

VALUATION 50 STRATEGY

Strategy Creation Date: 6/10/2004

The Valuation 50 is an investment strategy composed of a focused group of 50 stocks designed to consistently outperform the S&P 500 index in a tax efficient manner.

The Valuation 50 is managed by a team of analysts who conduct a systematic process that combines fundamental and qualitative research work, with valuation as the core guideline. In sum, the Valuation 50 aims to identify high quality and undervalued companies, which have the capacity and potential to thrive in economic cycles and outperform the overall market through an extended holding horizon.

The Valuation 50 portfolio is sector neutral to the SP 500, and the securities within each sector of the portfolio are equal weighted.

**INTRINSIC VALUE DRIVEN™ INVESTMENT PROCESS**

Intrinsic Value Driven™ Investing begins and ends with calculating the intrinsic value of every stock in a benchmark against which a portfolio is constructed and comparing those values against traded prices.

INVESTMENT STYLE: CATEGORY USE:



**STRATEGY HIGHLIGHTS**

- ▲ Objectives
  - Capital appreciation
  - Risk Mitigation
  - Tax Efficiency
- ▲ Team Managed
- ▲ Analyst Coverage
- ▲ Diversified 50 Holdings
- ▲ Sector Neutral to S&P 500
- ▲ Active Share: 78%
- ▲ Stocks Equal Weighted in Sector
- ▲ Quarterly Rebalanced
  - Sector Neutral
  - Stocks Equal Weighted
- ▲ Low Annual Turnover
  - Since Inception: 15%
  - Last Five years: 8%

**Investment Growth**

Time Period: 6/11/2004 to 12/31/2019



**INVESTMENT TEAM:**

Rafael Resendes - Co-CIO  
Founded Firm in 1995

Dan Obrycki - Co-CIO  
Founded Firm in 1995

**Fundamental Analysts:**

Jun Wang, CFA - PM/Analyst  
Joined firm in 2002

Dhaval Sanghavi CFA, CPA - PM/Analyst  
Joined firm in 2004

Alex Plascencia, MBA - Analyst  
Joined firm in 2005

Mark Everette, MBA, CPA - Analyst  
Joined firm in 2004

**Quantitative Analysts:**

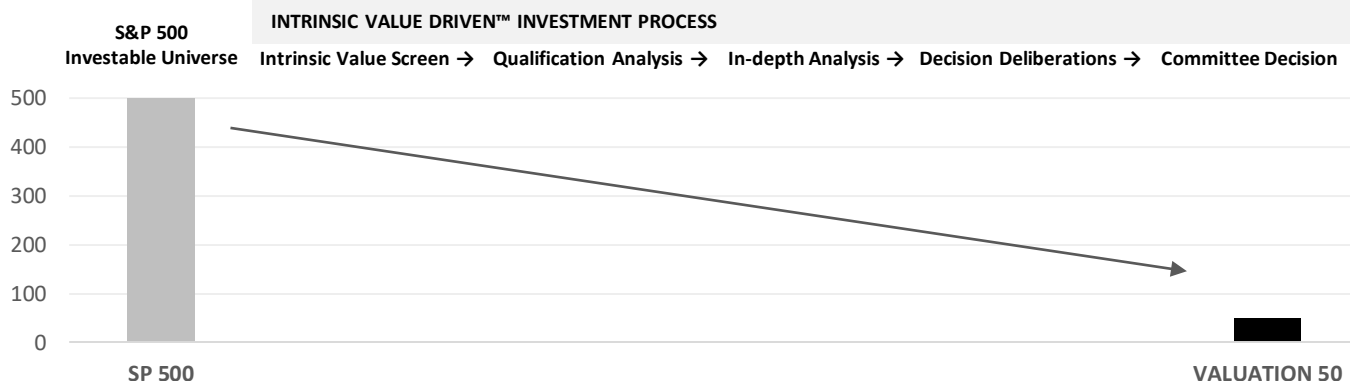
Derek Bergen, CFA - Analyst  
Joined firm in 2005

John Holt, CFA - Analyst  
Joined firm in 2014

**Annualized rates of return - gross and net of fees (%) as of 12/31/2019**

	1 year	3 years	5 years	10 years	15 years	Since Inception
Valuation 50 (Gross)	34.43%	15.44%	11.41%	14.29%	9.95%	10.30%
Valuation 50 (Net)	34.02%	15.10%	11.08%	13.95%	9.62%	9.96%
S&P 500	31.49%	15.27%	11.70%	13.56%	9.00%	9.18%

Performance Sources: Morningstar and Zephyr PSN.



### STEP 1: INTRINSIC VALUE SCREEN

Objectively screen for the top 30% of undervalued names in each sector using a proprietary valuation factor. This approach gives each analyst team member a head start in identifying buy candidates statistically poised to outperform. In addition, it ensures consistency in process that is repeatable and can be audited.

Institutionalizing a discipline for generating buy ideas empowers the analysts to focus their efforts on analyzing and vetting companies to mitigate risk. It also enables them to become intimate with the companies of interest, along with their respective industries.

### STEP 2: QUALIFICATION ANALYSIS

This step begins by verifying and auditing quantitative buy candidates for historical intrinsic value accuracy to mitigate systematic model biases. We then review management’s historical ability to create shareholder wealth by analyzing company’s historical levels of Economic Margin™, trends and variability. Followed by an analysis of historic growth strategies, organic or acquisitive, and capital structure of the firm. The goal of this step is to remove weak candidates and to then focus on the best long-term buy candidates.

### STEP 3: IN-DEPTH ANALYSIS

Analysts gain a deep understanding of the company’s business cycle, evolution, overall historic strategies. Analyze current business momentum, challenges, and outlook. Once the analyst has become intimate with the company, they perform valuation sensitivity analysis and build out custom detailed proforma model calibrations to fine-tune an intrinsic value for the stock.

### STEP 4: DECISION DELIBERATION

To further narrow down the list of investment candidates the focus shifts to analyzing risk implications of adding each buy candidate to the portfolio and understanding: Industry concentration/diversification, correlation of candidates within portfolio, additional risk/reduction to the portfolio, and an evaluation of near/long term catalysts.

### STEP 5: COMMITTEE DECISION

Analyst presents complete BUY analysis/thesis and models to committee of 5 members for vote. Here the committee evaluates all merits of buy idea. In addition, the committee will review inputs to the custom proforma model that was built for the intrinsic value estimate. A super majority vote is needed for the buy.

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### VALUATION 50 DISCLAIMER

*The Valuation 50 portfolio is a long strategy comprised of approximately 50 U.S. traded large cap equity securities believed to offer superior total returns over long-term investment horizons. The equity securities have attractive valuations and are selected to provide broad economic sector exposure. The Valuation 50 is a hypothetical model portfolio and does not reflect actual client investments.*

*The above presentation is based on holdings in the Valuation 50 strategy which started 6/10/2004. Holdings in the Valuation 50 strategy and security prices are subject to change throughout the year.*

*Gross Performance of the Valuation 50 strategy is based on a hypothetical fully-invested portfolio and excludes all fees and expenses. Net Performance of the Valuation 50 strategy is calculated by deducting an annual investment management fee from Gross Performance. Most individual accounts will have some cash level. Performance is calculated on a pre-tax basis and does not include any reduction for applicable non-U.S. withholding taxes, if any. Past performance is no guarantee of future results. Individual security weights may vary by account.*

*References to stocks held in the Valuation 50 are for informational purposes only and do not constitute an offer to buy or sell any security.*

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*The Russell 1000 Index is a market capitalization-weighted index of 1000 of the largest U.S. equities. The Russell 1000 Value index measures the performance of the Russell 1000's value segment, which includes firms with lower price-to-book ratios and lower expected growth values.*

*The S&P 500 Index is a market capitalization-weighted index of 500 of the largest U.S. equities and is often used as the standard for measuring large-cap U.S. stock market performance. An investor cannot directly invest in an index and the performance of the index may be materially different from the actual performance obtained by a specific investor.*