

# U.S. SMID Cap Quality Value

FIRST QUARTER 2022



*U.S. SMID Cap Quality Value seeks superior and risk-adjusted returns by investing in U.S. small- and mid-cap companies*

## Key Components of the U.S. SMID Cap Quality Value Strategy

A diversified portfolio of 60-90 small- and mid-cap companies that are selected based on their ability to generate free cash flow and allocate it intelligently to create shareholder value

Minimal research coverage of U.S. small- and mid-cap companies creates opportunities to discover promising but overlooked companies

Disciplined process combines the judgment and experience of fundamental investors with the rigor and objectivity of quantitative insights

Invests in companies with strong free cash flow and intelligent capital allocation policies; offers low correlations with growth, value, and other accounting-based styles

Portfolio construction framework designed to minimize unintended risks, reduce volatility, and emphasize security selection risk as the primary source of risk

Free cash flow approach expected to provide attractive balance of performance and downside protection

## Investment Philosophy

Epoch believes that the best predictors of long-term shareholder return are growth in free cash flow and management's skill in allocating that cash.

We prefer cash flow to earnings for three reasons. First, cash flows are more reliable than reported earnings because they are harder to manipulate under accounting rules. Second, for innovative businesses which derive much of their economic value from intangible assets,

reported earnings have become increasingly less relevant as a measure of value generation compared to cash flows. Third, businesses which appear to generate reported earnings but not cash flows are more likely to run into financial distress.

Capital allocation matters because decisions on how to allocate cash flows—whether to reinvest in order to grow a company, or to return capital to shareholders—can create or destroy long-term shareholder value.

## Strategy Approach and Investment Process

The U.S. SMID Cap Quality Value strategy pursues long term capital appreciation by investing in a portfolio of 60 to 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 is balanced with diversification and risk control measures that should result in below average portfolio volatility.

Our investment process begins by identifying candidates for investment from a universe of common stocks generally consisting of companies in the Russell 2500 Index, although the strategy has the flexibility to invest outside the Index.

From the investable universe, we develop a focused list of investment candidates sourced by our qualitative insights, quantitative tools, and macroeconomic observations. Analysts leverage their deep industry knowledge and experience to identify potential research candidates through meetings with companies, suppliers, customers and peers, as well as conferences and trade shows. We complement our fundamental insights with the Epoch Core Model ("ECM"), a proprietary quantitative tool that expresses and reinforces, in quantitative terms, the economic logic behind Epoch's

fundamental research, seeking out companies headed by capable managements that are able to consistently generate and grow free cash flow. The ECM evaluates each stock in our investment universe according to five broad investment characteristics—Quality, Valuation, Growth, Capital Allocation, and Investor Behavior—which we believe drive company fundamentals and security prices.

Fundamental research is carried out on potential investments and portfolio holdings by our veteran team of research analysts and portfolio managers. 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. We also evaluate each company's business model and financial statements, as well as its operating environment and valuation. Once a stock has been purchased, we regularly revisit our thesis and typically sell or trim a stock if our price target is reached, our thesis changes, or we see another investment with a better risk reward profile. We will sell a position outright if our investment thesis has been compromised due to a change in the company's strategy, business conditions, or the competitive environment.

While the portfolio is constructed from the bottom up, we consider the macro context when making investment decisions. Epoch's

Investment Policy Group, composed of senior members of our different strategy groups, provides insight and guidance on the global market environment as well as macroeconomic and industry trends.

## Risk Management

Risk management is integrated throughout the portfolio construction process as we seek to produce an efficient portfolio on a risk/return basis. The portfolio is diversified across economic drivers of return, individual position sizes are limited, and the strategy employs a strict sell discipline. We do not have strict sector limits but are aware of our sector and industry exposures through our risk management process. Position sizes are determined by the portfolio managers with input from the analyst and our Quantitative Research and Risk Management Team and are inversely related to the risk presented by each individual security within the context of the overall portfolio.

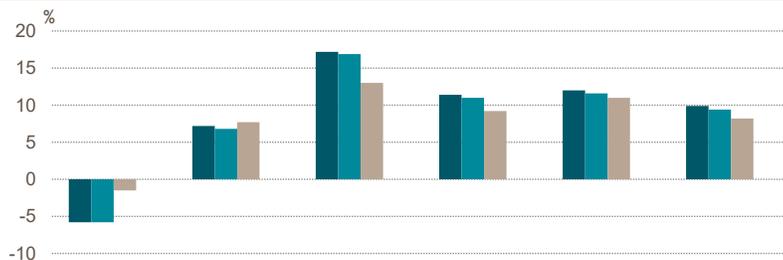
### Portfolio Management Team

#### Industry Experience

Justin Howell, CFA	20 Years
Stephen Salzone, CFA	18 Years
Mike Welhoelter, CFA	36 Years

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

## U.S. SMID CAP QUALITY VALUE RESULTS



	QTR	1 Year	3 Year	5 Year	10 Year	Since Incp.
Portfolio (Gross)	-5.8	7.2	17.2	11.4	12.0	9.9
Portfolio (Net)	-5.8	6.8	16.9	11.0	11.6	9.4
Russell 2500 Value	-1.5	7.7	13.0	9.2	11.0	8.2

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Epoch Gross Return	31.6	17.3	25.5	-15.3	16.4	17.0	-2.8	7.5	39.0	14.0
Epoch Net Return	31.3	17.0	25.1	-15.6	15.9	16.5	-3.2	7.1	38.5	13.6
Russell 2500 Value	27.8	4.9	23.6	-12.4	10.4	25.2	-5.5	7.1	33.3	19.2

### SECTOR WEIGHTS

	Portfolio %	Russell 2500 Value %
Communication Services	7.5	3.0
Consumer Discretionary	10.5	8.7
Consumer Staples	5.4	3.5
Energy	6.0	7.1
Financials	18.9	20.1
Health Care	12.0	7.4
Industrials	13.3	17.1
Information Technology	14.7	7.9
Materials	3.4	7.8
Real Estate	6.6	12.4
Utilities	0.0	4.1
[Unassigned]	0.0	1.0
[Cash]	1.6	0.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

### ADDITIONAL INFORMATION

Composite Inception	August 31, 2006
Strategy Assets	\$121 million
<b>Availability</b>	<b>Minimum</b>
Separate Account	\$25 million
Collective Investment Trust	N/A
Commingled Fund 3 (c) (7)	\$5 million

### CHARACTERISTICS

	Portfolio	Russell 2500 Value
Std Dev (%) (3yr)	23.2	23.7
Sharpe Ratio (%)	0.71	0.51
Weighted Avg Mkt Cap (\$M)	6,976	8,121
Weighted Med Mkt Cap (\$M)	5,745	6,657
Number of Equity Positions	64	1,865
12 Month Turnover (%)	76.3	

### 10 LARGEST HOLDINGS

	Portfolio %
Molina Healthcare, Inc.	2.8
Axos Financial, Inc.	2.7
Sabre Corp.	2.6
Lithia Motors, Inc.	2.4
Boston Beer Company, Inc. Cla	2.3
Nexstar Media Group, Inc. Cla	2.2
Owens & Minor, Inc.	2.1
EchoStar Corporation Class A	2.1
Liberty Media Corp. Series A	2.1
Bank OZK	2.1
<b>Total</b>	<b>23.4</b>

### THREE YEAR RISK AND ACTIVE METRICS

Portfolio vs.	Russell 2500 Value
Info. Ratio	0.81
Alpha	4.33
Beta	0.95
R <sup>2</sup>	0.95
Active Share	94.28

All data as of 03/31/2022 unless otherwise noted. Source: FactSet Research Systems, Inc.; Frank Russell Company ("Russell"). Totals may not add due to rounding. 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.

