

# 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> | 16.2                       | 25.4   |
| Price-to-Book                  | 2.3                        | 2.0    |
| Price-to-Cash Flow             | 14.9                       | 11.6   |
| Dividend Yield (%)             | 0.9                        | 1.6    |
| Average Market Cap (\$B)       | 6.5                        | 7.1    |
| Current Number of Securities   | 35                         | 1,865  |
| Turnover (% LTM)               | 56.6                       | -      |

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

|                      |     |
|----------------------|-----|
| Cimpress Plc         | 5.1 |
| Aspen Technology Inc | 4.9 |
| Popular Inc          | 4.6 |
| Abiomed Inc          | 4.4 |
| Vroom Inc            | 4.2 |
| Irobot Corp          | 4.0 |
| Ipg Photonics Corp   | 3.7 |
| Cavco Industries Inc | 3.5 |
| Planet Fitness Inc   | 3.3 |
| Pacwest Bancorp      | 3.3 |

<sup>†</sup> Includes \$2,783M in Fundamental Equity assets for which Brandywine Global provides non-discretionary investment management services. Nondiscretionary assets are reported on one month lag.

Past performance is no guarantee of future results.

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

|   |        |
|---|--------|
| Brandywine Global, Firmwide                   | 66,668 |
| Fundamental Equity Product Group <sup>†</sup> | 6,909  |
| Small/Mid Cap Value Equity                    | <1     |

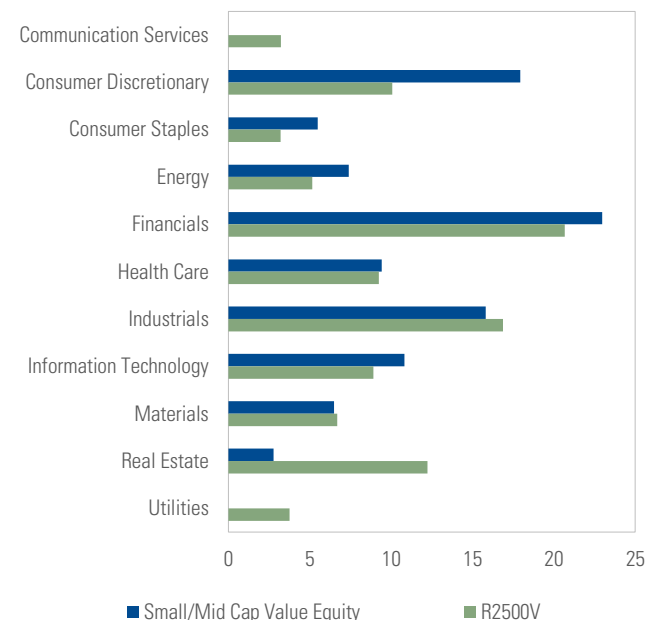
**ANNUALIZED RETURNS<sup>2</sup> (%) (Results shown in USD)**

|                 | Gross | Net   | R2500V | R2500 |
|-----------------|-------|-------|--------|-------|
| QTD             | -7.73 | -7.94 | -2.07  | -2.68 |
| YTD             | 17.31 | 16.54 | 20.14  | 13.83 |
| 1 Year          | 59.10 | 57.73 | 54.38  | 45.03 |
| 3 Year          | 13.72 | 12.72 | 8.86   | 12.45 |
| 5 Year          | 17.58 | 16.54 | 10.48  | 14.25 |
| 7 Year          | 12.82 | 11.82 | 9.52   | 12.18 |
| 10 Year         | 15.34 | 14.32 | 13.34  | 15.26 |
| Since Inception | 12.49 | 11.47 | 10.33  | 10.37 |

Inception Date: 10/1/1996

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

|      | Gross  | Net    | R2500V | R2500  |
|------|--------|--------|--------|--------|
| 2021 | 17.31  | 16.54  | 20.14  | 13.83  |
| 2020 | 32.63  | 31.47  | 4.88   | 19.99  |
| 2019 | 27.63  | 26.51  | 23.56  | 27.77  |
| 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  |

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

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

|                 | Gross | Net   | R2500V | R2500 |
|-----------------|-------|-------|--------|-------|
| QTD             | -7.73 | -7.94 | -2.07  | -2.68 |
| YTD             | 17.31 | 16.54 | 20.14  | 13.83 |
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| 10 Year         | 15.34 | 14.32 | 13.34  | 15.26 |
| Since Inception | 12.49 | 11.47 | 10.33  | 10.37 |

Inception Date: 10/1/1996

## GIPS INFORMATION (% , unless otherwise noted) (Results shown in USD)

| Year or YTD | 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 |
|-------------|--------|--------|--------|--------|---------------|------------------|-----------------------|----------------------|-------------------------|----------------------|---------------------|
| 2021        | 17.31  | 16.54  | 20.14  | 13.83  | 1             | 0                | 66,668                | -                    | 32.12                   | 25.50                | 24.25               |
| 2020        | 32.63  | 31.47  | 4.88   | 19.99  | 1             | 0                | 63,872                | -                    | 31.50                   | 25.05                | 24.21               |
| 2019        | 27.63  | 26.51  | 23.56  | 27.77  | 1             | 0                | 74,024                | -                    | 22.13                   | 14.23                | 14.58               |
| 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               |

R2500V = Russell 2500 Value

R2500 = Russell 2500

Organization: Brandywine Global Investment Management, LLC (the "Firm") is a wholly owned, independently operated, subsidiary of Franklin Resources, 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, 2020. The verification report(s) is/are available upon request. 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. Verification does not ensure the accuracy of any specific composite presentation. Policies for valuing investments, calculating performance, and preparing GIPS Reports 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. Primary Benchmark Description: 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. Secondary Benchmark Description: 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, calculated using gross-of-fee returns, 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 list of composite descriptions and a list of limited distribution pooled fund descriptions are 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 (© 2021, Bloomberg Finance LP). 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. 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. 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.

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