



DISTILLATE CAPITAL

2026 Q3 Letter to Investors: AI and Interest Rate Risk

Letter Summary

Over the past three years, the market value of all stocks with free cash flow data in the Russell 1000 Index has increased by \$32 trillion against a gain of \$400 billion in estimated free cash flows (NTM FCF). The vast majority of the market cap increase was driven by the biggest 20 Artificial Intelligence (AI) stocks, which grew by \$20 trillion despite their NTM FCF staying essentially flat. With these 20 AI stocks now making up over 40% of the index and trading near 100x NTM FCF, there is a notable concentration and valuation risk where the precedents suggest caution is warranted (See [Figure 1](#) below & [Table 1](#) in the appendix). The other ~860 stocks, representing 60% of the market, saw reasonably healthy free cash flow growth and more commensurate market cap gains such that valuation multiples expanded only slightly. Within that group, there remains a wide range of very attractive investment opportunities, though financial leverage and the sustainability of the underlying results needs to be considered. Indebtedness is of particular concern at present given rising rates. While higher bond yields pose a risk to fundamentals, especially among more leveraged smaller companies, the much bigger threat is if they cause equity multiples to contract from historically elevated levels. Overall, this market backdrop looks remarkably similar to the last technology boom. Then as now, despite expensive overall market valuations, there was a large group of attractively valued stocks that went on to perform very well even through broader market turbulence that ensued post the boom's peak. Each market episode of note is also different in important ways. The current AI boom is larger than past new-tech cycles, the promises of the new tech are different, and the threats to existing business models and technology are different. Amid this environment, we remain focused on the economics, with our holdings across strategies driven by business stability, the avoidance of excess leverage, and the knowledge that better valuations should ultimately drive better returns over time.

Performance Summary*

U.S. Fundamental Stability & Value (U.S. FSV): Our U.S. FSV strategy's net of fee return of 9.39% YTD lagged the S&P 500's gain of 12.73% and the Russell 1000 Value's 19.23% gain. Annualized net of fee performance since inception is now 1.05% behind that of the S&P 500 and 2.82% ahead of the Russell 1000 Value Index.

U.S. Small/Mid Cap Quality & Value (SMID QV): Our SMID QV strategy returned 18.46% YTD, net of fees, which compares to the Russell 2000 index's total return of 13.87% and the Russell 2000 Value's 17.22%. Annualized excess returns of our SMID QV since inception are 4.04% and 3.75% ahead of those benchmarks, respectively.

International Fundamental Stability & Value (Intl. FSV): Our 8.57% YTD return after fees lags the MSCI All Country Ex US ETF benchmark's gain of 13.85% and annualized net of fee performance since inception remains slightly ahead of that benchmark.

Long/Short Equity (formerly US Value 130/30): Our Long/Short strategy returned 20.92% YTD vs. the S&P 500 Index's return of 12.73%. This strategy is 2.36% ahead of the S&P 500 Index and 6.11% above the Russell 1000 Value Index annualized, net, since inception.

U.S. Free Cash Flow 500: Our broader free-cash-flow-weighted portfolio returned 15.83% YTD vs. 12.73% for the S&P 500 and is ahead of that benchmark since inception, net of fees, by about 1% annualized.

Fig 1: Market Cap to NTM FCF Multiple for Biggest 20 AI Stocks vs. the Rest of the Market (Russell 1000)



Source: FactSet, data as of Sept '26. See appendix for AI stock list.

* Past performance does not guarantee future results. One cannot invest directly in an index. Please refer to the Performance & Rebalance Appendix for detailed information on the performance summary listed above.

Market Update:

In July and August of Q3 '26, AI and momentum stocks (largely one and the same) rolled over only to bounce back in September. The move can be seen in the tail end of [Figure 2](#) which compares the S&P 500 Momentum Index vs. the average stock as measured by the S&P 500 Equal Weight Index. While these changes felt enormous to many market participants experiencing them, they are small in a longer-term context, and as you'll note, similar moves occurred in the late 1990s.

Momentum weakened in July and August and recovered in September, but still looks troublingly like the late 1990s.

Figure 2: S&P 500 Momentum vs. 500 Equal Weight

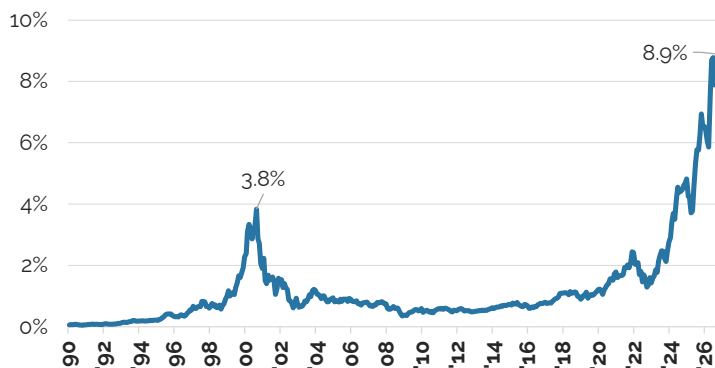


Source: FactSet, 9/30/2026. Total return indexes. Momentum index begins in 1995.

Semiconductor stocks followed the same pattern in the quarter. [Figure 3](#) plots their value as a share of world Gross Domestic Product (GDP), emphasizing the point from the introduction that while much of today's environment parallels that of late 1990s, the scale is now much larger. U.S. semi stocks are now nearly 2x as large a share of global economic activity as they were during the internet bubble.

The value of U.S. semiconductor stocks is more than twice as big a share of world GDP as it was in the 1990s technology boom.

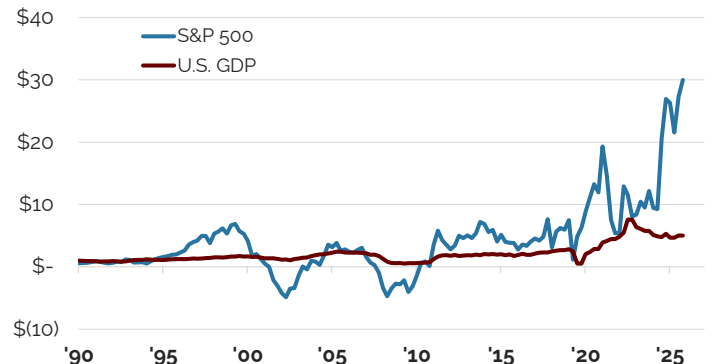
Figure 3: Value of Semiconductor Stocks in the Russell 1000 Index as a Share of World GDP



Source: FactSet, IMF, data as of 9/30/2026.

Stock value increases are far exceeding gains in economic activity.

Figure 4: Three-Year Change in S&P 500 Market Cap vs. GDP (Trillion)



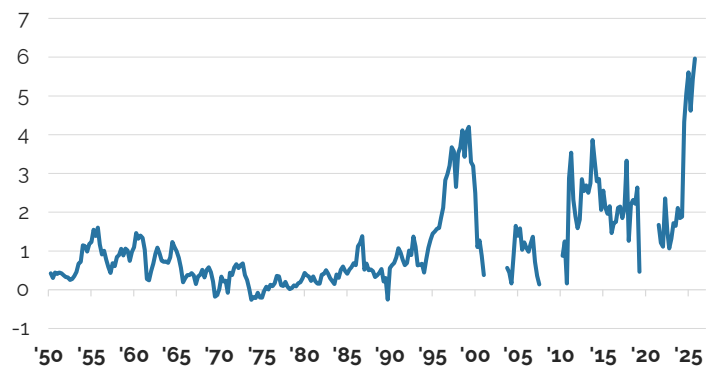
Source: FactSet, Bureau of Economic Analysis, data as of Sept '26 with GDP estimate.

Stepping back, while the \$30 trillion increase in market cap for U.S. stocks in the last three years is remarkable in an absolute sense, it is even more anomalous when scaled against economic output (GDP). [Figure 4](#) plots the rolling 3-year change in U.S. GDP versus the market. The two generally move in line as better economic growth leads to stronger free cash flow growth and thus a bigger market valuation, but there are times when the two disconnected as occurred in the late 1990s and again more recently.

To compare the 3-year change in market cap growth vs. GDP more directly, [Figure 5](#) shows the two as a ratio and excludes negative periods like 2020 when weak or negative GDP growth causes nonsensical numbers. The resulting plot reveals that market cap gains and GDP growth have generally tracked closely or reverted to long-term averages. The period of the 1990s stands out when the 3-year market value increase was around ~4x greater than the increase in GDP. But even that period was eclipsed by the market cap increase over the most recent 3 years which exceeded the increase in GDP by over 6x.

Over 3-year periods, the increase in the total value of S&P 500 stocks tends to match the change in GDP, but the two diverged in the 1990s & today.

Figure 5: Ratio of 3-Year Market Cap Change to GDP



Source: FactSet, Bureau of Economic Analysis, data as of Sept '26 with GDP estimate.

As a result of the stock market rising much more rapidly than GDP, the ratio between the two (a metric favored by Warren Buffett and sometimes referred to as the “Buffett Indicator”) is at a record peak. **Figure 6** depicts this measure and again highlights how the current market differs from the one in the late 1990s in its scale.

The market value of the S&P 500 as a share of U.S. GDP, known as the “Buffett Indicator” is at a record peak.

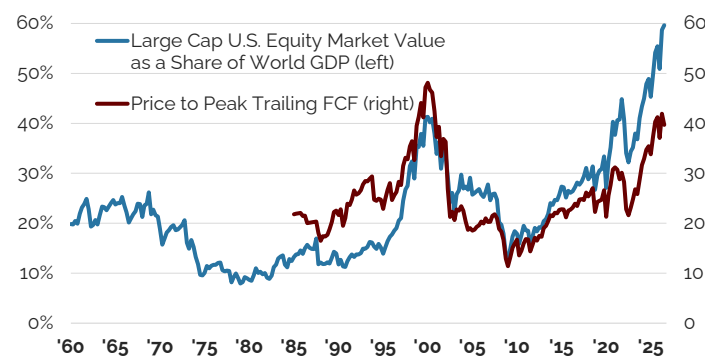
Figure 6: S&P 500 Market Value as a Share of U.S. GDP



The counterargument to the Buffet Indicator is that it compares the valuation of U.S. companies with large overseas profits to domestic and not global GDP. Another valid point of contention is that it ignores profitability and so misses valuation and the possibility that a market’s total worth in relation to GDP is high because so are its profits. **Figure 7** below responds to these concerns and plots the S&P 500 in aggregate against global GDP. The total ratio is lower given a much larger figure that is global GDP, but the general trend is similar. The line on the chart’s right axis shows the free cash multiple for the market on a trailing basis and demonstrates that much of the variability in the market value to GDP line is due to valuation swings and not profitability. Profitability does, however, explain some of the recent move as the current multiple is below the 2000 peak even though the market value to GDP is higher.

U.S. equities are also at a peak as a share of world GDP with the valuation multiple of free cash driving much of the change.

Figure 7: U.S. Mkt Cap to Global GDP vs. FCF Multiple



AI Risk & How the Market Gained \$30 Trillion in 3 Years:

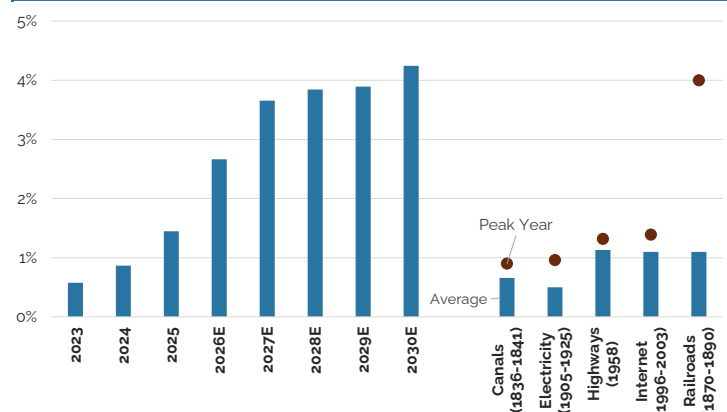
We are growing weary of discussing the AI trade somewhat repeatedly in the last several letters. That said, the figures are not those of a typical market cycle and they consume our time as the outcome will likely prove relevant to stock returns for the next decade or longer. In that context, even more remarkable than the fact that the market gained \$30 trillion in value in three years is the concentration of that gain. Just the 20 biggest AI-stocks accounted for \$20 trillion of the \$30 trillion of growth with Apple adding another \$2 trillion to that figure.

More remarkable still, the group of 20 AI stocks saw almost no increase in NTM FCF despite a \$20 trillion market cap gain. Some of these companies, like NVIDIA, have seen extraordinary free cash flow growth, but the gains of NVIDIA and others largely came out of the profits of other companies in the group such that the aggregate free cash flow figure for all 20 stocks was little changed. As the hyperscalers (Alphabet, Amazon, Meta, Microsoft, Oracle, and SpaceX) ramped up spending and saw their free cash flows collapse, profits rose for the beneficiaries of that investment like NVIDIA. **Table 1** at the end of the letter highlights this in the two rows below the “AI 20” row by showing that the hyperscalers saw a decrease in FCF of around \$450 billion, while the other 14 companies saw an increase of a similar amount.

The shift is quite obviously the result of the unprecedented investment spending of the hyperscalers. **Figure 8** shows the investment just from these six companies as a share of GDP and then compares that figure to the average and peak annual figures from prior investment booms. The spending from just these 6 companies has already far exceeded the average levels of all other investment booms in the history of the U.S. and the peak year for each episode save the railway boom in 1870. It is also notable and somewhat worrying that the asset lives in those booms were generally much longer than today (i.e. railway track last longer than GPUs).

The current investment boom is historically unprecedented

Figure 8: Hyperscaler Investment as a Share of GDP vs. Prior Investment Booms



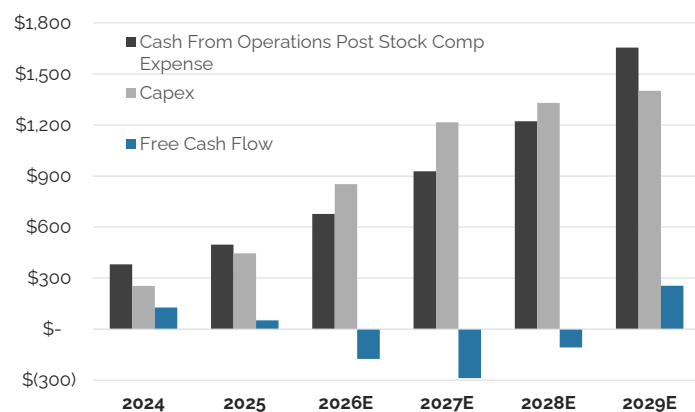
The unprecedented level of investment spending will at some point need to produce similarly unprecedented level of revenues and profits to prove it a wise undertaking. A variety of recent estimates suggest that to earn a modest 10% return on AI capital expenditures, total AI revenues may need to be in the \$3 trillion range on an annual basis by 2030 ([Bernstein & Cummings](#) \$2.4T, [Van Nieuwerburgh](#) \$2.7T, [Goldman Sachs](#) \$3T, [Bain](#) \$6T). To get a sense of scale, these figures equate to ~\$7k to \$17k per person in the U.S., or ~\$35k to \$85k per year for a family of 5. In reality, some of the expected revenues would come from outside the U.S., but the magnitude of the necessary spending remains enormous.

In addition to the sheer scale, there are numerous and very significant challenges to achieving those estimates. Securing the power to run the planned data centers and constructing them on time and on budget is no easy feat given their complexity. Against a backdrop of around 16 gigawatts (GW) of operational capacity in the U.S. as of August, only half of the planned 26 GW of new capacity for 2026 has even begun construction, according to the consultancy Currence. For 2027, only 10 GW are under construction out of 55 GW planned for delivery. With construction requiring around 2-3 years, it is obviously unlikely that much of this capacity will be delivered.

Funding is another significant issue. Despite having very profitable businesses outside of their AI ambitions, hyperscaler spending is so large that it is now well eclipsing operating cash flows and free cash flows are negative hundreds of billions of dollars after incorporating the cost of equity issuance. Even as capital expenditures are expected to level off at around \$1.3 to \$1.4 trillion, the group is not expected become free cash flow positive until 2029 (See [Figure 9](#)). And positive FCF then only comes after a projected nearly 150% increase or \$1T rise in cash from operations from an already very large \$700 B starting point. Current negative cash flows and the incredible cost of AI investment explain why nearly \$500B of AI-related debt has been issued this year through September according to the Bank of England. It also addresses why Alphabet issued ~\$85 in equity, and why SpaceX tapped credit markets for \$40B only months after getting \$80B from its initial public offering (IPO).

Hyperscaler free cash flows are projected to be negative until 2029.

Figure 9: Hyperscaler Cash Flows (Billion)



Source: FactSet, data as of Sept 2026. Cash flow post employee stock comp which grows 10% per year in 2026-2029E Includes AMZN, GOOGL, META, MSFT, ORCL, & SPCX.

Hyperscaler funding is not the only issue as it must be considered alongside the financing needs of the frontier labs (OpenAI and Anthropic) as their funding sources and businesses are heavily intertwined. OpenAI recently signaled that it expects a nearly \$300B cumulative operating loss from 2026 through 2030, and this will need to be financed from somewhere. OpenAI is consequently reported to be negotiating Middle Eastern financing of \$30B, quickly on the heels of its \$122B funding round in February. The anchor of that February funding was Softbank, who is likewise now looking for funding in the Middle East, seeking \$100B to cover its investments in AI and OpenAI in particular. In addition to Softbank, the hyperscalers have been major financiers of the frontier labs who in return have pledged to spend well over \$1T on compute and infrastructure largely with the hyperscalers. This circular financing and enormous interdependency is similar to the “vendor financing” that occurred in the last tech boom. It also involves the semi companies like NVIDIA and Broadcom which are similarly investing in their customers and providing debt guarantees to support purchases from the hyperscalers and neoclouds (smaller datacenter builders like Coreweave and Nebius). Credit to date is flowing but the amount needed will grow significantly next year.

The biggest potential impediment to the level of required AI profitability is much more straightforward in our view—the industry looks extremely competitive and switching costs are low. The frontier labs are now fighting for share on price but are also facing steep competition from low-cost open-source models. There is also the possibility that the technology will evolve and improve on a cost and efficiency basis such that many uses could ultimately be completed on local devices, or “on edge”, which might negate the need for much of the data center capacity that is projected. New types of models like Jev, which functions as a very low-cost decision or routing model, could also introduce competition and threaten required future profits.

All of this is eerily similar to the infrastructure buildout that accompanied the tech bubble in the 1990s. The internet and the tech demand related to it ended up far exceeding even the most optimistic expectations, but the distribution and level of profits still disappointed and equity investors took a severe beating. We are not AI skeptics and believe that similar to then, consumers and companies beyond those financing the buildout may end up again as the greatest beneficiaries. It may be more likely that a health care or industrial company uses AI to reduce costs and increase profits than it is that the hyperscalers and frontier labs will generate trillions in new annual revenue in a few years’ time.

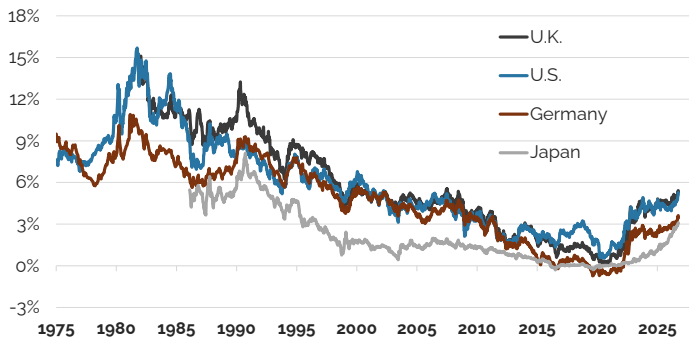
There will undoubtedly be unexpected outcomes along the way, but a subjective assessment of the issues seems supportive of the objective results driven by valuations and balance sheet considerations that leave us with little exposure to the group.

Rising Rates:

After falling for a stretch of roughly 40 years, bond yields are now rising. The factors behind this include stubborn inflation, elevated government debt and deficits, reduced demand for developed market bonds from higher-saving emerging markets like China, and a crowding out effect from the large issuance of corporate debt related to AI. Regarding the latter, Michael Cembalest at JPMorgan recently noted that debt issuance by the hyperscalers and NVIDIA is equivalent to 35% of long-term U.S. Treasury issuance. The combined result is that interest rates are rising and doing so globally (See [Figure 10](#)).

Global bond yields are rising sharply after a 40-year downtrend.

Figure 10: Developed Market Bond Yields

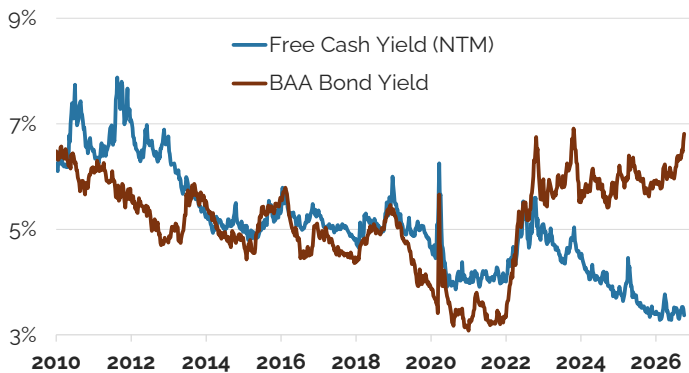


Source: FactSet, data through Sept '26

Rising rates pose two risks to stocks. First, they will likely negatively impact fundamentals both directly by raising corporate interest costs and indirectly by weakening economic activity. The second, larger and more concerning issue is whether rising bond yields might cause equity multiples to contract as fixed income alternatives become more attractive. Typically, equity yields and bond yields move in a similar pattern. Using the NTM FCF yield on the S&P 500 (which begins around 2010 when forward estimate became widely available) this was true for most of the past decade as stocks and BAA-rated bonds traded nearly in lockstep. But as optimism around AI took hold, the two diverged sharply (See [Figure 11](#)).

The equity FCF yield and BAA bond yield have diverged sharply.

Figure 11: Equity NTM FCF Yield vs. BAA Bond Yield



Source: FactSet, data through Sept '26

Looking at an alternate longer-term measure of relative valuations using trailing equity free cash flow yields, [Figure 12](#) shows where current valuations rank versus history. Treasury bonds are above their average going back to when we first have trailing free cash flow data in 1985. BAA bond yields are currently near their average and real estate free cash flow yields based on cap rates are only slightly below their average. Equities, however, stand out as being very rich by historical standards with current FCF yields well below their historical range. It is not unrealistic to think that that higher bond yields, waning enthusiasm for AI, or a combination of the two could cause equity yields to retether to their historical averages and re-synch with valuations for alternative asset classes. Even if equity valuations only move part of the way, the downside risk for the market could be substantial.

Equities stand out as expensive vs. history compared to other assets.

Figure 12: Current vs. Historical Range of Asset Yields



Source: FactSet, Standard & Poor's 9/30/2026

We avoid companies with high leverage and those that devote a significant portion of their operating cash flows to interest expense. We thus avoid to some degree the impact of refinancing in a higher rate environment and the profit pressure that potentially plays though. This is a much larger risk for small companies but is an issue we avoid in all of our strategies. The bigger risk to stocks is valuation. But here too, the free cash multiples on the stocks we own are generally a fraction of the overall market multiple, potentially providing insulation from multiple compression. These factors were at play during the unwinding of the 1990s tech boom and resulted in enormous divergence in performance of value-based strategies at the time.

While mean reversion is a powerful force in markets, it is possible that equity multiples will stay at elevated levels despite rising bond yields. It is also possible that AI companies will soon be generating the trillions of new revenue needed to justify their investment spending and that annual hyperscaler operating cash flows will be \$1T higher than today. But this scenario is largely what is priced into markets today, and the downside risk if these outcomes do not materialize looks potentially significant.

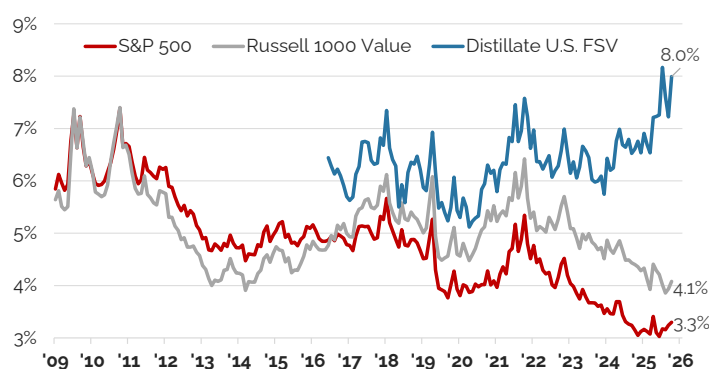
Strategy Updates:

U.S. Large Cap Strategy

Valuation looks to be a key risk at present with both the S&P 500 and Russell 1000 Value benchmarks trading at very rich levels. Since this is driven by a small handful of very large and very expensive names, there remains a significant number of very attractively valued stocks available to us in the market. The result is an extraordinarily wide divergence in the valuation of our portfolio versus its benchmarks (See [Figure 13](#)).

Distillate's U.S. FSV is significantly cheaper than its benchmarks.

Figure 13: Free Cash (NTM) to Market Cap Yield for Distillate's U.S. FSV Strategy vs. Benchmarks



Source: FactSet. Data through 9/30/2026. FCF yield after option issuance.

We remain focused on fundamentals. Much of the market's return has come from valuation expansion and not fundamental growth and this is true for both the broader S&P 500 and Russell 1000 Value Index. While multiple expansion (and contraction) can cause prices and fundamentals to diverge over stretches of years, over the long-term fundamentals are the only driver of returns (see our [1Q 2026 letter](#) for a historic analysis). Our focus on the consistency of cash generation and then methodically rotating out of stocks whose valuations have increased, buying instead what is newly cheap where each dollar invested buys more underlying free cash flow. This outcome of our portfolio construction process is designed to grow the underlying free cash flow of our strategy at a rate well above that of both the S&P 500 and Russell 1000 Value (See [Figure 14](#)). While achieving this goal can still result in moments where our strategies lag their benchmarks if those indexes are seeing valuation expansion, we ultimately believe it is the right approach and one that is sustainable and the results replicable, even in a market where overall valuations are receding.

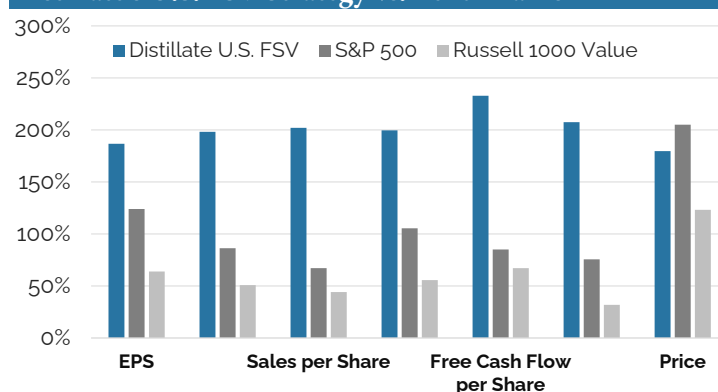
In this regard, going back to the first full year for which our U.S. FSV strategy's fundamentals were available, and using consensus estimates for 2026, this design has not just produced better free cash flow growth, but better performance on a wide number of fundamental measures as seen in [Figure 14](#). We have lagged however, on price. Said differently, while the overall return of our strategy has kept pace

with the S&P 500, the shares we own have become cheaper over time while the S&P 500 has become significantly more expensive.

Knowing valuation expansion is typically followed by periods of contraction, the timing of which is impossible to predict, we are pleased that our returns rely on the fundamentals.

Fundamental gains for our U.S. FSV strategy has been solid.

Figure 14: Fundamental & Price Growth '18 to '26E for Distillate's U.S. FSV Strategy vs. Benchmarks

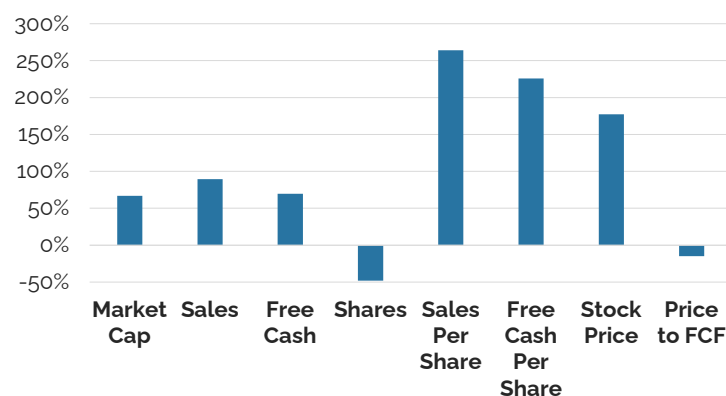


Source: FactSet, data as of Sept '26

Another often overlooked or misunderstood component of free cash flow growth for our strategies is valuation itself. Stocks that are inexpensive on a free cash flow basis can use that cash to support growth through acquisitions or share repurchases. The homebuilder Toll Brothers offers a useful example. The company has faced challenges over the past decade with a more sluggish housing market and sales growth has consequently annualized at a mid-single digit rate. Over this time, the stock consistently traded at a double-digit free cash flow yield and has steadily used its cash generation to reduce its share count. Because of this, the company's more modest gains in market cap, sales, and free cash flow have been magnified into outstanding performance on a per share basis and have translated into similar strong gains for its shares (See [Figure 15](#)).

Due to a 50% reduction in its share count owing to a cheap valuation, Toll Brothers fundamentals on a per share basis have been excellent.

Figure 15: Toll Brothers '17 to '27E Growth



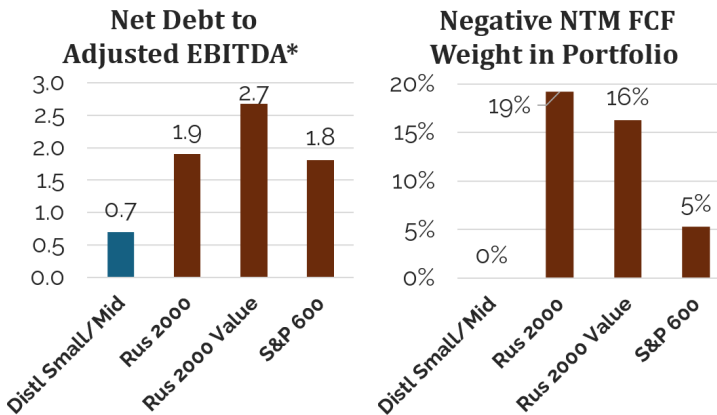
Source: FactSet. Data as of 10/9/2026. Mkt cap & stock price for '26E & '27E are current values, all others consensus estimates.

U.S. Small/Mid Cap Strategy

Amid worries about concentration and AI exposure for large U.S. stocks, small U.S. stocks look like a very attractive alternative. Financial leverage and lack of cash flow, however, are key risks that need to be considered. This is evident in the side-by-side charts in **Figure 16** showing leverage for various benchmarks and our strategy along with the percentage of each portfolio by weight that is not expected to generate positive free cash flows.

Many small cap stocks have significant debt and are unprofitable.

Figure 16: Quality Measures for Small Stocks

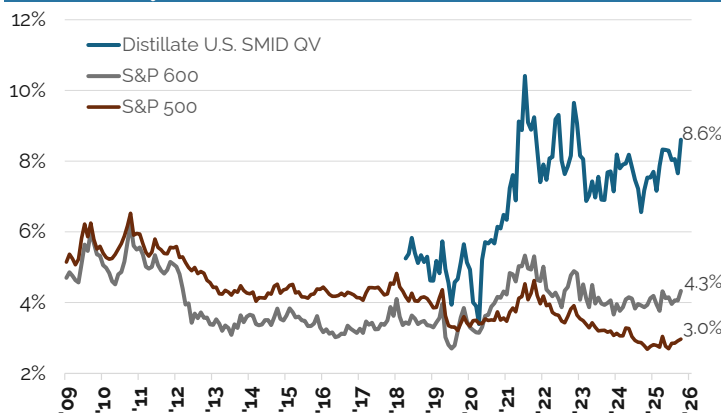


Source: FactSet, data as of Sept '26

These issues cause us to prefer the higher-quality S&P 600 benchmark as valuation gauge for small stocks. Small stocks are now more attractive than the S&P 500 after being richer for much of the past decade and subsequently underperforming (See **Figure 17**). Our strategy, which has even less leverage, is substantially more attractively valued than even the S&P 600, with a free cash to market cap yield of almost 11%.

Small stocks look more appealing on valuation.

Figure 17: Distillate's Small/Mid QV Free Cash to EV Yield vs. Key Benchmarks



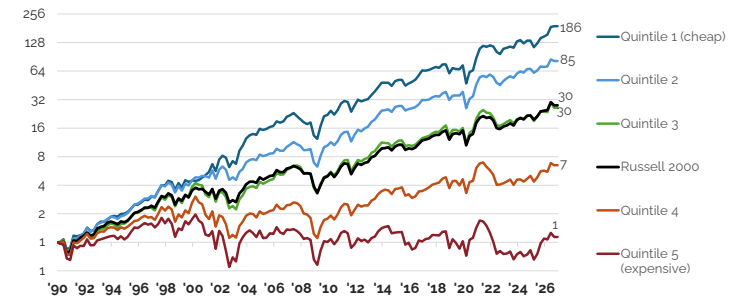
Source: FactSet. Data through 9/30/2026. FCF yield after option issuance.

Stepping back, value as a style and when measured utilizing free cash flow, has worked very well in the small cap universe even though there are moments when it lags. **Figure 18** highlights this by showing the performance of each quintile of valuation on our free cash flow

methodology with quarterly rebalancing. Our small strategy aims to capture this long-term opportunity while also incorporating quality to minimize downside risks.

Cheaper quintiles of small stocks on FCF have outperformed historically.

Figure 18: Russell 2000 Performance by FCF/EV

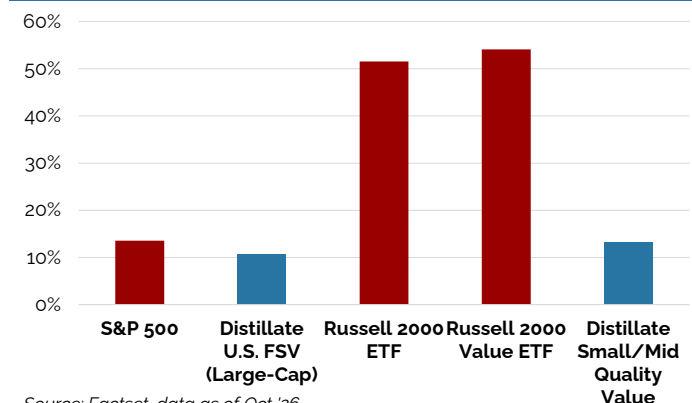


Source: FactSet. Excludes finance/rental/leasing, financial conglomerates, investment banks/brokers, life/health insurance, major banks, multi-line insurance, P&C insurance, REITs, regional banks, savings banks, & specialty insurance. FCF based on trailing three years. Rebalanced quarterly. Data from 1/1/1990 through 9/30/2026.

Because of rising rates, high leverage looks to be an especially worrying risk for small stocks at present and this is likely to be magnified by the lack of profitability for many companies. Smaller stocks, or at least the profitable ones, look less exposed to the risk of multiple contraction posed by higher bond yields, but more exposed to fundamental pressures. One way to measure this is to look at consensus estimates for interest expense relative to free cash flows with the cost of interest added back in (interest-adjusted free cash flow). On this measure, the Russell 2000 and 2000 Value benchmarks look particularly exposed with companies projected to spend ~50% of their interest adjusted free cash flow servicing their debt. Since rates have moved higher, as companies refinance, this figure stands to move significantly and may sharply reduce profits as it does. Fortunately, our small strategy is far less exposed to this risk both an indebtedness and interest share of free cash that is significantly less. The comparable figure for our large cap strategy (and its benchmarks) is also shown, though debt is a much less acute issue for larger stocks than for small ones.

Small cap benchmarks are enormously exposed to the risk of rising rates with nearly half their interest adjusted FCF devoted to paying their debt.

Figure 19: Interest Expense as a Share of Interest Adjusted Free Cash Flow (NTM)



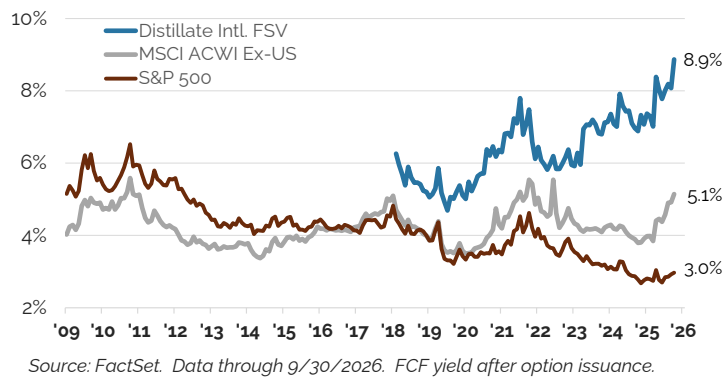
Source: Factset, data as of Oct '26

International Strategy

International stocks likewise look attractive from a valuation perspective with our strategy being substantially more attractive than the benchmark (See [Figure 20](#)). And like small stocks, international equities were also more expensive than large U.S. stocks for much of the past decade before subsequently underperforming. Debt and cash flow instability are also important risks to consider, but the biggest concern in our view at present is concentration risk.

International stocks as a group are cheaper than U.S. ones, but our strategy is substantially less expensive than either benchmark.

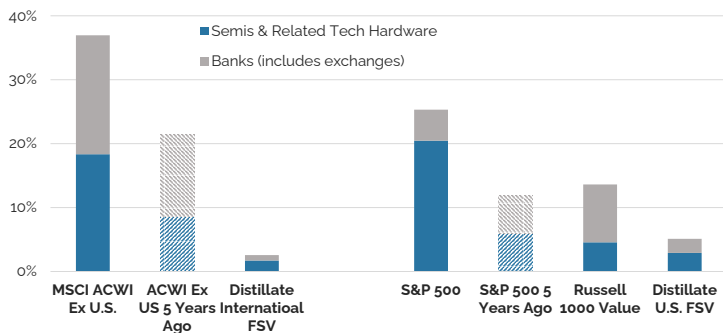
Figure 20: NTM FCF/EV International Strategies



Semiconductor and bank stocks have surged from around a 20% weight in the ACWI Ex-U.S. benchmark 5 years ago to nearly 40% today. This is an enormous concentration in two sectors that are notoriously volatile. For our strategy, the comparable figure is a negligible 3%, as we avoid the fundamental volatility of the semi names and leverage and risk profile of the banks. This can be seen in [Figure 21](#) which also shows the same exposures for the S&P 500 (which likewise saw these weights increase sharply in recent years), the Russell 1000 Value, and our U.S. FSV strategy.

International benchmarks are very concentrated.

Figure 21: Bank & Semi /Tech Equipment ACWI Ex-US Benchmark Weight Over Time



Final Word: Benchmark Risk

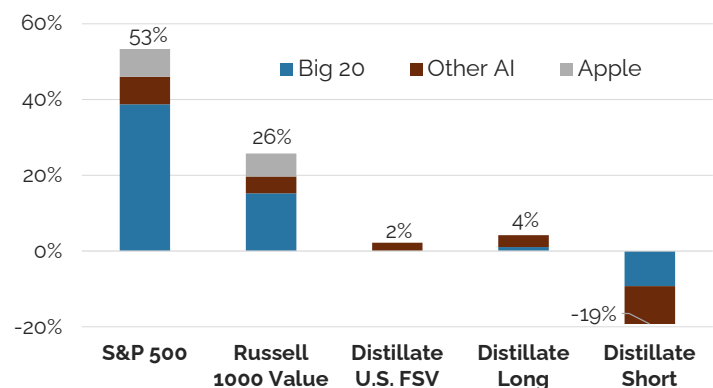
Across strategies, our portfolios are meaningfully different from the benchmarks they use to report relative performance. That outcome is a function of the market and the focus of our work being to own good businesses that outperform over the long-term. Said differently, our focus is not about whether we will stray from a benchmark, or whether next quarter or this year's results will finish ahead or behind the benchmark, but whether we can deliver to clients an attractively valued portfolio that provides downside protection.

Our goal is set in our process, and in periods of stress we do not stray from it. In fact, while we recognize it is difficult to do, taking a contrarian view is always necessary to earn good returns and leaning in when market conditions have not gone favorably makes more sense than leaning in when they are in your favor. But also important, we are fact-based investors, and stepping back and assessing our current positioning and noting the historical precedents, we believe we are in an extraordinary market period and that the differences between our portfolios and their benchmarks are warranted and logical and will pay off. Our concern for investors relates to benchmarks and many strategies tied to them that are taking on enormous concentration and valuation risk all related to a single theme ([Figure 22](#)).

For our clients, our other goal is to provide you what you need to understand our positioning and whatever you need to help you communicate that to your clients. In that regard, we stand ready to help, please reach out with any concerns or questions.

Benchmarks have enormous exposure to AI.

Figure 22: AI Exposure



Appendix:

Table 1: Market Capitalization vs Free Cash Changes for Russell 1000 Stocks Grouped by AI Affiliation

	NTM FCF Sept '23	NTM FCF Sept '26	Change	Change Percent		Mkt Cap Sept '23	Mkt Cap Sept '26	Change	Change Percent		Multiple Sept '23	Multiple Sept '26
Russell 1000*	\$ 1,624	\$ 2,045	\$ 422	26%		\$ 38,465	\$ 70,484	\$ 32,019	83%		23.7	34.5
AI 20	\$ 276	\$ 304	\$ 28	10%		\$ 9,670	\$ 29,416	\$ 19,746	204%		35.1	96.8
<i>Hyperscalers</i>	\$ 188	\$ (253)	\$ (440)			\$ 6,368	\$ 14,996	\$ 8,627			33.9	-59.3
<i>Remaining 14</i>	\$ 88	\$ 557	\$ 468			\$ 3,302	\$ 14,420	\$ 11,118			37.5	25.9
Apple	\$ 102	\$ 142	\$ 40	39%		\$ 2,677	\$ 4,860	\$ 2,183	82%		26.2	34.2
Rest of Market	\$ 1,348	\$ 1,742	\$ 394	29%		\$ 26,118	\$ 36,208	\$ 10,090	39%		19.4	20.8
<i>Share</i>		85%					51%					

Source: FactSet

*Includes only stocks with FCF data

Notes:

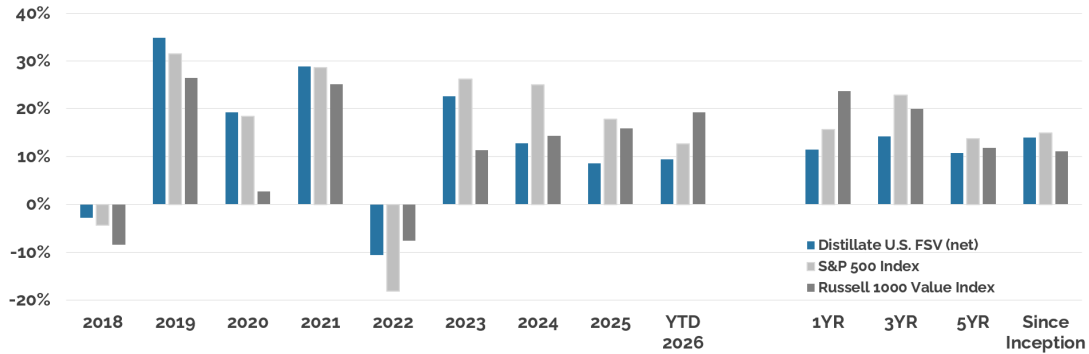
Table 1 and Figure 22: "AI 20" include: NVDA, GOOGL, MSFT, AMZN, SPCX, META, AVGO, TSLA, MU, AMD, INTC, PLTR, CSCO, ORCL, LRCX, AMAT, CAT, DELL, PANW, CRWD. List consists of the largest 20 companies Distillate deems to be involved in selling AI and/or compute services, or to be substantially benefiting from the AI infrastructure buildout (data centers, power, etc.).

Figure 22: "Other AI" includes TXN, KLAC, SNDK, GEV, MRVL, ANET, STX, APH, QCOM, ADI, ETN, WDC, NEE, GLW, EQIX, TT, PWR, SO, VRT, CDNS, JCI, LITE, HPE, CEG, CMI, MPWR, TER, KEYS, DLR, NXPI, FIX, COHR, CIEN, ETR, VST, MCHP, NTAP, FLEX, EME, IRM, JBL, ON, TDY, Q, SMCI, AKAM, GNRC, ALGM, ARW, ATI, AVT, CGNX, CRUS, DY, ECG, ENTG, FLS, GFS, GTES, LFUS, LSCC, MKSI, MTSI, MTZ, NVT, OKLO, ONTO, SANM, SNX, SPXC, TLN, WWD, AMKR, CRS, APLD. List consists of the next largest companies Distillate deems to be involved in selling AI and/or compute services, or to be substantially benefiting from the AI infrastructure buildout (data centers, power, etc.).

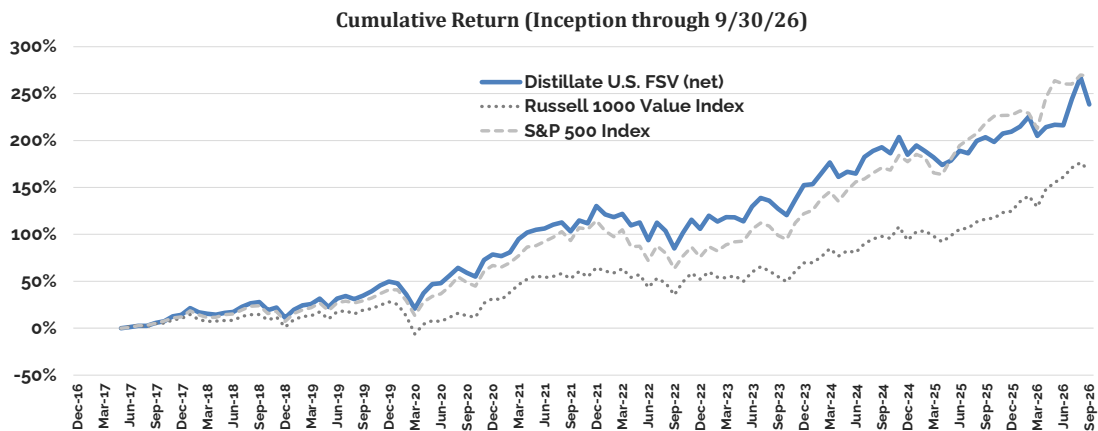
Performance & Rebalance Appendix

U.S. Fundamental Stability & Value Composite Performance:

	As of September 30, 2026										
	2017*	2018	2019	2020	2021	2022	2023	2024	2025	YTD 2026	Since Inception
Distillate U.S. FSV (net)	14.18%	-2.79%	34.91%	19.22%	28.91%	-10.58%	22.67%	12.84%	8.59%	9.39%	11.50%
Russell 1000 Value Index	10.27%	-8.41%	26.52%	2.78%	25.12%	-7.56%	11.42%	14.35%	15.88%	19.23%	23.76%
S&P 500 Index	12.11%	-4.39%	31.48%	18.39%	28.68%	-18.12%	26.26%	25.00%	17.86%	12.73%	15.72%

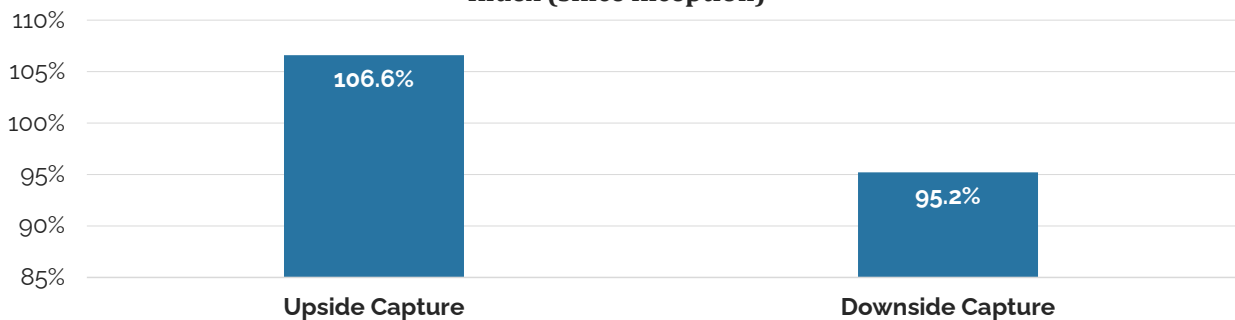


Source: U.S. Bank, Morningstar Data; Inception 5/31/2017; the period "2017" reflects returns from inception through 12/31/2017. One cannot invest directly in an index. See performance disclosures.



Source: U.S. Bank, Morningstar Data; Inception 5/31/2017. One cannot invest directly in an index. See performance disclosures.

Distillate U.S. FSV Strategy: Upside & Downside Capture vs. Russell 1000 Value Index (since inception)



Source: Zephyr Analytics, see definition

Past performance does not guarantee future results. See disclosures. Upside Capture reflects the relative compounded annualized return of a strategy compared to that of the benchmark in periods (months) when the benchmark rose in value; Downside Capture is the same but for periods when the benchmark fell in value. One cannot invest directly in an index.

Top Contributors and Detractors From Relative Performance:

U.S. FSV Strategy: Owned Stocks 2026 YTD Impact to Relative Returns (vs. S&P 500)

Top Contributors	Impact	Largest Detractors	Impact
MARATHON PETROLEUM	1.44%	ADOBE INC	-0.48%
MERCK & CO. INC.	0.95%	ZOETIS INC	-0.45%
ON SEMICONDUCTOR	0.62%	TRADE DESK INC/THE	-0.42%
NETAPP INC	0.55%	BOOKING HOLDINGS INC	-0.42%
JABIL INC	0.51%	COMCAST CORP-CLASS A	-0.39%

Rebalance Summary:

U.S. FSV Strategy: Portfolio Changes During Recent Quarterly Rebalancing

Largest Purchases	Weight	Largest Sales	Weight	Largest Sector Changes
Lowe's Companies, Inc.	1.4%	Abbott Laboratories	-1.3%	Industrials (+3.2%)
AppLovin Corp. Class A	1.3%	Workday, Inc. Class A	-1.2%	Financials (-3.6%)
PACCAR Inc	1.0%	Global Payments Inc.	-1.2%	Technology (-4.9%)

Largest Adds	Weight	Previous	Largest Trims	Weight	Previous
UnitedHealth Group Inc	2.0%	1.1%	Salesforce, Inc.	2.1%	3.1%
Deckers Outdoor Corporation	0.8%	0.4%	Accenture Plc Class A	1.6%	2.4%
Booking Holdings Inc.	1.7%	1.3%	Merck & Co., Inc.	2.0%	2.7%

Rebalance Calculation Date: 9/19/2026

U.S. FSV Portfolio Characteristics*

	U.S. FSV	Russell 1000 Val	S&P 500
Free Cash Yield to Mkt Cap ¹	8.0%	4.0%	3.3%
Free Cash Yield to EV ¹	6.7%	3.3%	3.0%
P/E ²	12.5	17.7	19.7
Leverage ³	1.1	1.4	0.7
Cash Flow Stability ⁴	0.84	0.65	0.68
Dividend Yield	1.7%	1.6%	1.0%

*as of 9/30/2026, see methodology endnotes.

U.S. FSV Portfolio Sector Weights

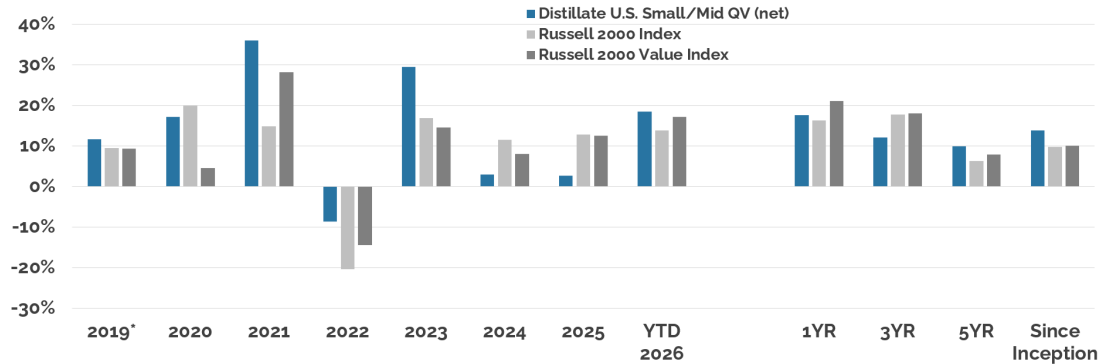
	U.S. FSV	Russell 1000 Val	S&P 500
Communication Services	7.0%	3.1%	9.8%
Ex GOOGL & META	7.0%	2.3%	1.9%
Consumer Discretionary	10.0%	10.4%	8.6%
Ex AMZN & TSLA	10.0%	4.3%	3.4%
Consumer Staples	4.9%	7.2%	4.4%
Energy	5.0%	6.2%	3.4%
Financials	9.0%	18.2%	11.4%
Ex Banks	9.0%	5.2%	5.0%
Health Care	22.5%	13.2%	9.3%
Industrials	19.7%	10.3%	8.0%
Information Technology	17.6%	20.4%	39.7%
Ex MSFT, AAPL & NVDA	17.6%	20.4%	24.0%
Materials	3.2%	3.6%	1.7%
Real Estate	0.0%	3.3%	1.7%
Utilities	1.2%	3.4%	1.9%

*as of 9/30/2026

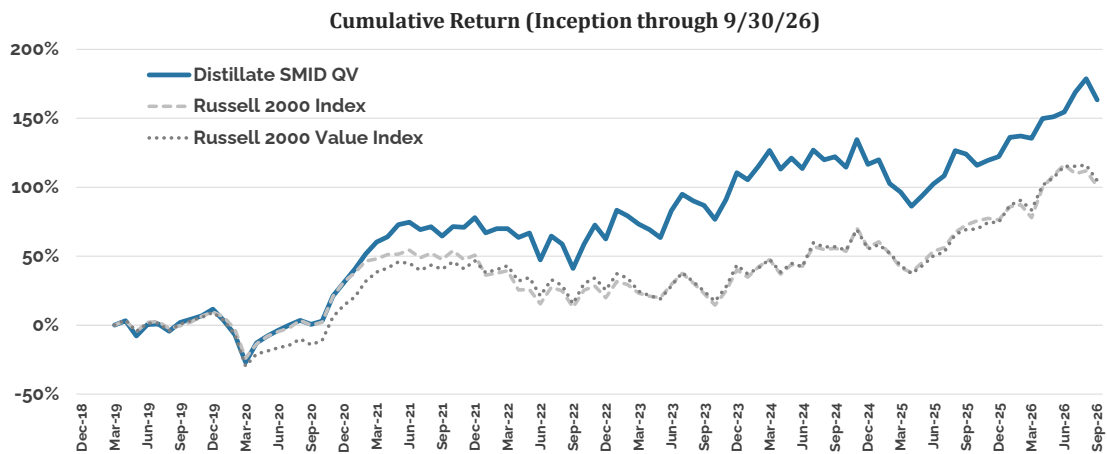
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U.S. Small/Mid Cap Quality & Value Composite Performance:

	As of September 30, 2026								
	2019*	2020	2021	2022	2023	2024	2025	YTD 2026	Since Inception
Distillate U.S. Small/Mid QV (net)	11.65%	17.15%	36.03%	-8.64%	29.46%	2.92%	2.63%	18.46%	17.54%
Russell 2000 Index	9.53%	19.93%	14.78%	-20.46%	16.88%	11.52%	12.79%	13.87%	16.36%
Russell 2000 Value Index	9.33%	4.60%	28.21%	-14.50%	14.58%	8.03%	12.58%	17.22%	21.03%

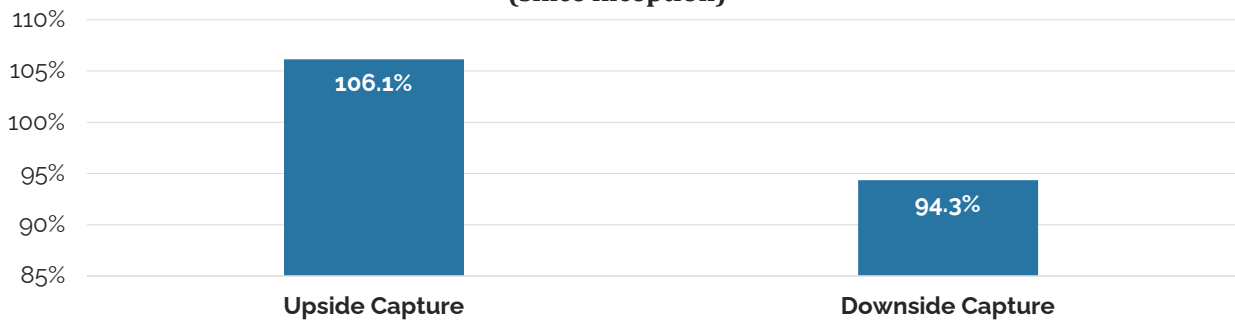


Source: U.S. Bank, Morningstar Data; Inception 3/31/2019; the period "2019*" reflects returns from inception through 12/31/2019. One cannot invest directly in an index. See performance disclosures.



Source: U.S. Bank, Morningstar Data; Inception 3/31/2019. One cannot invest directly in an index. See performance disclosures.

Distillate SMID QV: Upside & Downside Capture vs. Russell 2000 Index (since inception)



Source: Zephyr Analytics, see definition

Past performance does not guarantee future results. See disclosures. Upside Capture reflects the relative compounded annualized return of a strategy compared to that of the benchmark in periods (months) when the benchmark rose in value; Downside Capture is the same but for periods when the benchmark fell in value. One cannot invest directly in an index.

Top Contributors and Detractors From Relative Performance:

U.S. SMID QV: Owned Stocks 2026 YTD Impact to Relative Returns (vs. Russell 2000)

Top Contributors	Impact	Largest Detractors	Impact
HF SINCLAIR CORP	1.33%	EVERFORTH INC	-0.41%
APA CORP	0.83%	SIMPLY GOOD FOODS CO	-0.38%
ENPHASE ENERGY INC	0.69%	COLLEGIUM PHARMA	-0.38%
TD SYNnex CORP	0.67%	LKQ CORP	-0.32%
INTERNATIONAL SEAWAYS	0.66%	ZOOMINFO TECH	-0.32%

Rebalance Summary:

U.S. SMID QV Strategy: Portfolio Changes During Recent Quarterly Rebalancing

Largest Purchases	Weight	Largest Sales	Weight
Owens Corning	1.1%	HF Sinclair Corporation	1.4%
Deckers Outdoor Corporation	1.0%	CDW Corporation	1.2%
ICON Plc	1.0%	Jazz Pharmaceuticals	0.9%

Largest Adds	Weight	Previous	Largest Trims	Weight	Previous
Skyworks Solutions, Inc.	1.2%	0.8%	Abercrombie & Fitch Co.	0.7%	1.1%
PVH Corp.	0.8%	0.5%	Insight Enterprises, Inc.	0.7%	1.0%
Versant Media Group, Inc.	1.5%	1.3%	Blackbaud, Inc.	0.5%	0.8%

Rebalance Calculation Date: 8/28/2026

U.S. SMID QV Portfolio Characteristics*

	SMID QV	Russell 2000	Russell 2000 Value
Free Cash Yield to Mkt Cap ¹	10.8%	2.9%	4.7%
Free Cash Yield to EV ¹	8.6%	1.7%	3.0%
P/E ²	9.6	14.7	11.5
Leverage ³	0.7	1.6	2.2
Fundamental Stability ⁴	0.54	0.40	0.36
Negative FCF Weight ⁵	0.0%	19.2%	16.3%

*as of 9/30/2026, see methodology endnotes.

U.S. SMID QV Portfolio Sector Weights

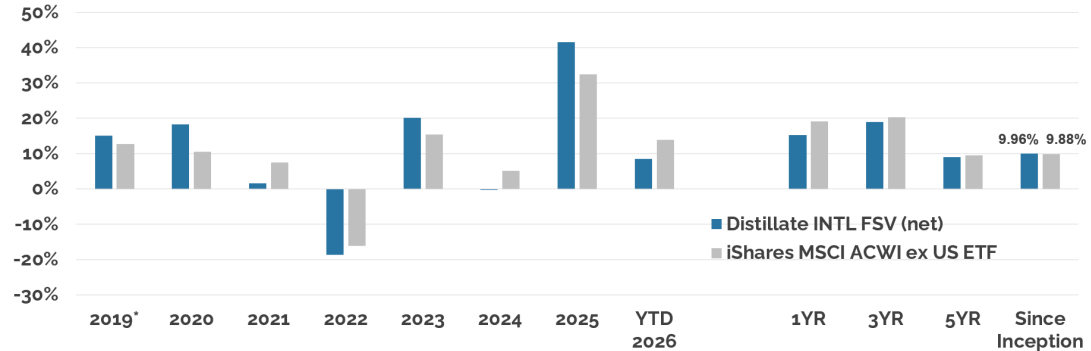
	SMID QV	Russell 2000	Russell 2000 Value
Communication Services	4.2%	2.5%	2.5%
Consumer Discretionary	21.2%	8.8%	9.0%
Consumer Staples	7.0%	2.0%	2.2%
Energy	13.9%	6.7%	8.0%
Financials	6.2%	18.9%	28.5%
Health Care	8.6%	20.8%	11.8%
Industrials	21.8%	14.0%	12.2%
Information Technology	15.3%	13.8%	7.4%
Materials	1.9%	4.2%	4.0%
Real Estate	0.0%	5.7%	9.1%
Utilities	0.0%	2.7%	5.2%
Not Classified	0.1%	0.0%	0.0%

*as of 9/30/2026

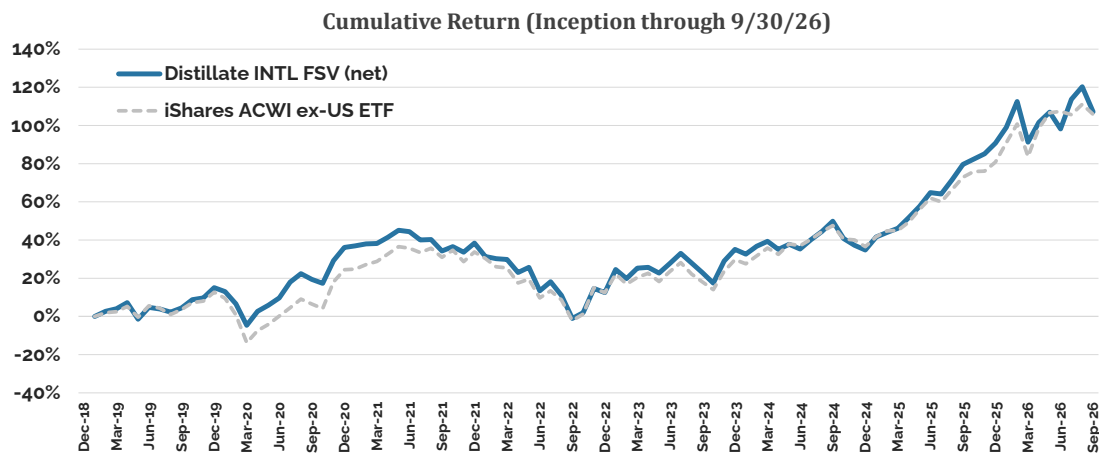
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International Fundamental Stability & Value Composite Performance:

	As of September 30, 2026								
	2019*	2020	2021	2022	2023	2024	2025	YTD 2026	Since Inception
Distillate INTL FSV (net)	15.08%	18.26%	1.67%	-18.68%	20.10%	-0.25%	41.53%	8.57%	15.31%
iShares MSCI ACWI ex US ETF	12.67%	10.48%	7.48%	-16.01%	15.47%	5.19%	32.48%	13.85%	19.08%
									20.38%
									9.47%
									9.96%
									9.88%



Source: U.S. Bank, Morningstar Data; Inception 1/31/2019; the period "2019" reflects returns from inception through 12/31/2019. One cannot invest directly in an index. See performance disclosures.



Source: U.S. Bank, Morningstar Data; Inception 1/31/2019. One cannot invest directly in an index. See performance disclosures.

Distillate INTL FSV Strategy: Upside & Downside Capture vs. ACWI ex-U.S. ETF (since inception)



Source: Zephyr Analytics, see definition

Past performance does not guarantee future results. See disclosures. Upside Capture reflects the relative compounded annualized return of a strategy compared to that of the benchmark in periods (months) when the benchmark rose in value; Downside Capture is the same but for periods when the benchmark fell in value. One cannot invest directly in an index.

Top Contributors and Detractors From Relative Performance:

INTL FSV Strategy: Owned Stocks 2026 YTD Impact to Rel Returns (vs. ACWI Ex U.S.)

Top Contributors	Impact	Largest Detractors	Impact
UNITED MICRO	2.00%	INFOSYS LTD-SP ADR	-0.53%
SAMSUNG ELECTR-GDR	1.27%	HEIDELBERG MATERIALS	-0.48%
SCREEN HOLDINGS CO LTD	1.13%	TONGCHENG TRAVEL	-0.38%
CANADIAN NATURAL RES	0.79%	WIPRO LTD-ADR	-0.35%
YANGZIJANG SHIPBUILD	0.48%	TELKOM INDONESIA	-0.31%

Rebalance Summary:

INTL FSV Strategy: Portfolio Changes During Recent Quarterly Rebalancing

Largest Purchases	Weight	Largest Sales	Weight
America Movil SAB de CV	2.0%	HD HYUNDAI CO.,LTD.	1.5%
China Coal Energy Co. Ltd.	1.3%	NEC Corporation	1.2%
LG Electronics Inc.	1.1%	LPP S.A.	1.0%

Largest Adds	Weight	Previous	Largest Trims	Weight	Previous
British American Tobacco	2.0%	1.5%	Gold Fields Limited	1.2%	1.6%
Wipro Limited Spons ADR	0.9%	0.5%	Canadian Natural Resources	1.9%	2.3%
Geely Automobile Holdings	1.3%	1.0%	Suncor Energy Inc.	1.7%	2.2%

Rebalance Calculation Date: 9/19/2026

INTL FSV Portfolio Characteristics*

	INTL FSV	ACWI Ex U.S. ETF
Free Cash Yield to Mkt Cap ¹	9.7%	5.6%
Free Cash Yield to EV ¹	8.9%	5.1%
P/E ²	10.5	13.1
Leverage ³	0.6	1.1
Cash Flow Stability ⁴	0.78	0.62
Dividend Yield	3.8%	2.6%

*as of 9/30/2026, see methodology endnotes.

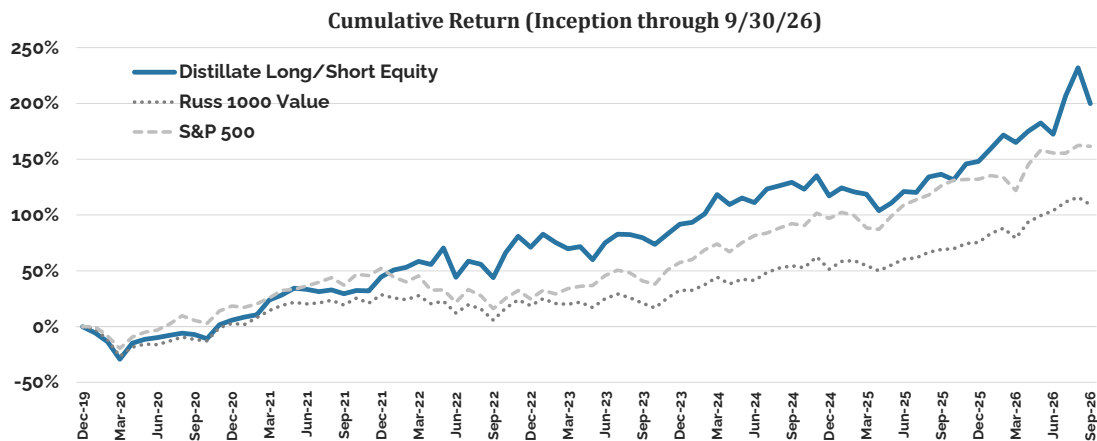
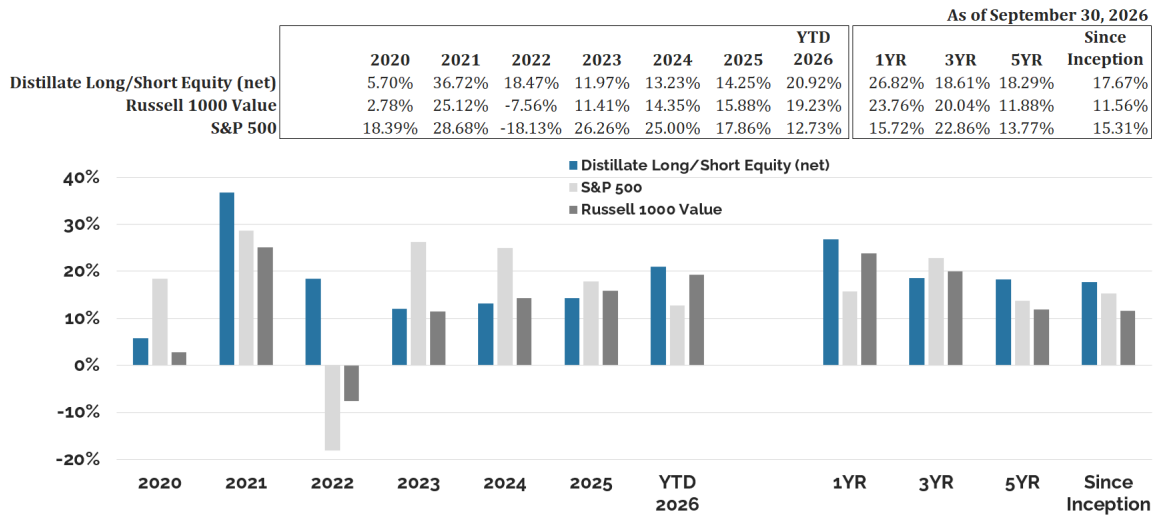
INTL FSV Portfolio Region Weights

Region	INTL FSV	ACWI Ex U.S. ETF
Europe	38.8%	38.3%
Japan	13.9%	17.8%
Asia Ex China & Japan	25.8%	12.1%
China & Hong Kong	7.5%	11.2%
Americas	10.7%	15.8%
Middle East & Africa	3.2%	4.8%

*as of 9/30/2026

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Long/Short Equity Composite Performance:



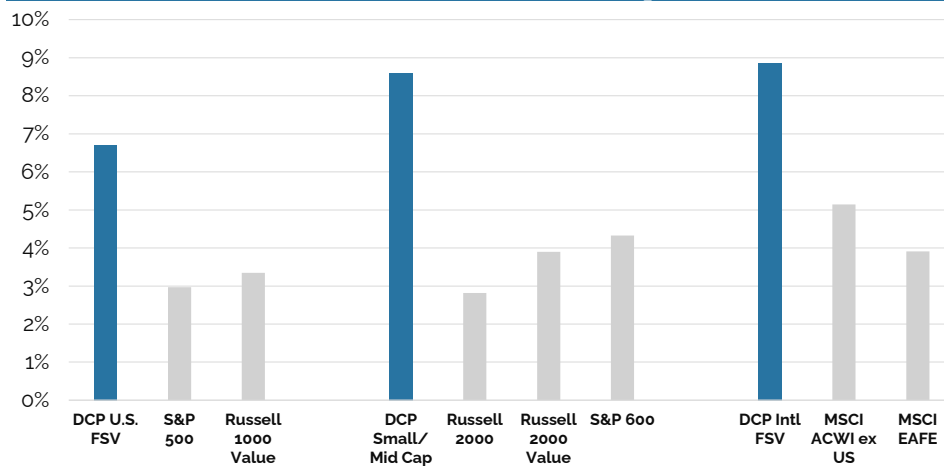
Long/Short Equity Portfolio Characteristics*

	Long	Short	Russell 1000 Val	S&P 500
Free Cash Yield to Mkt Cap ¹	9.8%	-2.7%	4.0%	3.3%
Free Cash Yield to EV ¹	8.0%	-2.1%	3.3%	3.0%
P/E ²	10.4	25.6	17.7	19.7
Leverage ³	1.1	1.7	1.4	0.7
Fundamental Stability ⁴	0.63	0.54	0.65	0.68
Negative FCF Weight	0.0%	42.3%	13.2%	11.1%

*as of 9/30/26, see methodology endnotes.

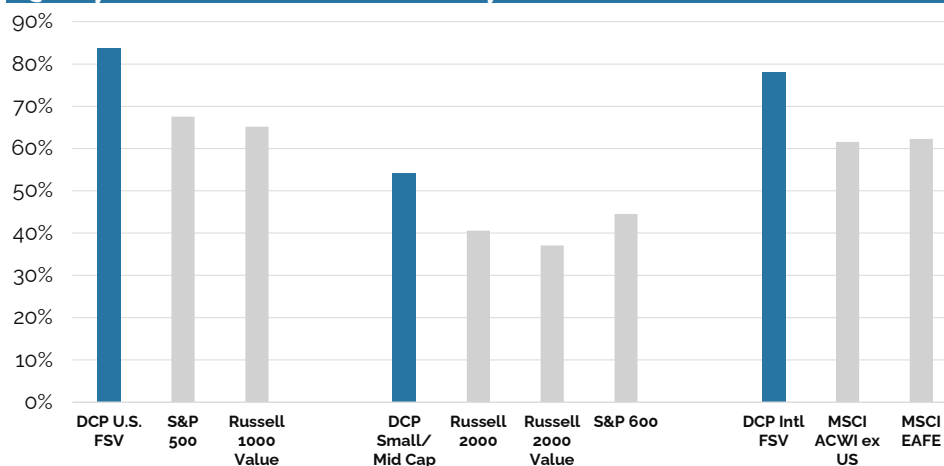
Past performance does not guarantee future results. See disclosures. Statistical data is sourced from FactSet.

Valuation: Next 12-Month Free Cash Flow to Enterprise Value



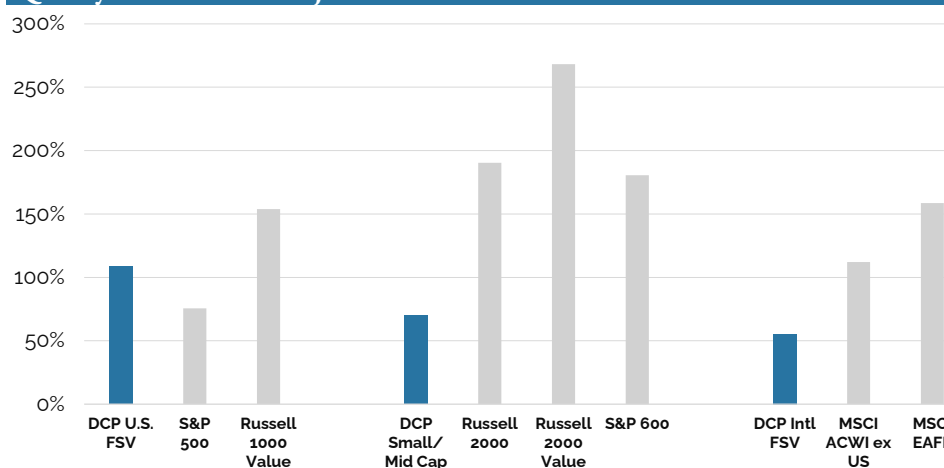
Source: FactSet, See end-notes for methodology. As of 9/30/2026

Quality: Distillate's Cash Flow Stability Score



Source: FactSet, See end-notes for methodology. As of 9/30/2026

Quality: Net Debt to Adjusted EBITDA



Source: FactSet, See end-notes for methodology. As of 9/30/2026

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Distillate claims compliance with the Global Investment Performance Standards (GIPS®). GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein. To receive a GIPS Report and/or our firm's list of composite and broad distribution pooled funds descriptions please email your request to info@distillatecapital.com.

The U.S. Dollar is the currency used to express performance. Returns are presented net of management fees and include the reinvestment of all income. For non-fee-paying accounts, net of fee performance was calculated using a modeled management fee equal to the highest investment management fee that may be charged for the applicable composite (see fee schedule below). For accounts calculated with a per share, net-of fee NAV, gross performance was calculated by adding back the unitary fee associated with that fund. Policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request.

The investment management fee schedule for the strategies discussed are as follows: 0.39% for U.S. Fundamental Stability & Value; 0.55% for U.S. Small/Mid Quality & Value; 0.89% for Long Short Equity; and 0.55% for International Fundamental Stability & Value. Management fees may vary and are negotiable.

Data for the Firm's investment strategies are based on a representative account for each composite. Actual holdings and performance may differ between accounts or vehicles offered by the Firm due to the size of an account, client guidelines, or other constraints and restrictions related to that account or vehicle.

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All investments in securities, options and derivatives involve a risk of loss of capital and no guarantee or representation can be made that an investment will generate profits or that an investment will not incur a total loss of invested capital. **Past performance does not guarantee future results** and there can be no assurance that the future performance of any specific investment, investment strategy, or product will be profitable, equal any corresponding indicated historical performance level(s), or prove successful. Investment returns and value will fluctuate in response to issuer, political, market, and economic developments, which can affect a single issuer, issuers within an industry, economic sector or geographic region, or the market as a whole. Furthermore, nothing herein is intended to imply that Distillate's investment strategies may be considered "conservative", "safe", "risk free" or "risk averse." Portfolio holdings and sector allocations are subject to change at any time and should not be considered recommendations to buy or sell any security. The information in this presentation has been obtained or derived from sources believed to be reliable, but no representation is made as to its accuracy or completeness.

This presentation contains forward looking statements, which can be identified by the use of forward-looking terminology such as "may", "will", "should", "expect", "anticipate", "target", "project", "estimate", "intend", or "believe", or the negatives thereof or any other variations thereon or other comparable terminology. Because such forward looking statements involve risk and uncertainties, actual results may differ materially from such expectations or projections. Any such forward-looking statements should not be construed to be indicative of the actual events that will occur nor should they be considered guarantees of future events in any form.

The **U.S. Fundamental Stability & Value** composite seeks to distill a starting universe of large cap U.S. equities into only the stocks where quality and value overlap using Distillate's proprietary definitions. Its goal is to achieve superior compounded long-term returns by limiting downside in periods of market stress, while still providing strong performance in up markets. This composite was created in May 2017.

The **U.S. Small/Mid Cap Quality & Value** composite seeks to distill a starting universe of small- and mid-cap U.S. equities into only the stocks where quality and value overlap using Distillate's proprietary definitions. Its goal is to achieve superior compounded long-term returns by limiting downside in periods of market stress, while still providing strong performance in up markets. This composite was created in March 2019.

The **International Fundamental Stability & Value** composite seeks to distill a starting universe of large- and mid-cap non-U.S. equities into only the stocks where quality and value overlap using Distillate's proprietary definitions. Its goal is to achieve superior compounded long-term returns by limiting downside in periods of market stress, while still providing strong performance in up markets. This composite was created in January 2019.

The **Long Short Equity** composite seeks long-term capital appreciation by holding approximately 130% of an account's value in the most attractively valued large cap U.S. stocks measured using Distillate's proprietary free cash flow valuation method. The market exposure in this composite is brought back to approximately 100% by selling short 30% of an account's value of the least attractively valued stocks among the same starting set. This composite was created in December 2019.

Free Cash Flow refers to a company's operating cash flow, less its capital expenditures. **Enterprise Value** refers to a company's market capitalization plus its net debt balance. **Free Cash Flow to Enterprise Value Yield** refers to a company's or group of companies' free cash flow divided by the company's (or companies') Enterprise Value, with a higher resulting ratio indicating a more attractive valuation. This metric is a valuation measure and not a form of investor yield. **Normalized Free Cash Yield (or Distilled Cash Yield)** refers to the firm's proprietary valuation measure that looks at estimated, adjusted free cash flow relative to a company's adjusted enterprise value. References to historical stocks that ranked well using this methodology refer only to these stocks' historical valuation and not their inclusion in any actual or hypothetical strategies/accounts managed by Distillate Capital Partners LLC. This metric is a valuation measure and not a form of investor yield. **Fundamental (or Cash Flow) Stability** is Distillate Capital's proprietary measure of through-cycle cash flow stability with a higher value indicating greater stability. **Leverage** is based on Distillate Capital's proprietary measure of indebtedness which looks at the ratio of adjusted net debt to an adjusted measure of forecast Earnings Before Interest, Taxation, Depreciation, and Amortization (EBITDA.)

Methodology note for **Figures including free cash flow yield (FCF) or free cash flow to enterprise value yield (FCF/EV)**: figures reflect consensus estimates of next-twelve-months (NTM) FCF in comparison to market capitalization or enterprise value (EV) for the relevant portfolio/strategy or benchmark. Stocks

without data are excluded and portfolios are reweighted accordingly. Stocks with FCF/Market Cap or FCF/EV values of greater than 50% or less than -20% have been eliminated to avoid distorting overall averages.

Methodology Notes for **Portfolio Characteristics Tables (Appendix)**: ¹**Free Cash Yield to Market Cap and Enterprise Value (EV)** are based on the next-twelve-month free cash flow estimates relative to market capitalization and EV, which adds Distillate's proprietary measure of indebtedness. Stocks without estimates in the are excluded and the remaining names are reweighted based on those exclusions. ²**P/E** is based on consensus estimates for next-twelve-months and excludes P/Es over 250 and under 0 to avoid the distortion from outliers. ³**Leverage** is based on Distillate Capital's proprietary measure of indebtedness which looks at the ratio of adjusted net debt to an adjusted measure of forecast Earnings Before Interest, Taxation, Depreciation, and Amortization (EBITDA.) ⁴**Fundamental stability** is Distillate Capital's proprietary measure of through-cycle cash flow stability with a higher value indicating greater stability. ⁵**Negative FCF weight** is measured as the weight of stocks with negative free cash estimate as a share of those with any estimate.

The **S&P 500 Index** is an index of roughly the largest 500 U.S. listed stocks maintained by Standard & Poor's. The **S&P 500 Equal Weight Index** is an index of the same stocks as the S&P 500 Index, but weights the constituents equally. The **iShares Russell 1000 Value ETF** is an investable benchmark used as a proxy for its underlying index, the **Russell 1000 Value Index**, an index of U.S. listed stocks that possess attractive valuation as measured by FTSE Russell. The **iShares MSCI ACWI Ex-US ETF** is an investable benchmark used as a proxy for its underlying index, the **MSCI ACWI ex USA Index**, an index managed by MSCI representing large and mid cap stocks outside of the U.S. The **iShares Russell 2000 ETF** and **iShares Russell 2000 Value ETF** are investable benchmarks used as a proxies for the underlying indexes of the **Russell 2000 Index** (an index of U.S. listed small cap stocks) and the **Russell 2000 Value Index** (an index of U.S. listed small cap stocks that possess attractive valuation as measured FTSE Russell). The **S&P 600 Index** The S&P SmallCap 600® is a stock market index comprised of 600 small-cap U.S. companies selected based on specific inclusion criteria, including market capitalization, liquidity, and financial viability.

Indices are not available for direct investment. Investment in a security or strategy designed to replicate the performance of an index will incur expenses, such as management fees and transaction costs, which would reduce returns.

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