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Shifting sands

Value is in the eye of the beholder.

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Index funds have done wonderful things in raising awareness of investing, particularly with young Brits, and making building wealth more affordable and accessible than ever before. No longer does one have to call up a broker and pay well over the odds to share in the fruits of capitalism.

In my view, the real beauty of passive investing is in its simplicity. My partner, Dani's, portfolio consists of three funds: the **Vanguard FTSE All-World ETF**, which gives her exposure to the world's biggest firms; the **iShares S&P SmallCap 600 ETF**, which covers off US smaller companies and may soon be replaced by a global offering; and Scottish Mortgage (SMT), for some spice.

I suggested mainly passive funds, not because I dislike active fund management, as you can see from the appearance of SMT; but because owning three funds is low maintenance and easy to understand.

I'm happy to back active management myself because I like the challenge and hope I'm good at it. For others, the investment case for index funds in my view is that the average actively managed fund underperforms broad indices after costs and it's hard to predict which ones will do well. Taking broad exposure makes sense when you look at it like that.

Today, though, it seems most passive advocates' case for index fund investing is that active management is some kind of con that continues to rip consumers off. That, clearly, isn't true, as proven by the fact that SMT is the best-performing fund in Dani's portfolio.

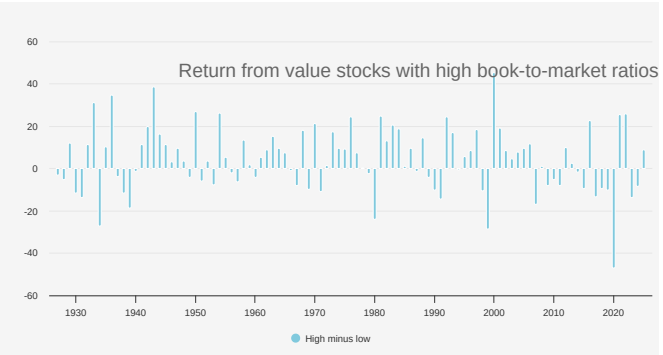
Indeed, passive investing isn't without its own pitfalls. As it grows in popularity, more ETFs are being launched in evermore niche, thematic areas (and that's not to mention the leveraged single stock ETF nonsense). Even many of the ETFs that should be more mainstream turn out to be questionable, at best; misleading at worst.

Mr Chips

Take value investing. Along with investing in smaller companies, investing in cheap stocks is one of the two best ways of outperforming over time. The annual value premium in the US stock market between 1927 and 2025 was c. 4.2%, according to the Fama-French Three Factor Model. Value stocks have outperformed growth stocks almost 60% of the time (in 59 of the past 99 years).

The difficulty with this data point is that it's not possible to track in a fund: the data is very much bespoke. It establishes the returns from large-cap value and small-cap value stocks, as judged by book-to-market ratios and takes away the returns of large-cap growth and small-cap growth stocks. If the final number is positive, value stocks outperformed and vice versa.

The value premium



Source: Kenneth R. French, Dartmouth University
Past performance is not a reliable indicator of future results

Still, I think it's important to have some exposure to value stocks, given these findings. Yet, a browse through the largest global value ETFs, using the website JustETF.com, shows something rather odd. The MSCI World Enhanced Value Index

is more concentrated than its broad, market-cap-weighted counterpart.

The **iShares Edge MSCI World Value Factor ETF** has 14% of its c. £5.5bn assets invested in Micron Technology (MU), the memory chip maker that I've long thought represented one of the biggest bubbles of the artificial intelligence trade. MU's shares are up a staggering 333% in the space of 12 months. The US version of the iShares ETF has 21% in MU and a further c. 3% in Cisco (CSCO).

Both MU and CSCO have book-to-market ratios of c. 0.12x, according to Bloomberg. That's lower than the S&P 500's average of 0.18x and doesn't smack of value stocks to me.

Most other value ETFs allow MU in thanks to its low forward price-to-earnings ratio, which is predicated on a massive and enduring spike in earnings that may or may not materialise. They also have exposure to the likes of Applied Materials, Lam Research, Apple, Alphabet, Amazon and Microsoft. Value is, of course, subjective, but these aren't what I'm looking for.

Fertile ground

The global value funds I invest in tend to be open-ended, but I do have some good value investment trust options. I mentioned the two factors that outperform over the long term are small-caps and value, so you can guess that small-cap value has a place in my portfolio.

The UK is a good hunting ground here. **Aberforth Smaller Companies (ASL)**, which was recently awarded Kepler's Growth rating for 2026 thanks to strong performance, is a mainstay of my portfolio thanks to management's rigorous value approach.

That's supplemented by allocations to **Rockwood Strategic (RKW)** and **Odyssean (OIT)**, which both take a private equity-like approach to appraising and engaging with micro-cap companies and have some of the best performance records of all UK equity trusts.

Sticking with the UK, **Temple Bar (TMPL)** remains a key component of many-a portfolio, as does **Fidelity Special Values (FSV)**, which takes an all-cap approach, blending large caps with smaller companies.

A recent addition was **BlackRock Latin America (BRLA)**, after an overreaction to Lula's shock presidential election win that saw the BOVESPA (and BRLA) slump c. 17% on the news. Still, stock returns have been impressive during Lula's tenure(s) in power, and the likelihood is he won't be overly market-unfriendly – and Brazilian stocks look cheap, anyway.

We've seen a real uptick in popularity for value investment trusts in recent years, buoyed by improving performance. OIT, TMPL, **Murray International (MYI)**, **BlackRock American Income (BRAI)** and **City Of London (CTY)** are trading at premiums at the time of writing, with RKW, FSV and **North American Income Trust (NAIT)** not far behind.

With the ETF industry becoming more growth heavy, even in their supposedly value-focused offerings, the investment trust universe could be beneficiaries if and when we see wobbles in the AI trade.

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