

Value vs. Glamour: A Study of the Indices

By examining returns for U.S. stocks from 1968-2012 and stocks outside of the United States from 1980-2012, the Brandes Institute's *Value vs. Glamour: A Global Phenomenon* study reveals a consistent value premium across valuation metrics, geography and market capitalizations.

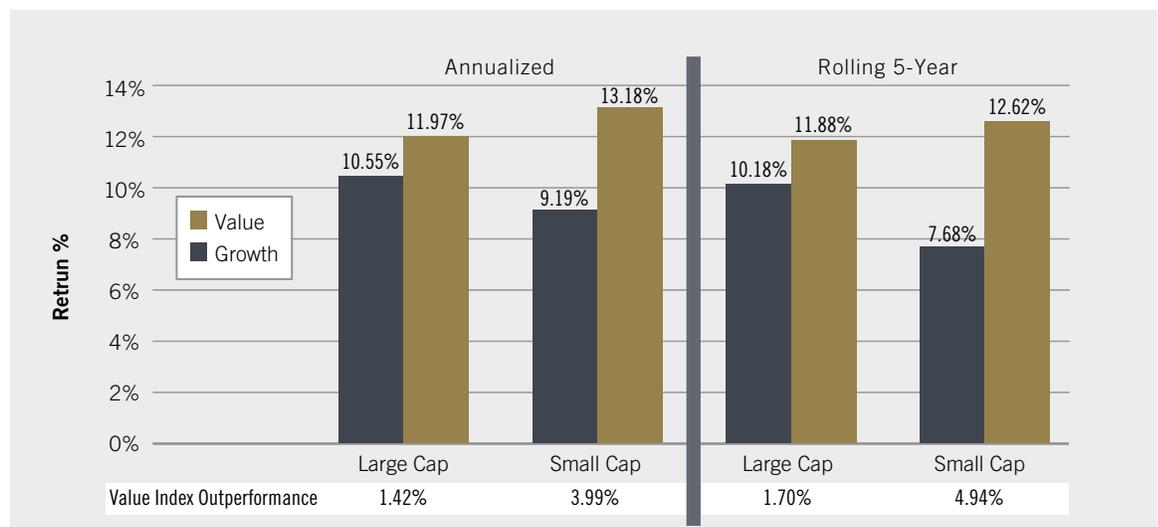
But what about commonly used benchmarks? Would a comparison between Value and Growth indices yield similar results?

The United States

Using the Russell 1000 Value Index as a proxy for U.S. large-cap value stocks and the Russell 1000 Growth Index as a surrogate for U.S. large-cap growth stocks, Exhibit 1 compares both annualized returns and an average of rolling 5-year periods since the indices' inception in 1979. The results show clear evidence of a value premium, with annualized outperformance of 1.42% and 1.70% over rolling 5-year periods.

The results are more striking when looking at small-cap stocks, with small-cap value outperforming growth by an annualized 3.99% and 4.94% on a rolling 5-year basis. The U.S. small-cap value index also beat the growth index with greater frequency. During the 34-year study, the Russell 2000 Value Index topped the Russell 2000 Growth Index 21 years, or 62% of the time.

Exhibit 1: U.S. Value Indices Outperform Growth Indices
(1979-2012)*



Source: FactSet, The Brandes Institute. Past performance is not a guarantee of future results.

*January 1, 1979 through December 31, 2012.

Value indices have outperformed growth indices:

- Over the long term
- Across both large and small cap
- In the United States, non U.S. markets and developing countries

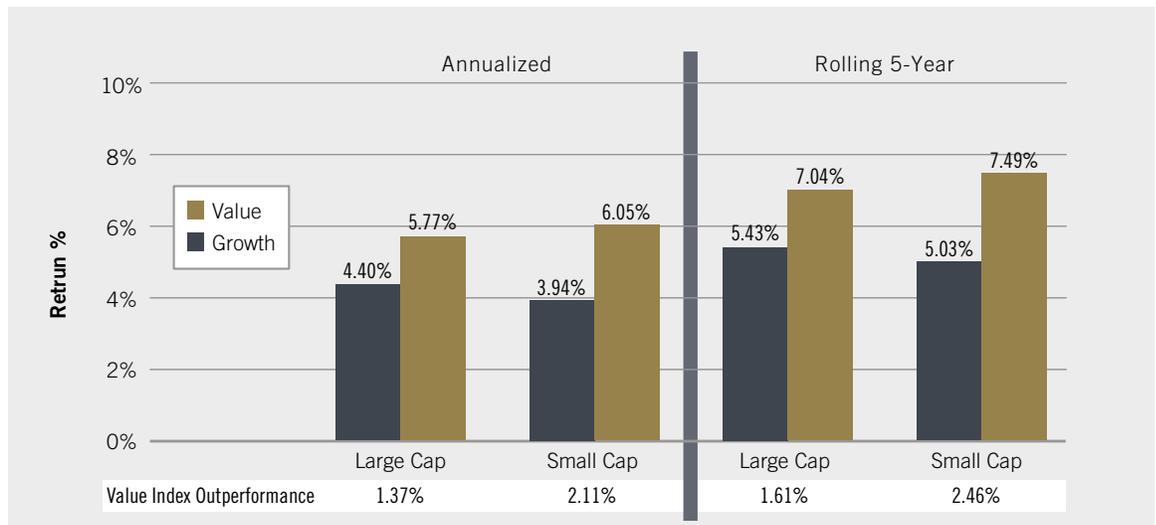
International

Similarly compelling results were uncovered in a study of non-U.S. indices since their inception. On an annual basis, our study found the MSCI Europe, Australasia, Far East (EAFE) Value Index outperformed the MSCI EAFE Growth Index during 27 of the 38 years studied, or 71% of the period under review. In addition to this persistent outperformance, value stocks averaged a 3.41% performance premium annually over their growth counterparts. Examining performance on a rolling 5-year basis, the value component of the MSCI EAFE Index outperformed the growth component in 25 of the 30 rolling periods, or 83% of the time.

To investigate results among large- and small-cap non-U.S. stocks, we compared the S&P Developed Ex-U.S. Large-MidCap and SmallCap Value and Growth Indices. Again, the results (see Exhibit 2) show convincing evidence of a value premium across both large- and small-cap non-U.S. stocks.

Examining performance on a rolling 5-year basis, the value component of the MSCI EAFE Index outperformed the growth component in 25 of the 30 rolling periods, or 83% of the time.

Exhibit 2: Non-U.S. Value Index Outperforms Growth Index
(1990-2012)**



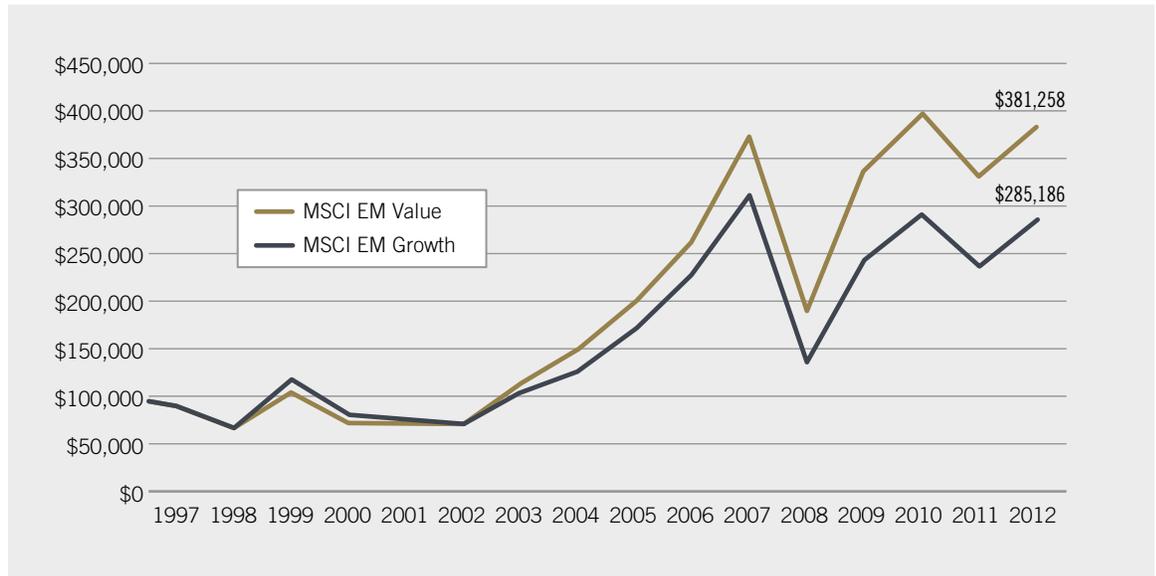
Source: FactSet, The Brandes Institute. Past performance is not a guarantee of future results.

**January 1, 1990 through December 31, 2012.

Emerging Markets

Although annual performance data for the MSCI Emerging Markets (EM) Growth and Value Indices only became available beginning in 1997, there is strong evidence of a value premium in emerging markets—with value stocks delivering an outperformance advantage versus growth stocks of 1.96% on an annualized basis. Exhibit 3 on the following page shows how such outperformance, even over this short investment time horizon, can make a significant impact on returns.

Exhibit 3: MSCI EM Value Outperforms MSCI EM Growth
Hypothetical investment of \$100,000



Source: FactSet, as of December 31, 2012. Past performance is not a guarantee of future results. This hypothetical example is intended for illustrative purposes only. It does not represent the performance of any particular investments. Actual results may vary.

Despite recent short-term underperformance for value stocks, a value premium remains evident when looking at common benchmarks over the long term.

Value Outperforms Growth Across Indices

Despite recent short-term underperformance for value stocks, a value premium remains evident when looking at common benchmarks over the long term. Exhibit 4 shows value indices have consistently outperformed their growth counterparts, for both large- and small-cap stocks around the globe.

Exhibit 4: Annualized Outperformance of Value Stocks over Growth Stocks

Index	Last 10 years	Last 15 years	Last 20 years
U.S. Large Cap Russell 1000 Value Index minus Russell 1000 Growth Index	-.14%	1.67%	1.97%
U.S. Small Cap Russell 2000 Value Index minus Russell 2000 Growth Index	-.30%	3.15%	4.03%
Global Large Cap MSCI Global Value minus MSCI Global Growth	.70%	1.07%	1.76%
Global Small Cap S&P Developed Small Cap Value minus S&P Developed Small-Cap Growth	.08%	1.41%	1.74%
International Large Cap S&P Developed Large-MidCap Ex-U.S Value Index minus S&P Developed Large-MidCap Ex-U.S Growth Index	1.20%	1.60%	1.61%
International Small Cap S&P Developed Ex-U.S. Small Cap Value Index minus S&P Developed Ex-U.S. Small Cap Growth Index	1.38%	2.85%	2.27%
Emerging Markets MSCI EM Value minus MSCI EM Growth	3.52%	1.89%	n/a*

Source: FactSet, as of December 31, 2012. Past performance is not a guarantee of future results.

*Precedes the December 31, 1997 inception date of the MSCI EM Value and Growth Indices.

Past performance is not a guarantee of future results.

The information provided should not be considered a recommendation to purchase or sell any particular security. It should not be assumed that any security transactions, holdings, or sectors discussed were or will be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance discussed herein. International and emerging markets securities entail risk such as currency fluctuation and political instability. Please note that all indices are unmanaged and are not available for direct investment. Past performance is not a guarantee of future results. No investment strategy can assure a profit or protect against loss.

Rolling periods represent a series of overlapping, smaller time periods within a single, longer-term time period. A hypothetical example is the 20-year time period from 12/31/82 through 12/31/02. This long-term period consists of 16 smaller five-year "rolling" segments. The first segment is the five-year period from 12/31/82 to 12/31/87. The next rolling segment is the five-year period from 12/31/83 to 12/31/88, and so on.

The Russell 1000 Value Index with gross dividends is an unmanaged, market capitalization weighted index that measures the performance of the large-cap segment of the U.S. equity universe. The Russell 1000 Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower expected growth values. The index includes the reinvestment of dividends and income, but does not reflect fees, brokerage commissions, withholding taxes, or other expenses of investing.

The Russell 1000 Growth Index with gross dividends is an unmanaged, market capitalization weighted index that measures the performance of the large-cap growth segment of the U.S. equity universe. The Russell 1000 Growth Index includes those Russell 1000 Index companies with higher price-to-book ratios and higher forecasted growth values. The index includes the reinvestment of dividends and income, but does not reflect fees, brokerage commissions, withholding taxes, or other expenses of investing.

The Russell 2000 Value Index with gross dividends is an unmanaged, market capitalization weighted index that measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 Value Index measures the performance of small-cap value segment of the U.S. equity universe. It includes those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values. This index includes the reinvestment of dividends and income, but does not reflect fees, brokerage commissions, withholding taxes, or other expenses of investing.

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The MSCI EAFE (Europe, Australasia, Far East) Value Index with net dividends is an unmanaged, free float-adjusted market capitalization weighted index designed to measure equity market performance of developed markets, excluding the United States and Canada. MSCI Barra uses a two dimensional framework for style segmentation in which value and growth securities are categorized using a multi-factor approach with three variables to define the value investment style characteristics and five variables to define the growth investment style characteristics, including forward looking variables. Each security is placed into either the Value or Growth Indices, or may be partially allocated to both (with no double counting). The three attributes for Value index construction are: book value to price ratio, 12-months forward earnings to price ratio, and dividend yield. The objective of the index design is to divide constituents of an underlying MSCI Equity Index into respective Value and Growth indices, each targeting 50% of the free float adjusted market capitalization of the underlying market index. This index often is used as a benchmark for international equity portfolios and includes dividends and distributions net of withholding taxes, but does not reflect fees, brokerage commissions, or other expenses of investing.

The MSCI EAFE (Europe, Australasia, Far East) Growth Index with net dividends is an unmanaged, free float-adjusted market capitalization weighted index designed to measure equity market performance of developed markets, excluding the United States and Canada. MSCI Barra uses a two dimensional framework for style segmentation in which value and growth securities are categorized using a multi-factor approach with three variables to define the value investment style characteristics and five variables to define the growth investment style characteristics, including forward looking variables. Each security is placed into either the Value or Growth Indices, or may be partially allocated to both (with no double counting). The five attributes for Growth index construction are: long-term forward earning per share (EPS) growth rate, short-term forward EPS growth rate, current internal growth rate, long-term historical EPS growth trend and long-term historical sales per share growth trend. The objective of the index design is to divide constituents of an underlying MSCI Equity Index into respective Value and Growth Indices, each targeting 50% of the free float adjusted market capitalization of the underlying market index. This index often is used as a benchmark for international equity portfolios and includes dividends and distributions net of withholding taxes, but does not reflect fees, brokerage commissions, or other expenses of investing.

The S&P Developed LargeMid ex US Value Index is a comprehensive, rules-based index measuring global stock market performance of mid to large capitalization companies from developed markets throughout the world, excluding the United States. The S&P Developed LargeMid ex US Growth and Value Indices measure growth and value in separate dimensions across six risk factors. Value factors include book value to price ratio, sales to price ratio and dividend yield. This index includes the reinvestment of dividends and income, but does not reflect fees, brokerage commissions, withholding taxes, or other expenses of investing.

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The S&P Developed Ex-U.S. SmallCap Value Index with gross dividends is an unmanaged, float-adjusted market capitalization weighted index that measures the equity performance of small capitalization companies from developed markets around the world, excluding the United States. Growth and Value Indices measure growth and value in separate dimensions across six risk factors. Value factors include book value to price ratio, sales to price ratio and dividend yield. This index includes the reinvestment of dividends and income but does not reflect fees, brokerage commissions, withholding taxes or other expenses of investing.

The S&P Developed Ex-U.S. SmallCap Growth Index with gross dividends is an unmanaged, float-adjusted market capitalization weighted index that measures the equity performance of small capitalization companies from developed markets around the world, excluding the United States. Growth and Value Indices measure growth and value in separate dimensions across six risk factors. Growth factors include sales growth, earnings change to price and momentum. This index includes the reinvestment of dividends and income but does not reflect fees, brokerage commissions, withholding taxes or other expenses of investing.

The MSCI Emerging Markets Value Index with gross dividends is an unmanaged, free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. The MSCI Emerging Markets Index consists of 21 emerging market country indices. Value and growth securities are categorized using a multi-factor approach with three variables to define the value investment style characteristics and five variables to define the growth investment style characteristics, including forward looking variables. Each security is placed into either the Value or Growth Indices, or may be partially allocated to both (with no double counting). The three attributes for Value index construction are: book value to price ratio, 12-months forward earnings to price ratio, and dividend yield. This index includes dividends and distributions, but does not reflect fees, brokerage commissions, withholding taxes or other expenses of investing.

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The MSCI Global Value Index with net dividends is an unmanaged, free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets. Each security is placed into either the Value or Growth Indices using an approach that provides a precise definition of style using eight historical and forward-looking fundamental data points for every security. Value factors include book value to price ratio, sales to price ratio and dividend yield. This index includes dividends and distributions net of withholding taxes, but does not reflect fees, brokerage commissions, or other expenses of investing.

The MSCI Global Growth Index with net dividends is an unmanaged, free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets. Each security is placed into either the Value or Growth Indices using an approach that provides a precise definition of style using eight historical and forward-looking fundamental data points for every security. Growth factors include sales growth, earnings change to price and momentum. This index includes dividends and distributions net of withholding taxes, but does not reflect fees, brokerage commissions or other expenses of investing.

The S&P Developed SmallCap Value Index with gross dividends is an unmanaged, float-adjusted market capitalization weighted index that measures the equity performance of small capitalization companies from developed markets around the world, including the United States. Growth and Value Indices measure growth and value in separate dimensions across six risk factors. Value factors include book value to price ratio, sales to price ratio and dividend yield. This index includes the reinvestment of dividends and income but does not reflect fees, brokerage commissions, withholding taxes or other expenses of investing.

The S&P Developed SmallCap Growth Index with gross dividends is an unmanaged, float-adjusted market capitalization weighted index that measures the equity performance of small capitalization companies from developed markets around the world, including the United States. Growth and Value Indices measure growth and value in separate dimensions across six risk factors. Growth factors include sales growth, earnings change to price and momentum. This index includes the reinvestment of dividends and income but does not reflect fees, brokerage commissions, withholding taxes or other expenses of investing.

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