Style Matters

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"Know what you own, and know why you own it."

Peter Lynch,
Manager of the Fidelity Magellan Fund from 1977 to 1990

These words from Peter Lynch were primarily aimed at stock investors, but the advice may also be relevant for those allocating to discretionary fund managers (DFMs). The ARC™ Private Client Indices (PCI), which measure the performance of more than 375,000 private client discretionary portfolios managed by over 140 firms, provide transparency on the performance of DFMs catering to private clients.

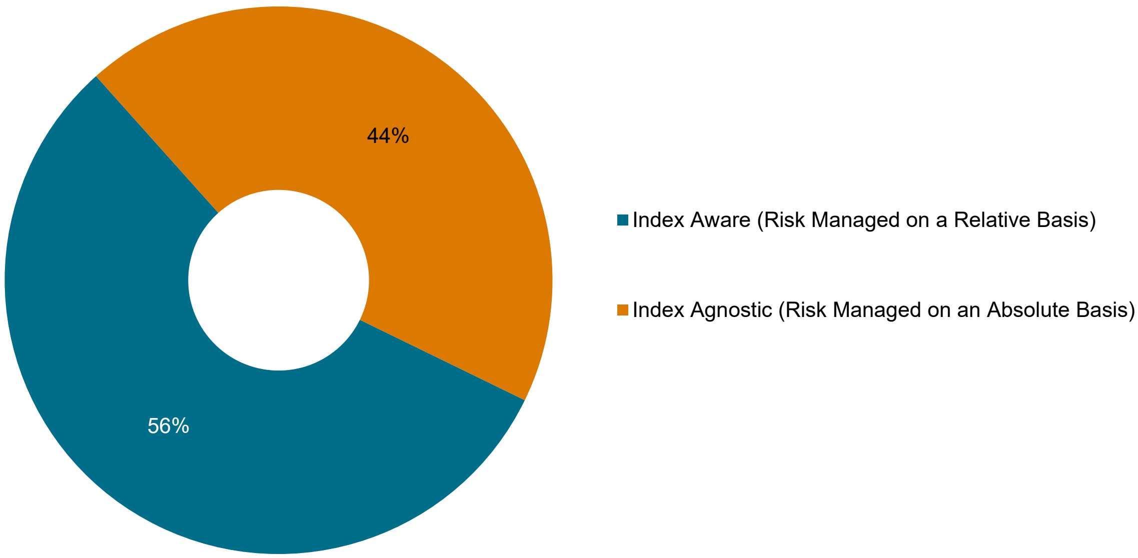
The PCI serve as a unique set of benchmarks to evaluate the performance of an individual portfolio or the average performance of a DFM versus an appropriate peer group over a reasonable time period. Over shorter time periods, DFMs may suffer periods of relative performance variation. During these periods, it is important that investors understand the approach being followed (what they own and why they own it) in order to consider performance in the context of their stated investment objectives and time horizon.

There are certain factors affecting performance that the underlying investor might reasonably expect the DFM to manage on their behalf. These factors would include portfolio construction, tactical asset allocation and stock selection. But there are other factors that can have a material impact on performance, relative or absolute, that the DFM may not be attempting to manage. These factors are often driven by the DFM's investment philosophy and how this philosophy is implemented. Only with a thorough understanding of the approach being employed can performance be put into context.

The starting point is to understand, at a high level, what the DFM is striving to achieve. Is the objective to outperform an index, or to simply generate the best possible risk adjusted returns? These are important questions, as the two approaches can lead to materially different results.

In the recent ARC Research Market Sentiment Survey (MSS) this question was put to the peer group. The results are provided in Exhibit 1.

Exhibit 1: Approach to Risk Management/Portfolio Construction



Source: ARC Research, now a part of S&P Dow Jones Indices LLC. Results from the Q1 2026 ARC Research Market Sentiment Survey. Chart is provided for illustrative purposes.

The responses were quite evenly split, as 56% of respondents described their approach as “index aware,” the starting point being an index or benchmark, with value added through tilts away from that benchmark. The remaining 44% described their approach as “index agnostic,” meaning these DFMs aim to construct the optimal risk-adjusted portfolio without reference to an index.

Regardless of the approach, it is important for the investor to also understand the level of risk being taken by a DFM. To help with this, the PCI are categorized based on realized volatility (standard deviation of returns) relative to global equity markets. Sterling-denominated portfolios with realized volatility between 60% and 80% of global equity markets will sit in the ARC Sterling Steady Growth PCI (Steady Growth PCI).

While the PCI categorizes portfolios by absolute risk, it is equally important to recognize that portfolios with similar risk profiles may still experience very different outcomes. Even index-aware managers take differing levels of risk around the index that they follow. It is therefore necessary to understand to what extent the returns of an individual manager might differ from the average of their peer group.

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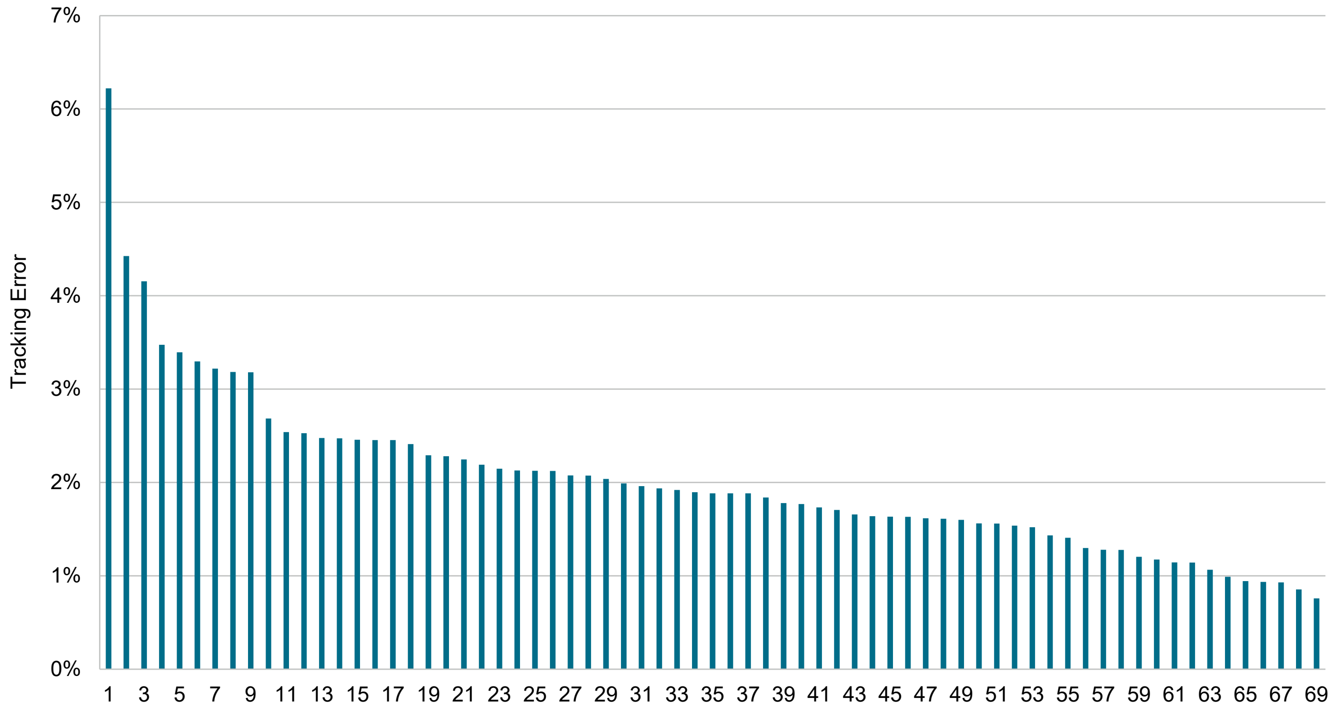
Exhibit 2 shows the three-year tracking error versus the Steady Growth PCI for each of the 69 full contributors to that index.

Exhibit 2: Three-Year Tracking Error versus ARC Sterling Steady Growth PCI



Source: ARC Research, now a part of S&P Dow Jones Indices LLC. Tracking error versus the ARC Sterling Steady Growth Private Client Index for each of the 69 contributors to that index. Data from Dec. 31, 2022, to Dec. 31, 2025. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

Tracking error is a measure of how closely a portfolio follows an index or benchmark. The higher the tracking error, the higher the potential deviation from benchmark performance. The DFMs to the left of this chart might reasonably be expected to outperform/underperform their peers to a greater extent than those to the right. Understanding the potential for tracking error, and the factors that combine to result in that tracking error, is essential when assessing performance of a DFM. There are many factors that need to be understood, including, but not limited to, the approach to strategic asset allocation (SAA), the extent to which foreign currency exposure is hedged and investment style.

The different approaches to SAA (specifically global versus domestic bias within SAA) and currency hedging have been addressed in previous commentaries.[1] In the next section, we consider how investment style can impact performance in both absolute terms and relative to the peer group.

[1] These topics were discussed in the following ARC Research Quarterly Commentaries found at www.suggestus.com: "Sound as a Pound," November 2024, "The Fading Smile," August 2025, "Navigating the Narrow Path," November 2025.

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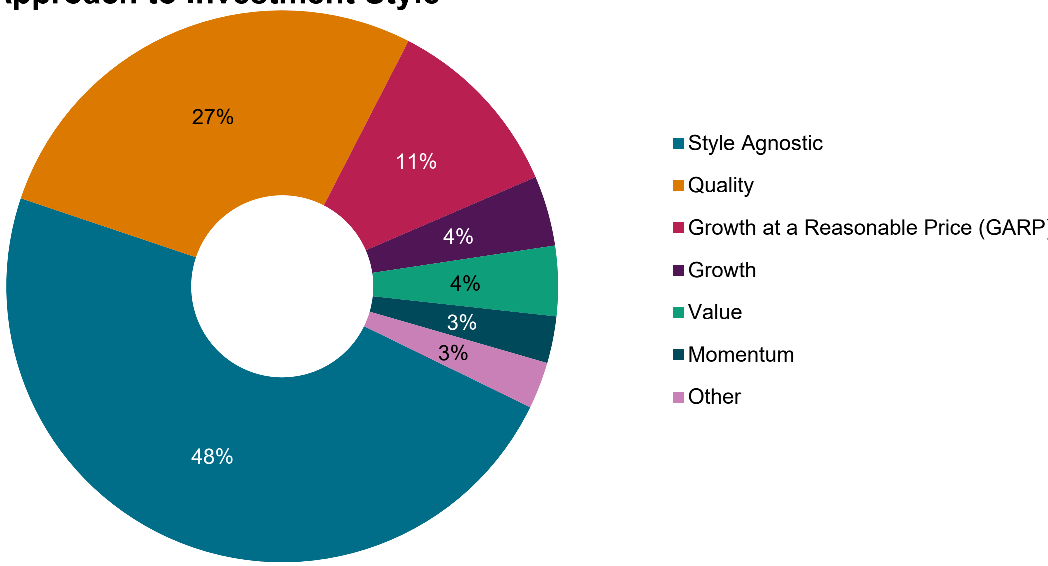
DFMs – Investment Style Biases

Another question put to the peer group in the recent MSS was related to investment style. DFMs will in many cases have some form of style bias. Where style bias does exist, it tends to be directly linked to that firm's investment philosophy. The results are shown in Exhibit 3.

Exhibit 3: Approach to Investment Style



Source: ARC Research, now a part of S&P Dow Jones Indices LLC. Results from the Q1 2026 ARC Research Market Sentiment Survey. Chart is provided for illustrative purposes.

Of those that responded, 48% would describe themselves as Style Agnostic. These DFMs have no specific style bias and seek to blend different styles or rotate between styles depending on market conditions.

Quality was the most popular style, with more than a quarter of respondents describing their approach in this way. Growth at a reasonable price (GARP) is a strategy followed by 11% of respondents, while growth, value, momentum and other styles made up the remainder.

There is considerable debate among academics and investment professionals over which is the best, or the most effective, style of investment. Many investment approaches have the potential to perform well over the long term, especially those that are built on sound fundamentals. However, no investment approach will work all of the time, and different investment styles have come in and out of favor throughout the years.

Exhibit 4 shows the discrete calendar year rankings of the five styles most commonly utilized by DFMs going back to 1996.

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Exhibit 4: Calendar Year Performance Rankings of S&P 500® Style Indices

Year	Calendar Year Performance				
1996	Momentum, 32%	Quality, 31%	Growth, 24%	Value, 22%	GARP, 21%
1997	Momentum, 38%	Growth, 37%	Quality, 35%	GARP, 33%	Value, 30%
1998	Momentum, 57%	Growth, 42%	Quality, 38%	GARP, 24%	Value, 15%
1999	Momentum 48	GARP, 29%	Growth, 28%	Value, 13%	Quality, 7%
2000	Quality, 18%	Value, 6%	GARP, 2%	Momentum, -21%	Growth, -22%
2001	GARP, -1%	Quality, -4%	Value, -12%	Growth, -13%	Momentum, -27%
2002	GARP, -9%	Quality, -14%	Momentum, -16%	Value, -21%	Growth, -24%
2003	GARP, 41%	Value, 32%	Quality, 29%	Growth, 26%	Momentum, 23%
2004	GARP, 22%	Value, 16%	Quality, 11%	Momentum, 11%	Growth, 6%
2005	GARP, 18%	Momentum, 17%	Value, 6%	Quality, 5%	Growth, 4%
2006	Value, 21%	Quality, 18%	GARP, 14%	Growth, 11%	Momentum, 10%
2007	GARP, 18%	Quality, 15%	Momentum, 10%	Growth, 9%	Value, 2%
2008	Quality, -34%	Momentum, -35%	Growth, -35%	Value, -39%	GARP, -42%
2009	GARP, 44%	Growth, 32%	Quality, 30%	Value, 21%	Momentum, 17%
2010	Momentum, 19%	GARP, 16%	Value, 15%	Growth, 15%	Quality, 15%
2011	Quality, 11%	Growth, 5%	Momentum, 2%	Value, 0%	GARP, -1%
2012	Value, 18%	Momentum, 17%	GARP, 16%	Quality, 15%	Growth, 15%
2013	GARP, 36%	Quality, 34%	Growth, 33%	Value, 32%	Momentum, 31%
2014	Quality, 15%	Growth, 15%	GARP, 14%	Value, 12%	Momentum, 11%
2015	Momentum, 6%	Growth, 6%	Quality, 0%	GARP, -1%	Value, -3%
2016	Value, 17%	GARP, 10%	Quality, 10%	Growth, 7%	Momentum, 6%
2017	Momentum, 28%	Growth, 27%	GARP, 26%	Quality, 20%	Value, 15%
2018	Growth, 0%	Momentum, 0%	Quality, -7%	Value, -9%	GARP, -14%
2019	Quality, 34%	Value, 32%	GARP, 31%	Growth, 31%	Momentum, 26%
2020	Growth, 33%	Momentum, 28%	Quality, 18%	GARP, 16%	Value, 1%
2021	GARP, 36%	Growth, 32%	Quality, 28%	Value, 25%	Momentum, 23%
2022	Value, -5%	Momentum, -11%	GARP, -14%	Quality, -16%	Growth, -29%
2023	Growth, 30%	Quality, 25%	Value, 22%	GARP, 21%	Momentum, 18%
2024	Momentum, 46%	Growth, 36%	Quality, 26%	Value, 12%	GARP, 9%
2025	Momentum, 27%	Growth, 22%	Quality, 13%	Value, 13%	GARP, 10%

Source: S&P Dow Jones Indices LLC. Data from Dec. 31, 1995, to Dec. 31, 2025. “Momentum” refers to the S&P 500 Momentum Index. “Growth” refers to the S&P 500 Growth. “Quality” refers to the S&P 500 Quality Index. “Value” refers to the S&P 500 Value. “GARP” refers to the S&P 500 GARP Index. The S&P 500 GARP Index was launched Feb. 25, 2019. The S&P 500 Momentum Index was launched Nov. 18, 2014. The S&P 500 Quality Index was launched July 8, 2014. All data prior to such date is back-tested hypothetical data. Index performance in USD. Past performance is no guarantee of future results. Table is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

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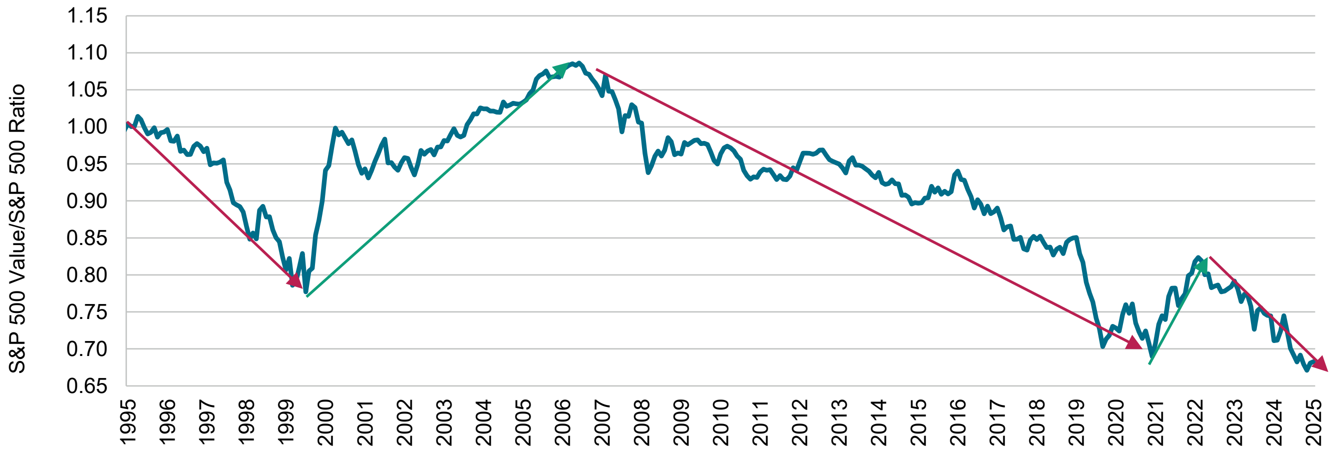
It is clear from Exhibit 4 that no style consistently outperforms all others. Individual style factors will typically experience periods when they perform well and periods when they face headwinds. As an example of this, Exhibit 5 shows the ratio of the S&P 500 Value to the S&P 500 over the past 30 years. There have been five distinct cycles during this period.

Exhibit 5: The S&P 500 Value versus the S&P 500



Source: S&P Dow Jones Indices LLC. Data from Dec. 31, 1995, to Dec. 31, 2025. Index performance in USD. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

Value stocks fell during the Dot-com Bubble only to rebound strongly when the "old economy" came back into favor following the bursting of the bubble. Value then enjoyed a period of strong performance, which only ended when the 2007-2008 Global Financial Crisis hit. Since that point, value stocks have once again underperformed, with only the briefest of interruptions during the inflation shock of 2022.

Given that the performance of different investment styles can be cyclical, it follows that the performance of a DFM should not be judged without considering that DFM's investment style. It might be that a DFM experiencing a period of underperformance versus the broader peer group has in fact exhibited a degree of skill during a time when their specific style has faced headwinds.

More than a quarter of the peer group in the MSS survey favored stocks with "quality" characteristics. As highlighted by Exhibit 6 and based on data from contributors to the Steady Growth PCI, this approach has had the potential to deliver above average returns over the past five years or more. But as discussed above, no investment style will outperform consistently, and quality stocks have suffered a setback more recently.

Exhibit 6 shows the average performance of contributors to the Steady Growth PCI peer group that describe their approach as quality focused. The performance is shown relative to the Steady Growth PCI. Alongside this chart we show the relative performance of the S&P 500 Quality Index versus the S&P 500.

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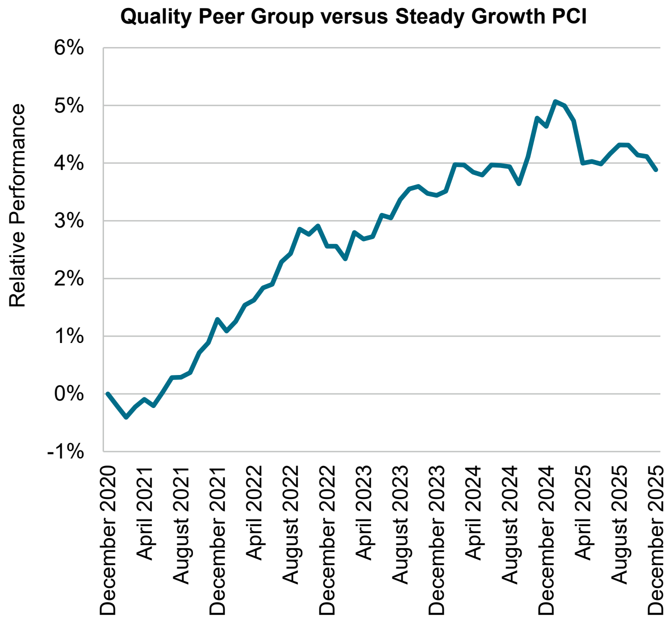
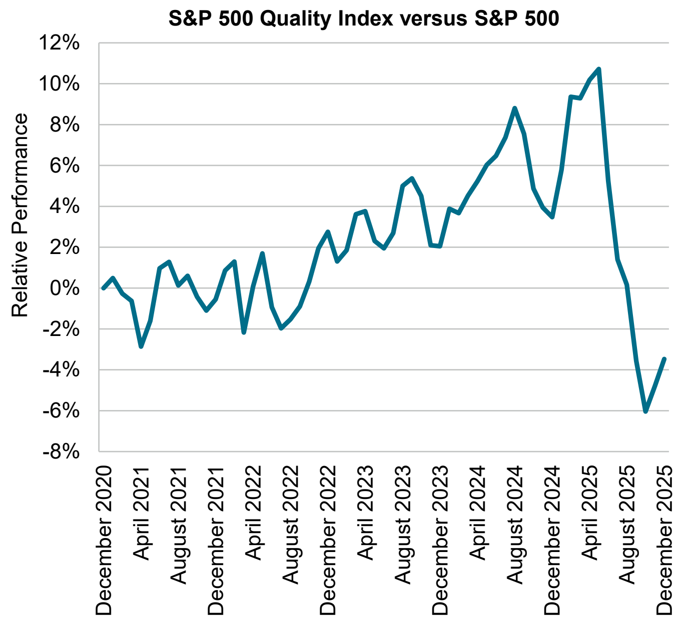
Exhibit 6: Comparison of Quality Strategies





Source: S&P Dow Jones Indices LLC. Data from Dec. 31, 2020, to Dec. 31, 2025. Past performance is no guarantee of future results. Charts are provided for illustrative purposes.

While style is not the only factor driving the relative performance of this sub-set of the peer group, understanding that quality bias is a factor goes some way to explaining why quality-biased DFMs might have lagged more recently.

Not only is it important to understand investment approach and style during periods of underperformance, it is equally important to understand why a DFM, or a group of DFMs, has outperformed. When allocating to more than one DFM, one consideration might be diversifying by style rather than simply allocating to the best performers—there exists the possibility that the best performers achieved their results with a common approach and may therefore face similar headwinds should market conditions change.

Only by understanding the style being employed, and therefore the opportunity set, is it possible to assess performance and allocate with confidence.

Conclusion

As Peter Lynch reminds us, it is crucial to "know what you own and know why you own it." The role of the DFM is to manage portfolios in line with their investment philosophy. Many will have a favored style of investing that they believe will deliver the best returns for their investors over the long term.

Short-term underperformance is an inevitable feature of such active management, but without a clear understanding of a DFM's investment philosophy, risk framework and style bias,

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investors are unable to put performance into perspective. Historical performance demonstrates that investment approaches and styles have cyclical tendencies. A period of relative weakness may reflect nothing more than a style being out of favor rather than a deterioration in skill or process. Investors who understand the factors driving a DFM's returns are more likely to make informed decisions as market regimes change.

This knowledge may also help those employing multiple managers. Simply selecting the best performers, that may well have a common approach, can result in concentrated exposure to certain styles and potentially a more volatile experience for the investor. Understanding the drivers of performance allows the allocator to combine DFMs with different but complimentary approaches, thereby potentially helping to mitigate this risk.

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Please refer to the methodology for the Index for more details about the index, including the manner in which it is rebalanced, the timing of such rebalancing, criteria for additions and deletions, as well as all index calculations. Back-tested performance is for use with institutions only; not for use with retail investors.

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