

DODGE & COX

A tried and tested value manager with a century-long track record

Firm Overview

Founded in 1930, Dodge & Cox has been applying its tried-and-true value approach for nearly a century. The firm manages approximately \$323 billion across seven equity, fixed income, and balanced strategies. In addition to offering mutual funds to the public, Dodge & Cox also manages separate accounts for institutional clients. The firm's collaborative nature, disciplined approach, and focus on a small number of core strategies, have made it a strong performer in the value space. Dodge & Cox is privately owned by its employees with no single person exerting sole control over the organization.

Approach

Dodge & Cox's approach is centered around two pillars: fundamental research and collaboration. All decisions are made by committee using a consensus model. Managers often sit on multiple investment committees and regularly rotate between them. This keeps the committees' perspectives fresh while incorporating diverse viewpoints. For instance, a fixed income manager sitting on an equity committee would contribute a perspective that the equity-focused managers might not have considered.

The investment team's bottom-up research process is characterized by a long-term view and willingness to take concentrated and contrarian stances. For example, Dodge & Cox came into the pandemic with large positions in financials and energy. While both sectors suffered in 2020, the firm stayed disciplined and maintained its exposures, allowing it to benefit from the strong performance of financials during the post-covid recovery and of energy following the war in Ukraine. The Dodge & Cox Emerging Markets Stock Fund, which was launched in 2021, marks the firm's first use of quantitative models to support its research. This is a slight departure from its nearly 100 years of fundamental investing, however it is still too early to tell whether this will be to the firm's benefit.

Risks

Key person risk is low for two principal reasons. First, the firm's collaborative nature means that the loss of any one committee member has a minimal impact on the overall decision-making process. Second, the firm takes an active and long-term approach towards succession planning. Prior to taking on the role of CIO in 2022, David Hoeft was trained for over three years in anticipation of his predecessor's departure, which was formally announced 18 months in advance.

Dodge & Cox has taken extensive measures to avoid conflicts of interest with its clients. The firm does not engage in any business other than investment management; it does not use solicitors, pay to participate in wrap fee programs, or tie compensation to sales. The firm also requires portfolio managers to invest substantially alongside clients to ensure that their interests are aligned.

A consequence of Dodge & Cox's committee-based approach is that it makes the firm slow to implement changes. While this is beneficial for maintaining its tried-and-true methods, it also means that the firm risks falling behind its peers when it comes to implementing the newest investment tools and practices.

Performance

While Dodge & Cox's contrarian and long-term approach is successful at generating strong returns in the long run, it does entail higher volatility in the short-term. All six of the firm's strategies for which 5-year data is available have volatilities that exceed those of their benchmarks. This is attributable to the investment team's contrarian stances and ability to take concentrated positions in individual sectors when opportunities present themselves. An examination of active returns reveals that all seven of Dodge & Cox's strategies have outperformed their respective benchmarks in most periods. When viewed together, the firm's superior returns justify their associated risk as a majority of strategies boast Sharpe Ratios above those of their benchmarks.

Fund Performance and Risk Summary								
Strategy	Active Return					Volatility vs Index	SR vs Index	Alpha
	YTD	1 yr.	3 yrs.	5 yrs.	10 yrs.	5-year metrics		
Stock Fund ¹	5.64%	3.57%	15.57%	2.65%	3.10%	+3.17%	-0.04	-2.13%
Global Stock Fund ²	6.72%	3.04%	5.35%	0.32%	0.48%	+3.59%	+0.05	0.13%
International Stock Fund ³	1.25%	1.99%	5.56%	1.26%	0.58%	+2.53%	+0.06	1.53%
Emerging Markets Stock Fund ⁴	2.66%	6.41%	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>
Balanced Fund ⁵	(5.18%)	(2.54%)	4.26%	(0.41%)	0.11%	+3.07%	+0.00	1.92%
Income Fund ⁶	1.12%	2.76%	2.19%	1.25%	1.03%	+0.13%	+0.21	1.19%
Global Bond Fund ⁷	2.31%	8.43%	4.26%	2.94%	1.29%	+0.27%	+0.77	3.14%

Data: Dodge & Cox, MSCI, Morningstar

Fees

Dodge & Cox's has some of the lowest in its category. This is attributable to two main factors: the narrow scope of the firm's business and its ownership structure. Dodge & Cox's sole focus as an investment manager, combined with its low number of strategies allows it to operate with a relatively small team of around 300. Furthermore, employees tend to have long tenures, with members of the investments team spending an average of 20 years with the firm and employees in the rest of the organization staying for an average of 12. This reduces the cost of acquiring new talent, further contributing to Dodge & Cox's low overhead. Lastly, the firm is fully owned by its employees. This reduces the pressure for profit maximization that would otherwise exist if Dodge & Cox were controlled by public shareholders.

¹ Benchmark: MSCI USA Large Cap Value Index

² Benchmark: MSCI ACWI Large Cap Value Index

³ Benchmark: MSCI ACWI ex USA Index

⁴ Benchmark: MSCI Emerging Markets Index

⁵ Benchmark: 60% S&P 500 / 40% Bloomberg U.S. Aggregate Bond Index

⁶ Benchmark: Bloomberg U.S. Aggregate Bond Index

⁷ Benchmark: Bloomberg Global Aggregate Bond Index

The fee structure for institutional separately managed accounts is as follows:

Core Fixed Income

0.35% on the first \$25 million,

0.25% on the next \$75 million,

0.15% on the next \$150 million,

0.12% on the next \$750 million,

0.11% thereafter.

Subject to a minimum quarterly fee of \$37,500.

Long Duration and Credit-Focused Fixed Income

0.35% on the first \$25 million,

0.25% on the next \$75 million,

0.15% on the next \$150 million,

0.13% on the next \$250 million,

0.12% thereafter.

Subject to a minimum quarterly fee of \$37,500.

U.S. Equity and Balanced

0.60% on the first \$25 million,

0.40% thereafter.

Intermediate Fixed Income

0.30% on the first \$50 million,

0.25% on the next \$50 million,

0.14% on the next \$100 million,

0.11% on the next \$300 million,

0.105% thereafter.

Subject to a minimum quarterly fee of \$37,500.