



STRATEGY PROFILE

# U.S. SMID Cap Value

FOURTH QUARTER 2019



## SEEKS SUPERIOR TOTAL AND RISK-ADJUSTED RETURNS BY INVESTING IN U.S. SMALL- AND MID-CAP COMPANIES

### AT A GLANCE

Our U.S. Small/Mid (SMID) Cap Value strategy pursues long-term capital appreciation by investing in a portfolio of 60-90 small- and mid-capitalization U.S. companies. As fundamental investors with a long-term orientation, we select companies based on their ability to generate free cash flow and allocate it intelligently for the benefit of shareholders. Our bottom-up security selection process balances investing in our convictions with diversification and rigorous risk control. We limit the market capitalization of the securities in the portfolio to that of the Russell 2500 Index at time of purchase.

### THE U.S. SMID CAP VALUE OPPORTUNITY

- Access to a diversified portfolio of companies with high return potential
- Minimal research coverage, creating opportunities to discover promising but overlooked companies
- Active management by an experienced investment team
- Risk management integrated with the investment process to minimize unintended risks and reduce volatility
- Record of strong risk-adjusted returns since inception
- Cash-flow-oriented approach and relatively low correlation with benchmark complements other managers within an overall asset allocation plan

### EPOCH'S DISTINCT INVESTMENT PHILOSOPHY AND APPROACH

The bedrock of our philosophy is that the growth and applications of free cash flow represent the best predictor of long-term shareholder return. As a result, our security selection process is focused on free-cash-flow metrics and capital allocation as opposed to traditional accounting-based metrics such as price-to-book and price-to-earnings.

We look for a consistent, straightforward ability to generate free cash flow and to allocate it effectively among internal reinvestment opportunities, acquisitions, dividends, share repurchases and debt pay downs. An essential factor is the evaluation of each company's management team to confirm their commitment to transparency and building shareholder value. The companies uncovered by this process have inherently less volatility due to their ability to generate cash flow.

The U.S. SMID Cap Value strategy incorporates qualitative and quantitative analysis to identify potential investments, taking into consideration factors that can lead to growing cash flow. Stocks are then subject to rigorous fundamental research. We develop an investment thesis as we assess the sources of the company's long-term value creation and management's ability to nurture it. We scrutinize management's track record of allocating capital, looking for those with the discipline to use free cash flow to maximize return on investment, thereby creating shareholder value. Once a stock has been purchased, we regularly revisit our thesis and typically sell the stock if our price target is reached, our thesis changes or we see another investment with a better risk-reward profile.

While the portfolio is constructed from the bottom up, decisions are made with consideration of the macro context. Epoch's Investment Policy Group, composed of senior members of our different strategy groups, provides insight and guidance on the global market environment and macroeconomic and industry trends.

We analyze risk as part of the portfolio construction process to monitor portfolio volatility and better ensure the delivery of the strategy's goals. A senior member of the Quantitative Research and Risk Management team is a co-portfolio manager on every strategy managed by Epoch so that portfolio managers are aware of unintended biases and the effect individual securities may have on the portfolio. The portfolio is diversified across sectors and the sizes of individual positions are limited.

### EXPERIENCED PORTFOLIO MANAGER TEAM

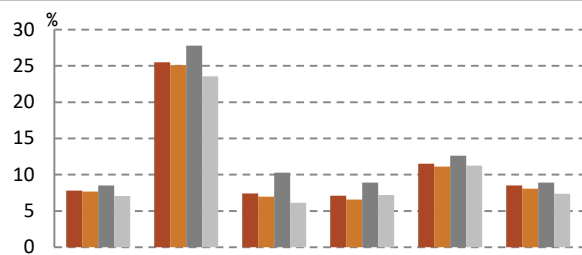
	Joined Epoch	Industry Experience
David Pearl	2004	35
Justin Howell, CFA	2012	17
Mike Welhoelter, CFA	2005	33

Supported by a team of analysts with an average of over 20 years experience

### RISK/RETURN PROFILE

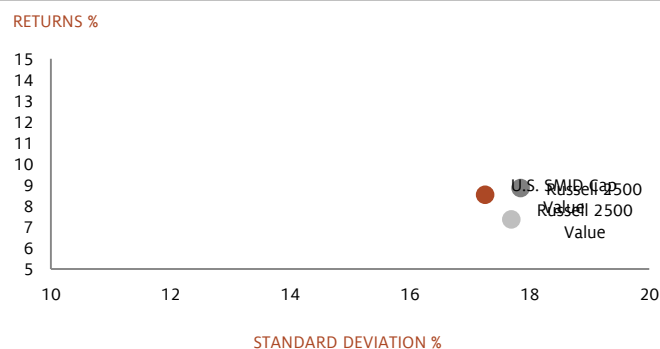
Annualized Excess Return			
vs. Russell 2500			-0.3%
vs. Russell 2500 Value			1.2%
Risk Metrics	Portfolio	Russell 2500	Russell 2500 Value
Standard Deviation	17.3	17.8	17.7
Sharpe Ratio	0.43	0.44	0.36

## U.S. SMID CAP VALUE RESULTS



	QTR	1 Year	3 Year	5 Year	10 Year	Since Incp.
Portfolio (Gross)	7.8	25.5	7.4	7.1	11.5	8.5
Portfolio (Net)	7.7	25.1	7.0	6.6	11.1	8.1
Russell 2500	8.5	27.8	10.3	8.9	12.6	8.9
Russell 2500 Value	7.1	23.6	6.1	7.2	11.3	7.4

## RISK/RETURN PROFILE



## RISK AND ACTIVE METRICS

Portfolio vs.	Info. Ratio	Alpha	Beta	R <sup>2</sup>	Active Share
Russell 2500	-0.09	0.14	0.95	0.96	95.43125418

## CHARACTERISTICS

	Portfolio	Russell 2500	Russell 2500 Value
Weighted Avg Mkt Cap (\$M)	8,431	5,638	5,392
Weighted Med Mkt Cap (\$M)	7,309	4,970	4,943
Number of Equity Positions	61	2,499	1,804
12 Month Turnover (%)	73.2		

	Portfolio (Gross)	Portfolio (Net)	Russell 2500	Russell 2500 Value
2019	25.5	25.1	27.8	23.6
2018	-15.3	-15.6	-10.0	-12.4
2017	16.4	15.9	16.8	10.4
2016	17.0	16.5	17.6	25.2
2015	-2.8	-3.2	-2.9	-5.5
2014	7.5	7.1	7.1	7.1
2013	39.0	38.5	36.8	33.3
2012	14.0	13.6	17.9	19.2
2011	-1.0	-1.3	-2.5	-3.4
2010	25.3	24.9	26.7	24.8

## PORTFOLIO COMPOSITION

### 10 LARGEST HOLDINGS

	Portfolio %
Axos Financial, Inc.	3.2
Bank OZK	3.2
Western Alliance Bancorp	3.1
LGI Homes, Inc.	3.0
Centene Corporation	2.9
Charles River Laboratories In	2.8
Jones Lang LaSalle Incorporat	2.6
XPO Logistics, Inc.	2.6
Liberty Media Corp. Series A	2.6
Encompass Health Corporation	2.4
<b>Total</b>	<b>28.3</b>

### SECTOR WEIGHTS

	Portfolio %	Russell 2500 %	Russell 2500 Value %
Communication Services	7.9	3.1	3.1
Consumer Discretionary	14.8	11.3	10.1
Consumer Staples	3.0	3.0	3.4
Energy	2.7	2.5	4.1
Financials	20.7	16.0	23.5
Health Care	11.8	13.5	5.6
Industrials	18.3	14.9	13.1
Information Technology	11.1	15.8	9.2
Materials	1.8	5.1	6.2
Real Estate	6.4	10.2	14.8
Utilities	0.0	3.6	5.8
[Unassigned]	0.0	0.9	1.0
[Cash]	1.4	0.0	0.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

### ADDITIONAL INFORMATION

Composite Inception	August 31, 2006
Strategy Assets	\$468 million
<b>Availability</b>	<b>Minimum</b>
Separate Account	\$25 million
Mutual Funds	
Mainstay Epoch U.S. Small Cap Fund	
Ticker: MOPIX (I Share)	\$5 million
Epoch U.S. Small-Mid Cap Equity Fund	
Ticker: TDUSX (I Share)	\$1 million
Collective Investment Trust	N/A

All data as of 12/31/2019 unless otherwise noted. Source: FactSet Research Systems, Inc.; Frank Russell Company ("Russell"), Totals may not add due to rounding. Excess return is the difference between annualized return since inception for the Epoch U.S. SMID Cap Value Composite Gross and the Russell 2500 and 2500 Value Indexes. Since Inception – December 31, 2002. Performance for the most recent quarter is preliminary and subject to change. The risk statistics are shown for informational purposes only and are not indicative of future results. Past performance is no guarantee of future results. Valuations are computed and performance is reported in U.S. dollars. Composite returns are presented gross and net of management fees and include the reinvestment of all income. Gross-of-fees returns are presented before management fees but after all trading expenses. Net performance reflects the gross-of-fees return reduced by the investment management fee and performance-based fee (where applicable) incurred. Effective 1/2008, net performance is calculated by deducting the actual investment management fee incurred by each portfolio in the composite. Prior to 1/2008, net-of-fee returns reflect the deduction of the highest annual management fee, calculated on a monthly basis. Returns include the effect of foreign currency exchange rates. The statements expressed herein are informed opinions, are as of the date noted, and are subject to change at any time based on market or other conditions. International investments involve special risks including currency fluctuation, long liquidity and different accounting methods and economical and political systems. Securities of smaller companies tend to be more volatile and less liquid than that of large companies. Information about indices allows for the comparison of an investment strategy's results to that of a widely recognized broad market index. There is no representation that such index is an appropriate benchmark for such comparison. Results for an index do not reflect trading commissions and costs. Index volatility may be materially different from a strategy's volatility and portfolio holdings may differ significantly from the securities comprising an index. This information is intended to highlight issues and not to be comprehensive or to provide advice only. Any reproduction, modification, distribution, transmission or republication of the information, in part or in full, is prohibited.