

The Value of Perseverance (or the Perseverance of Value!)

By **Barry M. Gillman, CFA**

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EXECUTIVE SUMMARY

Between 12/31/2009 and 12/31/2019:

- More than 40% of Value or Blend funds among Morningstar's global equity database changed their investment style.
More than 30% of Growth funds switched, as well.
- Slightly more Value funds changed their investment style vs. Blend or Growth funds.
- Only five of 12 Value funds in the universe studied retained their investment style throughout the entire period.

The 10 years ending 2019 was a tough decade for value managers. Over the period we saw the growth style outpace value, tempting investors to tilt allocations toward growth. In addition, some managers followed the trend toward growth, re-orienting their portfolios away from value stocks. I believe value will bounce back and when it does, there will be a smaller cadre of managers who have persevered with a value approach through the tough years for the style.

In this article, I share results from analysis on Morningstar global equity data from 2009 to 2019 (see Appendix for details). The goal was to examine how managers responded to this environment: how many persevered and how many switched their approach?

This was a growth-investor decade in terms of asset growth (but we already knew that!)

- **FUNDS THAT MAINTAINED STYLE:** Growth funds gained assets faster than Blend or Value funds over the decade. There were 29 funds that stayed in the Growth style throughout the period and these gained 120% in assets, compared to a 24% gain for the others combined.
- **FUNDS THAT CHANGED STYLE:** Funds that changed style toward Growth (including Value moving to Blend) during the decade generally did well in asset gathering. Those that moved toward Value saw declines or only small increases in assets, with their aggregate asset growth lower than those funds that remained Value throughout.

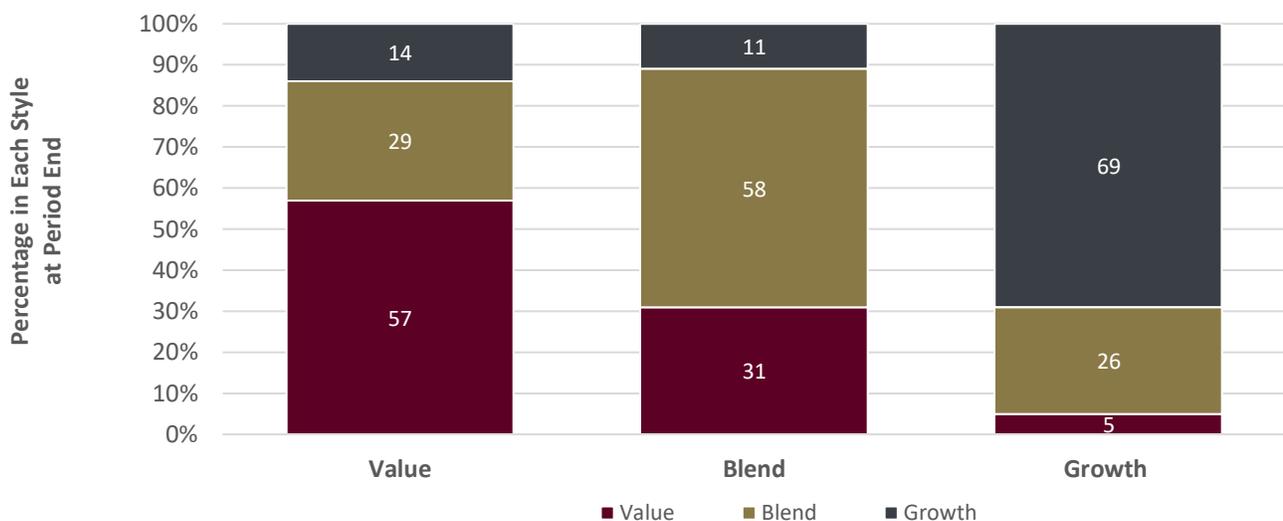
It was notable that a significant percentage of funds *did* change style during the decade, with over 40% of funds that started in Value or in Blend changing their style, as well as over 30% of those that started in Growth. More Blend funds switched their style to Value than to Growth, which may appear surprising.

I use Morningstar style definitions and data, based on its analysis of the holdings in each portfolio. Style definitions in this article are therefore closer to “what they do,” as opposed to “what they say” (i.e., the style that a manager claims may not be the same style that Morningstar sees in its analysis of the portfolio). This may be the reason (for example) why more Blend funds switched style to Value than to Growth.

The chart below shows what style changes occurred within the groups of funds that started the decade in each style. For example, 57% of the Value funds persevered as Value; 29% moved to Blend; and 14% went all the way to Growth. The right bar shows that a higher proportion of Growth funds (69%) stayed Growth. A small proportion (5%) moved to Value, while the rest went to Blend.

More Value Funds Changed Their Style During the Decade vs. Blend and Growth Funds

Source: Morningstar, 12/31/2009 to 12/31/2019



The funds that persevered in their style were on average 55% larger than those that switched. Perhaps with smaller funds, they have less to lose if a manager shifts style direction, while larger, better-known funds may be taking a bigger career or reputational risk with an unexpected or unexplained change. As a result, although 39% of the number of funds switched style, these represented only 27% of the assets at the start of the decade.

As a style “side note,” investors may need to be careful in assuming that a fund’s name accurately represents its style. For example, 12 funds in our global equity list in 2009 included the word “value” in their name (including some which were subsequently liquidated or merged). Using Morningstar’s style definition, only five of these started and remained value throughout. Six spent some time as Blend, and one was assigned to Growth during the decade!

IN CONCLUSION

- This analysis suggests that investors should remember that funds do change style.
- After a tough decade for Value, fewer than 60% of the global equity funds that started the decade as Value persevered with the style throughout the decade.
- I believe there is value in perseverance.

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Appendix: The Data

Using Morningstar data for US-registered, global, active, equity mutual funds over the period, 174 funds were identified that existed at the start of the period on 12/31/2009. 125 funds completed the decade to 12/31/2019, with the remainder having been liquidated or merged by that end date. By identifying the starting universe as of 12/31/2009, survivor bias was removed from the study. As of 12/31/2009 the assets of the funds that were eventually liquidated or merged amounted to only 4% of the total universe.

The Morningstar definition of style was used throughout (Value, Blend and Growth). This is based on Morningstar's analysis of each portfolio's holdings at each measurement date, assigning each stock into a style category and aggregating to calculate a portfolio-level style rating. This may differ from the portfolio manager's declared style. This study is thus focused on "what they do," not "what they say" in terms of style. Of the 125 funds that completed the decade, Morningstar had a record of style throughout the period for 99 funds and this was our primary focus.

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