

# Is Passive Large Cap Value Damaging Performance Relative to Peers?

March 2024

## Executive Summary

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- Passive performance in the US large cap value category has fallen in the bottom quartile of its eVestment universe for the past ten years as of December 31, 2023\*
- We believe institutional portfolios choosing the passive option in US large cap value place themselves at risk of underperforming their peers. Anecdotally, we see institutions moving US large cap value allocations to active managers, but actual flows data vary month to month
- Our Concentrated 30 Large Cap Value strategy has outperformed the Russell 1000 Value for the past ten years as of December 31, 2023, and is available at attractive fees\*\*

*\*eVestment provides institutional investment data, analytics and market intelligence covering public and private markets. Cornerstone has an agreement with eVestment to provide Cornerstone's data on eVestment's Global Database. Cornerstone does not pay a fee to be included in eVestment's ranking.*

**\*\*Cornerstone's Concentrated 30 Institutional Composite has outperformed the Russell 1000 Value since December 31, 2013 to December 31, 2023, annualized and net of fees. For comparison purposes the composite is measured against the Russell 1000 Value Index. Net of fee performance was calculated using actual management fees. Cornerstone Investment Partners has been independently verified and the Concentrated 30 Institutional Composite has been examined.**

## Are Public Equity Benchmarks the Right Benchmarks for Institutional Allocators?

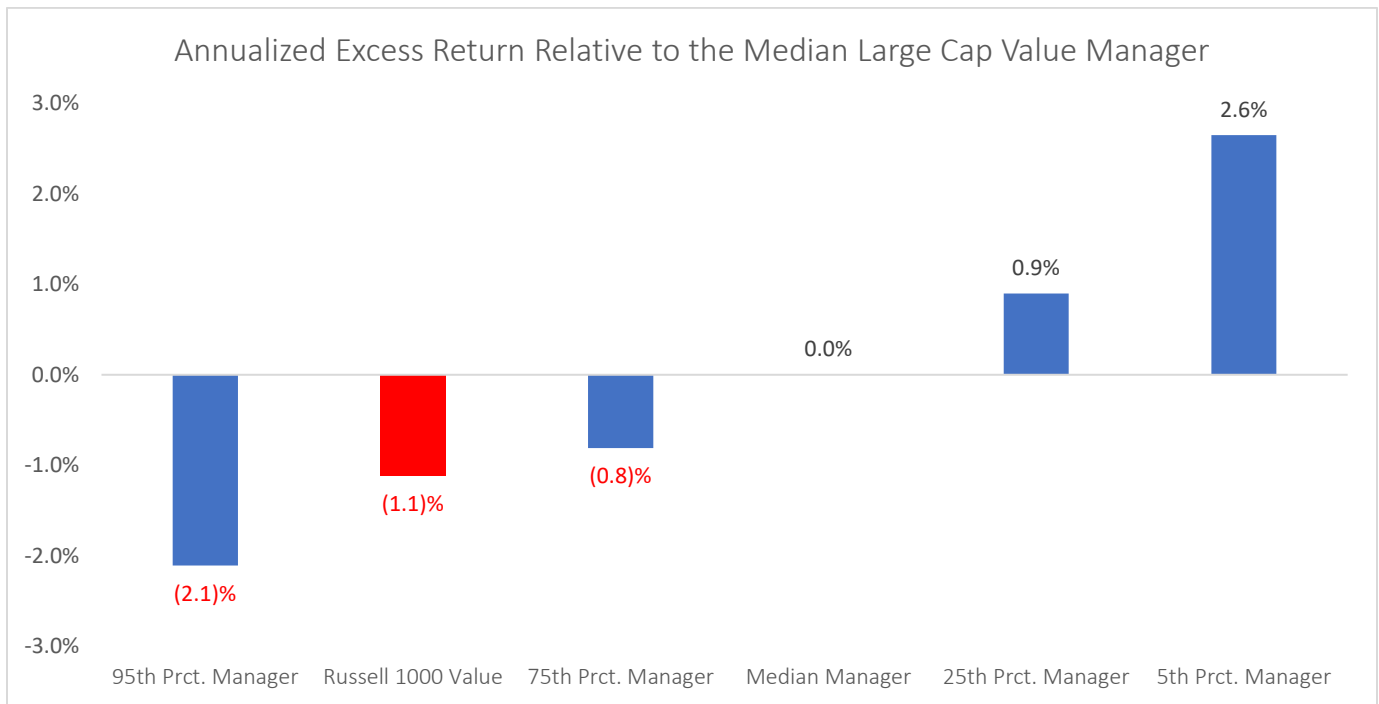
Many institutions evaluate the performance of their investment portfolios against their peer institutions, yet many institutions choose to allocate to passive indexes that have delivered performance well below that of the median active manager over the past ten years (as of December 31, 2023.) In few categories has this trend been more visible than in the US large cap value universe. **We believe allocators choosing the passive option in US large cap value place themselves at material risk of underperforming their peers.**

### Passive Performance in Large Cap Value Has Been Poor

The long-term performance of the Russell 1000 Value Index in the eVestment large cap value universe has been poor, to say the least. Over the trailing 10-year period ending December 31, 2023, **the most popular passive large cap value index falls in the bottom quartile of the universe, gross of fees, based on eVestment’s ranking.**

The annualized total return of the Russell 1000 Value Index trails the **median** active large cap value manager by over 100 basis points over the past ten years. A skilled active manager delivering a top quartile return has increased the annualized gap over the passive index by **at least** an additional 90 basis points during this period. We do not believe most allocators realize they may be giving up 200-300 basis points per year when they allocate to large cap value passively.

*10-Year Gross Excess Returns, relative to the median manager, for the eVestment U.S. Large Cap Value Universe and Russell 1000 Value Index (as of 12/31/2023)*

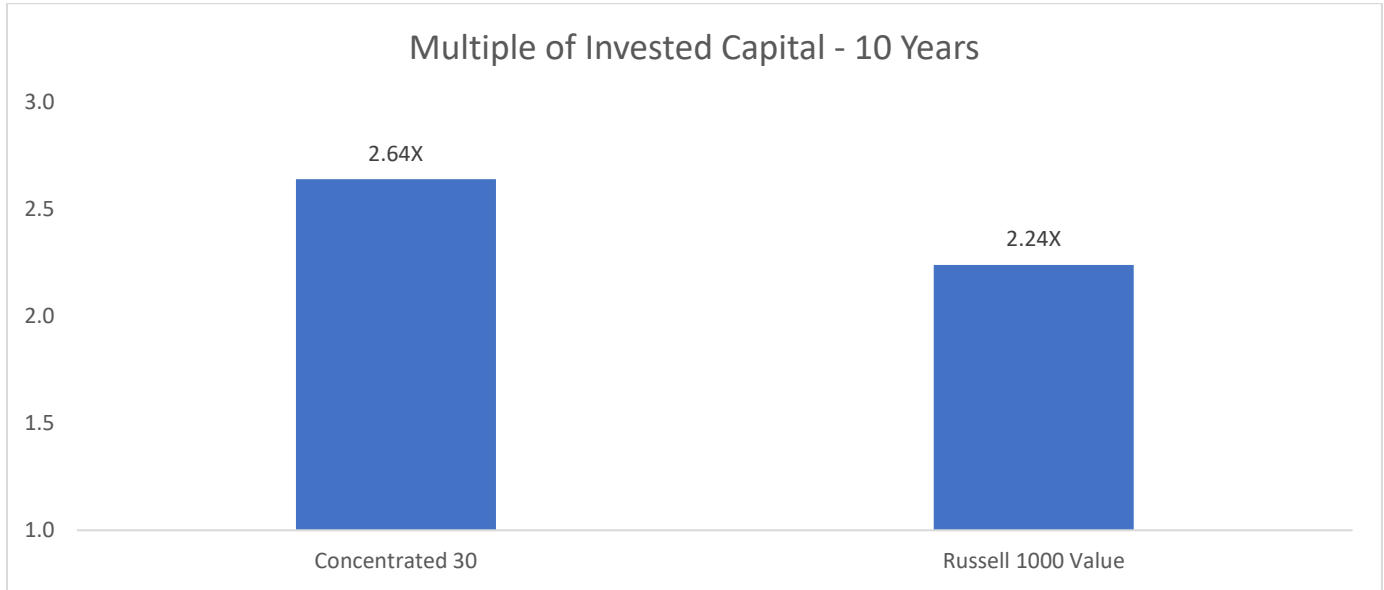


**Source: eVestment US Large Cap Value Universe & R1000 Value Index – 10 Yr. Gross Return as of 12/31/23**

The median fee (assuming a \$50 million account) in the eVestment US large cap value universe is 54 basis points. But while reducing cost can be important, it does not even come close to bridging the gap in passive’s underperformance. Applying this fee to the active universe, the Russell 1000 Value (which does carry at least a nominal management fee, in most cases) would deliver a return only modestly better than that of the bottom quartile active manager. Additionally, we believe that active fees actually paid by many investors are below the standard fee schedules reported to eVestment. **Active managers have more than earned their fees in the US large cap value category over the past decade.**

### Cornerstone Has Delivered Highly Competitive Performance

Our Concentrated 30 Large Cap Value strategy (C30) has outperformed the Russell 1000 Value Index by a meaningful amount over the past decade. On a net of fee basis, our strategy has outperformed the gross return of the Russell 1000 Value Index by 180 basis points, annualized. The chart below suggests the outperformance of C30 has resulted in a substantially higher multiple of invested capital relative to the Russell 1000 Value Index. We also note that we are handicapping our strategy with the fee, while not handicapping the index.



Source: Cornerstone Investment Partners as of 12/31/23

C30 is open to new and existing investors for fees that are competitive among active managers. We believe the performance of C30 more than justifies the net fee above the Russell 1000 Value Index.

**To conclude, we ask those investors using passive vehicles in the large cap value category, is your passive allocation damaging your performance relative to your peer group? Is saving 20-30 basis points in fees worth passing up the opportunity for 200-300 basis points of relative outperformance?**

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## investment results

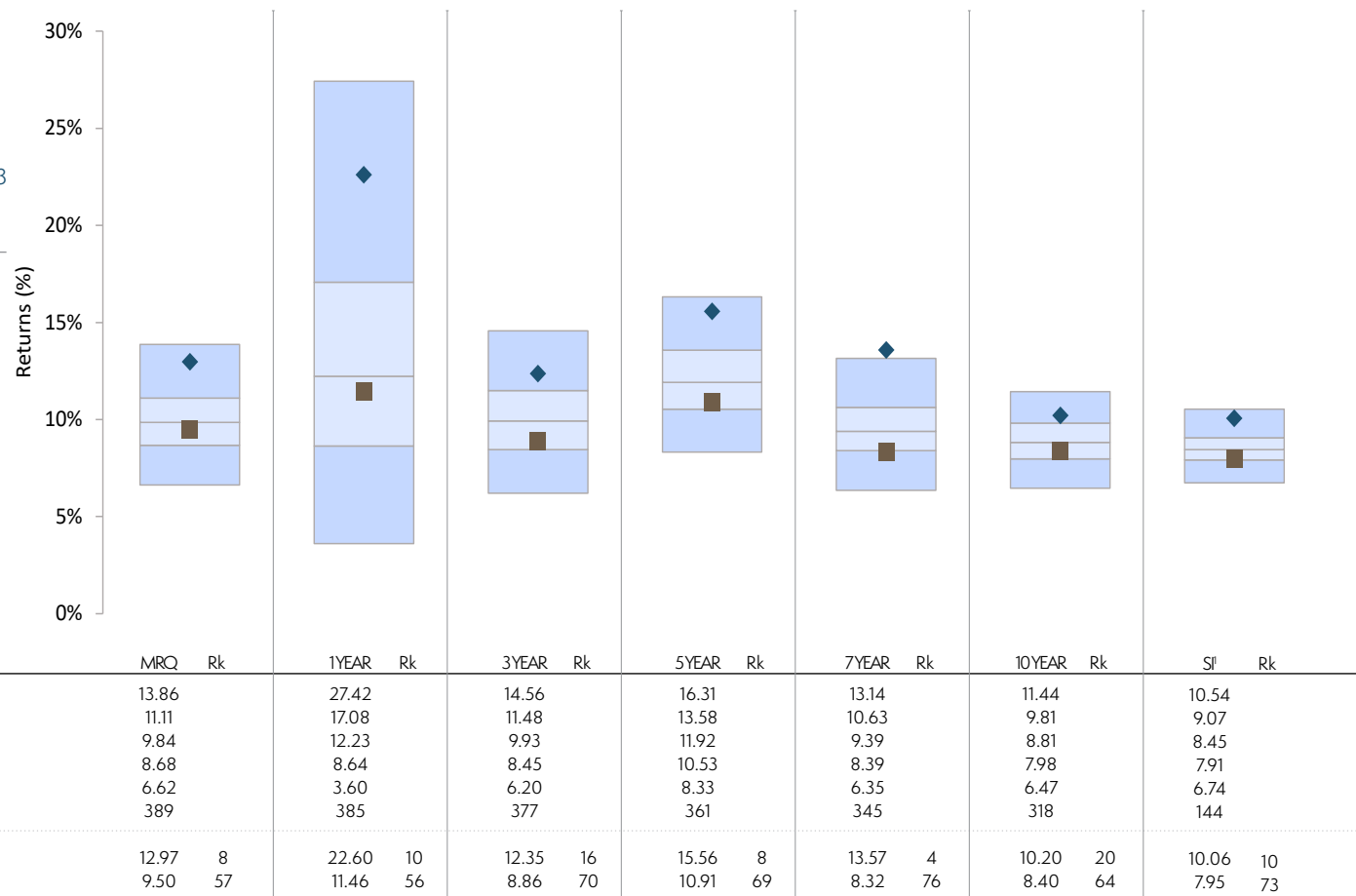
Concentrated 30

December 31, 2023

### Performance Measurement: C30 vs Russell 1000 Value

Since Inception 22.25 Years, 9/2001-12/2023

Universe:  
eVestment US Large Cap Value Equity



RESULTS DISPLAYED IN US DOLLAR (USD)

'9/2001-12/2023

The graph is included as supplemental information and complements a full performance disclosure presentation, which can be located on the Concentrated 30 Annual Disclosure Presentation. eVestment provides institutional investment data, analytics and market intelligence covering public and private markets. Cornerstone has an agreement with eVestment to provide Cornerstone's data on eVestment's Global Database. Cornerstone does not pay a fee to be included in eVestment's ranking. Past performance is not indicative of future results.

Source: Cornerstone Investment Partners, eVestment

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## investment results

## Concentrated 30 Institutional Composite

	CORNERSTONE GROSS RETURNS	CORNERSTONE NET RETURNS	RUSSELL 1000 VALUE	GROSS COMPOSITE 3 YR ST DEV	R1000V 3 YR ST DEV	COMPOSITE ASSETS \$ MILLIONS	ACCOUNTS AT PERIOD END	PERCENT OF FIRM ASSETS	FIRM ASSETS \$ MILLIONS	GROSS COMPOSITE DISPERSION
2023	22.90%	22.60%	11.46%	16%	17%	1,222.8	21	64.5%	1,896.2	0.2
2022	-10.50%	-10.73%	-7.54%	22%	21%	1,121.7	21	65.8%	1,703.9	0.1
2021	29.99%	29.56%	25.16%	20%	19%	1,265.1	21	65.5%	1,932.1	0.1
2020	11.93%	11.52%	2.80%	20%	20%	1,042.8	22	56.9%	1,831.3	0.5
2019	30.73%	30.31%	26.54%	12%	12%	1,519.0	28	66.0%	2,300.8	0.2
2018	-6.08%	-6.41%	-8.27%	12%	11%	1,631.3	32	75.2%	2,169.9	0.3
2017	26.80%	26.36%	13.66%	12%	10%	1,910.0	40	77.6%	2,458.6	0.1
2016	16.82%	16.43%	17.34%	13%	11%	2,154.2	42	82.5%	2,609.7	0.4
2015	-13.54%	-13.87%	-3.83%	12%	11%	2,741.3	60	78.8%	3,480.2	0.3
2014	8.41%	8.07%	13.45%	10%	9%	7,857.3	101	85.8%	9,154.3	0.2
2013	35.18%	34.74%	32.53%	12%	13%	6,664.9	91	81.2%	8,210.6	0.5
2012	15.32%	14.97%	17.51%	15%	16%	3,996.3	78	69.8%	5,725.4	0.2
2011	3.89%	3.50%	0.39%	19%	21%	1,969.3	65	56.8%	3,466.7	0.2
2010	13.08%	12.61%	15.51%	21%	23%	989.1	62	41.3%	2,394.8	0.4
2009	24.90%	24.36%	19.69%	20%	21%	485.1	52	33.7%	1,437.6	0.8
2008	-28.08%	-28.45%	-36.84%	14%	15%	105.0	25	17.1%	613.0	0.4
2007	12.53%	11.99%	-0.17%	8%	8%	71.7	14	12.6%	569.1	0.2
2006	17.71%	17.24%	22.25%	7%	7%	206.8	39	54.1%	382.5	1.0
2005	8.65%	8.24%	7.05%	10%	9%	111.8	22	45.3%	246.9	0.5
2004	12.99%	12.31%	16.49%	18%	15%	45.6	15	36.9%	123.6	0.5
2003	31.62%	30.98%	30.03%	N.R.	N.R.	5.8	5 or fewer	11.4%	50.7	N.A.*
2002	-16.80%	-17.33%	-15.52%	N.R.	N.R.	2.4	5 or fewer	10.6%	22.1	N.A.*
2001*	14.97%	14.97%	7.37%	N.R.	N.R.	2.0	5 or fewer	13.0%	15.4	N.A.*

\* Composite inception date is 9/30/2001  
N.R. - Not Required

Concentrated 30 Institutional Composite contains fully discretionary institutional accounts that are typically comprised of 27-35 securities that may or may not pay dividends and are suitable for those clients with an emphasis on long-term capital appreciation and have an above-average risk tolerance. For comparison purposes, the composite is measured against the Russell 1000 Value Index. Cornerstone Investment Partners' has constructed a universe of 800 large, liquid securities, including non-US companies, traded on US exchanges. Cornerstone Investment Partners, LLC is an independent, employee-owned investment advisory firm. The firm maintains a complete list and description of composites, which is available upon request. Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Past performance is not indicative of future results. The U.S. Dollar is the currency used to express performance. Returns are presented gross and net of management fees and include the reinvestment of all income. Gross returns were reduced by transaction costs. Net of fee performance was calculated using actual management fees. For non-fee-paying accounts, a model fee based on the standard investment advisory schedule was applied. Beginning October 1, 2008, composite policy requires the temporary removal of any portfolio incurring a client-initiated significant cash inflow or outflow of 30% of portfolio assets. The Concentrated 30 Composite was created on April 1, 2010. N.A.\* The annual composite dispersion is an asset-weighted standard deviation calculated for the accounts in the composite for the entire year. This is not shown when there are 5 or fewer accounts in the composite for the entire year as it is not statistically meaningful. Cornerstone Investment Partners claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Cornerstone Investment Partners

has been independently verified for the periods September 30, 2001 thru December 31, 2022. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the 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 standards and have been implemented on a firm-wide basis. The Concentrated 30 composite has had a performance examination for the periods September 30, 2001 thru December 31, 2022. The verification and performance examination reports are available upon request. Benchmark returns are not covered by the report of independent verifiers. As of January 1, 2007, the composite was split into a tax-sensitive composite and a non-tax-sensitive composite to better reflect our performance for each account type. Policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request. Submit requests to Cornerstone Investment Partners: 3438 Peachtree Rd, Suite 900. Atlanta, GA 30326; Phone: 404-751-3850; Email: marketing@cornerstone-ip.com. The general fee schedule for equity accounts is as follows: 0.55% on the first \$20,000,000; 0.45% on the next \$20,000,000 and 0.35% on the balance. Actual investment advisory fees incurred by clients may vary. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein. Due to the marketing rule that went into effect on 11/4/22, the net returns were updated to comply with this regulation. Additional information is available upon request.

Source: Cornerstone Investment Partners