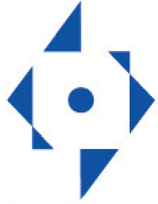

EquityCompass

Robert G. Hagstrom, CFA
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Business-driven investing *is a unique investment approach employed in the Global Leaders Portfolio (GLP). Everything from stock selection to portfolio management is seen through the lens of a business owner. We select stocks based on the same principles a business owner would demand in purchasing a company. And our portfolio management approach is similar to how a business owner would think to manage a collection of companies. Lastly, in thinking about performance, like a business owner, we smartly focus on the economic progress of our companies.*

Global Leaders Portfolio

6-Year Anniversary Update | September 2020

6-Year Anniversary Performance

The end of the second quarter, June 30, 2020, marked the six-year anniversary of the Global Leaders Portfolio (GLP). Our long-term results, as of August 31, 2020, are shown in the table below. We are pleased to report that since July 1, 2014, the Global Leaders Portfolio (GLP) has produced a cumulative net total return of 87.74% compared to its benchmark, the MSCI All Country World Index (MSCI ACWI), which returned 53.85% (10.75% versus 7.24% annualized, respectively).

As a portfolio manager, it is gratifying to post good long-term performance results for investors. As we have written in the past, noise is what you hear in the market over the short-run. The true signal, a more proper indicator, is what you receive over the long-term.

These past several years have been particularly challenging for global investors beginning with the 2016 corporate profit recession which impacted both U.S. and non-U.S.

As of 8/31/2020	GLP (net)	MSCI ACWI
YTD 2020	16.51%	4.75%
Annualized Returns		
1-Year	27.52%	16.52%
2-Year	16.14%	7.80%
3-Year	15.43%	8.99%
4-Year	16.25%	10.96%
5-Year	13.11%	10.21%
6-Year	11.06%	7.27%
Calendar Year Returns		
2019	34.82%	26.60%
2018	-10.02%	-9.41%
2017	28.87%	23.97%
2016	3.71%	7.86%
2015	-2.72%	-2.36%
Since Inception*		
Cumulative Return	87.74%	53.85%
Compounded Annual Return	10.75%	7.24%

*Portfolio inception July 1, 2014
Past performance is no guarantee of future results. Indices are unmanaged, do not reflect fees and expenses, and are not available for direct investment.

GLP performance cannot be solely attributed to the products our companies sell, we are also leaders in global digital connectivity. GLP invests in businesses that provide cloud-based computing, enterprise software, social media, entertainment, digital payment processing, device innovators and manufacturers, and online shopping.

multinationals. In addition, we are well into the third year of a global trade war among our major trading partners. And now we are in the midst of a global pandemic, which has caused not only a massive loss in lives, but the worst economic dislocation amongst all countries since The Great Depression. In all, the challenges for global investing have been substantial.

Even so, we are particularly pleased in the economic performance of our businesses. GLP was purposely constructed to include companies that we believe are positioned to profit from the spending power of the new global middle class consumer—what McKinsey & Company calls the defining megatrend of our age—"the biggest growth opportunity in the history of capitalism."

However, the performance of GLP cannot be solely attributed to the products our companies sell—including food, beverages, household and beauty care products, and fashion goods—our companies are also leaders in global digital connectivity. GLP invests in businesses that provide cloud-based computing, enterprise software, social media, entertainment, digital payment processing, device innovators and manufacturers, and online shopping.

Warren Buffett taught us the best investment returns originate with franchise companies—businesses that sell products needed or desired by the consumer that have no close substitute. When we think of franchises, we typically think of companies in the Consumer Staples or Consumer Discretionary space that sell tangible branded products. But there are some investors who are beginning to recognize new franchises are springing forth from the technology and communication services industries.

The Global Leaders Portfolio does not dismiss the fact that technology companies might contain value. Presently, there are several digital businesses we consider to be very valuable investments. Over the years, there has been a noticeable migration of companies moving to cloud computing and enterprise software solutions along with consumers embracing online shopping, social media, and digital entertainment. However, the recent COVID-19 pandemic has accelerated the adoption of these services on a global scale by both businesses and consumers occurring not in years, but in months.

Buffett has long believed the next great fortunes will be made by investors who identify new franchises. We believe the next great franchises reside in the digital economy. And unlike the technology boom-bust of 2000, when many new technology companies were unable to generate earnings, today's technology businesses are posting double digit sales growth and cash profits along with high rates of return on invested capital—a good combination for long-lasting great investments.

The Global Leaders Portfolio team believes technology companies can be analyzed as businesses. Indeed, we can calculate the intrinsic value of these businesses. And in doing so, our value approach in the technology sector serves as a competitive advantage in an area that is mostly dominated by investors focused on growth and momentum without consideration of the rational prices one would pay for these great businesses.

Our portfolio combination of companies that sell both branded consumer products and franchise digital services that are in high demand around the world has enabled the Global Leaders Portfolio to push forward despite the steady headwinds facing investors over these past six years.

Business-Driven Investing

Benjamin Graham, the dean of financial analysis, considered to be the father of value investing said, *"Investing is most intelligent when it is most businesslike."*[1] Warren Buffett, his most famous pupil said, *"These are the nine most important words ever written about investing."* [2]

Graham said an investor who purchased a company had earned what he called "double status" and it was up to them to decide how to act in the stock market. They could view themselves as a minority stockholder in a business or they could see themselves holding a stock certificate, a piece of paper that could be sold in a matter of minutes at prices which vary moment to moment. In other words, Graham said it was up to the investor to choose between being a business-owner or a stock trader.

The investment process we employ for GLP is called **business-driven investing**. Everything from stock selection to portfolio management is seen through the lens of a business owner not a stock trader. We select stocks based on the same principles a business owner would demand in purchasing a company. And our portfolio management approach is similar to how a business owner would think to manage a collection of companies. Lastly, in thinking about performance, like a business owner, we smartly focus on the economic progress of our companies.

Taken together, we believe our business-driven approach to investing offers many distinct advantages that enables an investor to build and compound wealth over a multi-year period.

What Defines a *Good* Business?

If you ask business owners what is their primary objective, they would tell you it is to generate a profit—specifically cash.

Business owners understand and appreciate the importance of cash—and so too should investors. A business that generates cash can reinvest it back into the business to help it grow. A business owner can also use cash to pay dividends to shareholders. Cash is what makes the twin objectives of growth and income possible and it is one of two major financial factors investors should consider when investing.

The second important financial factor investors need to consider is return on invested capital.

When a business owner invests in a business, the money they invest is expected to generate a return. The business owner could invest cash in bonds, real estate, or a company. Each of these investments has an expected return. What does an investor expect to earn on their investment in a company or a stock? The historical rate of return of stocks since 1900 has been 9.5%. We can therefore say, a business owner, an investor, can reasonably expect an overall 9.5% return on their capital investment, their cost of capital for the willingness to invest in stocks.

Indeed, finance theory reveals a company that earns a cash return above their cost of capital creates shareholder value while a company that earns below its cost of capital summarily destroys shareholder value over time.

Hence, we can say a good business generates cash and earns a rate of return above the cost of capital.

What Defines a *Great* Business?

According to Warren Buffett, *"the very best business to own is one that over an extended period of time can employ large amounts of money of incremental capital at very high rates of return."* [3]

We can say a good business becomes a great business if it can generate cash at much higher rates than its cost of capital and can do so over a multi-year period of time. To generate high returns on capital speaks to a company's business model. To generate high returns for an extended period speaks to the total addressable market a company competes within.

Think of the total addressable market as the total size of the market—the amount of revenue a company would generate if it captured 100% share of the total market.

Without question, the largest and most attractive total addressable market is the global market. There are seven and a half billion people worldwide with over four billion having reached a middle class consumer level or better. Selling products and services to these four billion plus consumers worldwide comprise what McKinsey & Company call *"the biggest growth opportunity in the history of capitalism."*

Putting this together, a company with a profitable business model that sells products and services that are in demand from consumers around the world makes for a great business.

How to Think About Valuation

Even the best business, one that generates cash while earning high returns on capital and continues to do so for an extended period of time, can be a bad investment if one overpays for the business.

The value of any investment—a stock, a bond, or a business—is determined by the present value of the future cash flows over the life of an investment discounted by the appropriate interest rate. It has nothing to do with price-to-earnings (P/E) ratios, whether they are high or low, or whether or not the earnings stream is smooth or volatile. It doesn't matter if the company sells at high or low price-to-book value (P/BV). What only matters is how much cash comes out of the investment over time.

Once a business owner determines the value of a company, the next step is to only buy the business if it is selling below this calculation of value—called the "margin of safety" introduced by Benjamin Graham, the father of value investing.

The concept of only buying companies with a margin of safety is designed to protect investors in case their business projections turn out less rosy than expected. Buying stocks with a margin of safety works to protect investors from downside risk.

We have long believed the strength of GLP's investment process resides in our valuation approach. Investors rarely connect growth investing to value investing but it has long been the hallmark our strategy. GLP seeks to buy great businesses but only at prices below our calculated margin of safety.

How to Think About Portfolio Management

There are two parts to portfolio management: (1) how many stocks you own in a portfolio, and (2) how often you buy and sell the stocks in your portfolio.

Investors are discovering that owning lots of stocks and rapidly buying and selling stocks throughout the year does little to advance the ball—namely increasing the total portfolio investment return. Being a stock trader is a tough game to win.

There is a better pathway for portfolio management, in our opinion. Investors have discovered a focused, low-turnover portfolio can be a superior approach. Referred to as high active share portfolio management, academic research now proposes that owning fewer stocks and holding them for longer periods of time can generate far better returns for investors than owning and trading lots of stocks. [(4)]

Of course, the critical variable for managing a focused low-turnover portfolio resides in stock selection. If an investor can isolate a few great businesses that will grow their intrinsic value over time and then only purchase the stocks of these businesses at prices below the calculation of value, it can be in one's best interest to manage a focused low-turnover portfolio.

Diversify by Time Horizons

When investors are asked to consider diversification, they think about dividing their portfolio among stocks, bonds, and cash. Further diversifying the stock portfolio may consider the addition of both large cap stocks and smaller companies. Others may divide their portfolio between "value" and "growth" stocks. Rarely do investors determine to diversify their stock portfolio by time horizons.

No matter if a portfolio is diversified by size (large/small) or by style (value/growth), each portfolio strategy is almost always the same. Many portfolio managers frenetically buy and sell stocks throughout the year. Very few portfolio managers run focused low-turnover portfolios. [(5)] Buying and holding great businesses that are increasing in price over time because the intrinsic value of the business is growing over time, we believe, is an effective strategy for compounding wealth.

Today, many investors hire more than one portfolio manager to run their equity portfolio. This being the case, in our opinion, it would be thoughtful to add a true diversifier—a portfolio that advances long-term investing.

Compounding the Tax-Deferred Loan

Although GLP is owned in many tax-advantaged accounts, where paying short-term and long-term capital gains is of no consequence, there are a great number of investors who own the portfolio in a taxable account.

A significant additional value of owning a focused low-turnover portfolio is the dollar benefit that accrues to an investor when compounding unrealized gains. Think about unrealized gains in GLP as a no-interest cost, tax-deferred loan from the government.

All taxable accounts, once they sell GLP at a profit, must settle up with the IRS. But the longer you own an unrealized gain, the longer you can compound this tax-deferred gain before it will eventually be paid. The math is simple. Compounding a larger number, even if it includes a temporary loan from the IRS, makes future returns higher.

It's not that active management doesn't work… it's the strategies used by most active managers that don't work.

We believe the success of the Global Leaders Portfolio can be attributed to its unique business-driven investment approach which stands in contrast to the strategies used by most other active managers.

Although the stock market is efficient in setting prices in the short run, the market is not always efficient in predicting stock prices over the long run. Understanding how to profit from long-term mispricing to outperform the stock market requires thinking about investing on three distinct levels: (1) stock selection, (2) portfolio management, and (3) psychology.

It is no longer enough to select stocks based on simple accounting factors, like price-to-earnings (P/E) ratios, and assume you are going to beat the stock market. Determining valuation requires deeper thinking. It's not necessary to buy lots of stocks spread out across every industry in order to build wealth. It is more than enough to focus on the best businesses in the most attractive industries selling at reasonable prices.

Lastly, to be successful, business-driven investors do not have to predict the stock market. Nor do they have to worry whether or not interest rates will rise or fall, or if the economy is growing or slowing. All that is required is good business judgment.

The outperformance of the Global Leaders Portfolio can be seen as a result of following the ideas behind the business-driven investment tenets outlined on the right. Over the past six years, there have been many reasons to worry about the stock market and the economy. Certainly, there has been a long list of stocks to constantly buy and sell. But business-driven investors have come to understand it is simply best to ignore the noise that continually surrounds financial markets.

Good business investing never goes out of fashion. When the stock market is speeding up and everyone is frenetically racing for short-term performance, the business-driven investors in the Global Leaders Portfolio slow down and, in doing so, keep a sharp focus on the economic progress of the businesses they own.

Business-Driven Investment Tenets

Slow Moving Ideas

Business strategies that increase a company's intrinsic value are revealed over time which the stock market is sometimes slow to comprehend. These ideas require reflection and judgment—a special expertise to evaluate. [6] Business-driven investors hold unique insights in how to think about compounding long-term wealth that stock traders can often overlook. [7]

Less is More

Many investors believe constantly buying and selling stocks is necessary to keep from falling behind. They equate progress with activity. Business-driven investors understand wealth is gained by holding companies that, in turn, are actively increasing the intrinsic value of the underlying business.

Temperament

The important distinction between a stock trader and a business-driven investor is how each think about stock market fluctuations. Stock traders are primarily interested in, and act in anticipation of, changing short-term stock prices. Business-driven investors act on stock prices after they have occurred. Stock traders are at the mercy of an ever changing stock market whereas business-owners standby patiently and act only when they believe it may be profitable to do so.

Global Leaders Portfolio

EquityCompass

As of 8/31/2020

Highlights

Invests globally in efforts to benefit from the economic expansion of developing countries and the potentially unprecedented growth in worldwide consumer demand

- By 2025, it is estimated that there will be 4.2 billion middle class consumers worldwide—nearly twice as many as in 2010—with purchasing power of $64 trillion
- This unprecedented expansion of the world's middle class, according to McKinsey & Company, is the biggest growth opportunity in the history of capitalism†

Invests in Great Companies which we define as those that:

- Produce cash in excess of operating needs that generate a return on invested capital above the cost of capital
- Provide stable and consistent returns with the opportunity to compound shareholder value over the long term

Portfolio Strategy

- Concentrated, low turnover profile of high-quality global businesses
- Seeks to minimize risk associated with investing directly in emerging market stocks by instead investing in developed economy multinational companies that sell products and services into developing emerging markets
- Seeks to provide tax-advantaged returns by minimizing realized short-term taxable gains, while maximizing the benefit of compounding unrealized long-term capital gains

Objective

Focused portfolio of leading global companies designed to benefit from the unprecedented growth in worldwide consumer demand

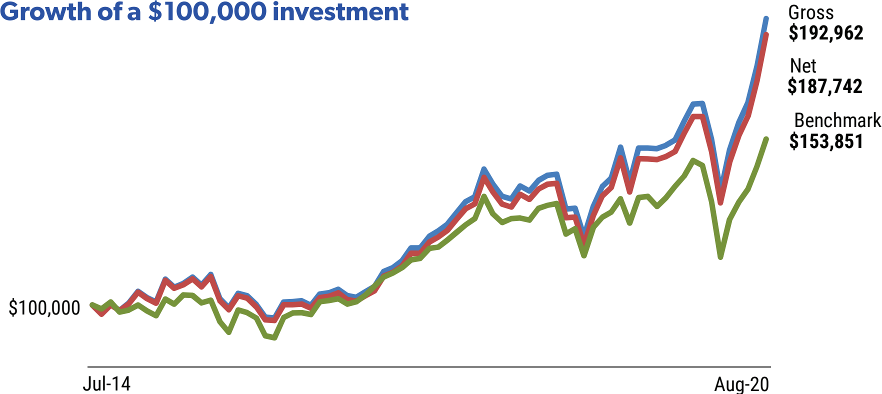
Portfolio Characteristics

Inception	July 1, 2014
Number of Holdings	25
Benchmark	MSCI ACWI Index
Avg. Dividend Yield (%)	1.3
Avg. Market Cap. ($ Billion)	507.5
Price / Earnings (1-year forecast)	36.1
Annual Turnover - 2019 (%)	12.1

Performance Overview

June 30, 2014 – August 31, 2020 | Past performance is no guarantee of future results.

Growth of a $100,000 investment



Risk Statistics (5-Year, Monthly)

	Portfolio	Benchmark
Standard Deviation (%)	14.45	14.33
Sharpe Ratio	0.92	0.69
Beta	0.96	1.00
R-Squared	0.90	1.00
Alpha (%)	3.79	0.00
Batting Average (%)	55.00	100.00
Up-Market Capture (%)	122.54	100.00
Down-Market Capture (%)	93.32	100.00

All risk measures are based on a 5-year time period using monthly returns except the Information Ratio which is calculated since inception.

The growth of $100,000 chart presented herein is for illustrative purposes only. The chart illustrates the growth of $100,000 should it had been invested at the time of inception and includes reinvestment of dividends. It does not assume withdrawals or contributions. Any results shown above may not represent the actual experience of individual investors. Individual account performance may differ due to, e.g., account size, cash flows, investment restrictions, economic factors and fees.

	Total Returns			Annualized Returns					Calendar Year Returns				
	3-Mos	6-Mos	YTD	1-yr	3-yr	5-yr	6-yr	Inception	2015	2016	2017	2018	2019
Gross %	21.20	25.50	16.80	27.95	15.86	13.59	11.55	11.25	-2.24	4.24	29.50	-9.64	35.28
Net %	21.10	25.30	16.51	27.52	15.43	13.11	11.06	10.75	-2.72	3.71	28.87	-10.02	34.82
Benchmark %	15.30	15.22	4.75	16.52	8.99	10.21	7.27	7.24	-2.36	7.86	23.97	-9.41	26.60

As of 8/31/2020; Inception – July 1, 2014; Benchmark = MSCI All Country World IndexThe information provided herein is supplemental to the GIPS performance presentation. To obtain a compliant presentation or a list of our composite descriptions and/or policies for valuing portfolios, calculating performance, and preparing compliant presentations, please call (443) 224-1231 or send an e-mail to info@equitycompass.com.

Global Leaders Portfolio

As of 8/31/2020

EquityCompass

Holdings By Market Cap

	%
Large Cap - > $10 bn (%)	100.00
Mid Cap - $3.5 - $10 bn (%)	0.00
Small Cap - < $3.5 bn (%)	0.00

Top Portfolio Holdings By Weight

	%
Apple Inc.	7.67
Amazon.com, Inc.	7.19
PayPal Holdings Inc	6.80
Mastercard Incorporated Class A	5.40
NIKE, Inc. Class B	4.67
QUALCOMM Incorporated	4.58
Nestle S.A.	4.54
Estee Lauder Companies Inc. Class A	4.41
LVMH Moet Hennessy Louis Vuitton SE	4.36
BlackRock, Inc.	4.14

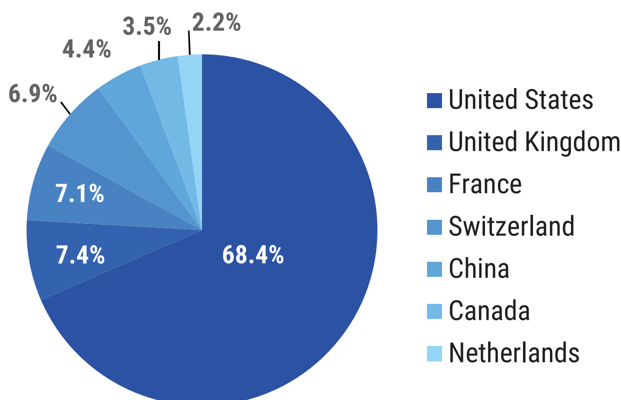
For illustrative purposes only and not intended as personalized recommendations. The yield information included is as of the period indicated and should not be considered a recommendation to purchase, hold, or sell any particular security. There is no assurance that any of the yields noted will remain and may vary over time. The specific securities identified and described herein do not represent all of the securities purchased, sold, or recommended to advisory clients, and the reader should not assume that investments in the securities identified and discussed were or will be profitable. A complete list of all recommendations made by the firm is available upon request.

Sector Allocation

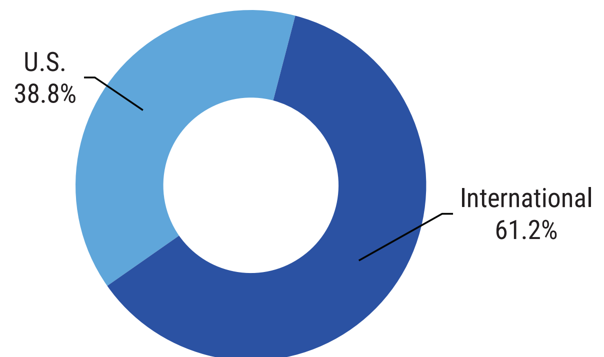
	%
Information Technology	34.52
Consumer Discretionary	23.68
Consumer Staples	18.56
Financials	11.50
Communication Services	6.21
Health Care	3.57
Industrials	1.97

All charts and tables are calculated by EquityCompass using data provided by FactSet Research Systems, Inc.

Geographic Breakdown

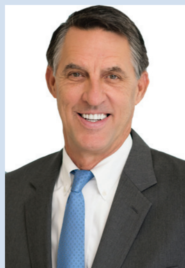


Exposure By Revenue



† *Winning The $30 Trillion Decathlon: Going for Gold in Emerging Markets*, McKinsey & Company, August 2012.

Portfolio Management Team



Robert G. Hagstrom, CFA
Chief Investment Officer
Senior Portfolio Manager

Robert is Chief Investment Officer of EquityCompass Investment Management, LLC and Senior Portfolio Manager of the Global Leaders Portfolio. He joined EquityCompass in April 2014 and launched the Global Leaders Portfolio in July 2014. Robert was appointed Chief Investment Officer in March 2019.

Robert has more than 30 years of investment experience. Prior to joining EquityCompass, he was Chief Investment Strategist of Legg Mason Investment Counsel, and before that, the Portfolio Manager of the Growth Equity Strategy at Legg Mason Capital Management for 14 years where he managed $7 billion assets. Robert was the recipient of the "Honorable Mention" as Morningstar's U.S. Equity Manager of the Year in 2007.*

Robert is the author of nine investment books including the New York Times best seller, The Warren Buffett Way, widely considered to be the definitive book on the investment approach and strategies of Warren Buffett. The book has sold over one million copies worldwide and is translated into 17 foreign languages. In addition, Robert wrote The Warren Buffett Portfolio, a book on concentrated portfolio management, and Investing: The Last Liberal Art, a multidiscipline examination of markets and investing.

Robert earned his Bachelor's and Master's of Arts degrees from Villanova University. He is a Chartered Financial Analyst, a member of the CFA Institute and the CFA Society of Philadelphia. Robert is also a member of the Global Interdependence Center and the Foreign Policy Research Institute.

Lauren E. Loughlin
Associate Portfolio Manager

Lauren is an Associate Portfolio Manager at EquityCompass. She joined the team in May 2014 and helps manage the Global Leaders Portfolio. Lauren is involved in all aspects of the portfolio management process, including investment research and analysis, portfolio strategy, stock selection, product marketing, asset and performance measurement, and client communications. Prior to joining EquityCompass, Lauren was a member of the Stifel Institutional Equity Sales group, and she also previously worked at Morgan Stanley as an analyst in equity derivative client service.

Lauren graduated magna cum laude with a B.S. in business administration from Washington and Lee University.

*Established in 1988, the Morningstar Fund Manager of the Year award recognizes portfolio managers who demonstrate excellent investment skill and the courage to differ from the consensus to benefit investors. To qualify for the award, managers' funds must have not only posted impressive returns for the year, but the managers also must have a record of delivering outstanding long-term risk-adjusted performance and of aligning their interests with shareholders'. Managers' funds must currently have a Morningstar Analyst Rating™ of Gold or Silver. A list of current Morningstar Medalists is available here to Morningstar.com Premium members. The Fund Manager of the Year award winners are chosen based on research and in-depth qualitative evaluation by Morningstar's Manager Research Group. For more information about Morningstar Awards, visit https://go.morningstar.com/Morningstar-Awards.

Footnotes:

1) Graham, Benjamin, The Intelligent Investor, Harper & Row: New York (1973), p. 286.
2) Hagstrom, Robert G., The Warren Buffett Way, John Wiley & Sons: New York (1995), p. 97.
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   Cremers, K. J. Martijn and Pareek, Ankur, Patient Capital Outperformance: The Investment Skill of High Active Share Managers Who Trade Infrequently (December 1, 2015). Journal of Financial Economics (JFE)

   Cremers, K. J. Martijn, Active Share and the Three Pillars of Active Management: Skill, Conviction and Opportunity (May 2017). Financial Analysts Journal, 2017, vol. 73, no. 2 (Second Quarter): 61–79.
5) Cremers, K. J. Martijn and Pareek, Ankur, Patient Capital Outperformance: The Investment Skill of High Active Share Managers Who Trade Infrequently (December 1, 2015). Journal of Financial Economics (JFE)
6) Treynor, Jack, "Long Term Investing," Financial Analysts Journal, May–June 1976.
7) Shleifer, Andrei and Vishny, Robert, "The New Theory of The Firm: Equilibrium Short Horizons of Investors and Firms," American Economic Review: Papers and Proceedings, 80, no. 2 (1990), 148–153.

Important Disclosures

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Any investment involves risk, including the risk of a loss of principal. Rebalancing may have tax consequences, which should be discussed with your tax advisor. Diversification (or asset allocation) does not ensure a profit or protect against loss. MSCI All Country World Index captures large and mid cap representation across 23 Developed Markets and 21 Emerging Markets countries. The index returns are presented on a total return basis, which assume reinvestment of all cash distributions (such as dividends). With 2,434 constituents, the index covers approximately 85% of the global investable equity opportunity set. Foreign investments are subject to risks not ordinarily associated with domestic investments, such as currency, economic and political risks, and different accounting standards. There are special considerations associated with international investing, including the risk of currency fluctuations and political and economic events. Investing in emerging markets may involve greater risk and volatility than investing in more developed countries. The volatility of the indices identified in this report may be materially different from the volatility of the model portfolios presented by EquityCompass Strategies. Indices are unmanaged, do not reflect fees and expenses, and it is not possible to invest directly in an index.

*Total assets combines both Assets Under Management and Assets Under Advisement as of August 31, 2020. Assets Under Management represents the aggregate fair value of all discretionary and non-discretionary assets, including fee paying and non-fee paying portfolios. Assets Under Advisement represent advisory-only assets where the firm provides a model portfolio and does not have trading authority over the assets.

DESCRIPTION OF TERMS

Alpha

The relationship between the performance of the strategy and its beta over a three-year period of time.

Batting Average

A measure of a manager's ability to beat the market consistently, the Batting Average is calculated by dividing the number of quarters in which the manager beat or matched an index by the total number of quarters in the period. For example, a manager who meets or outperforms the market every quarter in a given period would have a batting average of 100. A manager who beats the market half of the time would have a batting average of 50.

Beta

A measure of the volatility, or systematic risk, of a security or a portfolio relative to the market as a whole. A beta of one is considered as risky as the benchmark and is therefore likely to provide expected returns approximate to those of the benchmark during both up and down periods. A portfolio with a beta of two would move approximately twice as much as the benchmark.

Down-Market Capture Ratio

Down-Market Capture Ratio is a measure of managers' performance in down markets relative to the market itself. A down market is one in which the market's quarterly return is less than zero. The lower the manager's down-market capture ratio, the better the manager protected capital during a market decline. A value of 90 suggests that a manager's losses were only 90% of the market loss when the market was down. A negative down-market capture ratio indicates that a manager's returns rose while the market declined. For example, if the market fell 8% while the manager's returns rose 2%, the down-market capture ratio would be -25%.

Information Ratio

A measure of consistency in excess return. The annualized excess return over a benchmark divided by the annualized standard deviation (population) of excess return.

R-Squared

R-Squared is a statistic that measures the reliability of alpha and beta in explaining the manager's return as a linear function of the market. If you are searching for a manager with a particular style, for example a growth manager, you would expect that manager to have an R-Squared that is high relative to a growth index if the manager has a diversified portfolio. If the manager's return is explained perfectly, the R-Squared would equal 100, while an R-Squared of 0 would indicate that no relationship exists between the manager and the linear function. Higher R-Squared values indicate more reliable alpha and beta statistics and are useful in assessing a manager's investment style.

Sharpe Ratio

Sharpe Ratio is one of two alternative, yet similar, methods of measuring excess return per unit of risk. (The other method is the Treynor Ratio.) In the case of the Sharpe Ratio, risk is measured using the standard deviation of the returns in the portfolio. The Sharpe Ratio relates the difference between the portfolio return and the risk-free rate to the standard deviation of that difference for a given time period.

Standard Deviation

Standard Deviation is a gauge of risk which measures the spread of the difference of returns from their average. The more a portfolio's returns vary from its average, the higher the standard deviation. It is important to note that higher-than-average returns affect the standard deviation just as lower-than-average returns. Thus, it is not a measure of downside risk. Since it measures total variation of return, standard deviation is a measure of total risk, unlike beta, which measures market risk.

Up-Market Capture Ratio

Up-Market Capture Ratio is a measure of managers' performance in up markets relative to the market itself. An up market is one in which the market's quarterly return is greater than or equal to zero. The higher the manager's up-market capture ratio, the better the manager capitalized on a rising market. For example, a value of 110 suggests that the manager captured 110% of the up market (performed 10% better than the market) when the market was up. A negative up-market capture ratio indicates that a manager's returns fell while the market rose. For example, if the market gained 8% while a manager's returns fell 2%, the up-market capture ratio would be -25%.

Past performance does not guarantee future performance or investment results.

Additional Information Available Upon Request

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EquityCompass Investment Management, LLC ("EquityCompass") is a Baltimore-based SEC registered investment adviser offering a broad range of portfolio strategies and custom plans for individuals, financial intermediaries, and institutional clients in the U.S. and Europe. Formally organized in 2008, EquityCompass provides portfolio strategies with respect to total assets of approximately $3.8 billion as of August 31, 2020. EquityCompass is a wholly owned subsidiary of Stifel Financial Corp.

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