



Momentum Global Investment Management Think-Tank

Value Investing: Alive and Kicking?

Ian Lance: Portfolio Manager RWC UK Value & Income Team

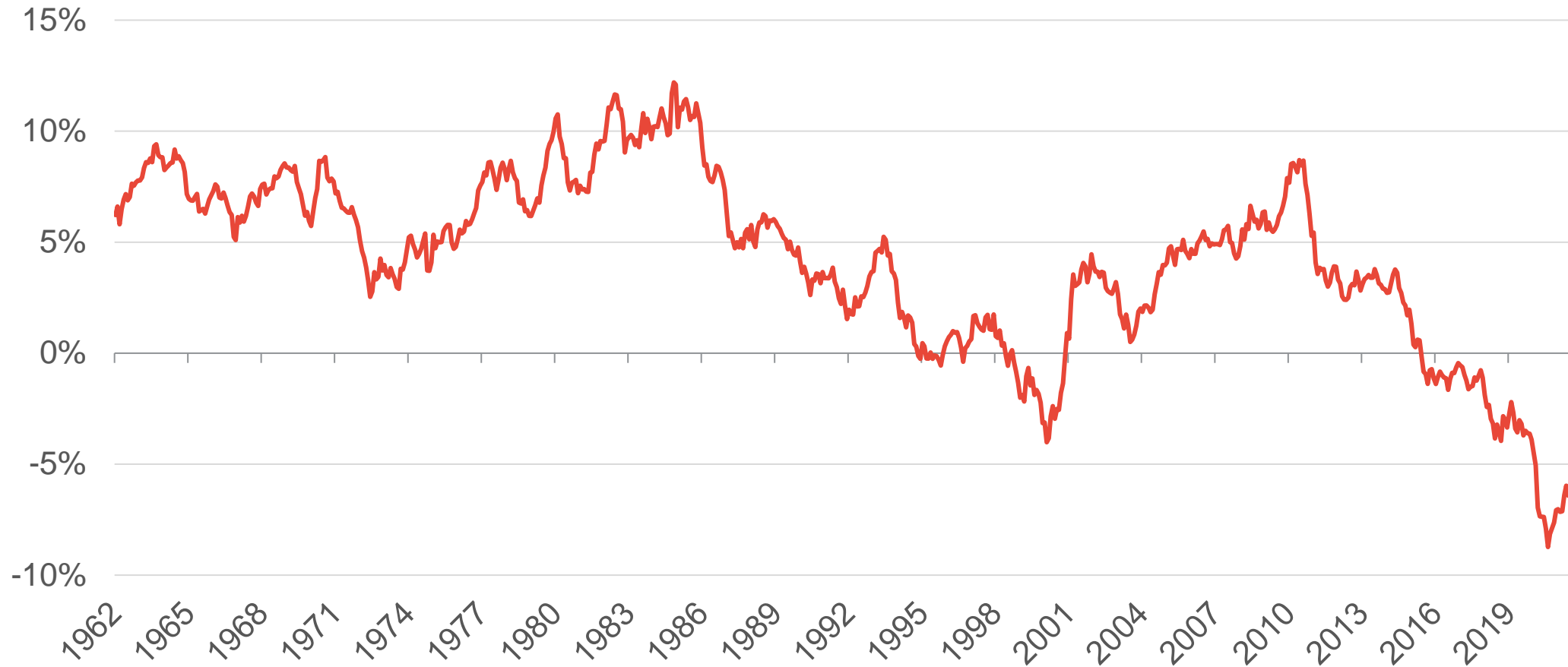
14 SEPTEMBER 2021

Summary

- Value investing works in the long run – recent under-performance is the exception not the rule
- UK Equities are still trading at the greatest discount to World Equities for fifty years
- UK value stocks are still at the greatest ever discount to growth stocks
- Economic recovery in 2021 and 2022 will favour cyclicals and financials
- Value stocks offer a cheap hedge against the possibility of an increase in inflation

Value Works In The Long-Run

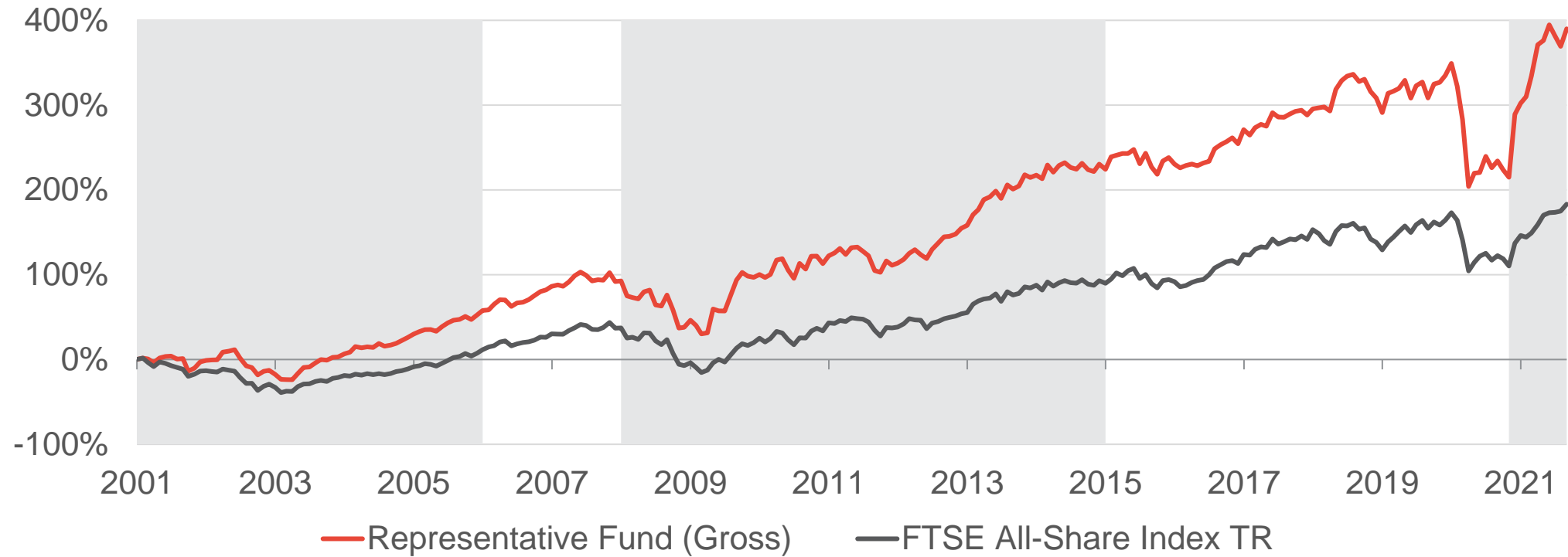
**Rolling 10-Year Excess Total Returns:
Portfolio Based on Cashflow / Price, Top 30% Less Bottom 30%**



Kenneth R. French, 30 June 2021

Past performance is not a guide to the future. The price of investments and the income from them may fall as well as rise and investors may not get back the full amount invested

And It Works In Practice as well as in Theory



	31-Dec-00 to 31-Dec-05	31-Dec-07 to 31-Dec-14	30-Oct-20 to 12-Aug-21
Representative Fund (Gross)	57.7%	68.3%	55.6%
FTSE All-Share Index	11.6%	38.4%	34.6%

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Source: RWC / Bloomberg. Data is shown for the period 29 December 2000 to 12 August 2021 gross of fees and net of fees where indicated. Equity index used is FTSE All Share (TR)

Note that Nick Purves has been responsible for the SJP Equity Income Fund since its inception on 29 December 2000 during that time he has been employed by both Schroders and RWC. The account moved across to RWC on 17 October 2010.

A New Investment Regime?

Biggest Gainers Since November 2020

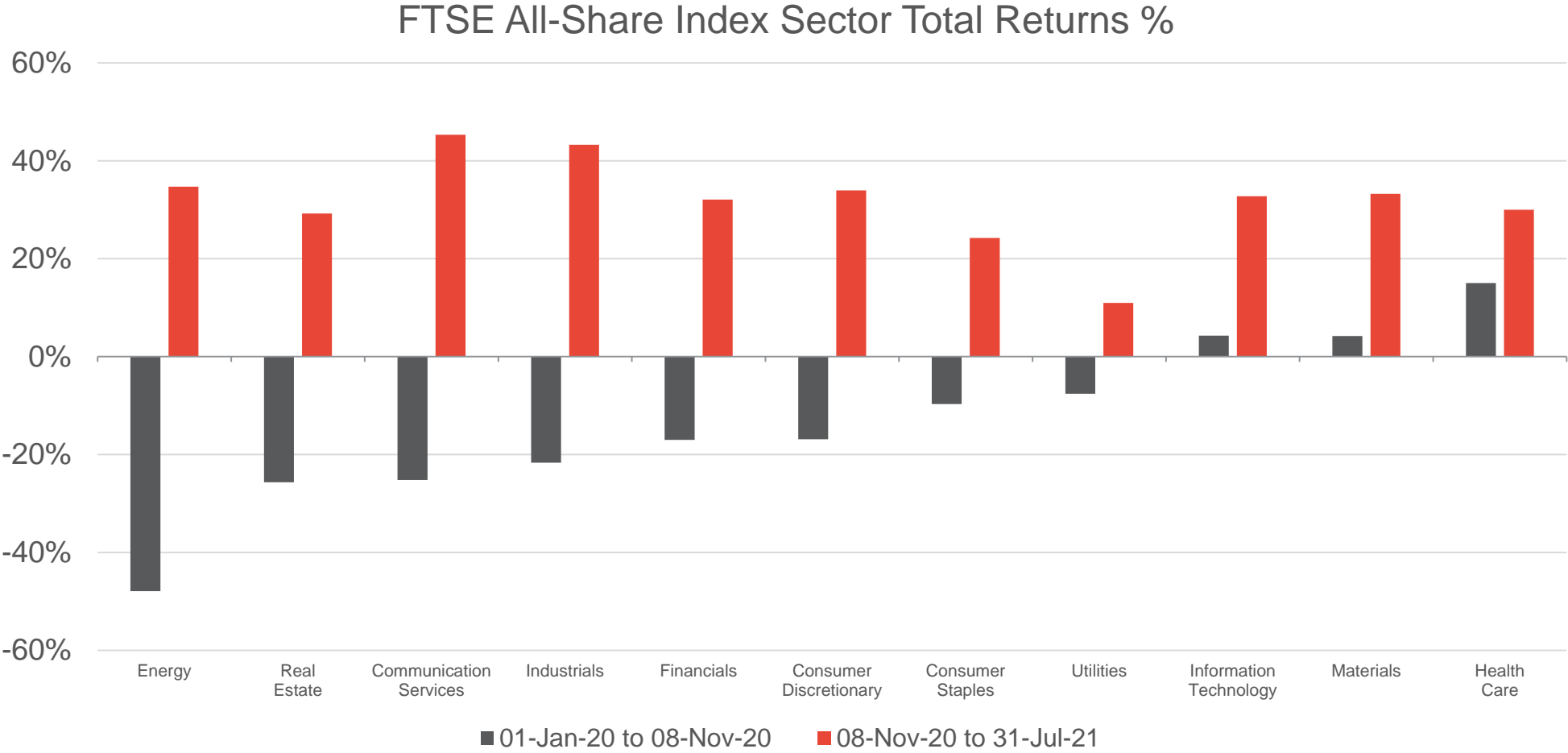
Security	% Change
Royal Mail	+122.1%
Anglo American	+77.0%
BT Group	+71.2%
Pearson	+70.5%
Wm Morrison Supermarkets	+64.3%
Barclays	+63.8%
NatWest Group	+63.0%
HP Inc	+60.7%
ITV	+55.5%
Royal Dutch Shell	+52.8%

Bloomberg 30 October 2020 to 31 July 2021

The names shown above are for illustrative purposes only and is not intended to be, and should not be interpreted as, recommendations or advice.

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Sharp Rotation Following Vaccine Announcement



Bloomberg 01 January 2020 to 31 July 2021

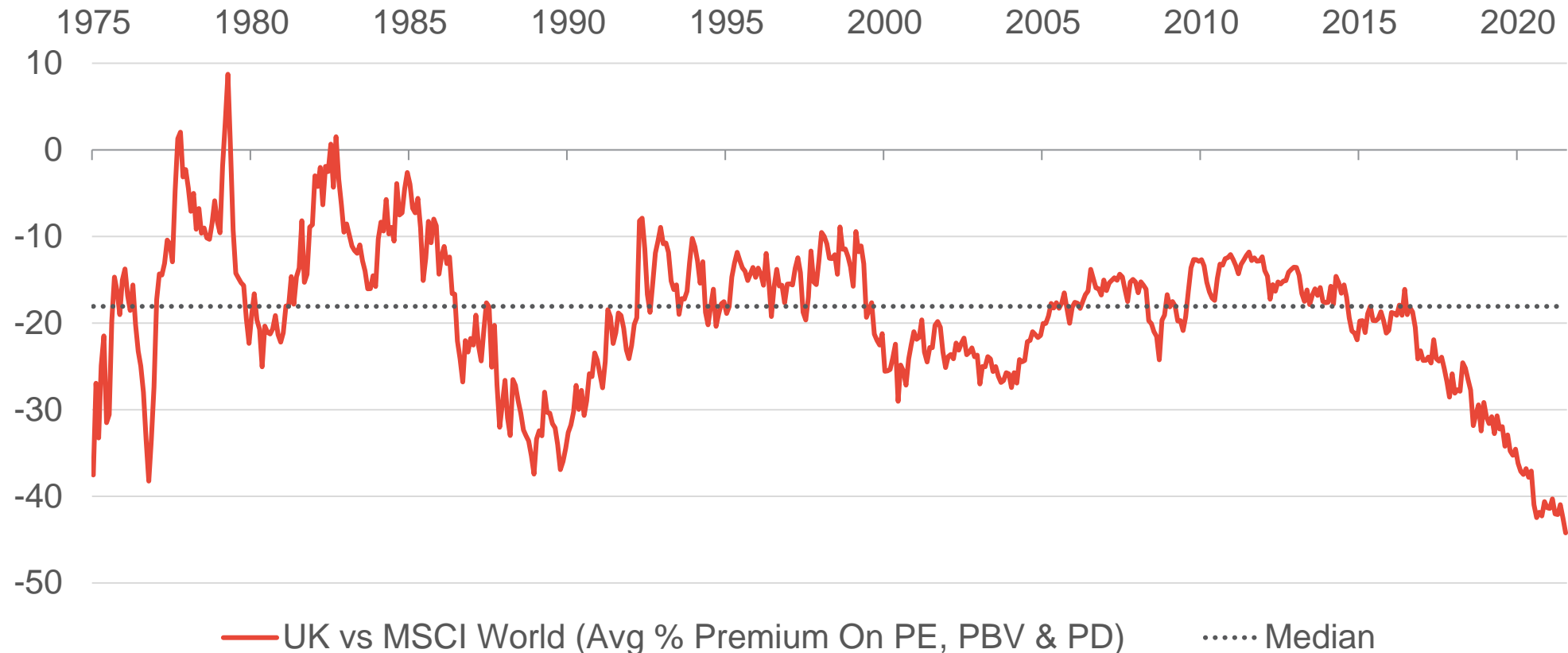
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We Believe The Value Rotation is Sustainable

1. Extreme dispersion in valuations (UK, Value vs. Growth)
2. Repositioning from growth to value has barely started
3. Reflation/Inflation will favour value

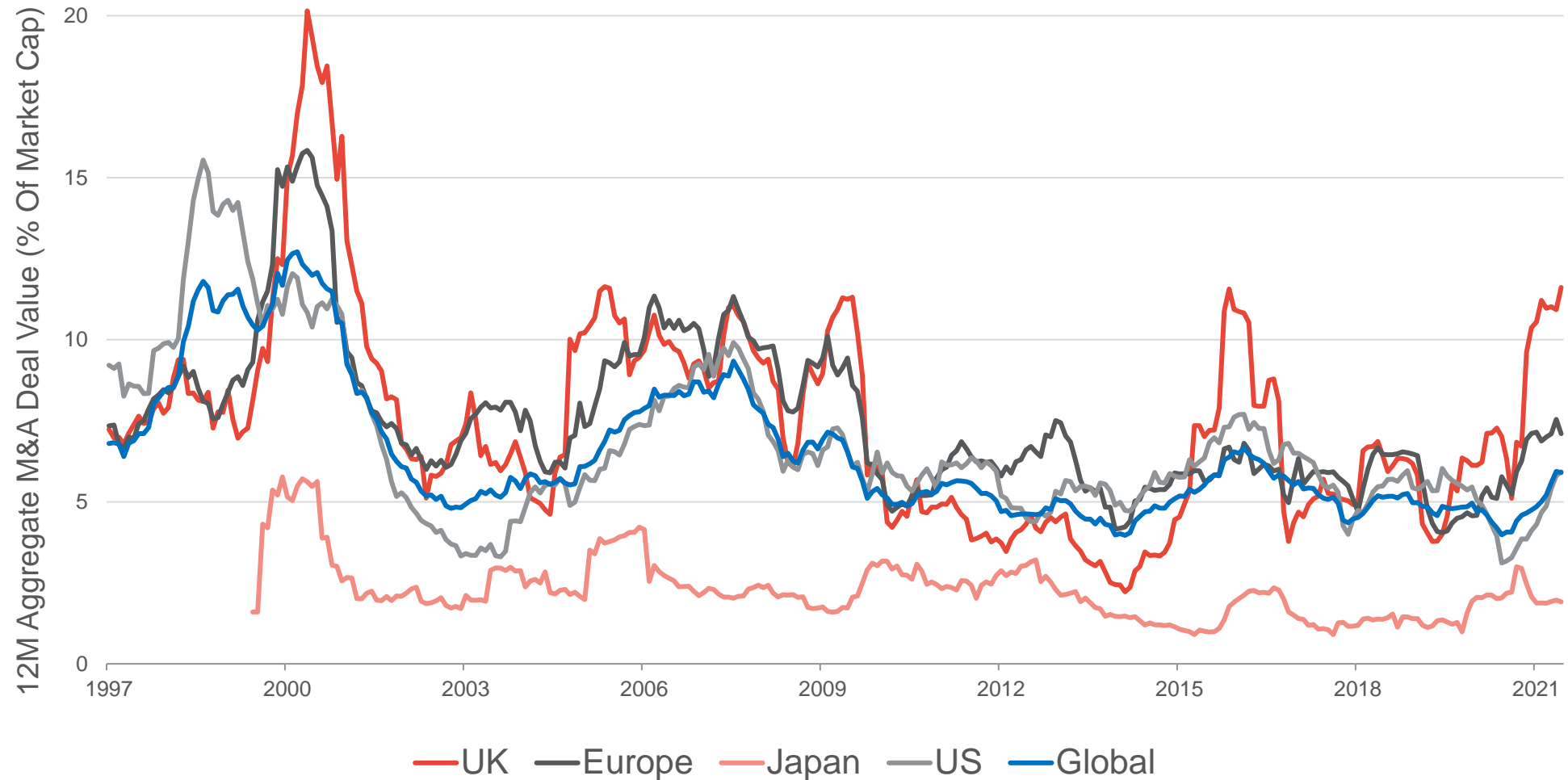
We believe the UK Market is Cheap (1)

The UK Market Is At The Biggest Discount To World Equities For 50 Years



We believe the UK Market is Cheap (2)

UK Deal Activity Has Picked Up More Than in Other Markets

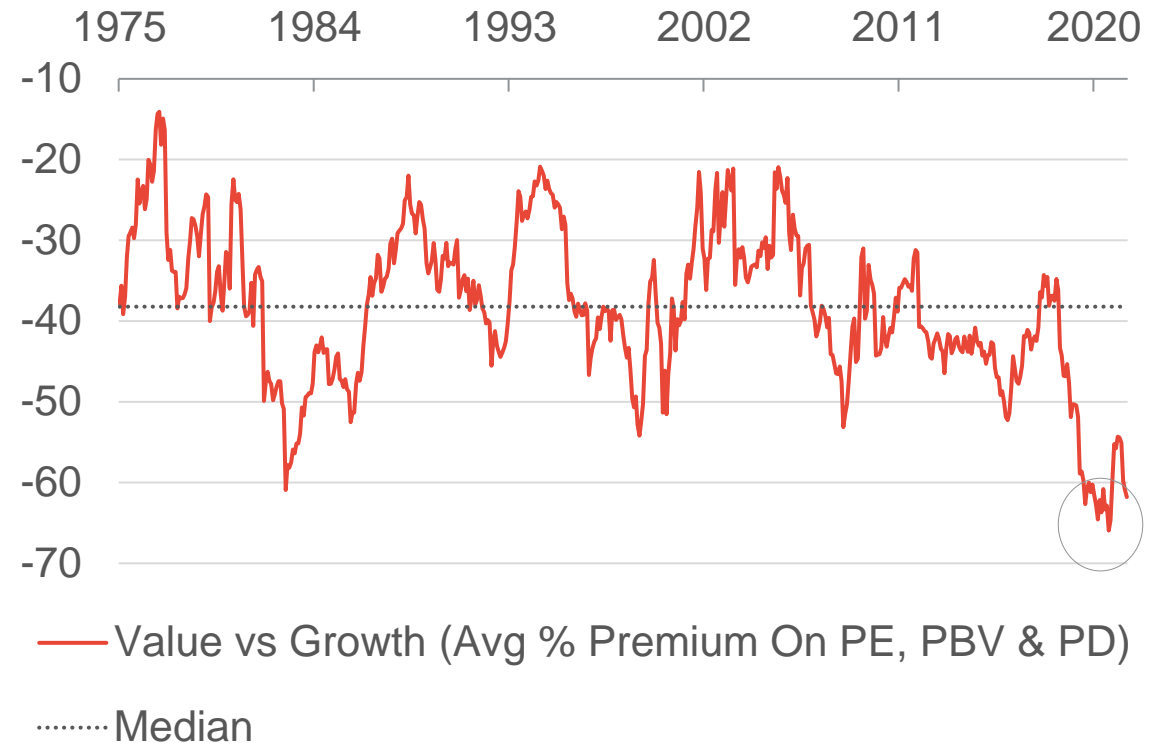


Within the UK, Value Looks Very Cheap

UK Value vs Growth Price Performance



Value Stocks Stand At A Record Discount To Growth Stocks



Morgan Stanley, 31 July 2021

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Historically Performance Following Wide Dispersion in Valuations has been Significant and Enduring

Pro-Value Cycles	Value	Market	Relative Performance	Number of Months
Jul 73 - Mar 78	134.8%	7.6%	127.2%	57
Dec 80 - Aug 88	414.7%	150.3%	264.4%	93
Nov 90 - Aug 95	248.4%	117.1%	131.3%	58
Mar 00 - Feb 07	190.6%	13.7%	176.9%	84
Dec 08 - Jun 14	250.3%	142.8%	107.5%	67
Feb 16 - Jan 17	40.2%	19.6%	20.6%	12
Average	213.2%	75.2%	138.0%	62

Cycle To Date

Oct 20 - Mar 21	60.3%	21.0%	39.4%	6
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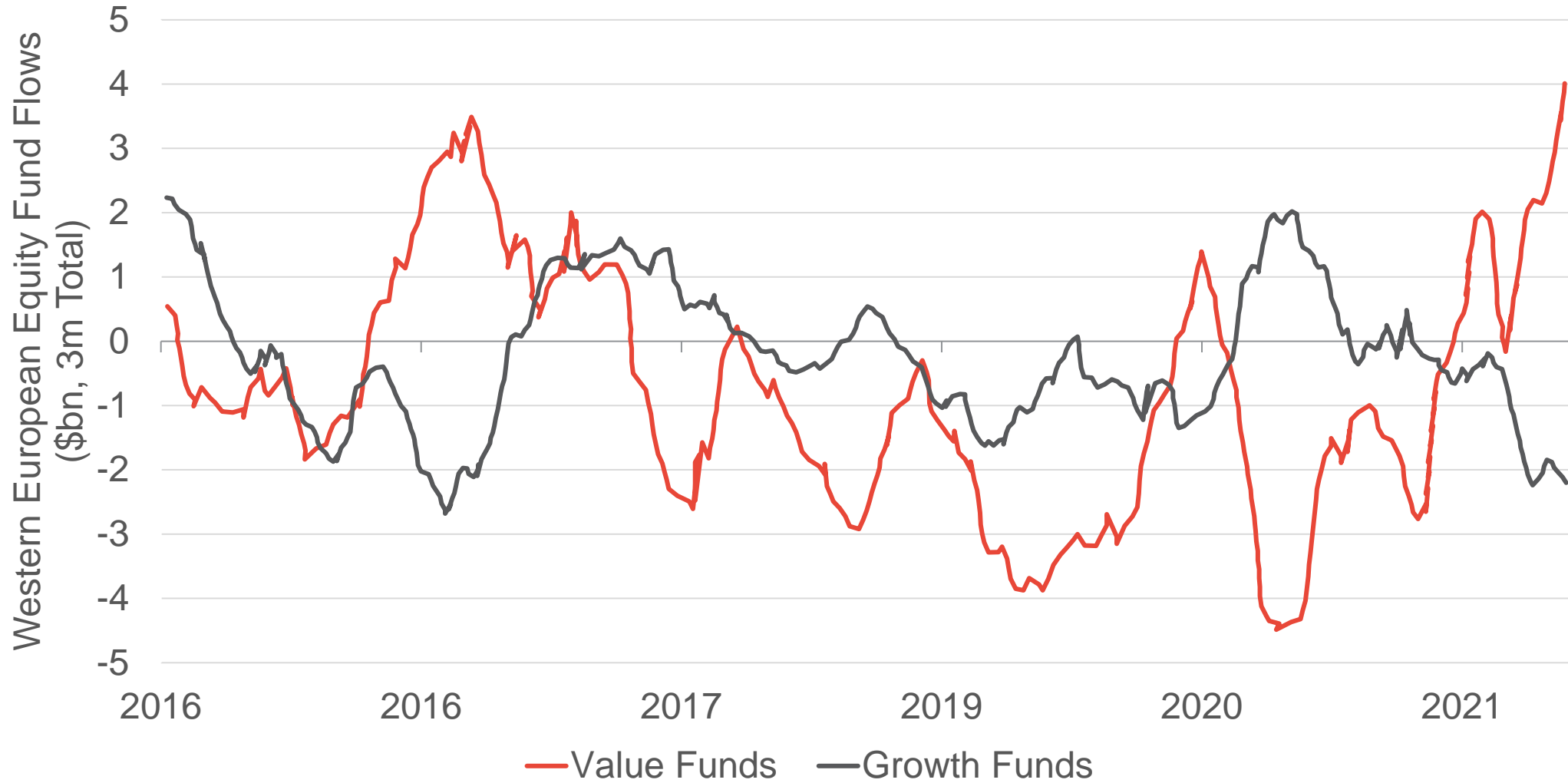
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Source: Sanford C. Bernstein & Co., Pzena analysis

1. Cheapest quintile price to book of the ~1,000 largest US stock universe (equal-weighted data). 2. Cap-weighted universe data.

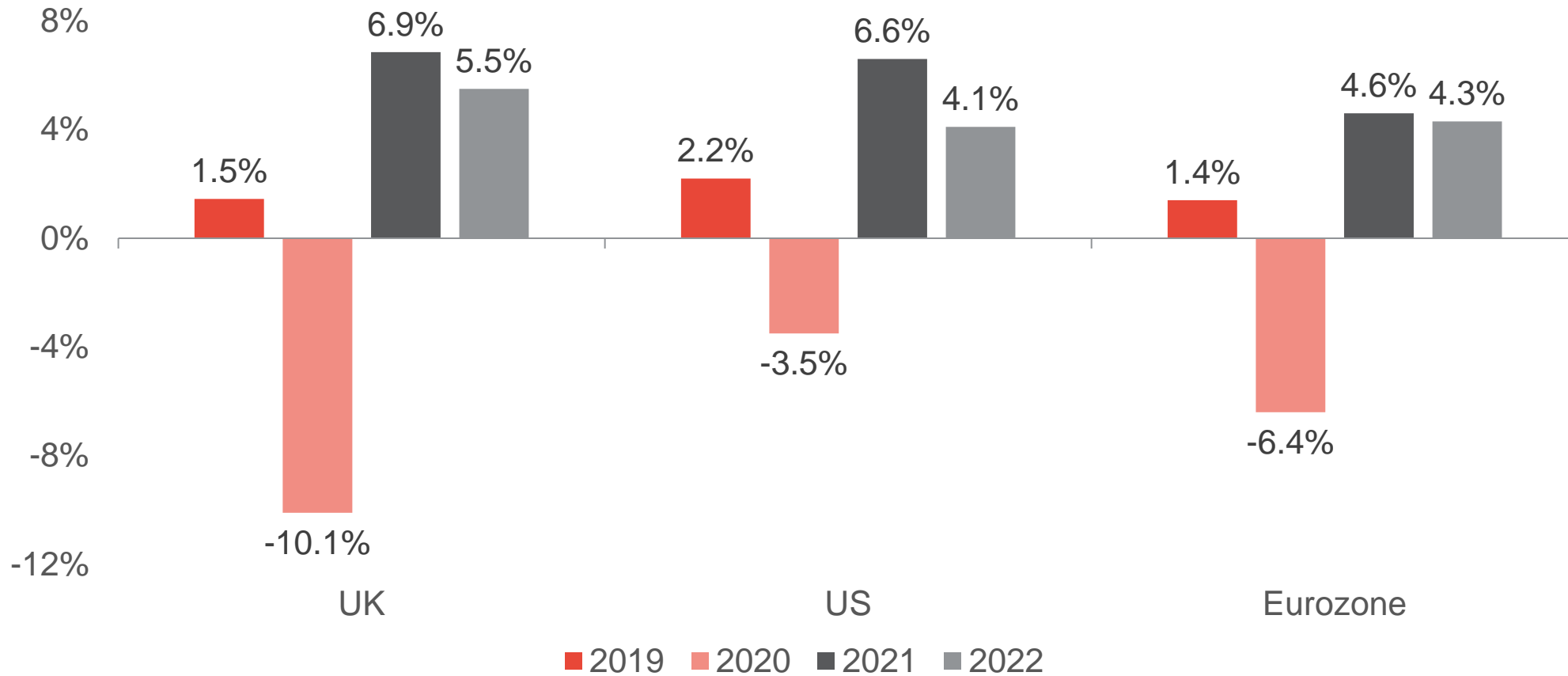
A cycle is defined as when the relative performance of value vs. the market from the last peak or trough is at least +/-1500 basis points and has persisted for a minimum of 12 months.

Whilst value funds are now seeing inflows, the rotation has only just begun



2021 Likely To See A Global Economic Recovery (1)

Real GDP (YoY%) is Forecast to Recover Quickly

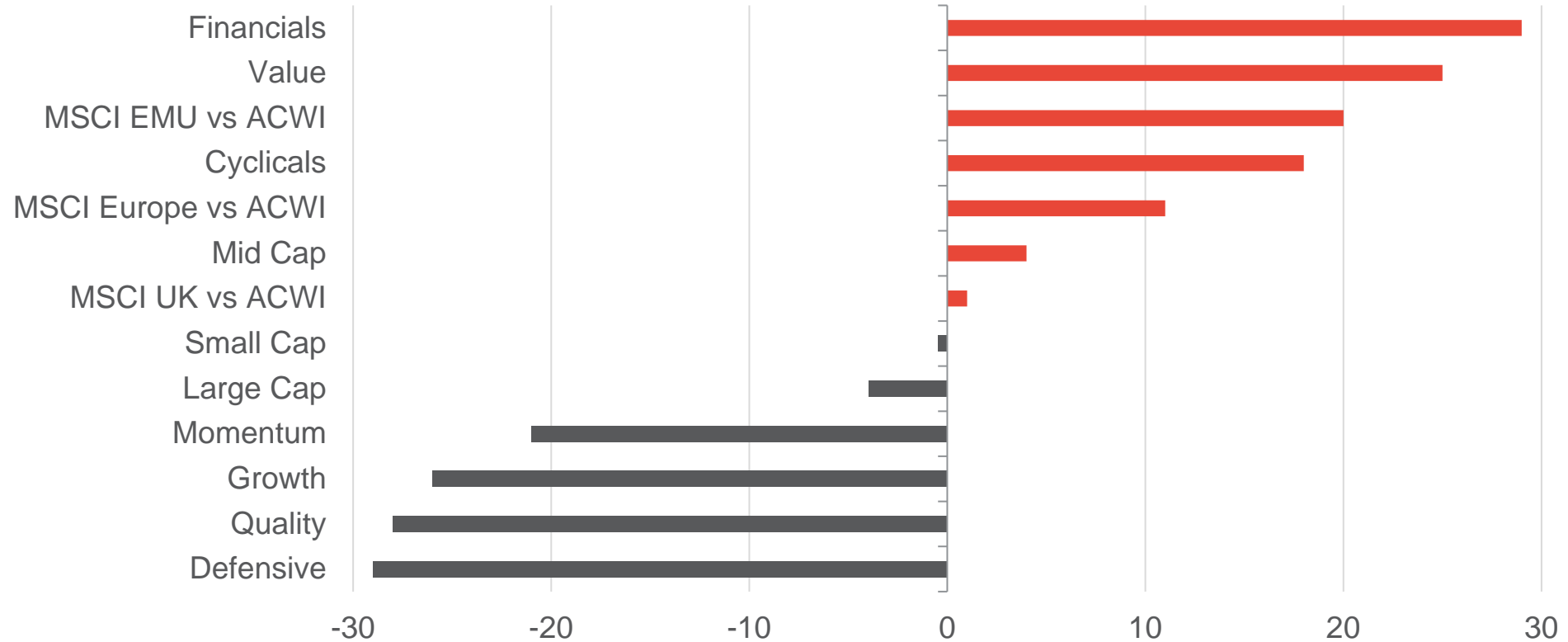


Bloomberg, 31 July 2021

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2021 Likely To See A Global Economic Recovery (2)

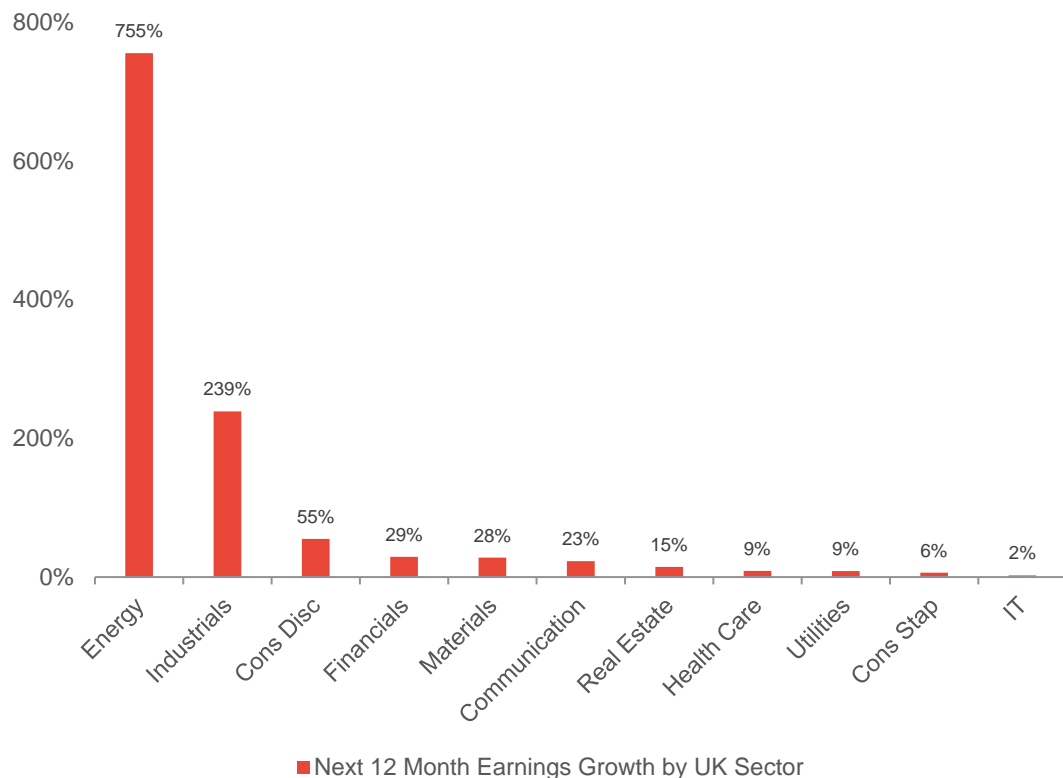
Sector and Style Consequences of a Sustained Period of Reflation



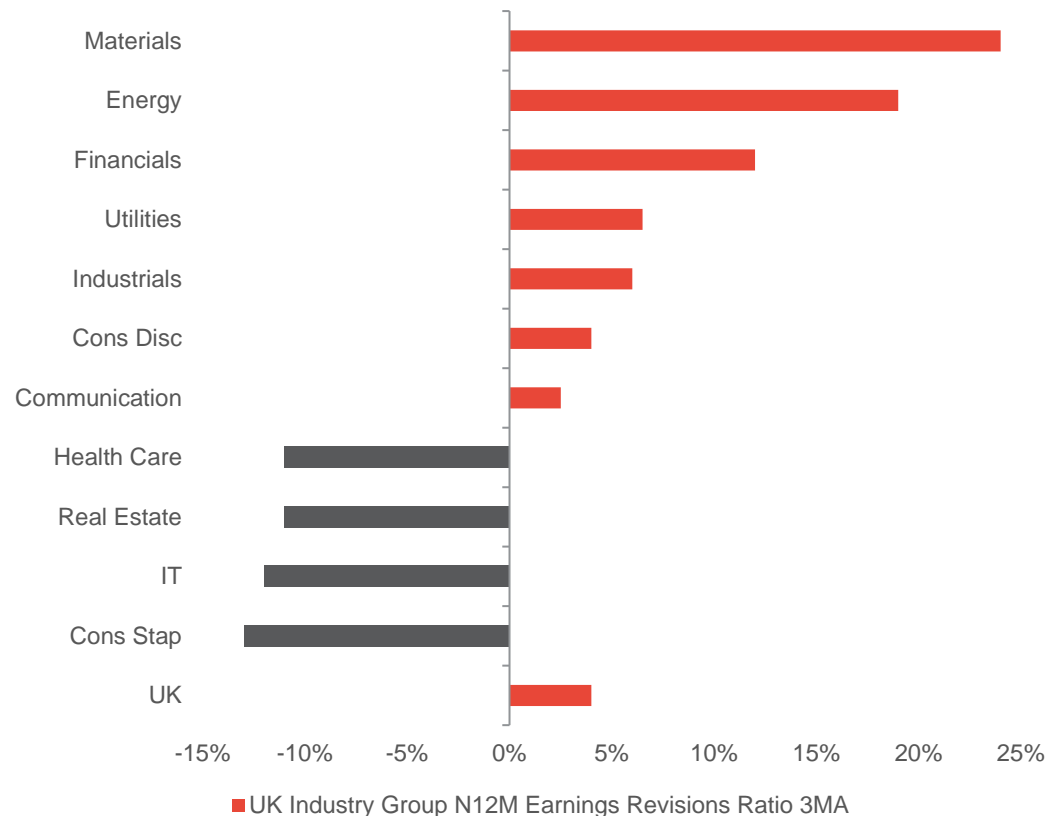
■ Average 5yr Correlation of Relative Performance with US & EU 10yr Yields, 10s2s YC, 5Y5Y Inflation Expectations, CPI Inflation, PMIs (%)

Earnings Revisions

Value Sectors are Expected to have the Greatest Earnings Growth in the Next Two Years



And are Also Getting the Greatest Earnings Upgrades

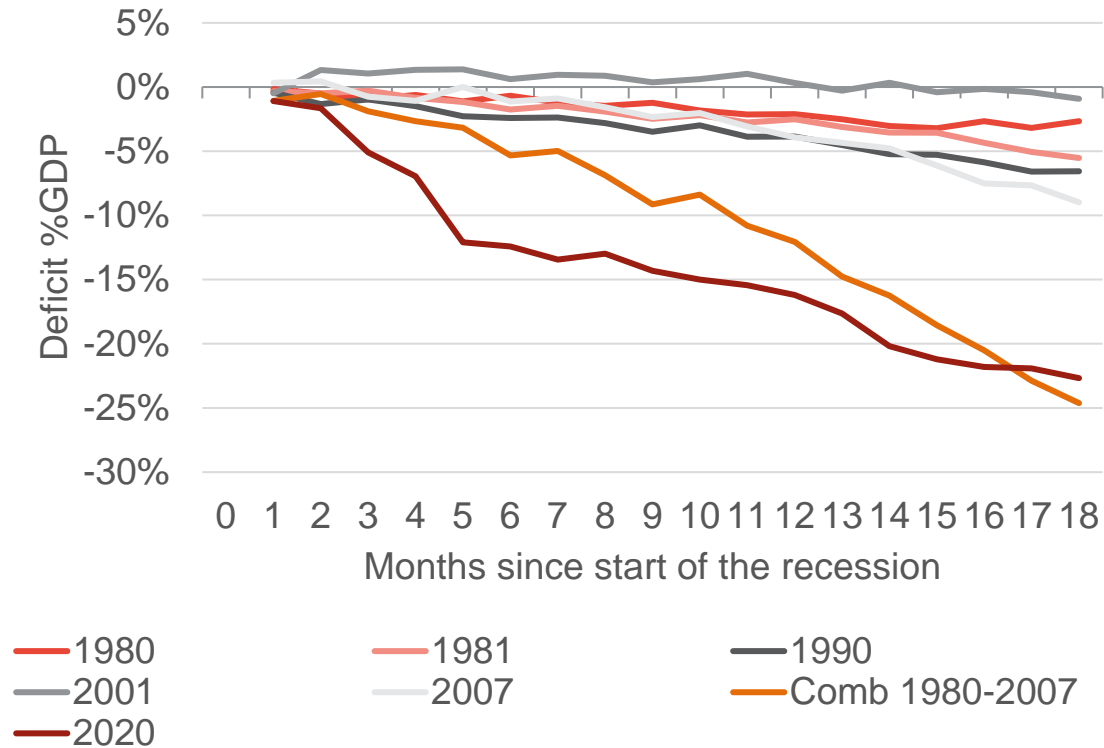


Source: Morgan Stanley, 31 March 2021

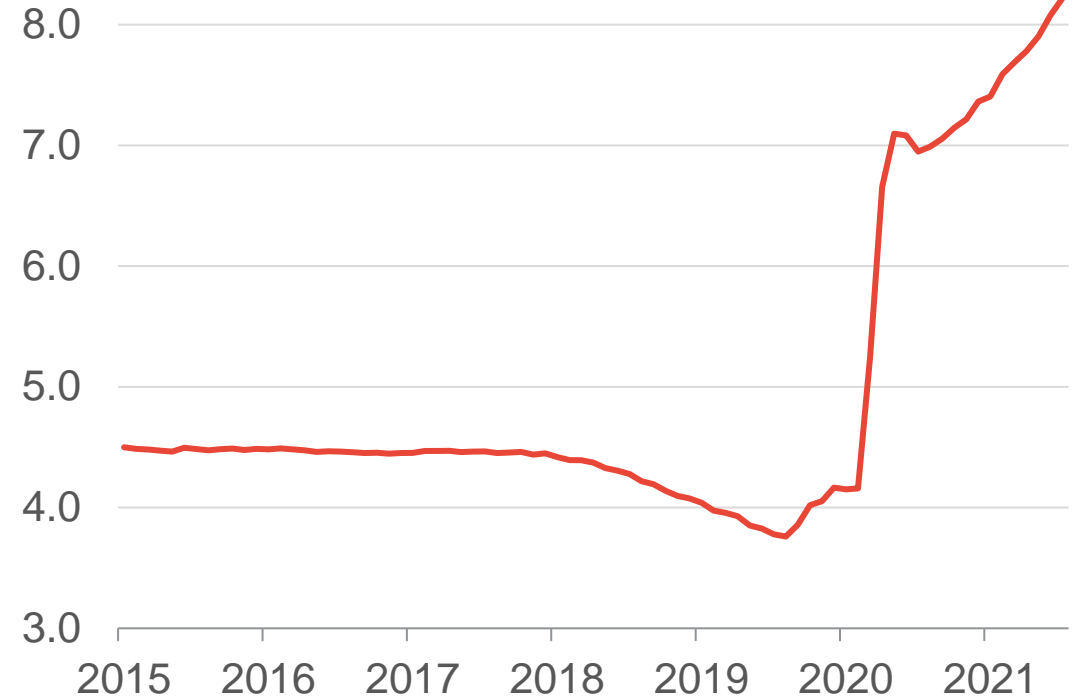
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2021 Could See An Increase In Inflation (1)

Cumulative Fiscal Deficit From the Start of a Recession (%GDP)



Fed Balance Sheet Tops \$8 Trillion

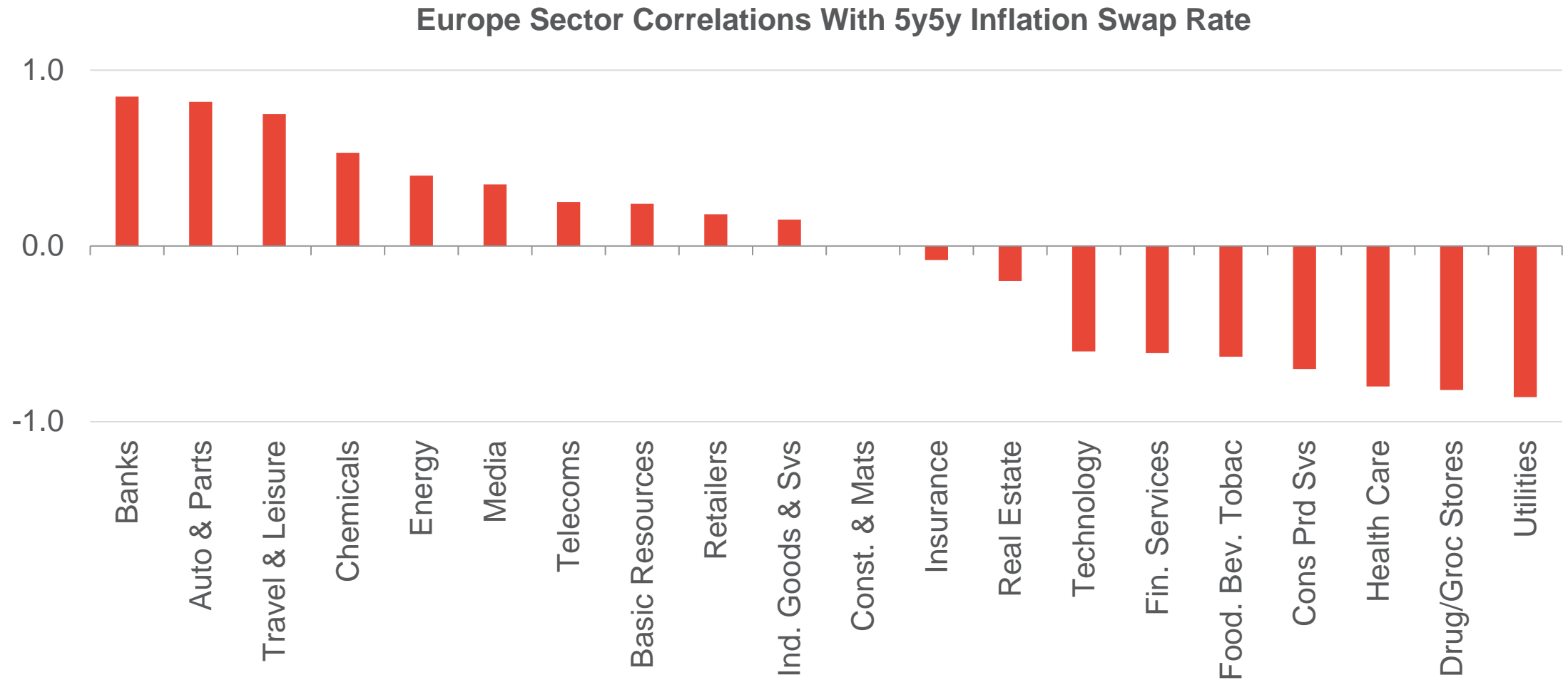


Bloomberg, 31 July 2021

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No investment strategy or risk management technique can guarantee returns or eliminate risks in any market environment. No investment strategy or risk management technique can guarantee returns or eliminate risks in any market environment

2021 Could See An Increase In Inflation (2)

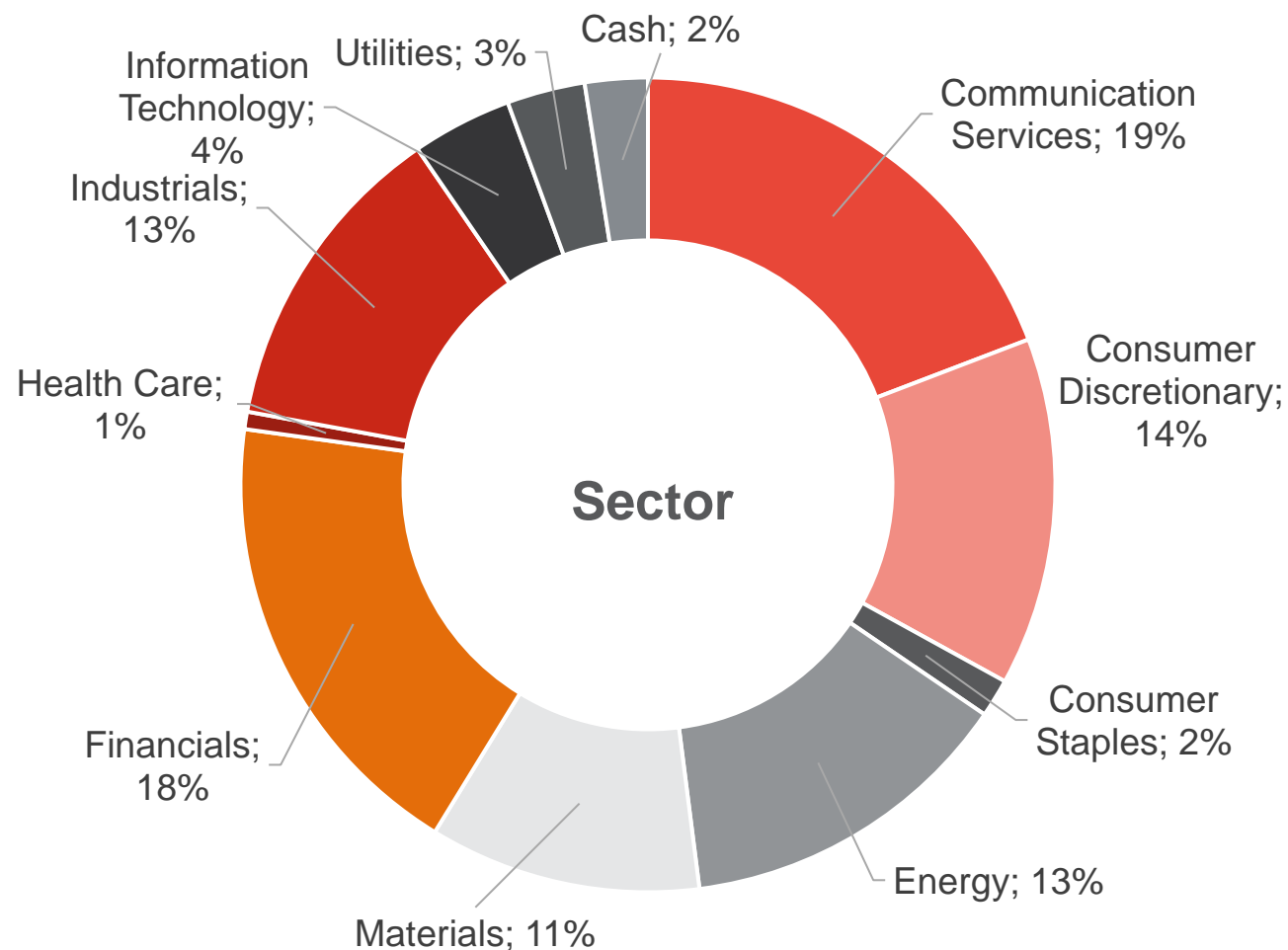


Societe Generale, 15 June 2021

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Well Positioned To Benefit From Reflation/Inflation



Portfolio holdings are subject to change at any time without any notice. This information should not be construed as a recommendation to purchase or sell any security.

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Source: RWC. Data as at 31 July 2021. Data shown for the TM RWC Equity Income Fund.

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Contact

Please contact us if you have any general questions or would like to discuss any of our strategies.

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