

## STRATEGY PROFILE

# Non-U.S. Quality Capital Reinvestment

THIRD QUARTER 2020


**SEEKS SUPERIOR TOTAL AND RISK-ADJUSTED RETURNS BY INVESTING IN COMPANIES THAT REINVEST IN THEIR BUSINESS TO GROW FREE CASH FLOW.**
**AT A GLANCE**

Our Non-U.S. Quality Capital Reinvestment strategy focuses on companies that reinvest in their businesses to grow free cash flow. We seek companies that are good capital allocators, using capital effectively to either fund internal projects or make acquisitions. Our research indicates that companies that make investments, internally or externally and generate a marginal return on invested capital that exceeds their marginal cost of capital will increase in value.

The Non-U.S. Quality Capital Reinvestment strategy pursues attractive total returns by investing in a diversified portfolio of these companies with persistent, high return on invested capital (ROIC) which is achieved through their allocation to the growth-oriented uses of free cash flow, namely investment in internal projects and acquisitions. The portfolio generally holds between 75 and 100 stocks from equity markets outside the United States, with risk controls to diversify the sources of growth and reduce volatility.

**THE NON-U.S. QUALITY CAPITAL REINVESTMENT OPPORTUNITY**

- Access to a portfolio of high-quality international companies with attractive capital appreciation potential
- Portfolio holdings generate strong free cash flow and use their cash to reinvest in their business through internal projects and acquisitions
- Invests in companies with a persistently high spread between ROIC and weighted average cost of capital (WACC)
- Active management by an experienced investment team
- Risk management integrated with the investment process

**EPOCH'S DISTINCT INVESTMENT PHILOSOPHY AND APPROACH**

Epoch believes that the key to understanding a company requires a focus on the cash generation drivers of the business—not a focus on accounting terms like earnings or book value.

How does the business generate its free cash flow, and how does management allocate that cash for the betterment of the owners of the business; i.e., the shareholders? It is the ability to generate free cash flow that makes a business worth anything to begin with, and it is the ability of management to allocate that cash flow properly that determines whether the value of the business rises or falls. There are only five things that management can do with a company's free cash flow: pay a cash dividend, buy back stock, pay down debt, make an acquisition, or invest in internal projects. If a company can invest, either internally or in an

acquisition, and generate a marginal return on invested capital that is greater than its marginal cost of capital, then making that investment will increase the value of the business. But if the return is going to be less than the cost of capital, making the investment reduces the value of the business, and management should return the capital to the shareholders. Accrual based accounting measures such as earnings, and valuation metrics based on earnings, simply do not provide the relevant information as to whether a company is successfully generating free cash flow and whether management is allocating that cash flow properly.

This strategy uses proprietary quantitative research to identify potential investments. We look for factors including ROIC greater than WACC, growth in cash flow from operations over the last five years, expected revenue growth greater than 5% and high or expanding margins. Stocks are then subject to rigorous fundamental research which is designed to assess the sustainability of the competitive advantages that has enabled each company to achieve its level of ROIC.

Risk management is integrated throughout the process with a focus on avoiding unintended risks. Portfolio risk exposures are monitored and formally communicated to portfolio managers on a regular basis and are discussed at investment meetings. The team performs a portfolio rebalance on a quarterly basis that incorporates the results of a risk optimization analysis as well as the latest results of the quantitative screens. Positions can also be added or removed at any time based on input from our fundamental analysts or in reaction to new information. There are no absolute or bench-mark relative sector constraints. No stock can contribute more than 3% of the portfolio's aggregate ROIC-WACC premium, to ensure that the portfolio does not rely too heavily on any single security to achieve that premium. Additional risk measures include maximum contributions to cash flow growth per security, revenue growth per security and cash flow margin per security. Position size is generally 0.25% to 2.0% and determined by the portfolio managers with input from the analyst and our Quantitative Research and Risk Management Team. Position weights are inversely related to the risk presented by the security within the context of the overall portfolio. Stocks are generally held as long as they continue to display the sustainable growth characteristics we seek, specifically ROIC well above WACC. Stocks are reduced or sold if a company's fundamentals change, there are more attractive alternatives with a better risk-reward outcome or if there is deterioration in the investment criteria.

**EXPERIENCED PORTFOLIO MANAGER TEAM**

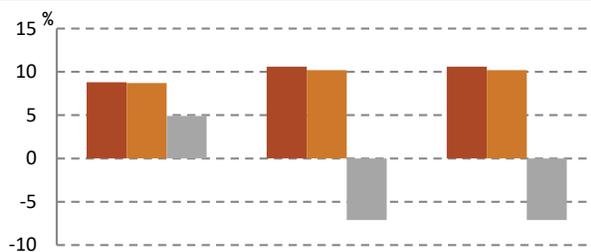
	Joined Epoch	Industry Experience
<b>David Siino, CFA</b>	2007	22
<b>Mike Welhoelter, CFA</b>	2005	34
<b>Steve Bleiberg</b>	2014	36
<b>Bill Priest, CFA</b>	2004	55

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

**ADDITIONAL INFORMATION**

<b>Composite Inception</b>	December 31, 2019
<b>Availability</b>	<b>Minimum</b>
Separate Account	\$50 million

## NON-U.S. QUALITY CAPITAL REINVESTMENT RESULTS



	QTR	YTD	Since Incp.
Portfolio (Gross)	8.8	10.6	10.6
Portfolio (Net)	8.7	10.2	10.2
MSCI ACWI ex-USA (Net)	4.9	-7.1	-7.1

## CHARACTERISTICS

	Portfolio	MSCI ACWI ex-USA
ROIC – WACC (%)	12.2	-2.2
FCF Yield (ex-financials) (%)	3.8	4.9
Weighted Avg Mkt Cap (\$M)	37,032	97,390
Weighted Med Mkt Cap (\$M)	13,858	36,099
Number of Equity Positions	93	2,375

## PORTFOLIO COMPOSITION

### 5 LARGEST HOLDINGS

	Portfolio %
Novatek Microelectronics Corp.	2.0
Sartorius Stedim Biotech SA	1.8
Wal-Mart de Mexico SAB de CV	1.8
CSL Limited	1.8
SalMar ASA	1.8
<b>Total</b>	<b>9.1</b>

### 5 LARGEST COUNTRY WEIGHTS

	Portfolio %	MSCI ACWI ex-USA (Net) %
Japan	13.4	16.5
China	12.3	12.5
United Kingdom	9.9	8.5
Italy	6.2	1.4
Australia	6.2	4.2
<b>Total</b>	<b>48.0</b>	<b>43.0</b>

### SECTOR WEIGHTS

	Portfolio %	MSCI ACWI ex-USA (Net) %
Information Technology	18.4	11.2
Health Care	16.9	10.4
Consumer Staples	16.0	9.7
Industrials	12.4	11.6
Financials	12.4	16.9
Consumer Discretionary	11.4	13.5
Materials	5.3	7.8
Communication Services	5.1	7.4
Utilities	0.5	3.4
Real Estate	0.0	2.7
Energy	0.0	4.1
[Cash]	1.6	0.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

All data as of 09/30/2020 unless otherwise noted. Source: MSCI. Totals may not add due to rounding. The inception date of the strategy is December 31, 2019. 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. Net performance is calculated by deducting the actual investment management fee incurred by each portfolio in the composite. 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.

## STRATEGY PROFILE