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Defined contribution

The value of value

Jason Shapiro
Head of Defined Contribution, Institutional

Over the past 20 years, growth equities have outpaced value equities by over 5% per year[1] — which makes this a good time to reestablish the potential benefits of value equities in defined contribution (DC) plans. In this short paper, we evaluate value from three angles to help plan sponsors assess how this perennially out-of-favor style could benefit their participants.

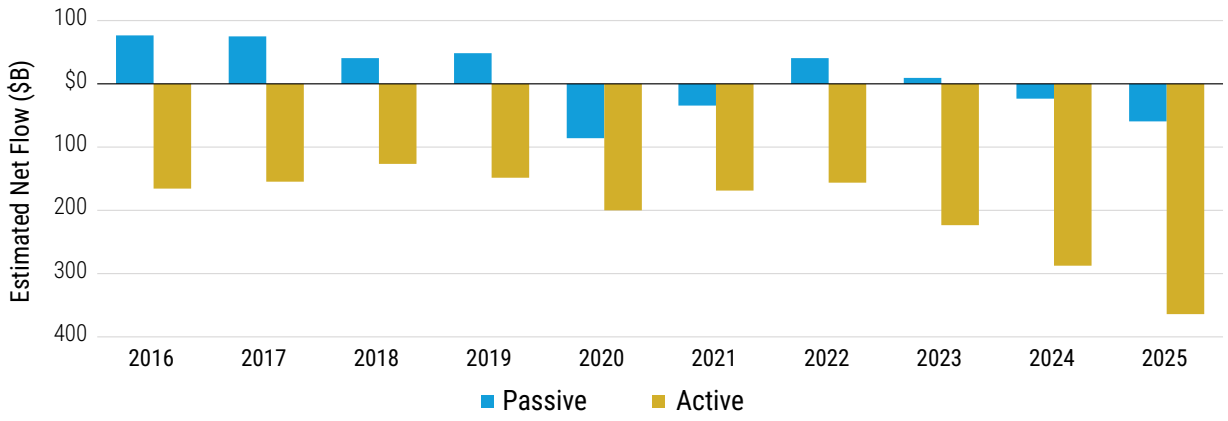
In this paper

	Topic	Takeaway
1	The value of active management	The perception that it is difficult to outperform in U.S. large cap does not always hold true when it comes to large-cap value
2	The value of portfolio construction	Portfolios focused on aligning active risk with areas of more successful active management have shown the potential for more consistent outperformance
3	The value within retirement income	The relative stability and income-producing qualities of value create unique potential for inclusion in retirement spending portfolios

Fiduciary focus: The value of active management

The trend away from active management in U.S. large cap is hard to ignore. Over the past 10 years, U.S. active large-cap mutual funds have experienced annual net flows between -$364B and -$126B while U.S. passive large-cap funds showed a more balanced range of -$86B to +$77B.[2]

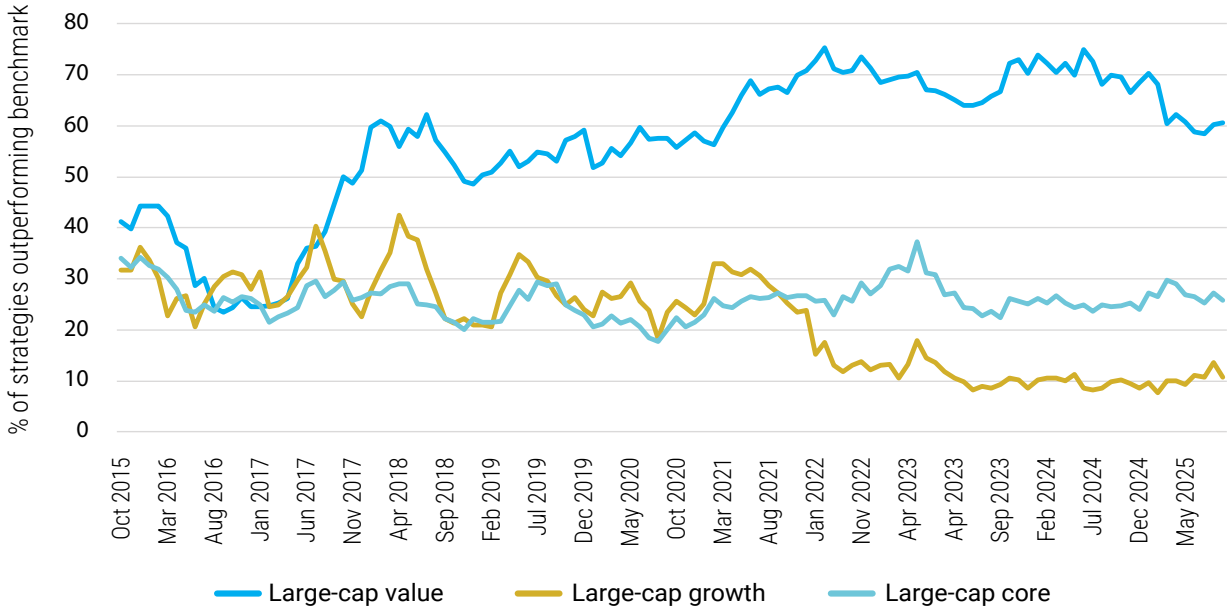
U.S. large cap: estimated net flows as of November 30



[1] As represented by the Russell 1000 Growth and Value returns as of September 30, 2025.
[2] Source: Morningstar Direct. Estimated Net Flows for trailing one-year periods as of November 30 of each year for US Open-end ex MM ex FoF ex Feeder category.

A key driver behind this trend is the belief that active outperformance is difficult to achieve in U.S. large cap. This has been exacerbated by the impact of the Magnificent Seven,* whose run-up has been so prolific that it led the Russell indices to introduce weighting caps for the first time ever, starting in March 2025. Not surprisingly, concentration at this level wreaks havoc on active managers aiming to outperform while also adhering to well-defined risk management parameters. U.S. large growth and U.S. large core universes reflect this, and these active management challenges contribute to the disparate flow data above. It's common for plan sponsors to treat U.S. equities similarly in their DC structures, so moving toward passive implementations in large-cap growth and core mandates often leads to similar treatment in large-cap value. Importantly, this may lead to missed opportunities for improved outcomes. As shown below, when looking at 5-year rolling periods, value managers, as a whole, have beaten their benchmark consistently over recent periods. In October 2017, nearly half of the value managers in the universe beat their benchmark net of fees, with the percentage peaking over 75% in February 2022. Over the full period since October 2017, 66% of value managers beat the benchmark on average.

Rolling 5-Year Net Returns



Source: eVestment. Data represents rolling 5-year net of fee returns for all managers in the U.S. large-cap value, U.S. large-cap core and U.S. large-cap growth universes. Outperformance was determined based on comparisons to the Russell 1000 Value, Russell 1000, and Russell 1000 Growth, respectively.

Higher governance investment committees with a belief in active management may consider the information above. With a reasonably high percentage of active managers adding value, committees may find a broad opportunity set of high-quality managers to choose from.

* Seven companies commonly recognized for their market dominance, their technological impact, and their changes to consumer behavior and economic trends: Alphabet (GOOGL; GOOG), Amazon (AMZN), Apple (AAPL), Meta Platforms (META), Microsoft (MSFT), NVIDIA (NVDA) and Tesla (TSLA).

DC structure emphasis: The value of portfolio construction

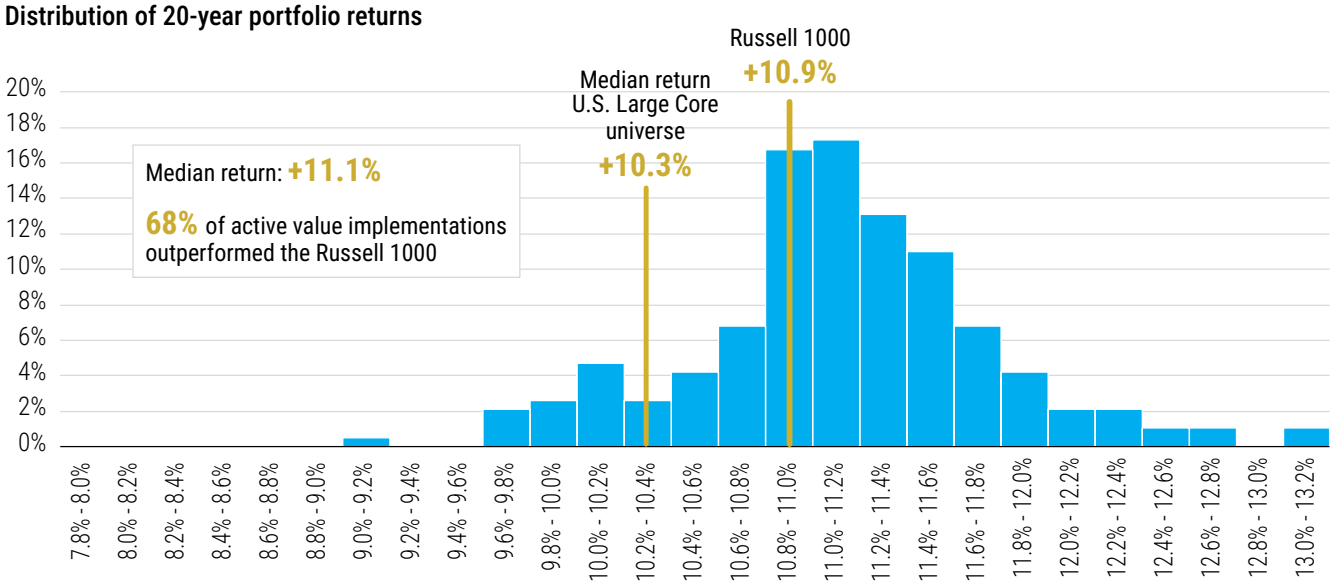
The natural question when recognizing recent active management trends is how to accommodate them within a DC structure, keeping in mind that sponsors have a fiduciary duty to act in the best interests of participants when selecting plan options. Sponsors that fully believe in active management across styles, and those that do not, can express their views easily by offering full suites of active and/or passive strategies. Those that feel the prospects in active large value are attractive but are less enamored with active management outlooks in large growth/core have a few potential options.

Implementation	Benefits	Considerations
Offer active and passive across all styles and categories	▪ Consistent options for participants, allowing them to express their active/passive views	▪ Offers active in categories where the sponsor has less conviction for outperformance
Offer active only in categories deemed most attractive	▪ Structure reflects the sponsor's beliefs about where active management is most appealing	▪ Limits participant choice ▪ Structure may appear "unbalanced"
Offer custom strategies within the plan	▪ Allows the sponsor to streamline participant decision-making ▪ Total fund can reflect sponsor's investment beliefs	▪ Greater operational and administrative complexity ▪ Scale requirements ▪ Limits participant ability to express specific investment-style views

While each of the examples above has benefits and considerations for sponsors, we believe that custom strategies may offer a better investment solution for plans that are able to consider/implement white label funds.[3] If a sponsor believes that they can select an active U.S. large-value manager that will add value net of fees, while also feeling this would be challenging in U.S. large growth, they can construct a single core option using active value and passive growth strategies.

Below, we compare the long-term performance of hypothetical white label portfolios, each consisting of a 50/50 combination of Russell 1000 Growth Index (passive) and a U.S. large-cap value manager (active). Using that approach for all U.S. large-value, active managers with at least 20 years of history, we see that the median result over the past two decades would have been 11.1% for the combination portfolios versus 10.9% for the Russell 1000.[4] Furthermore, 68% of the combination portfolios outperformed the Russell 1000, implying that a well-governed plan has an attractive pool of candidates to select from.

Distribution of 20-year portfolio returns



[3] White label funds are bespoke investment structures with one or more strategies inside them. They are designed and maintained by plan sponsors for the benefit of plan participants and beneficiaries.

[4] Source: eVestment data as of September 30, 2025. Utilized all managers from the US Large Cap Value universe, net of fees (n=191) that had 20 years of data or more. Portfolios represent 50/50 combinations of active value and passive growth (represented by the Russell 1000 Growth Index), rebalanced monthly.

The blended portfolio may also have desirable fee characteristics, given cost sensitivity in the DC marketplace. The average fee for an active value manager was 54 bps as of December 2025.[5] At a 50% portfolio target, the total investment fee for the value mandate at the portfolio level would be 27 bps. Even when adding in fees for the passive mandate and other custom fund fees, the total cost may be attractive from a sponsor's perspective.

Retirement Perspective: The value within lifetime income options

The ability to add value during accumulation is a major consideration in DC, though equally important is the role value equities can play during the spenddown phase of retirement. Guaranteed income options have been in the spotlight since the SECURE Act was enacted at the beginning of 2020. We believe, however, that there is still an important role for non-guaranteed income options in DC plans, given their inherent liquidity and flexibility.

When testing the potential role of U.S. large-value equities in these solutions, we began by looking at modeled combinations that are structured like a "typical" in-retirement portfolio – 60% fixed income (represented by the Bloomberg U.S. Aggregate) and 40% equities (looking at outcomes using each active value and active growth strategy as the equity allocation). We simulated 25-year rolling periods, using 30 years of historical index and manager return data (periods ending September 2020 – September 2025). For those periods, we reviewed two spending scenarios – 5% spending per year, and 6% spending per year.[6] We evaluated the ability of the total portfolios to support spending over these spenddown periods, where the equity allocation was tested for all actively managed value and growth strategies.

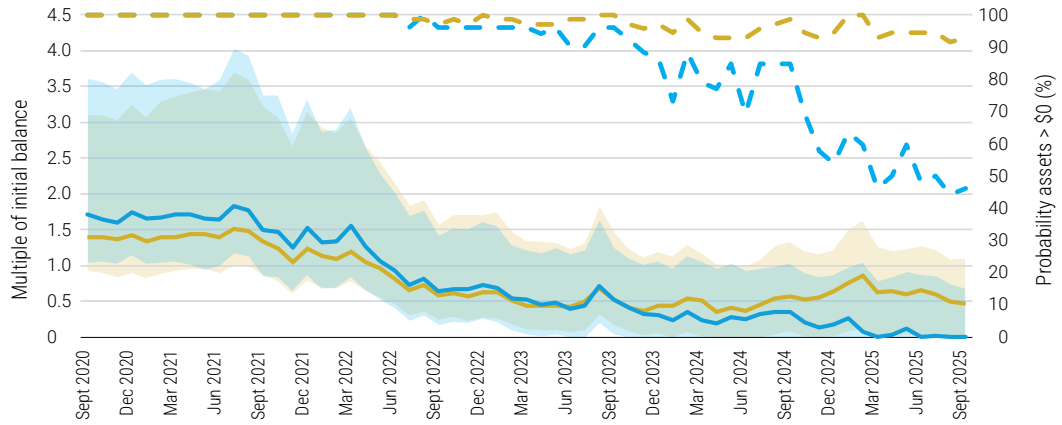
First, we observed that the ability to sustain spending through retirement is, of course, highly dependent on the market environment and future market and manager performance may differ from the historical data used in this analysis. With that said, at a 5% initial drawdown, the universe of value managers, when included as the equity portion of a 60% fixed income/40% equity portfolio, was able to support spending over the 25-year periods examined with nearly 100% certainty. The outcomes using growth managers in the portfolios, however, was challenged in more recent periods, with the probability of success trending downward toward 50% in the period ending September 30, 2025. This suggests that even with the return differential of growth over value, portfolios using value equities were able to provide more consistency in spending scenarios. This may be attributable to several factors such as the income-generating characteristics of value mandates as well as the potential for higher volatility in growth — which can be difficult to manage when money is withdrawn consistently.

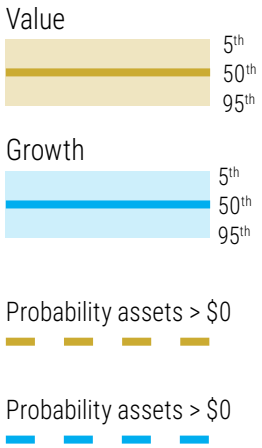
At a 6% (more aggressive) drawdown, neither growth nor value-tilted portfolios sustained spending at the median in periods ending mid-2022 to date. Still, in more recent periods portfolios allocating to value equity strategies offered an upside tail where the growth universe did not. Even with that, if more aggressive retiree spending is expected from a sponsor's population, it is appropriate to complement portfolio construction and manager selection with a full glide path review to ensure that retirement spending success probabilities are consistent with sponsor expectations.

[5] Source: eVestment using the US Large Cap Value universe. Fees represent a separately managed account sized at $50M.

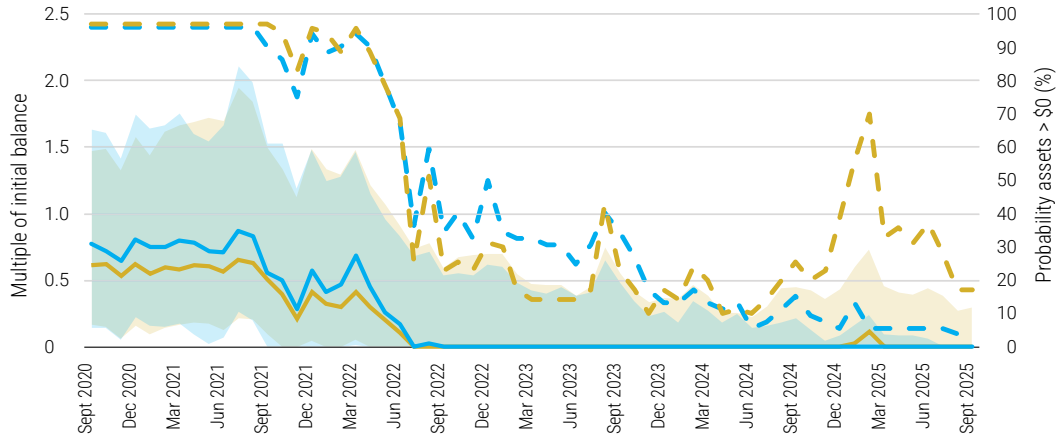
[6] Manager data sourced from eVestment using the US Large Value (n=70) and US Large Growth (n=52) universes, net of fees. Spending calculated off initial balance, adjusted by 3% each January. Withdrawals pulled monthly. Portfolios rebalanced monthly to 60% fixed income/40% equity target.

5% Spending per year — results at end of each 25-year simulation period





6% Spending per year — results at end of each 25-year simulation period



The analysis in this paper highlights that while returns are important, there are additional factors that need to be considered when assessing a strategy's suitability for inclusion in a DC plan. We believe that value equities may be attractive when evaluated through a DC lens, given their potential to improve consistency both in accumulation and decumulation.

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