

Mondrian U.S. Small Cap Equity Quarterly Update

U.S. Small Cap at a Glance

- Total Product Assets: \$133.8 million
- Product Inception: July 2015
- Active value-oriented defensive strategy
- Consistent application of income oriented valuation approach
- Benchmark: Russell 2000/ Russell 2000 Value
- Dedicated U.S. small cap team
- Universe: Securities that have a market capitalization of less than \$4 billion at time of purchase
- Portfolios contain 30-60 securities
- Annual turnover is expected to be below 40%

Our Organization

- Founded in 1990, with 30 years of stable, consistent leadership
- Firmwide Assets: Over \$49 billion
- Mondrian is employee-owned; approximately half of employees are partners today
- Consistent, income-oriented value discipline has been applied to all products since the firm's inception
- Highly experienced team of 56 investment professionals in London

Philosophy

We invest in stocks where rigorous dividend discount analysis isolates value in terms of the long-term flow of dividends. Dividend yield and future real growth play a central role in our decision making process and over time the dividend component is expected to be a meaningful portion of expected total return.

Benefits of Our Approach

Mondrian's approach focuses on providing a rate of return meaningfully greater than the client's domestic rate of inflation. Our portfolios seek to preserve capital during protracted global market declines. Additionally, our portfolio seeks to be less volatile than the applicable indices and competitors.

Investment Process

- A value oriented dividend discount analysis isolates value in a unified manner.
- Fundamental research is strongly emphasized. An extensive program of company visits enhances initial qualitative and quantitative desk research, both prior to the purchase of a stock and after its inclusion in the portfolio.

Performance Summary (USD)

(All Information is as of June 30, 2020)

	Composite Net %	Composite Gross %	Russell 2000 Gross %	Russell 2000 Value %
Year to Date	-27.18	-26.87	-12.98	-23.50
Quarter 2, 2020	13.57	13.81	25.42	18.91
1 Year	-19.97	-19.29	-6.63	-17.48
3 Years (annualized)	-3.09	-2.27	2.01	-4.35
Since Inception July 1, 2015 (annualized)	1.20	2.06	4.29	1.26

Characteristics

	Mondrian	Russell 2000	Russell 2000 Value
Weighted Average P/E (trailing 12 months)	13.5x	68.9x	26.8x
Weighted Average P/B	1.9x	1.8x	1.1x
Weighted Average Dividend Yield	2.5%	1.4%	2.3%
Number of Holdings	33	2,005	1439
Weighted Average Market Cap	\$2.3 billion	\$2.1 billion	\$1.7 billion
Median Market Cap	\$2.0 billion	\$0.6 billion	\$0.5 billion

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Quarter 2, 2020

Market Background

The Russell 2000 Index rebounded strongly during the second quarter (all returns in USD)

April and May saw strong gains as equity markets rallied from their mid-March low. Intermittent bouts of concern about a second wave of covid19 infections damped investor enthusiasm, but hopes of a v-shaped recovery and, perhaps more importantly, liquidity courtesy of a plethora of central banks kept markets on a rising trend. Overall the Russell 2000 gained 25.4% during the second quarter.

Consumer discretionary led sector returns

Classically cyclical sectors benefitted from the increased risk appetite of investors. Consumer Discretionary led the way, adding 58.1%, possibly reflecting an upcoming release of pent-up demand as lock-down measures ease. Other more economically-sensitive sectors also fared well with energy and materials gaining 39.9% and 29.3% respectively. While a resumption of elective surgeries as lockdown measures were eased in certain states may have bolstered the defensive Health Care sector, which rose 32.0%.

Utilities was only sector to register a loss

A reversal of the first quarter risk-off rotation into the utilities saw the sector record the only loss during the second quarter, down 3.9%. Other defensive sectors such as Financials and Real Estate fared better but nevertheless trailed the benchmark index, finishing up 11.2% and 15.6% respectively.

Performance Attribution for Q2 2020

In the context of an exceptionally robust market, the defensively-positioned portfolio was unable to keep pace. The US Small Cap net Composite underperformed the benchmark index by 9.4%. Stock selection held back investment returns. In particular, a number of stocks within industrials and health care that had outperformed in the first quarter lagged in the second.

Investment Strategy

The main highlights of the strategy being adopted for the accounts are:

- A focus on well managed companies with robust balance sheets and attractive valuations.
- Overweight positions in selected sectors (Industrials and Materials), according to valuations.
- Preference for businesses with high recurring revenue streams, potentially offering greater earnings visibility.

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Sector Allocation (All Information is as of June 30, 2020)

	Mondrian %	Russell 2000 %	Russell 2000 Value %
Energy	3.4	2.3	4.4
Materials	18.7	4.0	5.5
Industrials	38.6	14.5	16.1
Consumer Discretionary	0.0	11.8	10.9
Consumer Staples	0.0	3.3	3.5
Health Care	6.2	20.6	6.2
Financials	5.5	16.3	29.0
Information Technology	20.2	13.9	6.2
Communication Services	0.0	2.5	2.4
Utilities	0.0	3.6	5.4
Real Estate	6.0	7.1	10.4
Cash	1.2	—	—
Total	100.0	100.0	100.0

Portfolio Managers

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Portfolio Manager

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Important Notes & Disclosures

- Mondrian claims compliance with the Global Investment Performance Standards (GIPS®). Mondrian is a value-oriented defensive manager seeking to achieve high real returns for its clients. All products utilize an income-oriented value discipline. Mondrian's methodology is applied consistently to individual securities, both bonds and equities. The U.S. Small Cap Equity Composite includes US dollar based discretionary fee paying portfolios, measured against the Russell 2000 gross of US withholding taxes. To receive a complete list and description of composites and/or a presentation that adheres to the GIPS standards, contact Mondrian Investment Partners (U.S.), Inc at 215-825-4500.
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- This Quarterly Update contains supplemental information which complements the Mondrian U.S. Small Cap Equity Composite GIPS compliant presentation. Additional information is available upon request.
- Total Product Assets may consist of multiple composites. Performance for the main composite for the product is shown. Accounts may not be included in the main composite for reasons such as client domicile or client specific investment restrictions.
- Calculations for P/E, P/B, dividend yield, sector allocations and market caps are based on generally accepted industry standards. All characteristics are based on a representative account and derived by calculating the characteristics for each security, and then calculating the weighted-average of these values. The details of exact calculations can be provided upon request.
- Past performance is not indicative of future results. An investment involves the risk of loss. The investment return and value of investments will fluctuate.
- There can be no assurance that the investment objectives of the strategy will be achieved.
- All characteristic data provided is produced using Mondrian's accounting system data.
- Performance results marked "Gross" do not reflect deduction of investment advisory fees but are net of transaction costs. Investment returns will be reduced accordingly. Performance returns marked "Net" reflect deduction of investment advisory fees and are calculated by deducting a quarterly indicative fee from the quarterly composite return. The indicative fee is defined as being the effective fee rate (or average weighted fee) at the composite's minimum account size. Actual net composite performance would be higher than the indicative net performance shown because some accounts have sliding fee scales and therefore lower effective fee rates.
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- Data sources: Mondrian and FactSet. Russell 2000 characteristics calculated by Mondrian using generally accepted industry standards.
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