

# Mondrian U.S. Small Cap Equity

## U.S. Small Cap Equity Strategy at a Glance

- Total Product Assets: \$193.0 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
- Approximately USD 60 billion under management and advisement
- 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 58 investment professionals in London

## Performance Summary

Composite	Composite Net (%)	Composite Gross (%)	Russell 2000 Gross (%)	Russell 2000 Value (%)
<b>Cumulative</b>				
Q1 2021	13.59	13.83	12.70	21.17
<b>Annualized</b>				
1 Year	63.18	64.57	94.85	97.05
3 Years	6.72	7.63	14.76	11.57
<b>SI July 1, 2015</b>	<b>7.61</b>	<b>8.53</b>	<b>11.98</b>	<b>10.36</b>

## 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 market declines. Additionally, our portfolio performance has historically been less volatile than the applicable benchmarks and competing managers.

## Investment Process

- A value-oriented, dividend discount methodology designed to identify value.
- Rigorous bottom-up, fundamental research is strongly emphasized. An extensive program of company visits is used in conjunction with proprietary internal research to support the decision making process.

## Characteristics

	Mondrian	Russell 2000	Russell 2000 Value
Weighted Average P/E (Trailing 12 months)	25.1x	24.8x	20.4x
Weighted Average P/B	2.5x	2.8x	1.9x
Weighted Average Dividend Yield	1.7%	1.1%	1.7%
Number of Holdings	45	2,056	1,507
Weighted Average Market Cap	\$2.8 b	\$3.7 b	\$3.1 b
Median Market Cap	\$2.7 b	\$1.1 b	\$0.9 b

### Market Background

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#### The Russell 2000 Index registered double digit growth in the first quarter (all returns in USD)

In January, President Biden started to lay out his ambitions and plans for the next four years. These include substantial extra government spending to help the US population and the economy there to recover from the adverse effects of COVID-19. Indeed, there was good progress in the roll out of the vaccination programme in the US in the first quarter, although the disease remains prevalent in some areas. Against the backdrop of an economic recovery in 2021, most equity markets continued to make gains in the first quarter, albeit not at the rapid pace recorded at times in 2020.

#### Energy led sector returns by a notable margin

After a robust finish to a disappointing 2020 strength in the Energy sector continued as it rose 41.9% to record the largest sectoral gain in the quarter. Consumer Discretionary delivered the next highest return, rising 26.6%. Employment gains and rising household confidence supported the sector. Led by construction materials, Materials also outperformed the broader index, adding 20.0%. Financials delivered a similar return, finishing up 18.2%. The sector's, and in particular banks', earnings outlook improved as the yield curve steepened.

#### Defensives trailed as the rotation into cyclicals continued

Having significantly outperformed in 2020 as the COVID-19 pandemic struck, Health Care was a conspicuous laggard in the first three months as COVID-19 concerns eased, nevertheless it rose 0.4%. On the other hand, prior year underperformance of the Utilities sector continued into the first quarter of 2021 with a relatively modest gain of 3.4%. Information Technology trailed the benchmark, but added 5.0%. This may reflect its designation as a safe haven during the preceding turbulent twelve months thanks to recurring revenues from software subscriptions and the subsequent investor repositioning as the economy normalizes.

### Performance Attribution for Q1 2021

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Against the backdrop of another exceptionally robust quarter, the defensively-positioned US Small Cap net composite outperformed the benchmark index by 0.8%. Stock selection was broadly neutral, although it was noticeably positive within Information Technology. The main driver of outperformance was positive asset allocation, for instance, an underweight to Healthcare, which lagged the index. As they largely had toward the end of 2020, pro-cyclical areas of the stock market continued to move ahead of the benchmark. Overweight positions in two such sectors, Industrials and Materials, benefitted portfolio performance, while an underweight to Consumer Discretionary hindered.

### Investment Strategy

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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.

## Sector Allocation

	Mondrian (%)	Russell 2000 (%)	Russell 2000 Value (%)
Industrials	43.8	16.0	17.2
Information Technology	21.0	12.7	5.6
Materials	14.1	4.5	6.3
Real Estate	7.5	5.9	8.3
Financials	6.3	15.8	27.1
Health Care	4.4	19.5	6.4
Consumer Discretionary	2.2	14.6	14.2
Consumer Staples	—	3.3	3.5
Utilities	—	2.7	3.9
Energy	—	2.6	4.9
Communication Services	—	2.4	2.6
Cash	0.6	—	—
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

## Portfolio Managers

**Ormala Krishnan, PhD**  
CIO Small Cap Equities  
Managing Partner

**Brendan Baker**  
Senior Portfolio Manager  
Partner

**Alastair Cornwell**  
Portfolio Manager  
Partner

Mondrian utilizes a team approach to making investment decisions at the strategy level, with input from across the U.S. Small Cap Equity team.

See Important Notes & Disclosures on page 4.

## Important Notes and Disclosures

1. 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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