

Chicago 26-28 October

# Mercer Global Investment Forums 2020



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# **Mercer Global Investment Forums 2020**

## **Value in Equity Investing – Are You Staying the Course or Finding a New Path?**

Facilitator:

Kelly Henson, DC Segment Leader, East Markets

Panelists:

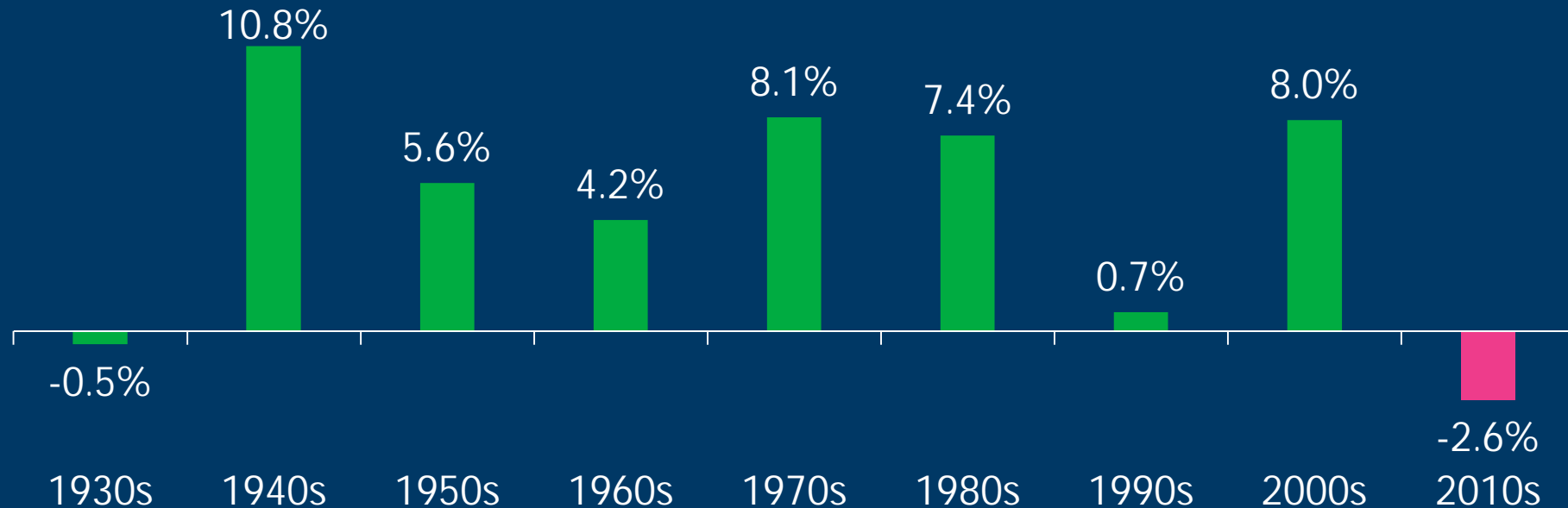
Rich Dell, Global Leader, Equity Boutique

Sean Chatburn, North America Leader, Equity Boutique

# For decades the value factor outperformed growth

We want to hear from you...does value investing still have a place in portfolios?

Average annual performance of Fama & French ("HML") value factor by decade



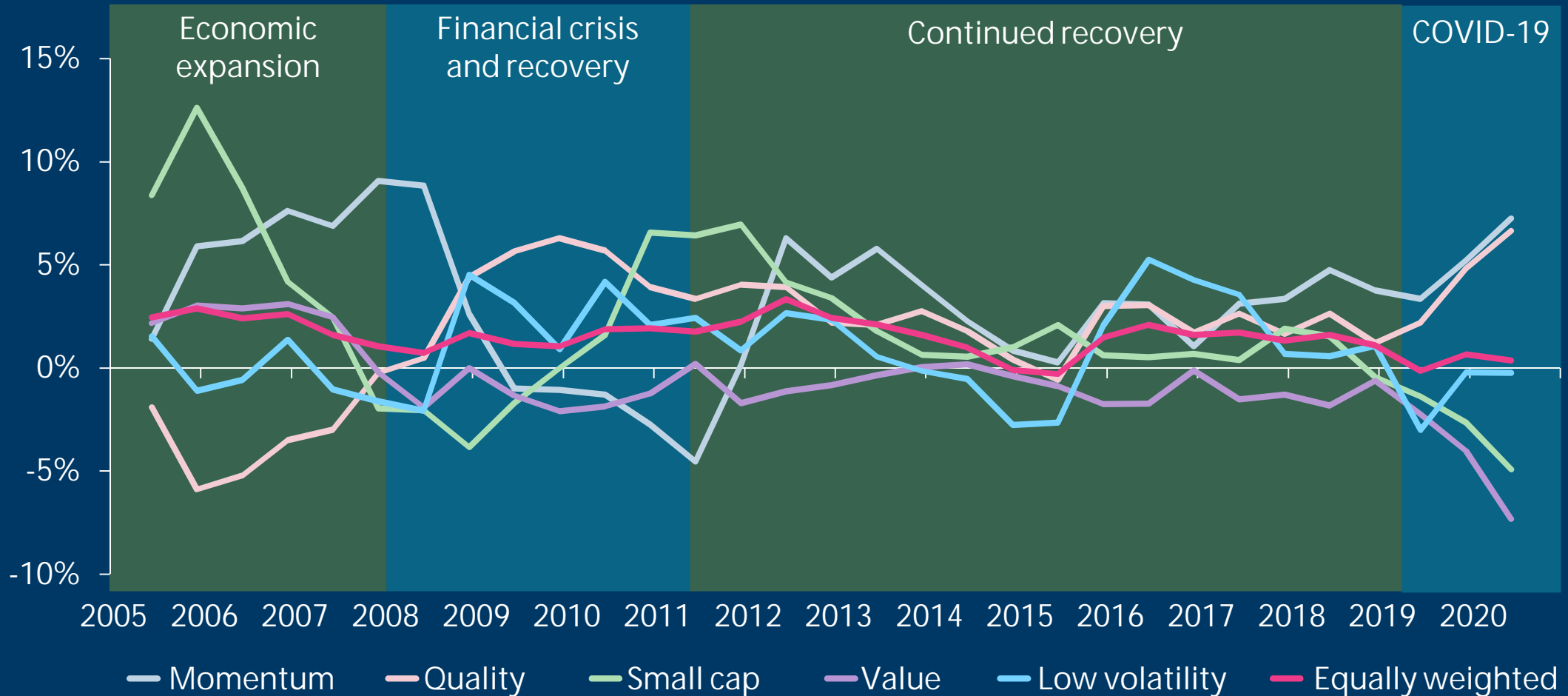
Source: Kenneth French. Performance is calculated using the methodology defined by Fama & French and is shown for the period January 1, 1930 to December 31, 2019. See Fama and French, 1993, "Common Risk Factors in the Returns on Stocks and Bonds", Journal of Financial Economics, for a complete description of the factor returns.

## Question 1

**What percentage of your current equity asset allocation is devoted to value-oriented strategies?**

- A. 0% to 20%
- B. 21% to 40%
- C. 41% to 60%
- D. 61% to 80%
- E. 81% to 100%

# Rolling three-year factor index returns relative to the MSCI World index



Source: MSCI ; Total returns (gross of fees) in US dollars; All performance shown relative to the MSCI World Index at six-monthly intervals. The equally-weighted portfolio is a composite of all five factor indexes shown (momentum, quality, small cap, value, low volatility), 2020

## Question 2

**How confident are you that value will outperform growth over the next three years?**

- A. Not confident
- B. Somewhat unconfident
- C. Confident
- D. Highly confident

# Rolling three-year annualized excess returns vs MSCI World (in US dollars, before fees)



Source: MercerInsight™, 2020

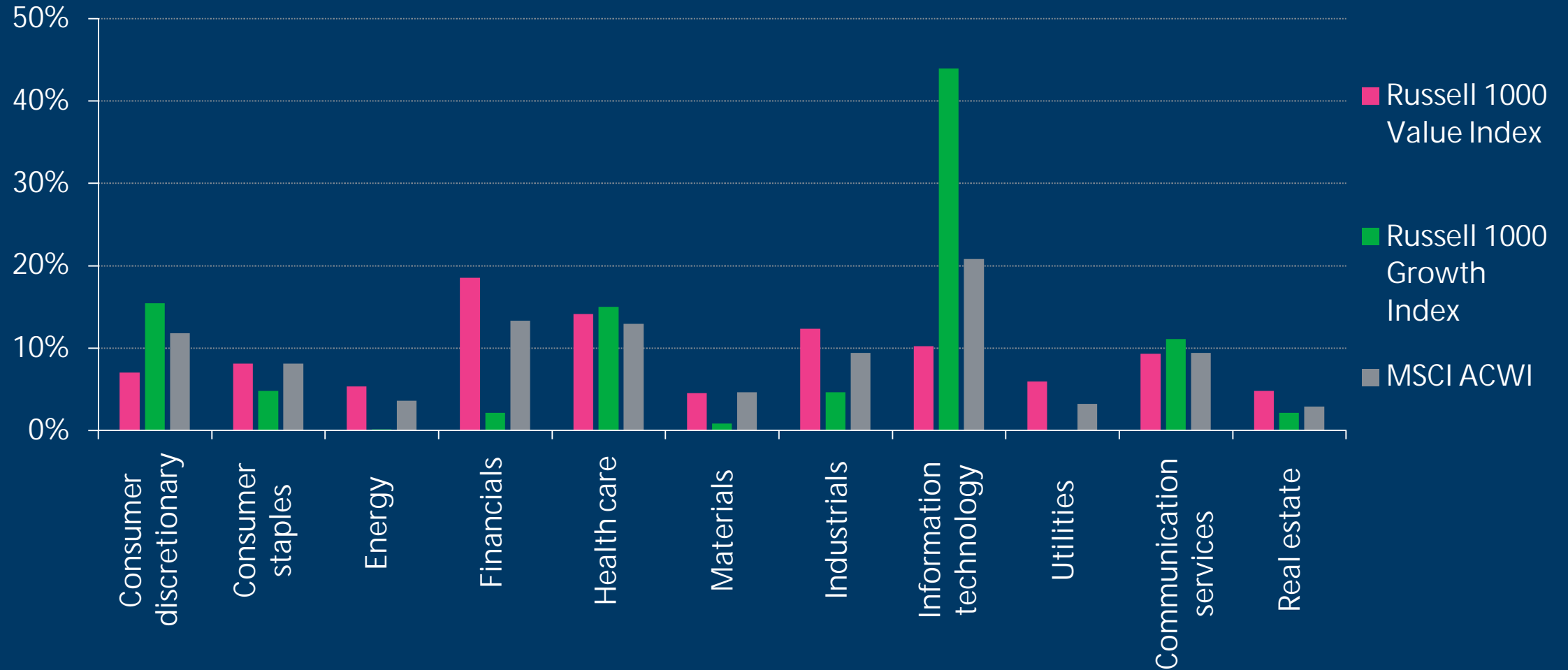
### Question 3

**What is the most likely catalyst for a comeback in value over the next three years?**

- A. Change in macro environment (for instance inflation/interest rates)
- B. Valuation/mean reversion
- C. Disappointing fundamentals from growth stocks
- D. Due to structural changes, no near-term catalyst exists
- E. Other



# Sector allocations at June 30, 2020



Source: StyleAnalytics, MercerInsight™, 2020

## Question 4

**Over the next three years, what substyle of the value approach is the most compelling?**

- A. Deep value
- B. Relative value
- C. Systematic value
- D. Quality value
- E. Other

# Relative valuations of growth versus value equities



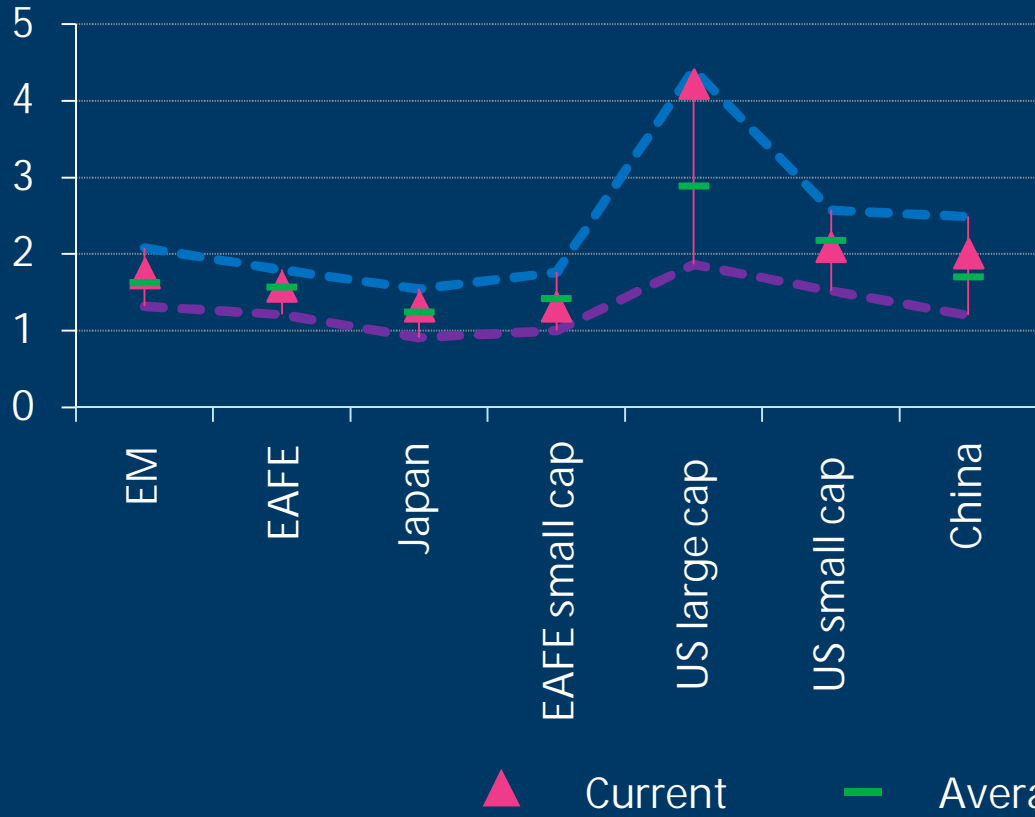
Source: Thomson Reuters Datastream. Values shown are calculated using the price-to-book ratios and the price-to-earnings ratios of the MSCI World Growth Index and the MSCI World Value Index. A value of two on the chart above for price-to-book indicates that the price-to-book ratio of the MSCI World Growth Index is double that of the MSCI World Value Index. Valuations shown for the period January 1, 1981 to September 30, 2020.

## Question #5.

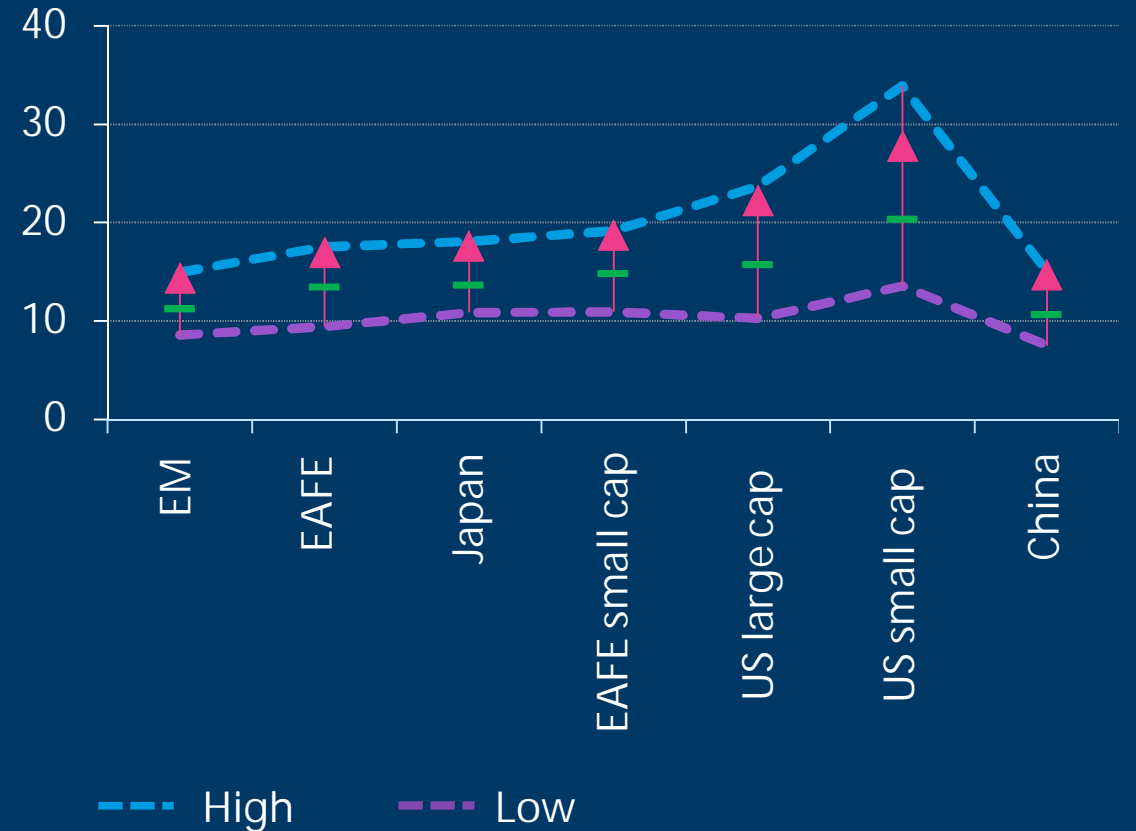
**In which regions do the most interesting value opportunities reside?**

- A. US large cap
- B. US small cap
- C. International large cap
- D. International small cap
- E. China
- F. Emerging markets
- G. Japan

## Current and average P/B over the last ten years to September 2020



## Current and average forward P/E over the last ten years to September 2020



Source: Thomson Reuters Datastream. Values shown are calculated using the price-to-book ratios of the MSCI Emerging Market Index, MSCI EAFE Index, MSCI Japan Index, MSCI EAFE Small Cap Index, MSCI USA Large Cap Index, MSCI USA Small Cap Index and MSCI China Index. Valuations shown for the period September 30, 2010 to September 30, 2020.

Q&A

# What is Mercer recommending?



Don't give up  
on value



Review your  
total portfolio  
exposures



Reevaluate your  
value managers



More judgment  
may be needed

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Please see the following link for information on indexes:

<http://www.mercer.com/content/dam/mercer/attachments/private/nurture-cycle/gi-2020-investment-management-index-definitions-mercer.pdf>

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