

# Active Management

“Beating the market averages, after paying substantial costs and fees, is an against-the-odds game; yet a few people can do it, particularly those who view it as a game full of craziness with an occasional mispriced something or other.”  
 –Charlie Munger

## Opportunity for Alpha

Our strategies are designed to outperform their benchmarks over the long-term. Substantial wealth creation can occur when compounding outperformance over a long period of time. But finding active managers that outperform their benchmarks over the long-term is incredibly difficult.

Data shows that >90% of active managers underperform their benchmarks over a 20-year period (Exhibit 1). Similarly, advisors with passive management strategies will, by definition, underperform their benchmark when considering the fees paid for their services.

Exhibit 1: Underperformance by asset class relative to benchmarks (based on absolute return):

SPIVA Category	Comparison Index	1-Year (%)	3-Year (%)	5-Year (%)	10-Year (%)	15-Year (%)	20-Year (%)
All Domestic Funds	S&P Composite 1500	50.29	78.69	88.01	93.14	93.95	92.14
All Large-Cap Funds	S&P 500	51.08	74.27	88.51	91.41	93.40	94.79
All Mid-Cap Funds	S&P Midcap 400	62.60	77.97	64.78	81.51	93.22	94.04
All Small-Cap Funds	S&P Smallcap 600	56.91	66.92	70.54	89.11	94.35	93.67
All Multi-Cap Funds	S&P Composite 1500	50.75	81.02	87.55	93.20	94.58	93.54
Large-Cap Growth Funds	S&P 500 Growth	73.85	88.94	86.09	95.89	98.15	97.65
Large-Cap Core Funds	S&P 500	54.30	68.27	84.01	95.91	95.69	96.38
Large-Cap Value Funds	S&P 500 Value	58.70	39.46	69.02	84.90	79.13	86.51
Mid-Cap Growth Funds	S&P Midcap 400 Growth	91.23	78.36	38.89	65.87	91.00	91.58
Mid-Cap Core Funds	S&P Midcap 400	53.66	70.75	78.15	88.43	96.49	97.03
Mid-Cap Value Funds	S&P Midcap 400 Value	72.73	81.82	83.93	95.65	93.00	92.16
Small-Cap Growth Funds	S&P Smallcap 600 Growth	79.60	75.76	58.60	84.50	95.43	96.67
Small-Cap Core Funds	S&P Smallcap 600	39.83	65.48	76.33	95.26	94.81	95.12
Small-Cap Value Funds	S&P Smallcap 600 Value	40.63	43.84	80.65	90.99	91.43	92.16
Multi-Cap Growth Funds	S&P Composite 1500 Growth	56.21	85.00	84.36	89.55	96.05	91.36
Multi-Cap Core Funds	S&P Composite 1500	58.38	79.43	90.20	96.69	93.48	95.36
Multi-Cap Value Funds	S&P Composite 1500 Value	58.16	58.04	86.84	91.23	90.60	88.89
Real Estate Funds	S&P United States REIT	87.67	58.44	61.90	74.03	87.25	87.10

Source: S&P Dow Jones Indices LLC, CRSP, Data as of December 31, 2022.

## Keeping Expenses Low & Eating Our Own Cooking

Low expenses and high manager ownership are instrumental for Sandhill investors’ success. Our unwavering commitment to cost efficiency ensures that more investment gains directly benefit clients, fostering efficient portfolio growth. This aligns seamlessly with sound investment principles, shielding investors from unnecessary costs and boosting the compounding effect, a cornerstone of wealth accumulation.

Additionally, high manager ownership at Sandhill creates alignment between the investment team and clients. When managers have significant stakes in the strategies they oversee, their interests closely mirror those of their investors. This mutual commitment incentivizes prudent, long-term decision-making and instills a culture of accountability and responsibility, reinforcing Sandhill’s reputation as a reliable partner in wealth management.

Exhibit 1: Three screens that have presented investors with a favorable asymmetrical advantage

	U.S. Large Cap	Foreign Large Cap	World Stock Large	Emerging Markets	World Stock Small/Mid Cap	Moderate Allocation	World Allocation
Morningstar active funds universe and rolling 10 year success rates <sup>1</sup>	2,441 15%	701 4.5%	469 47%	378 20%	48 28%	494 11%	129 30%
<b>Strong downside capture</b>	1,028	302	195	162	21	211	59
<b>Lower fees</b>	255	1.51	97	81	11	10.5	29
<b>High firm manager ownership</b>	2.57	1.51	94	81	10	102	29
Screened active funds and rolling 10 year success rates	49 54%	66 83%	48 100%	48 98%	6 40%	59 50%	13 70%

<sup>1</sup> Comparisons with screened funds uses an asset-weighted methodology. This method can increase comparability between portfolios as compared with an equal-weighting methodology. Success rates are calculated for rolling 10-year periods on a monthly basis from 1/1/96 to 12/31/22.

Sources: Morningstar, Capital Group as of December 31, 2022. Screens were based on historical fund performance in comparison with peer median. Best downside capture was defined as top 50%. Lowest expense ratio and highest manager ownership were defined as top 25% for the U.S. Large Cap category (owing to its larger sample size) and top 50% for the other categories.

**Disclaimer:** This has been prepared for informational purposes only and does not constitute, either explicitly or implicitly, any provision of services or products by Sandhill Investment Management. Its primary intent is to educate, and it should not be misconstrued as specific advice or recommendations.

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**Index Definitions**

All indexes are unmanaged and an individual cannot invest directly in an index. Index returns do not include fees or expenses.

**The S&P 500 Index** is widely regarded as the best single gauge of the U.S. equities market. This market capitalization-weighted index includes a representative sample of 500 leading companies in the foremost industries of the U.S. economy and provides over 80% coverage of U.S. equities.

**The S&P MidCap 400** index consists of 400 mid-sized companies and covers approximately 7% of the U.S. equities market.

**The S&P SmallCap 600** index consists of 600 small-cap companies and covers approximately 3% of the U.S. equities market.

**The S&P Composite 1500** is a broad, market-capitalization-weighted index of 1500 companies formed by combining the S&P500, S&P Midcap 400 and S&P SmallCap 600. The index represents approximately 90% of U.S. equities.

**The S&P 500 Growth and Value Indices** form an exhaustive, multi-factor style series covering the entire market capitalization of the S&P 500. Constituents, weighted according to market capitalization, are classified as growth, value or a mix of growth and value.

**The S&P MidCap 400 Growth and Value Indices** form an exhaustive, multi-factor style series covering the entire market capitalization of the S&P MidCap 400.

**The S&P SmallCap 600 Growth and Value Indices** form an exhaustive, multi-factor style series covering the entire market capitalization of the S&P SmallCap 600.

**The S&P Composite 1500 Growth and Value Indices** form an exhaustive, multi-factor style series covering the entire market capitalization of the S&P Composite 1500.

**The S&P United States REIT** index measures the investable universe of publicly traded real estate investment trusts.

Proprietary Research.  
Successful Outcomes.

