

# Small/Mid Cap Value Equity

## Strategy Profile

### OBJECTIVE

We seek to outperform the long-term total returns of the Russell 2500 Value Index and to preserve capital.

### PHILOSOPHY

As value investors, we seek to buy businesses for less than they are worth. However, often stocks with low multiples are not attractively valued but efficiently priced. Rather than focus on traditional value factors, our process relies on multiple valuation methodologies to determine intrinsic value while also applying a margin of safety and downside protection. Each business is different, with different cycles, capital needs, and reinvestment opportunities. We believe using the same valuation framework for every situation may produce underperforming results. In our view, value creation can best be assessed by evaluating owner earnings or cash flow. We also believe that growth and value are not mutually exclusive, which may result in the strategy reflecting a greater or lower traditional value orientation at times.

### FUNDAMENTAL ANALYSIS

We apply rigorous bottom-up analysis, utilizing financial documents, other pertinent company information, in-person interviews, and additional data sources, as the first step in determining the nature of the business and the company's potential for long-term value creation. We attempt to understand management's philosophy toward growing the business, addressing risk, allocating capital, and creating shareholder value. Our process subjects potential holdings to thorough fundamental analysis and calculates intrinsic value using a variety of metrics, including free cash flow, net asset value, or potential return on capital. Reviews are conducted by at least two analysts, with the second analyst providing an opposing view to counter any possible "motivated reasoning" or other behavioral biases. Prospective holdings are vetted by the team with the final determination made by the lead portfolio managers.

### PORTFOLIO STRUCTURE

Portfolios are constructed on a bottom-up basis with sector weights incidental but consistent with our 35% policy maximum. Individual holdings are limited to a maximum of 6% at cost. Weights are determined based on quantitative and qualitative risk/reward characteristics.

### SELL DISCIPLINE

We employ a disciplined approach to sell decisions, generally selling a stock when:

- The stock appreciates to our target price without commensurate gain in intrinsic value.
- Long-term fundamentals deteriorate, negatively impacting intrinsic value.
- The existing holding is replaced with a more attractive reward/risk opportunity.
- The market capitalization drifts.

### OUR COMPETITIVE ADVANTAGE

*The strategy seeks small- and mid-cap equity opportunities in sound businesses that are priced significantly below our estimation of intrinsic value. We believe that such an approach, mirroring a private-buyer mindset, can preserve capital through improved downside protection and deliver attractive risk-adjusted returns over full market cycles.*



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## AT A GLANCE

- Primary Benchmark: Russell 2500® Value Index
- We expect to add value primarily through stock selection
- We typically invest in 30-50 companies
- The market capitalization of each of our holdings, at purchase, will be consistent with the capitalization range of the Russell 2500 Value Index
- Cash and cash equivalents generally account for less than 5% of portfolio assets, although our cash position may vary based on the level of portfolio trading

## TYPICAL INVESTMENT GUIDELINES

Factor	Guideline
Maximum Stock Weighting at Purchase	6%
Maximum Sector Weighting at Purchase	35%

EQUITY CHARACTERISTICS<sup>1, 2</sup>

	Small/Mid Cap Value Equity	R2500V
Price-to-Earnings <sup>3</sup>	21.3	19.4
Price-to-Book	2.0	1.6
Price-to-CashFlow	9.9	9.7
Dividend Yield (%)	1.7	2.3
Average Market Cap (\$B)	3.6	5.1
Current Number of Securities	40	1,700
Turnover (% LTM)	74.4	-

TOP TEN HOLDINGS<sup>1, 2</sup> (%)

Ipg Photonics Corp	5.3
American Woodmark Corp	5.2
Quotient Technology Inc	4.8
Allegiant Travel Co	4.7
Mohawk Industries Inc	4.6
Popular Inc	4.1
Crown Holdings Inc	4.0
Rogers Corp	2.9
Rpc Inc	2.8
Thor Industries Inc	2.6

## ASSETS UNDER MANAGEMENT (M) (Shown in USD)

Brandywine Global, Firmwide	74,896
Fundamental Equity Product Group *	6,808
Small/Mid Cap Value Equity	<1

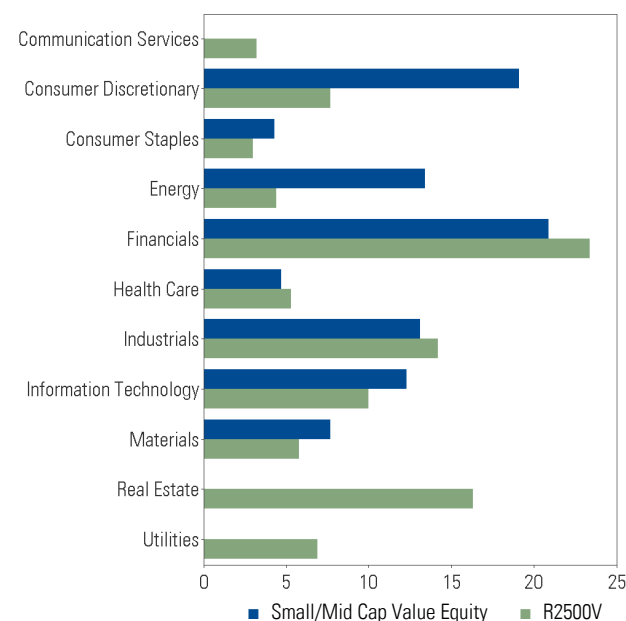
ANNUALIZED RETURNS<sup>2</sup> (%) (Results shown in USD)

	Gross	Net	R2500V	R2500
QTD	1.66	1.43	1.89	2.96
YTD	24.84	24.30	15.26	19.25
1 Year	- 2.15	- 3.03	- 1.92	1.77
3 Year	14.55	13.54	8.98	12.34
5 Year	6.94	5.99	5.54	7.66
7 Year	11.84	10.85	11.00	12.50
10 Year	13.57	12.57	13.27	14.43
Since Inception	11.52	10.50	9.95	9.61

Inception Date: 10/1/1996

CALENDAR YEAR RETURNS<sup>2</sup> (%) (Results shown in USD)

	Gross	Net	R2500V	R2500
2019	24.84	24.30	15.26	19.25
2018	- 14.34	- 15.12	- 12.36	- 10.00
2017	17.72	16.69	10.36	16.81
2016	26.61	25.50	25.20	17.59
2015	- 10.18	- 10.99	- 5.49	- 2.90
2014	2.69	1.77	7.11	7.07
2013	35.48	34.30	33.32	36.80
2012	18.65	17.60	19.21	17.88
2011	- 2.21	- 3.08	- 3.36	- 2.51
2010	21.60	20.53	24.82	26.71
2009	30.34	29.19	27.67	34.38

SECTOR WEIGHTS<sup>1, 2</sup> (%)

\*Includes \$1,844M in Fundamental Equity assets for which Brandywine Global provides non-discretionary investment management services. Non-discretionary assets are reported on one-month lag. Past performance is no guarantee of future results.

## LEAD PORTFOLIO MANAGERS

**JUSTIN C. BENNITT** PORTFOLIO MANAGER & RESEARCH ANALYST

Justin rejoined the Firm in April 2013 as an analyst on the Fundamental Equity team and now also co-manages the micro-, small- and smid-cap portfolios. He has over 18 years' experience in the investment management industry with a focus on fundamental research and analysis. Before rejoining the firm, Justin was a Managing Member of Clarke Bennett, LLC. (2005-2011). He previously held several roles with Brandywine Global including Midcap Value Equity Portfolio Co-Manager (2004 - 2005); Senior Research Analyst - Small/Smid Product Group (2001 - 2005); Research Analyst - International Value Product Group (1998 - 2001) and Quantitative Analyst - Domestic and International Product Groups (1996 - 1998). Justin earned a B.A. in Economics from Hobart and William Smith Colleges.

**GREGORY P. MANLEY, CFA** PORTFOLIO MANAGER & RESEARCH ANALYST

Greg is a portfolio co-manager for our micro- small- and smid-cap portfolios. During his career at Brandywine Global, Greg has served as a fundamental and quantitative analyst as well as the lead trader for the Diversified Value Equity portfolios. Greg joined the Firm in 2000. Previously, he was with Trinity Investment Management as a securities trader (1996-2000). Greg holds the Chartered Financial Analyst® designation and earned a B.A. in Accounting from Pennsylvania State University. He is a member of the CFA Society of Philadelphia and the CFA Institute.

## INVESTMENT TEAM

**CHRISTY BRENZA, CFA** SENIOR RESEARCH ANALYST

Christy is a senior research analyst on the Fundamental Equity team, responsible for general research coverage across geographies, industries, and market capitalizations in support of our fundamental equity products. Prior to joining Brandywine Global in August 2018, she was an equity portfolio manager/analyst and Investment Strategy Team member (2000-2012), equity and fixed income trader (1996-1999), and an equity research assistant (1994-1996) at C.S. McKee, L.P. Christy is a CFA® charterholder and earned an M.B.A. in Finance from Duquesne University and a B.S. in Economics from Pennsylvania State University.

**JAMES J. CLARKE** PORTFOLIO MANAGER & DIRECTOR OF FUNDAMENTAL RESEARCH

Jim serves as the Director of Fundamental Equity Research, co-manages the Global and International Opportunistic Equity strategies, and is a portfolio manager on the Classic Large Cap Value Equity strategy. He rejoined the Firm in December 2008 after three years serving as a founding partner of Clarke Bennett, LLC. From 1997 to 2005, Jim worked as an equity analyst and portfolio manager for Brandywine Global's large, mid, and small cap value equity portfolios, and as lead manager of the Firm's small cap portfolios for five years. Prior to his initial term of employment with Brandywine Global, Jim worked as a financial analyst at Morgan Stanley in New York and Tokyo (1991-1995). He earned a B.A. in History from Williams College where he was a member of Phi Beta Kappa and graduated summa cum laude. Jim earned an M.B.A. in Finance from Columbia University.

**IVY GLUCK, CFA** SENIOR RESEARCH ANALYST

Ivy is a senior research analyst for our Fundamental Equity Team, responsible for general research coverage across geographies, industries, and market capitalizations in support of our fundamental equity products. Prior to joining Brandywine Global in January 2014, Ivy was an intern with Brandywine Global in 2013 assisting with company research. She graduated summa cum laude with a B.A. in Mathematics from Bryn Mawr College. Ivy is a CFA® charterholder.

**PATRICK S. KASER, CFA** MANAGING DIRECTOR & PORTFOLIO MANAGER

Patrick is head of the Fundamental Equity team and serves as lead portfolio manager on the Classic Large Cap Value strategy. Patrick is responsible for researching the financial and healthcare sectors, contributing insights and stock recommendations. He joined the Firm in 1998. He is a member of the Firm's Executive Board. Before becoming a portfolio manager, Patrick worked for the Firm as an analyst on the Large Cap Value Equity team. He was also with Dean Witter as an account executive (1996-1997). Patrick is a CFA® charterholder and earned an M.B.A. in Finance from the University of Delaware and a B.A. in Political Science from Arizona State University. He is a member of the CFA Society of Philadelphia and has been quoted in The Wall Street Journal, BusinessWeek, The Washington Post, Barron's and others. Patrick has appeared on CNBC, Fox Business News, and Bloomberg television and radio.

**PRIYAL MANIAR, CFA** SENIOR RESEARCH ANALYST

Priyal is a senior research analyst for our Fundamental Equity Team, responsible for general research coverage across geographies, industries, and market capitalizations in support of our fundamental equity products. Prior to joining Brandywine Global in March 2014, Priyal served in various roles at BlackRock, Inc. (2011-2014), including as a financial institutions group analyst, fundamental equity research intern, and cash and securities lending product specialist intern. She graduated summa cum laude with a B.S. in Business Administration and a concentration in Finance from Drexel University. Priyal is a CFA® charterholder.

**CELIA RODGERS, CFA** SENIOR RESEARCH ANALYST

Celia is a senior research analyst on the Fundamental Equity team, responsible for general research coverage across geographies, industries, and market capitalizations in support of our fundamental equity products. Prior to joining Brandywine Global in September 2018, she served in various roles at Aberdeen Standard Investments (2012-2018), including as an investment manager. Celia earned a B.A. in Philosophy, Politics & Economics from the University of Pennsylvania. She is a CFA® charterholder.

**SORIN ROIBU, CFA** PORTFOLIO MANAGER & RESEARCH ANALYST

Sorin is a research analyst for our large-cap equity strategies and co-manages the Global and International Opportunistic Equity strategies. He is responsible for research coverage of U.S. and global financial companies. Prior to joining Brandywine Global in May 2014, Sorin was a global equity analyst and Principal of Turner Investment Partners (2011-2014) with a focus on global real estate, U.S. REITS, U.S. homebuilders and emerging market banks; senior research analyst, Vice President at Blackrock on their Global Opportunities team covering global financials (2005-2011); and an investment banking analyst focusing on global industrials and corporate and investment banking for Bank of America Securities (2004-2005). He graduated summa cum laude with a B.S. in Business Administration from Drexel University and studied at the Academy of Economic Studies of Moldova. Sorin is a CFA® charterholder.

**STEVEN D. SHIN, CFA** SENIOR RESEARCH ANALYST

Steven is a senior research analyst for our Fundamental Equity Team. Prior to joining Brandywine Global in April 2016, Steven was a senior investment analyst covering multiple sectors for value investment firms, Aegis Financial Corporation (2012-2015) and Leap Tide Capital Management (2005-2012), and an investment analyst for value investment firm, Kenner Management (Tivoli Partners, L.P.)(2004-2005). He also held associate positions in equity research with Jefferies & Company (2002-2004) covering value-oriented special situations and C.E. Unterberg, Towbin (2000-2001) covering technology. Steven graduated from Swarthmore College with a B.A. in Economics and is a CFA® charterholder.

## TRADERS

**JOHN R. EDELMAN** EQUITY TRADER

John is the lead trader for the Firm's micro-, small- and small/mid-cap portfolios and a primary trader for the Wealth Management Group channel. He is also responsible for providing support to the Diversified Value Equity portfolios. John joined the Firm in 1999. Previously, he was with Southcoast Capital as an institutional equity trader (1996-1999), and PNC Bank as a financial analyst (1989-1996). John earned an M.B.A. in Finance from St. Joseph's University and a B.A. in Finance and Accounting from Lehigh University.

**KEVIN MCCLAFFERTY** EQUITY TRADER

Kevin is the primary trader for the Fundamental Equity team's Wealth Management Group channel. He also supports the U.S. equity trading desk in performing functions for all equity investment strategies at Brandywine Global. Prior to becoming an equity trader in August 2009, Kevin supported the trading desk as a trading assistant and has been with the Firm since 1999. Kevin earned a B.S. in Finance from Wilmington University.

**DAVID A. TATTERSALL** HEAD EQUITY TRADER

Dave is the head trader for Brandywine Global's equity portfolios. Prior to being appointed to this position in March 2007, he served as lead equity trader for the Firm's Diversified Value Equity portfolios in addition to providing support to the Fundamental Equity team. He joined the Firm in 2000. Previously, Dave was with OTA Limited Partnership, a full-service institutional broker/dealer, as a financial analyst/trader (1989-2000); First Federal Savings Bank as a senior accountant (1987-1989), and Beneficial Mortgage Corporation as the loan accounting manager (1985-1987). Dave earned a B.S. in Accounting from Pennsylvania State University.

**DONNA VAN VLACK** VICE PRESIDENT, EQUITY TRADER

Donna is the lead trader for the Firm's large-cap portfolios. Donna joined the Firm in 1996. Previously, she was a trader with Caxton Corporation (1995); vice president and head trader with Chesapeake Partners Management Company (1993-1995); vice president with UBS Securities, Inc. (1991-1993); vice president with Dillon, Read & Co. (1986-1991); vice president and head of trading with Avatar Associates (1982-1985), and a trader with Soros Fund Management (1978-1981). Donna earned a B.A. in History and Political Science from Wellesley College.

## SPECIALISTS

**WILLIAM M. ROACH** GROUP PRODUCT SPECIALIST

Bill is the group product specialist for the Firm's micro-, small- and small/mid-cap portfolios. As an investment professional in this role, he is the primary point of contact for selected accounts and provides administrative support to the investment team. Bill joined the Firm in 2003. Previously, he was a senior investment analyst for The Vanguard Group (2000-2003); senior equity analyst for DuPont Capital Management (1996-1999); partner/portfolio manager/analyst & director of marketing for Cashman, Farrell & Associates (1990-1996); portfolio manager & vice president for Smith Affiliated Capital Corp. (1989-1990); senior portfolio manager and vice president of marketing for Hutton Capital Management (1986-1989); and account executive for Merrill Lynch, Pierce, Fenner and Smith & Thomson McKinnon Securities (1982-1986). Bill graduated cum laude with a B.A. in Political Science from Boston College.

## Small/Mid Cap Value Equity Composite

## ANNUALIZED RETURNS (%) (Results shown in USD)

	Gross	Net	R2500V	R2500
QTD	1.66	1.43	1.89	2.96
YTD	24.84	24.30	15.26	19.25
1 Year	- 2.15	- 3.03	- 1.92	1.77
3 Year	14.55	13.54	8.98	12.34
5 Year	6.94	5.99	5.54	7.66
7 Year	11.84	10.85	11.00	12.50
10 Year	13.57	12.57	13.27	14.43
Since Inception	11.52	10.50	9.95	9.61

Inception Date: 10/1/1996

## GIPS INFORMATION (% , Unless Otherwise Noted) (Results shown in USD)

	Gross	Net	R2500V	R2500	# of Accounts	Market Value (M)	Total Firm Assets (M)	Composite Dispersion	Composite Rolling 3Y SD	R2500V Rolling 3Y SD	R2500 Rolling 3Y SD
2019	24.84	24.30	15.26	19.25	1	0	74,896	-	22.54	14.89	15.28
2018	- 14.34	- 15.12	- 12.36	- 10.00	1	0	70,070	-	20.10	13.58	14.10
2017	17.72	16.69	10.36	16.81	1	105	74,382	-	15.29	11.81	12.13
2016	26.61	25.50	25.20	17.59	1	89	65,498	-	15.10	13.17	13.67
2015	- 10.18	- 10.99	- 5.49	- 2.90	2	72	68,819	-	11.88	12.02	12.42
2014	2.69	1.77	7.11	7.07	5	112	63,375	-	10.45	11.25	11.67
2013	35.48	34.30	33.32	36.80	4	128	50,050	-	13.22	15.07	15.63
2012	18.65	17.60	19.21	17.88	7	247	42,894	0.13	15.24	18.41	18.97
2011	- 2.21	- 3.08	- 3.36	- 2.51	9	555	33,122	0.12	18.58	24.23	23.40
2010	21.60	20.53	24.82	26.71	11	665	31,996	0.15	22.23	26.97	26.80
2009	30.34	29.19	27.67	34.38	12	666	29,199	0.58	21.04	24.61	24.25

R2500V = Russell 2500 Value R2500 = Russell 2500

Organization: Brandywine Global Investment Management, LLC (the "Firm") is a wholly owned, independently operated, subsidiary of Legg Mason, Inc. Brandywine Global Investment Management, LLC claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Brandywine Global Investment Management, LLC has been independently verified for the periods January 1, 1993 through June 30, 2018. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. The Small/Mid Cap Value Equity Composite has been examined for the periods October 1, 1996 through June 30, 2018. The verification and performance examination reports are available upon request. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request. Disclosed total firm assets represent the total market value of all discretionary and nondiscretionary, fee-paying and non-fee-paying assets under the Firm's management. Composite Description: The Small/Mid Cap Value Equity Composite (the "Composite") inception date is October 1, 1996 and the Composite creation date is October 1, 1996. The Composite includes separate, fully discretionary, fee-paying accounts with no minimum value requirement and no investment restrictions invested in the firm's Small/Mid Cap Value Equity strategy. The strategy invests in small-to-mid capitalization stocks (typically consistent with the capitalization range of the Russell 2500 Index) that are, in the portfolio team's opinion, inexpensive relative to the company's intrinsic value and results in approximately 60 - 90 positions. Benchmark: The Russell 2500 Value Index offers investors access to the small to mid-cap value segment of the U.S. equity universe. It is constructed to provide a barometer of the small to mid-cap value market. The Russell 2500 Index measures the performance of the 2,500 smallest companies in the Russell 3000 Index Performance Calculation: Preliminary data, if so noted, reflects unreconciled data for the most recent reporting period. Portfolios are valued daily on a trade date basis and include dividends and interest as well as all realized and unrealized capital gains and losses. Return calculations at the portfolio level are time-weighted to account for periodic contributions and withdrawals. Performance results are calculated on a before tax, total return basis. Prior to July 1, 2007, portfolios were included in the Composite beginning with the first full quarter of performance through the last full quarter of performance. After July 1, 2007, portfolios are included in the Composite beginning with the first full month of performance through the last full month of performance. Composite returns are reported on quarterly basis. The Composite returns consist of size-weighted portfolio returns using beginning of period values to weight the portfolio returns. Monthly linking of interim performance results is used to calculate quarterly and annual returns. Composite's valuations and returns are computed in U.S. Dollars ("USD"). The results are presented in USD or in other currencies (to accommodate overseas investors), the latter by converting monthly USD returns into other currency returns using the appropriate currency exchange rate returns. Gross returns reflect the deduction of trading expenses. Net of fee returns reflect the deduction of trading expenses and the highest investment management fees charged within the composite membership as stated in the fee schedule below. Composite dispersion is calculated using the asset-weighted standard deviation method for all portfolios that were in the Composite for the entire year. Composite dispersion is not presented for periods with five or fewer portfolios. The number of accounts and market values are as of the end of the period. The three-year annualized standard deviation measures the variability of the composite and the benchmark returns over the preceding 36-month period. Past performance is no guarantee of future results. A complete list describing the Firm's composites as well as any additional information regarding the Firm's policies for calculating and reporting performance results is available upon request. Fee Schedule: Institutional Client Separate Account Management Fee Schedule (Minimum investment \$10 million): 0.900% on the first \$20 million; 0.800% on the next \$30 million; 0.700% on portion of assets in excess of \$50 million. Additional information on the Firm's fee schedule can be found in Form ADV Part 2A which is available upon request.

Past performance is no guarantee of future results.

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## FOOTNOTES & DISCLOSURES

R2500V = Russell 2500™ Value Index    R2500 = Russell 2500™ Index

1. The data represent the aggregate characteristics of all securities held in the respective Representative Portfolio, an actual commission account not subject to taxation, and are included for informational purposes only. The Portfolio Characteristics of any particular account may vary based on any investment restrictions applicable to that account.
2. Supplemental to attached Small/Mid Cap Value Equity Composite GIPS presentation
3. Portfolio characteristics calculation uses weighted harmonic average methodology.

Source: Bloomberg. Investing involves certain risks, including possible loss of principal. You should understand and carefully consider a strategy's objectives, risks, fees, expenses and other information before investing. In rendering portfolio management services, Brandywine Global Investment Management, LLC may use the portfolio management services, research and other resources of its affiliates. The views expressed in this document are not intended to be a recommendation or investment advice and do not take into account the individual financial circumstances or objectives of the investor who receives it. The securities described herein may not be suitable for all investors. There is no guarantee that Brandywine Global will meet any of its investment objectives. Individual securities mentioned are intended as examples of portfolio holdings and are not intended as buy or sell recommendations. Characteristics, holdings and sector weightings are subject to change and should not be considered as investment recommendations. There is no guarantee that holding securities with relatively high (or low) price-to-earnings, price-to-book or price-to-cash flow ratios will cause the portfolio to outperform its benchmark or index. Investments in small- and medium-capitalization companies may involve a higher degree of risk and volatility than investments in larger, more established companies. Small capitalization companies may present such risks as lack of product diversification, potentially insufficient capital resources and greater exposure to business and economic cycles. All indices are unmanaged and are not available for direct investment. Indices do not incur costs including the payment of transaction costs, fees and other expenses. This information should not be considered a solicitation or an offer to provide any Brandywine Global Investment Management, LLC service in any jurisdiction where it would be unlawful to do so under the laws of that jurisdiction. Stated assets under management may include some portfolios that are not contained in the strategy's composite. Some portfolios may fall into multiple strategies as the portfolio(s) meet the definition of multiple composites. Returns are presented gross and net of management fees and include the reinvestment of all income. Gross returns will be reduced by the investment advisory fee and other expenses incurred in the management of the account. Net of fee performance was calculated using the highest management fee as described in Brandywine Global's Form ADV Part 2A, which is available upon request. Please refer to our GIPS® presentations, which include performance footnotes, fee schedules, detailed index descriptions, and disclosures.

**Past performance is no guarantee of future results.**

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