

Mondrian U.S. Small Cap Equity

U.S. Small Cap Equity Strategy at a Glance

- Total Product Assets: \$194.5 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
- Over 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 56 investment professionals in London

Performance Summary

Composite	Composite Net (%)	Composite Gross (%)	Russell 2000 Gross (%)	Russell 2000 Value (%)
Cumulative				
Year to Date	14.31	14.79	17.54	26.69
Q2 2021	0.63	0.85	4.29	4.56
Q1 2021	13.59	13.83	12.70	21.17
Annualized				
1 Year	44.59	45.82	62.03	73.28
3 Years	3.98	4.87	13.52	10.27
SI July 1, 2015	7.41	8.31	12.22	10.74

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)	19.3x	20.9x	16.4x
Weighted Average P/B	2.5x	2.9x	1.8x
Weighted Average Dividend Yield	1.5%	1.0%	1.6%
Number of Holdings	49	1,985	1,384
Weighted Average Market Cap	\$2.9 b	\$3.4 b	\$3.0 b
Median Market Cap	\$2.9 b	\$1.3 b	\$1.1 b

Market Background

The Benchmark Index* recorded additional gains in the second quarter (all returns in USD)

Data released in the period confirmed that economic growth accelerated during the first quarter. Headline inflation numbers also picked up, which caused some investors to question whether the Fed will need to tighten its monetary policy sooner than planned. Meanwhile, President Biden lent his support to a \$1.2tn infrastructure proposal from a bipartisan group of senators. While Congress had yet to ratify the plan, industry pundits were confident that a deal would be reached.

Communication Services and Energy notably outperformed

Communication Services led sector returns during the quarter, rising 33.3%, reflecting short-term optimism about the so-called reopening of the US economy. Energy also logged double-digit gains, finishing up 20.7%. Rising oil prices helped drive share price growth in the non-renewable energy subsector.

Certain defensives trailed as the rotation into cyclicals continued

The Utilities sector generated the weakest return, falling 1.6%. Industrials, Health Care and Financials also trailed the benchmark index, increasing 0.4%, 2.9% and 0.8% respectively. As so-called bond proxies, Utilities and Financials tend to underperform when inflationary pressures build. Within Industrials, the Transportation subsector weighed on total sector performance.

Performance Attribution for Q2 2021

In the context of sustained market strength, the defensively-positioned portfolio trailed the benchmark index by 3.8%. Sector allocation effects were mixed. Nevertheless, overall asset allocation held back investment performance. This was notably influenced by an overweight exposure to Industrials, which underperformed the benchmark index. Stock selection also detracted from performance. Within Information Technology, certain higher growth semiconductor and consumer electronics related stocks lagged, possibly reflecting a view that higher inflation will persist. Other holdings such as those within Health Care as well as a number of Financials stocks contributed positively.

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.

Sector Allocation

	Mondrian (%)	Russell 2000 (%)	Russell 2000 Value (%)
Industrials	37.8	14.3	15.1
Information Technology	23.5	13.6	5.5
Materials	11.8	3.8	4.7
Financials	11.1	14.8	25.3
Health Care	6.8	21.2	11.4
Real Estate	5.4	6.8	11.1
Consumer Discretionary	1.8	11.8	8.3
Consumer Staples	—	3.2	2.8
Utilities	—	2.4	4.6
Energy	—	4.3	6.6
Communication Services	—	3.7	4.5
Cash	1.8	—	—
Total	100.0	100.0	100.0

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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4. 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.
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12. Data sources: Mondrian and FactSet. Russell 2000 characteristics calculated by Mondrian using generally accepted industry standards.

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