

# Meritage Value Equity

The Meritage Value Equity strategy has been in existence since the firm's inception in 1991, capitalizing on the firm's conviction in quantitative methodologies to drive security selection.

At the heart of the investment approach is a multi-factor ranking process which identifies investment candidates with unsustainably low valuations and strong or improving cash flow return on investment. This process evaluates companies on the basis of valuation, earnings quality, market reaction, and capital deployment. An overlay of macro-economic and investment style analysis enables factor weighting to be dynamic. A qualitative assessment focuses on risk control and assures that decisions are not fully automated. The strategy's objective is to generate excess return over the S&P 500 Large Cap Value Index.

## Core Beliefs

- Our multi-variable approach to valuation expands the "value" universe beyond that used by many traditional value managers, enabling ownership of attractive investments not found in other value strategies.
- A systematic, factor-based security selection process is highly efficient for identifying companies that rank the best across a set of pre-defined characteristics. The price paid for a security is the primary determinant of risk and return.
- A distinctive process to identify and assess investment opportunities is crucial in order to produce differentiated results.

## Key Facts

|                 |                               |
|-----------------|-------------------------------|
| Inception       | December 31, 2000             |
| Benchmark       | S&P 500 Large Cap Value       |
| Firm AUM        | \$2.4 billion as of 3/31/2024 |
| Total Strategy  | \$341.3 million               |
| Firm Associates | 18                            |

# Meritage Value Equity Investment Process

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**3500 securities pre-screened for financial quality and liquidity**

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**Multi-factor ranking process combines two independent perspectives:** 1) Valuation, earnings quality, capital efficiency, and market reaction factors that correlate with subsequent price movement; 2) Intrinsic valuation.

**Top ranked candidates (Deciles 1-2) form primary buy candidate list**




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**A sell discipline** is primarily driven by the deterioration in a stock's multi-factor rank.

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**Qualitative assessment:** focus on risk control with regard to portfolio diversification and sensitivity to value traps.

**5-Yr. historical turnover approximately 80%**

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**Portfolio construction  
35 - 75 securities**

## Portfolio Construction

- Sector diversification: sector sizes can be up to two times the index for larger sectors; up to three times for smaller sectors.
- Non-U.S. holdings, including tax haven domiciles, have averaged 14% of the portfolio since inception.
- No quant-engineered ex-ante tracking error target or risk optimization
- Cash balances are primarily frictional
- Portfolio characteristics controlled within ranges relative to benchmark
- Position size ranges from 1 - 4%

# Quantitative Analysis

- Multifactor Screen and Rank
- Objective Discipline Generates Buy Ideas (Deciles 1-2)
- Binds Investment Team to a Common Mindset

Our quantitative evaluation process integrates data from several outsourced research firms, enabling us to focus our time more productively on the model's output.

This combination of resources enhances our ability to interpret underlying trends and make dynamic adjustments as the investment cycle evolves. This work compliments our 30 years' experience of implementing a process-driven approach in identifying attractive investments.

## **Our Value model evaluates companies from several key perspectives:**

An overlay of macro-economic and investment style analysis enables factor weighting to be dynamic. This draws on signals from the fixed income, commodity, currency, and equity markets.

The model emphasizes cash flow-based valuation and profitability, intangible asset evaluation, R&D investment, earnings quality and capital spending analysis, market price trends, and investor sentiment.

Newer research using Artificial Intelligence and Big Data impacts model factor weights and introduces new factors like media sentiment and news intensity.

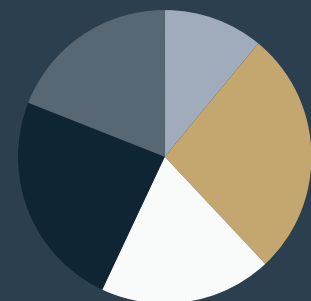
Forward looking judgments come into play when the research team identifies key changes in factor effectiveness.

### Market Regime Overlay



|  |     |
|--|-----|
| Regime Indicator                           | 30% |
| Treasury Bond Market's Term Premium        | 15% |
| Level & Direction of Our Valuation Spreads | 35% |
| Machine Learning Macro Indicator           | 20% |

### The Value Model



|                    |     |
|--------------------|-----|
| Earnings Quality   | 24% |
| Market Reaction    | 19% |
| Valuation          | 27% |
| Capital Deployment | 19% |
| Machine Learning   | 11% |

Source: Empirical Research Partners

# Meritage Value Equity Performance

## Annualized Returns (%)

Periods Ending 3/31/2024

|                                    | QTR* | 1 Year | 3 Years | 5 Years | 10 Years |
|------------------------------------|------|--------|---------|---------|----------|
| <b>Meritage Value Equity Gross</b> | 10.4 | 25.1   | 10.2    | 10.8    | 8.5      |
| <b>Meritage Value Equity Net</b>   | 10.2 | 24.1   | 9.3     | 9.9     | 7.6      |
| S&P 500 Large Cap Value Index      | 8.1  | 25.6   | 12.2    | 13.3    | 10.6     |

\*Unannualized results.

## Calendar Year Returns (%)

|                                    | 2023 | 2022 | 2021 | 2020 | 2019 | 2018  | 2017 | 2016 | 2015 | 2014 |
|------------------------------------|------|------|------|------|------|-------|------|------|------|------|
| <b>Meritage Value Equity Gross</b> | 16.8 | -8.9 | 30.3 | -1.4 | 20.1 | -9.4  | 16.8 | 10.3 | -1.5 | 12.5 |
| <b>Meritage Value Equity Net</b>   | 15.8 | -9.7 | 29.3 | -2.3 | 19.1 | -10.1 | 15.9 | 9.4  | -2.4 | 11.6 |
| S&P 500 Large Cap Value Index      | 22.2 | -5.2 | 24.9 | 1.4  | 31.9 | -9.0  | 15.4 | 17.4 | -3.1 | 12.4 |

### Consistency of Returns

**Rolling 3-Year (Net of Fees) Periods vs. S&P 500 Large Cap Value Index exceeds benchmark 38% of periods**  
For Periods 12/31/2000 to 3/31/2024

Performance figures are net of fee.



◆ Meritage — S&P 500 Large Cap Value Index

Please see GIPS Report for the Meritage Value Equity Strategy on pages 7-8.

# Meritage Value Equity Portfolio

Period Ending 3/31/2024

## Sector Diversification (%)

|                        | Strategy | Index |
|------------------------|----------|-------|
| Energy                 | 6.6      | 6.7   |
| Materials              | 4.5      | 3.5   |
| Industrials            | 8.9      | 11.4  |
| Consumer Discretionary | 8.8      | 5.6   |
| Consumer Staples       | 8.1      | 9.9   |
| Health Care            | 12.8     | 18.5  |
| Financials             | 20.3     | 22.8  |
| Information Technology | 15.5     | 8.2   |
| Communication Services | 5.5      | 4.6   |
| Utilities              | 5.4      | 4.7   |
| Real Estate            | 1.6      | 4.1   |
| Market ETFs            | 2.0      | 0.0   |

## Top Ten Holdings (%)\*

|                      |     |
|----------------------|-----|
| PulteGroup Inc       | 3.3 |
| JP Morgan Chase & Co | 3.0 |
| Reliance Steel       | 2.9 |
| W W Grainger Inc     | 2.7 |
| Acuity Brands        | 2.5 |
| Arch Capital Group   | 2.5 |
| Applied Matls Inc    | 2.5 |
| Procter & Gamble Inc | 2.5 |
| Wells Fargo Company  | 2.4 |
| Qualcomm             | 2.4 |

\*Not including periodic use of sector/market ETFs.

Portfolio information is for a representative account.

## Portfolio Characteristics

|                            | Strategy | Index |
|----------------------------|----------|-------|
| Risk (5-Yr Beta)           | 0.95     | 1.00  |
| Price/Oper Earnings        | 15.0     | 17.8  |
| Price/Cash Flow            | 13.3     | 17.0  |
| CFROI                      | 16.1     | 16.1  |
| Non-U.S. Holdings (%)      | 12.3     | 3.7   |
| Dividend Yield (%)         | 2.3      | 2.2   |
| Meritage Value Decile Rank | 2        | 5     |

## Market Cap Distribution (%)

|                              | Strategy | Index |
|------------------------------|----------|-------|
| > \$50 Billion               | 54       | 72    |
| \$10 Billion to \$50 Billion | 35       | 27    |
| \$2 Billion to \$10 Billion  | 11       | 1     |
| < \$2 Billion                | 0        | 0     |

## Non-U.S. Holdings: 12.3% (7 Stocks)

|                |     |             |     |
|----------------|-----|-------------|-----|
| Bermuda        | 4.0 | Switzerland | 1.6 |
| United Kingdom | 3.2 | Australia   | 1.5 |
| Israel         | 2.0 |             |     |

# Meritage Value Equity Strategy Manager



**Sharon L. Divine, CFA**

Principal, Director of Research, Senior  
Portfolio Manager, Value Equity Strategies

Sharon is a Principal and serves as the lead manager of the Meritage Value Equity and Small Cap Value Equity strategies. She leads the development of the quantitative aspects of the firm's equity investment process and is a primary contact for many of the firm's clients. Sharon has over 30 years of investment experience in portfolio management and investment analysis.

Sharon received her B.B.A. with emphasis in Computer Science and M.B.A in Finance from the University of Missouri-Kansas City with Honors.



Meritage Portfolio Management is an institutionally based investment management firm, providing asset management and wealth management services for individuals, families, foundations, corporations and qualified retirement plans. The firm manages \$2.4 billion in assets for local, regional, and national clients from its base in Overland Park, Kansas.

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# Meritage Value Equity

## GIPS Report



| Meritage Value Equity Returns |                        |                      |                      | Annualized Ex-Post          |                       | Composite Assets     |                                |                     |                   |
|-------------------------------|------------------------|----------------------|----------------------|-----------------------------|-----------------------|----------------------|--------------------------------|---------------------|-------------------|
| Year Ending                   | Total Gross Asset-Wtd. | Total Net Asset-Wtd. | SP500LCVL* Benchmark | Gross Composite 3-Yr St Dev | Benchmark 3-Yr St Dev | Number of Portfolios | Asset-Wtd. Internal Dispersion | End of Period (Mln) | Firm Assets (Mln) |
| 12/31/14                      | 12.5%                  | 11.6%                | 12.4%                | 8.77%                       | 9.46%                 | 181                  | 0.18%                          | 196.2               | 1,593.3           |
| 12/31/15                      | -1.5%                  | -2.4%                | -3.1%                | 9.81%                       | 10.59%                | 195                  | 0.14%                          | 181.3               | 1,528.3           |
| 12/31/16                      | 10.3%                  | 9.4%                 | 17.4%                | 9.67%                       | 10.73%                | 178                  | 0.15%                          | 169.7               | 1,513.8           |
| 12/31/17                      | 16.8%                  | 15.9%                | 15.4%                | 8.73%                       | 10.32%                | 225                  | 0.22%                          | 229.7               | 1,646.6           |
| 12/31/18                      | -9.4%                  | -10.1%               | -9.0%                | 10.93%                      | 11.02%                | 210                  | 0.53%                          | 187.2               | 1,530.2           |
| 12/31/19                      | 20.1%                  | 19.1%                | 31.9%                | 11.85%                      | 12.73%                | 194                  | 0.21%                          | 172.9               | 1,810.4           |
| 12/31/20                      | -1.4%                  | -2.3%                | 1.4%                 | 19.12%                      | 19.34%                | 203                  | 0.29%                          | 161.8               | 1,942.4           |
| 12/31/21                      | 30.3%                  | 29.3%                | 24.9%                | 18.30%                      | 18.69%                | 300                  | 0.25%                          | 297.6               | 2,315.7           |
| 12/31/22                      | -8.9%                  | -9.7%                | -5.2%                | 20.77%                      | 20.44%                | 310                  | 0.27%                          | 258.1               | 1,939.7           |
| 12/31/23                      | 16.8%                  | 15.8%                | 22.2%                | 15.93%                      | 16.65%                | 300                  | 0.27%                          | 278.2               | 2,367.5           |

### Composite Description:

The Meritage Value Equity composite is an actively managed value equity strategy that evaluates companies of all capitalization sizes and is driven by Meritage's value-centric quantitative process. Portfolio holdings have unsustainably low valuations and strong or improving cash flow/return on investment criteria. The Manager combines experienced-based qualitative fundamental analysis with the firm's proprietary multi-factor models. The benchmark is the S&P 500 Large Cap Value Index.

### Benchmark Description:

The S&P 500 Large Cap Value Index is a market-cap weighted index and measures the performance of the large-cap value segment of the U.S. equity universe. The primary benchmark for the Value Equity composite was retroactively changed to the S&P 500 Large Cap Value Index, effective 09/30/2020, from the prior benchmark of the Russell 1000 Value Index. This change was made because both value indices are similar in composition yet the cost of the Russell index had dramatically increased.

### Definition of the Firm:

Meritage Portfolio Management is an independent investment

management firm that is not affiliated with any parent organization.

### Basis for Composites:

Meritage Portfolio Management's Value Equity Composite, created on October 1, 2006, is composed of managed, fully discretionary, fee paying accounts managed in the Meritage Value Equity strategy. The composite inception date is 12/31/2000.

### Definition of Significant Cash Flows:

Effective June 30, 2002, Meritage temporarily excludes portfolios from the composite for periods experiencing a significant cash flow defined as an aggregate of flows exceeding 10% of the portfolios beginning market value for the month of the flow.

### Fees:

Returns are presented gross and net of management fees. Gross-of-Fees performance returns are presented before management fees. Net-of-Fees performance returns are calculated by deducting Meritage Portfolio Management's standard fee rates from the gross composite return on a monthly frequency. This produces a compounding effect on the total rate of net return. Other fees reflected in both gross and net returns include withholding taxes. Withholding taxes on foreign-based investments have been deducted from both gross and net per-

## Meritage Value Equity GIPS Report

formance, contingent on how the withholding information is received from the firm's independent third party pricing source. Once withholding tax information is received from the custodian, performance is trued up to be consistent with what the custodian withheld.

As of October 7, 2019 the composite consists of a subset of accounts subject to commission free trading brokerage arrangements.

### Meritage Portfolio Management's standard fee schedules are as follows:

For Equity Strategy Composites the standard fees are: 1.00% on the first \$2,500,000; 0.85% on the next \$2,500,000; 0.80% on the next \$5,000,000; 0.70% on the next \$15,000,000; 0.60% on the next \$25,000,000; 0.50% on the next \$50,000,000; and 0.40% on assets over \$100,000,000.

Actual investment management fees incurred by clients may vary.

### Calculation Methodology:

Returns from cash and cash equivalents held in portfolios are included in total return calculations. Total return includes realized and unrealized gains and losses, plus reinvestment of income. Gross-of-Fees returns are calculated before the deduction of investment management fees and after the deduction of direct trading expenses. Net-of-Fees returns are calculated after the deduction of Meritage Portfolio Management's standard investment management fee rates and direct trading expenses. Both gross-of-fees and net-of-fees returns are calculated after or before the deduction of withholding taxes on foreign dividends, contingent on how the withholding tax information is received from our independent third party pricing source. Accounts may be subject to customized commission schedules.

Policies for valuing investments, calculating performance, and preparing GIPS reports are available upon request. Past performance is no guarantee of future results.

### Minimum Account Size:

The established minimum portfolio market value is \$200,000, effective as of 02/28/2009. A portfolio is included in the composite the month after it reaches the minimum size inclusion level. A portfolio is excluded from composite if the portfolio market value drops below \$200,000. Prior to 06/30/2021, a portfolio was excluded from the composite if the portfolio market value dropped below \$150,000 for 2 consecutive months. Prior to 02/28/2009, the established minimum inclusion level was \$300,000, with a minimum exclusion level of \$250,000.

### Currency:

Returns are calculated and presented in U.S. dollars.

eVestment universe returns, benchmark indices and related statistics are presented gross-of-fee.

A list of composite descriptions and a list of limited distribution pooled fund descriptions are available upon request.

Internal dispersion is calculated using the asset-weighted standard deviation of annual gross returns of those portfolios

that were included in the composite for the entire year.

Meritage Portfolio Management claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Meritage Portfolio Management has been independently verified for the periods December 31, 2000 through December 31, 2023.

A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. The Meritage Value Equity composite has had a performance examination for the periods December 31, 2000 through December 31, 2023. The verification and performance examination reports are available upon request.

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\*S&P 500 Large Cap Value Index

| Annualized Returns                       | Periods Ending<br>12/31/2023 |       |       |        |
|--|------------------------------|-------|-------|--------|
|  | 1 Yr                         | 3 Yrs | 5 Yrs | 10 Yrs |
| <b>Meritage Value Equity Gross</b>       | 16.8                         | 11.5  | 10.4  | 7.8    |
| <b>Meritage Value Equity Net</b>         | 15.8                         | 10.6  | 9.5   | 6.9    |
| <b>S&amp;P 500 Large Cap Value Index</b> | 22.2                         | 13.1  | 14.1  | 10.0   |