will perform strongly in an ensuing value environment?*

At Barrow Hanley, we have seen multiple market cycles over our 46-year history and know how to navigate these tumultuous periods. Importantly, given our vast experience in value investing, we fully understand our role in stewarding our clients' value portfolios. Our traditional value style of investing differs from the crowd, as we look to invest in both cyclical and defensive companies, depending on where we see the greatest market dislocations.

Accordingly, as seen in Table 7, over the longer term we have largely been able to outpace our value peers, with our long-term performance (7 and 10 years) largely in the upper half of the second quartile or top quartile of the eVestment Global Value universe. Importantly, our strategy delivers a consistent and repeatable return outcome highly correlated with the excess returns of the MSCI World Value index as shown in table 6 above, reflecting strict adherence to a disciplined valuation driven investment process.

Table 7: BH Performance and Peer Ranking
As of June 30, 2026

	One Year	Ranking	Three Years	Ranking	Five Years	Ranking	Seven Years	Ranking	Ten Years	Ranking
BH GVE (GOF)	21.64%	54	17.10%	51	11.10%	45	12.85%	36	13.15%	19
BH GVE (NOF)	20.80%		16.28%		10.33%		12.06%		12.37%	
MSCI World Value	20.84%		16.85%		10.51%		10.53%		10.16%	
MSCI World	21.34%		19.24%		11.47%		13.73%		13.14%	

Source: eVestment. Material presented is based on the BH GVE composite and not an individual account.



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After nearly five decades of value investing, we know what kind of value investing we deliver for clients, and we know it works – particularly in value cycles. Given the significant valuation disparities between value and growth stocks and economic catalysts that appear to favor greater economic growth, we believe value stocks are well positioned to perform strongly for the foreseeable future, and we believe we are well positioned to take advantage of the ensuing market environment.

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