

## MULTI-FACTOR SMALL CAP STRATEGY<sup>TM</sup>

**Investment Philosophy:** We believe in creating quantitative stock investment strategies based on fundamental factors that historically have been associated with superior stock returns. By combining this factor-based approach with our proprietary market-timing hedges, we feel that we can obtain the benefits of equity-like returns with substantially lower downside risk over a full market cycle. Our strategies are supported by empirical research and decades of market data. By employing a systematic approach to investing, we also seek to minimize the human cognitive and behavioral biases that typically lead to long-term investment underperformance.

**Objective:** To provide long-term capital appreciation over the full market cycle. More specifically, this strategy's integrated approach seeks to produce returns that are greater than the Russell 2000 Small Cap Index over a full market cycle by investing in small capitalization stocks that have substantial quality and low volatility factor advantages.

**Description:** This strategy is an unhedged, proprietary quantitative stock selection strategy that generally employs the following systematic investment approach.

- We begin with an initial stock universe that includes all companies included within the Russell 2000 Small Cap Index, excluding real estate companies and any stock that is traded over-the-counter.
- We next assess the quality of each stock based on certain fundamental factors such as sales, profitability, balance sheet strength and cash flow. We also consider each stock's historical price volatility. Any stock that fails to meet our defined quality and volatility criteria is excluded from consideration.
- All stocks that pass our quality and volatility screen are then ranked based on their level of profitability.
- The 50 stocks with the highest profitability are selected for inclusion in the portfolio, subject to the application of our defined constraint regarding maximum exposure to any one sector.
- The selected stocks are inverse volatility weighted and remodeled and rebalanced at least annually.

In summary, this strategy looks for quality domestic small capitalization companies that possess low-to-moderate volatility and substantial profitability. Accordingly, the principal factors that drive this strategy are size, quality and low-to-moderate volatility.

**Designed for:** This strategy is designed for investors looking to:

- Add a small cap focused, quantitative multi-factor investment strategy to their investment holding.
- Diversify a traditional asset allocation portfolio.

### SIMULATED (NET) PERFORMANCE (Quarter Ending June 30, 2022)

Annualized Return (%)*	YTD	1 Year	3 Year	5 Year	10 Year	15 Year
Strategy	-17.97	-7.61	23.46	24.27	20.98	15.95
Russell 2000 Index**	-23.52	-25.37	3.97	4.91	9.20	6.22
Excess Return (%)	5.55	17.76	19.49	19.36	11.78	9.73
<b>Risk Statistics</b>						
Strategy Max. Drawdown (%)	-	-	-38.77	-38.77	-38.77	-52.40
Benchmark Max. Drawdown (%)	-	-	-41.07	-41.13	-41.13	-59.05
Strategy Standard Deviation (%)	-	-	22.91	20.68	17.28	19.26
Benchmark Standard Deviation (%)	-	-	24.30	22.02	18.24	20.47
Strategy Sharpe Ratio	-	-	1.04	1.15	1.20	0.87
Benchmark Sharpe Ratio	-	-	0.39	0.37	0.61	0.43
Strategy Sortino Ratio	-	-	1.38	1.55	1.62	1.14
Benchmark Sortino Ratio	-	-	0.52	0.48	0.81	0.56
Strategy Annualized Alpha (%)	-	-	16.51	18.34	12.10	9.78

\*Returns are average annualized total returns, except those for periods less than one year, which are cumulative.

\*\*Benchmark: Russell 2000 Index as represented by the iShares Russell 2000 Index ETF (IWM).

**SIMULATED (NET) PERFORMANCE BY CALENDAR YEAR** (Calendar Years 2007 – 2022)

Return (%)	2007*	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022**
Strategy	-3.11	-33.53	29.84	37.71	3.74	26.99	47.59	2.89	7.87	14.49	25.16	14.20	26.51	53.33	42.34	-17.97
Russell 2000 Index	-9.08	-34.16	28.49	26.92	-4.43	16.70	38.70	5.04	-4.48	21.59	14.58	-11.12	25.39	20.03	14.54	-23.52
Excess	5.97	0.63	1.35	10.79	8.17	10.29	8.89	-2.15	12.35	-7.10	10.58	25.32	1.12	33.30	27.80	5.55

From (\*) 7/1/07 to (\*\*) 6/30/22

**KEY DEFINITIONS**

**Alpha:** A measure of performance on a risk-adjusted basis. Simply stated, alpha is considered to represent the value that a portfolio manager adds to (positive alpha) or subtracts from (negative alpha) a portfolio's return. It is expressed as an annualized percentage. For example, an alpha of 1.0% means that the portfolio has outperformed its risk-adjusted benchmark by 1.0% per year.

**Excess Return:** A strategy's annualized (net) total return in excess of the applicable benchmark's annualized total return for the same period.

**Maximum Drawdown:** The largest drop from peak to bottom during a certain time period, expressed in percentage from the peak.

**Sharpe Ratio:** A measure of a portfolio's risk-adjusted performance. It divides the average of an investment's return by the standard deviation (i.e., volatility) of returns. Therefore, the higher this ratio the better. This ratio is typically used to compare the risk-adjusted returns of two or more investments. The investment with the highest Sharpe Ratio is deemed to have the best risk-adjusted return.

**Sortino Ratio:** A measure of a portfolio's downside risk-adjusted performance. It divides the average of an investment's return by the downside standard deviation (i.e., negative volatility) of returns. Therefore, the higher this ratio the better. Like the Sharpe Ratio, this ratio is typically used to compare the risk-adjusted returns of two or more investments. The investment with the highest Sortino Ratio is deemed to have the best risk-adjusted return. However, this measure of risk-adjusted returns typically is considered superior to the Sharpe Ratio because it measures an investment's performance in relation to only its volatility of negative returns or downside volatility.

**Standard Deviation:** A statistical measurement that shows the historical volatility of an investment's return. The greater the standard deviation, the greater the volatility. For example, a volatile stock or portfolio will have a high standard deviation, while a more stable stock or portfolio will have a lower standard deviation.

**ADDITIONAL EXPLANATORY NOTES & DISCLOSURES**

1. All strategy returns are based on simulated portfolio total returns net of an estimated annual advisory fee of 0.85% and estimated slippage or bid-ask trading costs of between 0.25% and 0.65% per trade.
2. Market data for back-testing provided by Portfolio 123, S&P Global Market Intelligence, Compustat, S&P Capital IQ Estimates, ICE Data, LLP, IEX and FactSet.
3. The material in this presentation is based on information from a variety of sources we consider reliable, but we do not represent that the information is accurate or complete. The material provided herein is for informational purposes only.
4. References to market or composite indices, benchmarks or other measures of relative market performance over a specified period of time are provided for your information only.
5. This presentation is neither an offer to sell nor a solicitation of an offer to buy any securities.
6. **DISCLAIMER FOR HYPOTHETICAL OR SIMULATED PORTFOLIO RETURNS.** All returns presented are unaudited, hypothetical and intended for illustrative purposes only. All hypothetical returns are based on simulated portfolio performance and are net of an estimated annual advisory fee of 0.85% and estimated slippage or bid-ask trading costs of between 0.25% and 0.65% per trade; all dividends are assumed to be reinvested annually. Actual strategy returns from live portfolios may differ materially from hypothetical or simulated returns. There is no substitute for actual returns from a live portfolio. Back-testing is done by retroactively applying a hypothesis to the historical data to obtain returns (scientific method) or finding variables in historical data that correlate to returns and developing a hypothesis from the historical data (data mining) or applying any hypothesis to different time periods until favorable returns are discovered (data mining). Back-tested models are developed with the benefit of hindsight but might not have foresight of the future. Hypothetical returns do not reflect the macroeconomic risks of using the strategy in a different time period or may not accurately reflect the financial risk of executing actual trades in a live portfolio which include the potential market impact on stock prices caused by buying or selling that could cause the model's buy or sell prices to differ from the estimated costs used in the back-tested model. Although the information in the table gives you some idea of the historic risks involved in investing in the strategy, **PAST HYPOTHETICAL PERFORMANCE IS NOT A GUARANTEE OF FUTURE RETURNS.**
7. The simulated performance information set forth herein is for our model strategy only. Individual investors who invest in separately managed accounts that track this strategy may experience different returns than our model. Accordingly, the statements made herein are not necessarily representative of the returns that any investor may actually attain.
8. This strategy may be subject to high portfolio turnover as a result of frequent trading, and thus, may incur a higher level of taxes and transaction costs.
9. Opinions expressed are current opinions as of the date appearing in this material only.
10. Our strategies tend to be fairly concentrated and therefore may possess more risk than a more diversified strategy or index.
11. Stocks with smaller market capitalizations may have greater risk and volatility than those with larger market capitalizations.
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