DISTILLATE CAPITAL

2022 Q3 Letter to Investors: Races Are Won In the Turns

Strategy Description

Distillate Capital's U.S. and International Fundamental Stability & Value (U.S. FSV & Intl FSV) strategies seek to outperform over the long-term by investing in stocks that are more fundamentally stable, less levered, and more attractively valued. Distillate's U.S. Small/Mid Cap Quality & Value (SMID QV) seeks to do the same by focusing on valuation and indebtedness.

Performance Summary

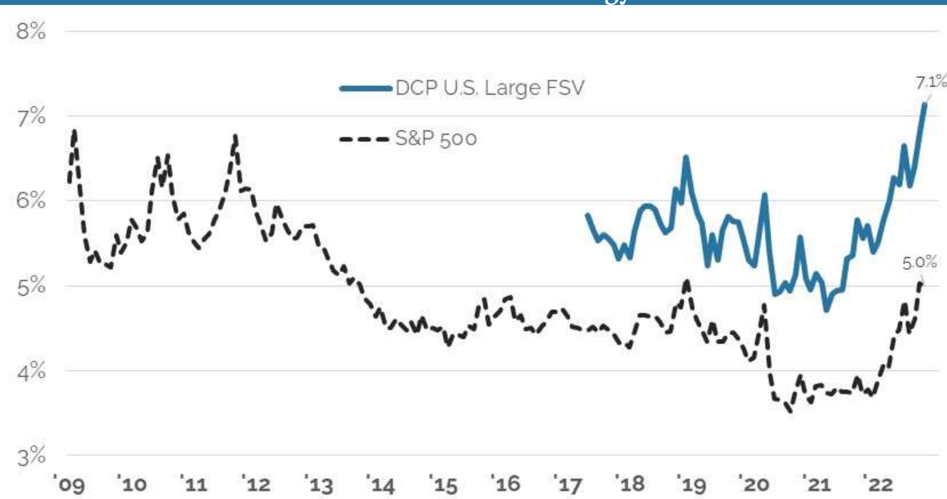
U.S. Fundamental Stability & Value (U.S. FSV): Through this year's decline, Distillate's U.S. FSV strategy has held up better than the overall market with a drop of 19.63% net of fees through Q3 vs. a 23.87% decline for the S&P 500 Index. (See **Figure 2** on the following page).

U.S. Small/Mid Cap Quality & Value (SMID QV): Our SMID QV's 2022 year-to-date (YTD) return of -20.71% net of fees was better than the total return for the iShares Russell 2000 ETF of -25.13%, and the -21.25% return for the iShares Russell 2000 Value ETF. Following previous gains over each benchmark, the strategy is substantially ahead of the Russell 2000 and Russell 2000 Value ETFs by 6.86% and 6.27% on an annualized net-of-fee basis since inception (See **Figure 3** on the following page).

International Fundamental Stability & Value (Intl. FSV): Hampered by its underweight in financial stocks, Distillate's Intl. FSV lagged the iShares MSCI ACWI ex-US ETF last quarter bringing its YTD total return to -28.47% net of fees versus a decline of 26.90% for the benchmark (See **Figure 4** on the following page). Annualized returns net of fees since inception remain 0.33% ahead of the benchmark.

The title of this letter is an auto racing adage that aptly applies to investing. It highlights that much more than in the straightaways, it is in the turns, both entering and coming out of them, where drivers differentiate themselves. In this regard, while we are pleased by the outperformance of domestic strategies in a difficult environment, we are much more encouraged by the relative positioning of all our strategies on our measures of quality and value. The underlying cash flows of each strategy are more stable than their benchmarks and stand to prove more durable in an uncertain period of economic stress. Leverage is also significantly lower, especially in the small/mid cap strategy, and seems of particular importance amid rapidly rising borrowing costs. Lastly and most importantly, the market turmoil has created opportunities to invest in these less levered and more stable companies at increasingly attractive relative valuations. Consequently, the large-cap U.S. FSV strategy is now at its largest ever free cash flow to enterprise value yield spread over the S&P 500 since inception (See **Figure 1**), and the comparable FCF/EV yield for the small/mid strategy is an attractive 9.8%. We are optimistic that these attributes will enable our strategies to continue to perform well through the turns.

Figure 1: Free Cash Flow (Next-Twelve-Month Consensus Estimate) to Enterprise Value Yield for Distillate's U.S. FSV Strategy vs. the S&P 500



Source: FactSet, See end-notes for methodology. 10/12/'22

Performance Charts: **Figures 2 through 4** depict annual performance for Distillate's U.S. and Intl. FSV strategies and its U.S. Small/Mid Cap Quality & Value (SMID QV) strategy versus their respective benchmarks since inception.

Figure 2: Performance of Distillate's U.S. FSV Strategy (through 9/30/2022)

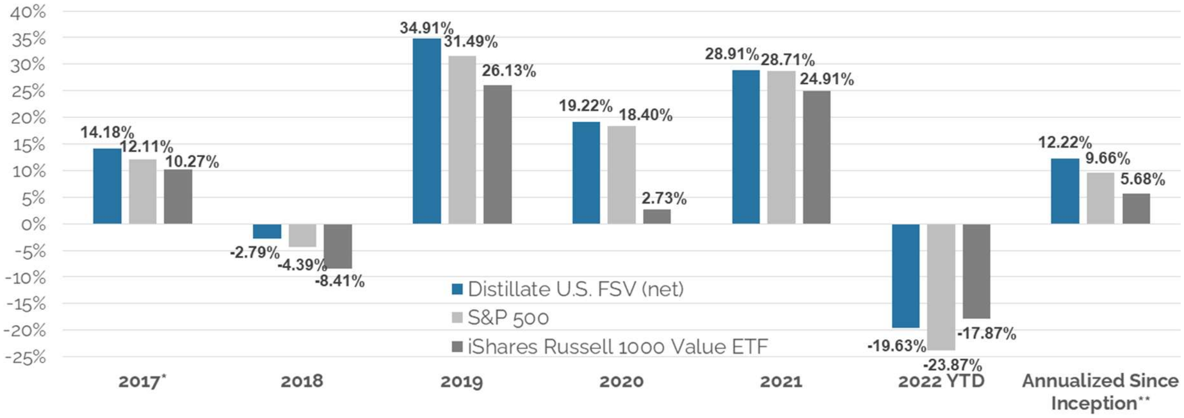


Figure 3: Performance of Distillate's U.S. Small/Mid QV Strategy (through 9/30/2022)

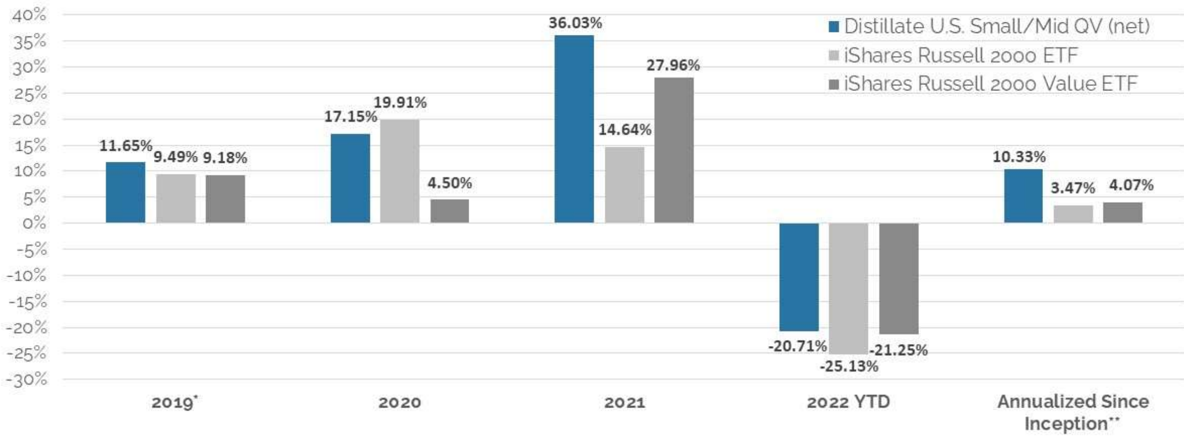
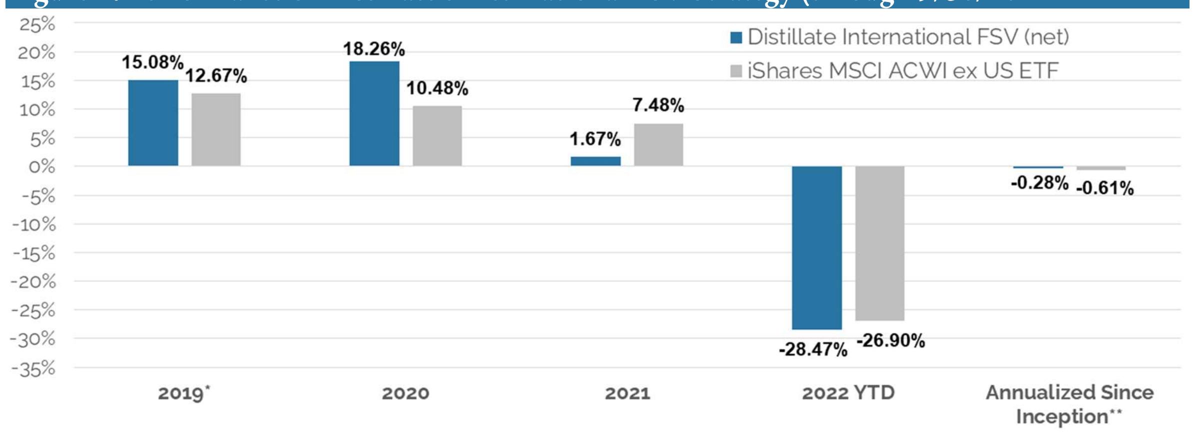


Figure 4: Performance of Distillate's International FSV Strategy (through 9/30/2022



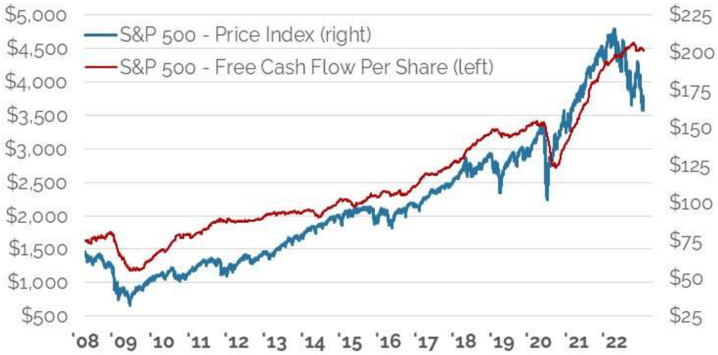
* Strategy inception of 5/31/2017 to 12/31/2017 for US FSV; 1/31/2019 to 12/31/2019 for INTL FSV; and 3/31/2019 to 12/31/2019 for SMID QV.
** Strategy inception of 5/31/2017 for US FSV; 1/31/2019 for INTL FSV; and 3/31/2019 for SMID QV.
Sources: U.S. Bank, Morningstar Data. Please see important performance disclosures at the end of this document.

Market Commentary:

Equity markets declined sharply through Q3 2022, amid geopolitical turmoil, inflationary pressures, resulting interest rate hikes, and fears about related economic weakness. Consensus estimates for next-twelve-month free cash flows have held up much better than stock prices (See **Figure 5**).

Free cash flow estimates have held up well so far despite price weakness.

Figure 5: Estimated S&P 500 Free Cash Flows vs. Price

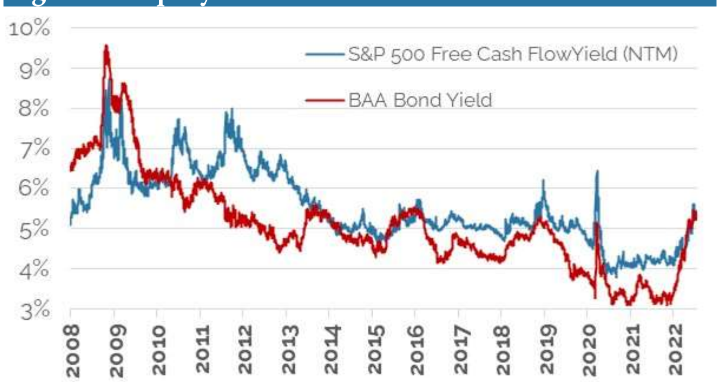


Source: FactSet, data as of 10/12/2022

The combination of steady estimates for free cash flows and sharply lower prices has led to a substantial increase in the overall equity free cash flow yield. This yield has fairly closely tracked the BAA-rated bond yields in recent years and the move higher in the equity free cash flow yield roughly matched the move higher in BAA bond yields (see **Figure 6**).

The equity FCF yield has closely followed the BAA bond yield.

Figure 6: Equity NTM FCF Yield vs BAA Bond Yield

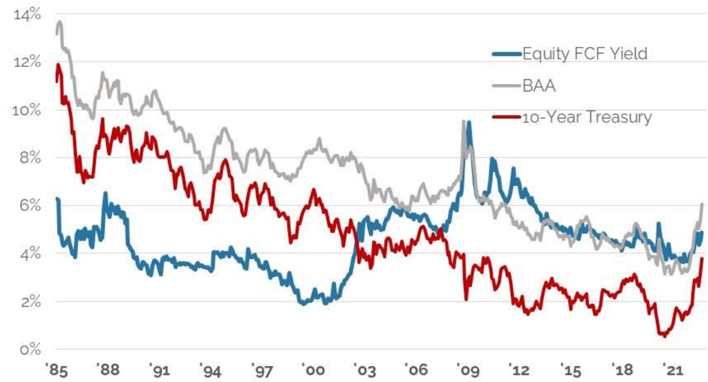


Source: FactSet, data as of 10/12/2022

The logic behind this relationship, however, is not entirely intuitive since the equity free cash yield is computed after growth-related investments in research and development and capital expenditures have been made. Consequently, the free cash flows underpinning the equity yield grow solidly over time while the BAA coupons do not. As well, companies often have the ability to pass through inflation, which bonds do not. This is why the trailing equity free cash yield has previously traded well below the BAA bond yield and even the 10-year Treasury yield (see **Figure 7**.)

The equity FCF yield did not always match the BAA bond yield and used to trade at a discount to it.

Figure 7: Long-Term Equity FCF Yield (LTM) vs. 10-Year Treasury Yield and BAA Bond Yield



Source: FactSet, Standard & Poor's (data through 9/30/2022

Regardless of whether equity free cash yields continue to trade around the BAA yield as they have in the recent past, or below the 10-year yield as they did when inflation and overall bond yields were more elevated, valuations look attractive from a longer-term perspective. We certainly do not know the near-term trajectory of the stock market or at what free cash flow yield equities will trade. Fortunately, however, there does appear to be a strong (and logical) relationship between starting equity free cash flow yields and total returns over the subsequent ten-year period (See **Figure 8**).

This relationship suggests current valuations should result in attractive returns for those investors patient enough to wait out the near-term turbulence. Worth noting, the equity yield computed for this analysis uses trailing rather than forward-estimated free cash flows to capture a longer history as forward estimates only recently became widely available. The use of trailing data also helps alleviate concerns that current forward looking estimates could prove overly optimistic if economic conditions deteriorate.

The trailing equity FCF yield tends to be a reasonable indicator of returns 10-years into the future.

Figure 8: S&P 500 Trailing Free Cash Yield vs. Annualized Total Return Over the Next Decade

Source: FactSet 9/30/'22

Valuation & Quality vs. Indexes

Key quality and value differences between our strategies and their benchmarks are highlighted in the charts on the following page.

Starting with valuation, **Figure 9** compares next-twelve-month estimated free cash flow to enterprise value, and highlights substantial valuation advantages for each of Distillate's strategies versus their relevant benchmarks. The yield differential of the U.S. FSV strategy over the S&P 500 Index is at an all-time peak despite significant recent outperformance, and the international and small/mid cap strategies also enjoy significantly more attractive valuations than their benchmarks, as well.

Figure 10 looks at fundamental stability by assessing the through-cycle variability of cash flows, with a higher score equating to greater stability. We believe the greater stability available through our strategies is particularly important to our goal of preserving capital in adverse scenarios, including recessions. The small/mid cap strategy does not employ a stability overlay in the stock selection process since we have found this metric to be less useful in the smaller cap space where companies tend to have shorter histories and much less stability in general. Nonetheless, the figure is calculated and the portfolio does show modestly better stability than the comparable benchmarks.

Figure 11 measures leverage in the form of total debt relative to normalized lease-adjusted consensus estimates for earnings before interest, taxation, depreciation, and amortization (EBITDA). Leverage for the U.S. FSV strategy is slightly below that of the S&P 500 benchmark, where many mega-cap companies with little debt have significantly impacted the overall figure in recent years, masking the build-up of leverage away from the largest companies. Internationally, leverage is higher in the benchmark than it is domestically and the International FSV strategy is much more differentiated in this regard — a figure that we consider critical given the large weight in cyclical businesses and industries in that starting universe. Lastly, leverage is very high among smaller cap companies despite the fact that the fundamentals for these companies are more volatile and they are thus on average less able to support higher debt burdens. We believe this is a key risk among smaller companies and an attribute that is crucially differentiated in our small/mid cap strategy, especially amid rising rates and economic uncertainty.

Another differentiator in the small cap space (not shown) is the weight of the companies in each benchmark that are expected to generate negative free cash flow in the next twelve months. For our Small/Mid Quality & Value strategy, that figure is zero. For the Russell 2000 ETF, Russell 2000 Value ETF and S&P 600, the weight is 20%, 20%, and 8%, respectively (and 3% for the S&P 500 as a point of reference). For the Russell 2000 benchmarks, in particular, such a large weight in companies that are not expected to generate positive free cash flows is a potential risk we are happy to avoid.

Performance

U.S. Fundamental Stability & Value (U.S. FSV)

Distillate's U.S. FSV strategy declined 19.63% through Q3 of 2022 compared to a decline of 23.87% for the S&P 500 benchmark. This more mitigated decline came despite a 1.75% headwind from being underweight in the energy and utilities sectors where cash flow instability and leverage tend to limit our holdings domestically. Relatively little of the overall performance differential resulted from sector weights, with the vast majority attributable to stock selection. Among owned stocks, Cigna, AbbVie, and McKesson were the largest contributors to relative performance, with each generating 40 to 50 basis points of excess return. Unowned names, Nvidia, Microsoft, Amazon, and Netflix, which we deemed expensive, contributed a combined 160 basis points in relative performance given their steep declines, while unowned Exxon, Chevron, and Eli Lilly subtracted around 100 basis points of relative performance.

U.S. Small/Mid Quality & Value (SMID QV)

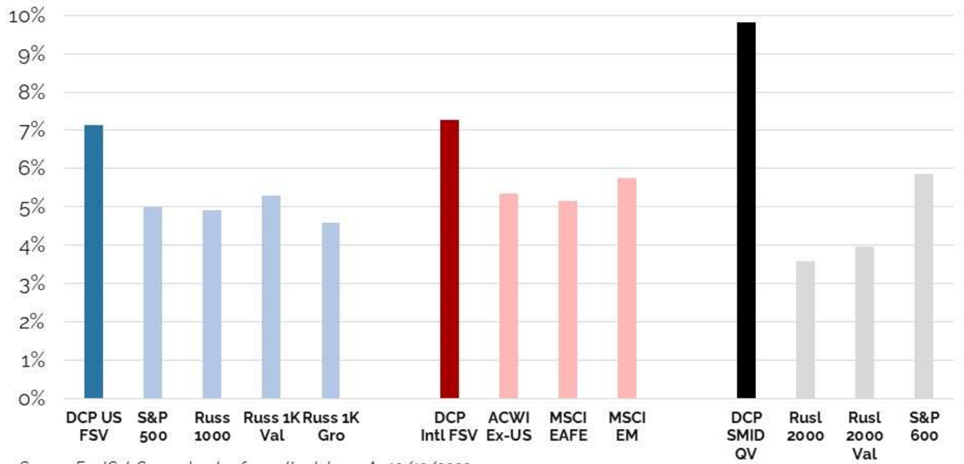
Better relative performance for Distillate's SMID QV strategy continued into 2022 with the decline of -20.71% bettering that of the Russell 2000 ETF at -25.13% and the Russell 2000 Value ETF's first half return of -21.25%. The strategy's cumulative annualized performance is now 6.86% and 6.27% ahead of the same benchmarks since inception in 2019. Top contributors year-to-date in 2022 include Helmerich & Payne, Warrior Met Coal, and Patterson-UTI Energy, with each contributing around 60 basis points of relative performance against the Russell 2000 ETF benchmark. The largest detractors from relative performance were Kohl's, GrafTech International, and Rent-A-Center, which each subtracted around 25 basis points of relative performance.

International Fundamental Stability & Value (Intl. FSV)

After trailing last quarter, Distillate's International FSV is now lagging behind its benchmark through Q3 of 2022. As was the case last year, strong performance in financial stocks, and bank stocks in particular, remained a headwind and detracted around 1.5% in relative performance. High leverage, low stability, and lacking free cash flows limit our ownership in financials and can cause somewhat greater swings in relative performance. Despite potentially more volatile relative short-term performance, we believe our avoidance of the group will help reduce risk and strengthen long-term compounded returns. Outside of the drag from financials, sector and region weights did not have meaningful impacts on relative performance, consistent with our goal of letting individual stock selection determine weights and drive performance. Among holdings, Tourmaline Oil, PT Adaro Energy Indonesia, and Nippon Telephone and Telegraph were the strongest contributors to relative returns at 70, 65, and 50 basis points each while Samsung Electronics and Alibaba were the largest detractors at 60 and 50 basis points.

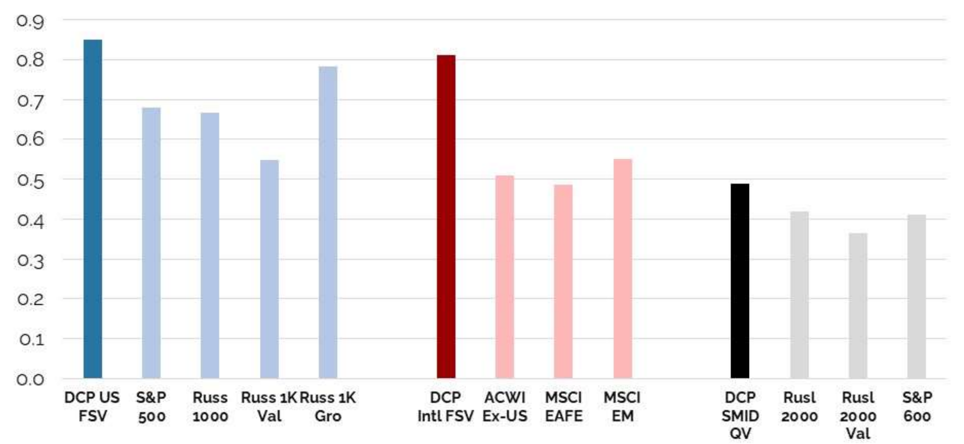
Positioning: **Figure 9** shows the current valuations for Distillate's U.S. and International Fundamental Stability & Value (FSV) strategies and its U.S. Small/Mid Cap Quality & Value strategy versus various benchmarks. **Figure 10** compares the same Distillate strategies and corresponding benchmarks on our cash flow stability scores, and **Figure 11** examines the degree of financial leverage across the same strategies and benchmarks.

Figure 9: Next 12-Month Free Cash Flow to Enterprise Value



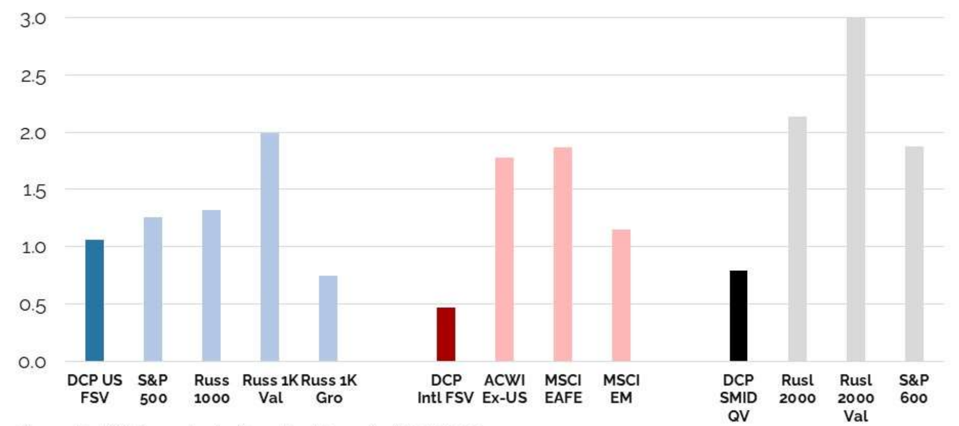
Source: FactSet, See end-notes for methodology. As 10/12/2022

Figure 10 (Quality): Distillate's Cash Flow Stability Score



Source: FactSet, See end-notes for methodology. As of 10/12/2022

Figure 11 (Quality): Net Debt to Adjusted EBITDA



Source: FactSet, See end-notes for methodology. As of 10/12/2022

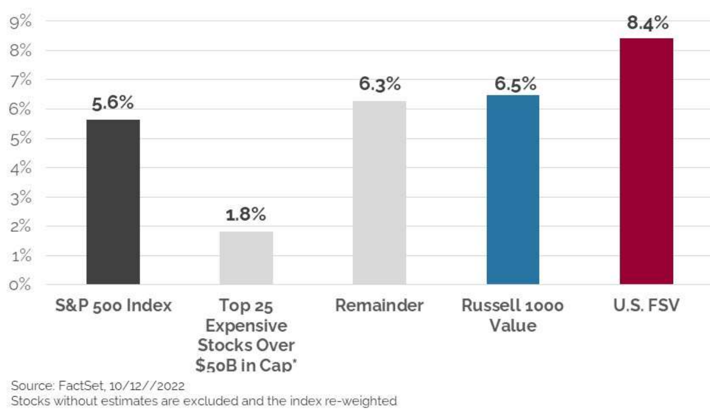
Portfolio Changes & Valuation

U.S. Fundamental Stability & Value (U.S. FSV)

After rebalancing, Distillate's U.S. FSV strategy's FCF to EV valuation of 7.1% is at an all-time peak both in absolute terms and relative to the S&P 500 benchmark's comparable yield of 5.0%. The free cash flow to market cap yield is likewise attractive at a record 8.4%, versus 5.6% for the S&P 500.[1] Even after the sharp sell-off in some stocks we had considered egregiously valued, there remains swaths of the market that are richly priced. The most expensive 25 stocks with market values over $50 billion collectively yield just 1.8% on a FCF to market cap basis, and if they are removed from the index, the free cash flow yield on the remainder rises to 6.3% see **Figure 12**. This residual pool of stocks offers a reasonable starting point from which to select attractive stocks and achieve our free cash flow yield of 8.3%.

Distillate's U.S. FSV strategy is avoiding several large richly valued stocks that are driving the overall S&P 500 free cash flow yield lower.

Figure 12: Free Cash to Mkt Cap Yield for the S&P 500, 25 Large Expensive Stocks, & U.S. FSV



In addition to the valuation advantage to the market, Distillate's U.S. FSV strategy also enjoys significantly more stable long-term fundamentals, as evidenced by the higher fundamental stability score in **Table 1**. Also shown in **Table 1**, the FSV strategy has a lower level of indebtedness than the market (it should be noted that this metric excludes a number of financials where forward estimates for EBITDA are not available and so likely flatters the benchmark figures).

Distillate Capital's U.S. FSV Strategy is less expensive, more fundamentally stable, and less levered to the S&P 500.

Table 1 U.S. FSV Portfolio Characteristics*

	U.S. FSV	S&P 500
Free Cash Yield to Mkt Cap[1]	8.4%	5.6%
Free Cash Yield to EV[1]	7.1%	5.0%
P/E[2]	13.3	20.3
Leverage[3]	1.06	1.26
Fundamental Stability[4]	0.85	0.68

*as of 10/12/2022

Sector Changes: The largest sector change was a five-percentage point reduction in industrials. Offsetting this, the largest increase was a 3-percentage point increase in technology, where lagging performance created several attractive new opportunities. As a reminder, sector weights are driven by bottom-up stock selection based on the combination of valuation and quality in our investment process. Current sector weights relative to the S&P 500 are shown in **Table 2** which also breaks out the distortive impact of several mega-cap stocks in certain sectors for better comparison. Sector weights are generally in line with the benchmark with the exception of industrials, where a number of stocks look very attractive at present and a meaningful overweight remains.

Sector weights are driven by bottom-up stock selection.

Table 2: U.S. FSV Sector Exposure*

	U.S. FSV	S&P 500
Communication Services	8.2%	8.0%
Consumer Staples	2.3%	7.0%
Consumer Discretionary	12.1%	11.5%
Ex Amazon & Tesla	*12.1%*	*6.2%*
Energy	3.1%	5.1%
Financials	3.5%	11.0%
Health Care	20.0%	15.3%
Industrials	19.3%	8.0%
Information Technology	25.9%	25.9%
Ex Apple & Microsoft	*25.9%*	*13.4%*
Materials	4.7%	2.5%
Real Estate	0.8%	2.6%
Utilities	0.0%	2.9%

*as of 10/12/2022

[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.

Sells: The largest exited positions in the quarter were Apple, Meta, and HCA healthcare. Apple and HCA both outperformed in the quarter, while Meta saw its free cash estimates deteriorate enough that its valuation fell below the threshold for inclusion.

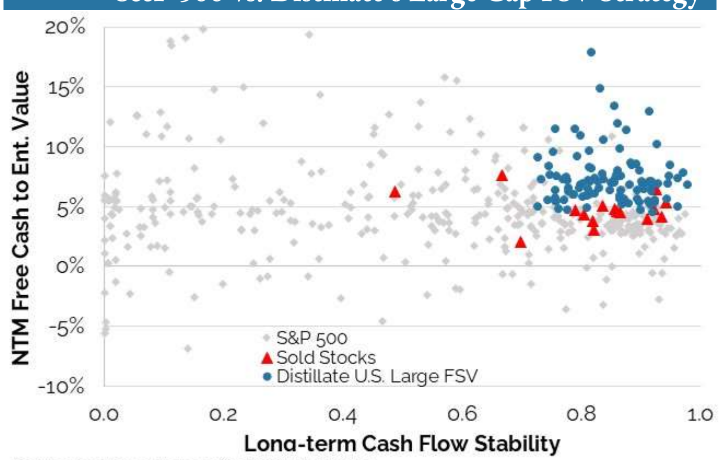
Buys: The largest new purchases were Phillip Morris, Accenture, and Adobe. Phillip Morris was sold last quarter and repurchased after underperformance in Q3 led to its valuation again meeting the threshold for inclusion in the portfolio. Accenture modestly lagged the market last quarter and became similarly attractive enough to warrant ownership while Adobe trailed the overall benchmark by a significant 20% and saw its valuation improve considerably.

Adds/Trims: UnitedHealth Group and Comcast were the largest owned positions that were added to and Chesapeake Energy and PayPal were the biggest trimmed positions, following significant outperformance in the quarter.

Summary of Holdings vs. the Benchmark: Similar to our prior presentations, one way to visualize the current portfolio and note recent changes versus the benchmark is to look at scatter plot of all of Distillate's FSV holdings versus those in the benchmark with valuation on the vertical axis and free cash flow stability on the horizontal axis (**See Figure 13**). The index stocks in grey are scattered across both axes, while FSV's stocks (blue circles) are clustered to the upper right where attractive valuations and high levels of fundamental stability converge. Positions that were sold (red triangles) generally shifted to the left or fell below this cluster having become less attractively valued, but could also have been exited if debt levels changed and now exceeded the threshold for inclusion. New purchases are included among the owned stocks.

Distillate's holdings are clustered where attractive valuations and high levels of stability converge while benchmark stocks are more scattered.

Figure 13: Valuation vs. Stability for all Stocks in the S&P 500 vs. Distillate's Large Cap FSV Strategy



Source: FactSet, data post Q3 2022 rebalancing

U.S. Small/Mid Cap Quality & Value (SMID QV)

Small cap stocks overall (as proxied by the Russell 2000 ETF) offer a free cash to enterprise valuation well below that of their larger counterparts (as proxied by the S&P 500 Index), despite generally being of lower quality with less stable fundamentals and significantly more debt. Fortunately, there is enormous dispersion under the surface of this headline valuation figure, and a significant number of very attractive valuation opportunities. Consequently, Distillate's small/mid cap strategy of 150 stocks is able to achieve a very attractive 9.8% free cash flow to enterprise value yield that is substantially higher than that of either the Russell 2000 ETF or Russell 2000 Value ETF benchmarks (**See Table 3**).

Beyond the valuation differential, Distillate's U.S. Small/Mid Cap Quality & Value Strategy is also highly distinct from the Russell 2000 and 2000 Value ETF benchmarks in terms of indebtedness. Leverage is very elevated among small cap stocks broadly and could prove to be a significant risk with rising interest rates (and thus borrowing costs). Distillate's small/mid cap strategy looks to avoid the risks inherent in highly levered situations by controlling for indebtedness, and after rebalancing, the portfolio has a leverage ratio of 0.8x which is significantly lower than the very elevated 2.1x and 3.0x figures of the Russell 2000 and Russell 2000 Value benchmarks (**See Table 3**).

Lastly and also related to quality, Distillate's SMID QV has no position in stocks that have negative next-twelve-month free cash flow estimates. For the Russell 2000 and Russell 2000 Value benchmarks, after reweighting for stocks without estimates, roughly 20% of each benchmark consists of equities that are not expected to earn positive free cash flow in the next twelve months. For the S&P 500, by way of comparison, this figure is 3%. Along with leverage, this looks to be another critical risk in the small cap segment that we believe is important to avoid.

Distillate's U.S. Small/Mid Cap Quality & Value strategy is more attractively valued and less indebted than its Russell 2000 and Russell 2000 Value benchmarks.

Table 3: U.S. Small/Mid Cap QV Characteristics*

	SMID QV	Russell 2000 ETF	Russell 2000 Value ETF
Free Cash Yield to Mkt Cap[1]	12.5%	5.7%	7.0%
Free Cash Yield to EV[1]	9.8%	3.6%	4.0%
P/E[2]	9.0	19.8	15.2
Leverage[3]	0.79	2.13	3.00
Fundamental Stability[4]	0.49	0.42	0.36
Negative FCF Weight*	0%	20%	20%

*as of 10/12/2022, see footnotes on page 6.

International Fundamental Stability & Value (Intl. FSV)

After rebalancing, Distillate's International FSV strategy offers a higher free cash flow yield both to market cap and enterprise value, and has substantially more stable fundamentals and less leverage than the index (**See Table 4**). The international FSV strategy is thus significantly differentiated from its benchmark not just on valuation, but critically on quality as well.

Distillate Capital's International FSV Strategy is less expensive, more fundamentally stable, and less levered than the benchmark All Country World Ex U.S. (ACWI-EX US) Index.

Table 4: International FSV Portfolio Characteristics*

	Intl. FSV	ACWI Ex-US
Free Cash Yield to Mkt Cap[1]	7.8%	6.8%
Free Cash Yield to EV[1]	7.1%	5.3%
P/E[2]	13.7	16.4
Leverage[3]	0.46	1.78
Fundamental Stability[4]	0.81	0.51

*as of 10/12/2022, see footnotes on previous page.

Changes & Regional Weights: The largest sale in the quarter was Schneider Electric which outperformed but was sold as its cash flow stability deteriorated below the threshold for inclusion. The largest new position is LVMH, where estimated free cash flows are up year-to-date while the stock is down. Alibaba, which lagged the benchmark in the quarter, was the largest increased position in the portfolio, up 75 basis points to a 3% weight. The stock is down roughly 75% from its peak and offers an attractive 7% FCF to EV yield, with a net cash position on its balance sheet. SK Hynix was the largest trim at around 50 basis points following a weakening in estimated free cash flows.

Regional weights after the quarterly rebalance remain fairly well matched with the ACWI Ex-U.S. benchmark. Japan is the largest overweight at 21% vs. 14% for the benchmark. Europe is modestly overweight at 44% vs. 40%, with somewhat larger relative weights in France, Sweden, and Norway offsetting smaller relative weights in Switzerland and Germany where banks constitute large portions of the benchmark. (**See Table 5**). As a reminder, region and country weights are determined by bottom-up stock selection, but region weights are limited to 150% of the benchmark to avoid any outsized influence from region-specific or currency risk.

Regional weights reflect bottom-up stock selection but are limited to 150% of the region benchmark weight to limit geographic concentration risk.

Table 5: International FSV Portfolio Region Weights*

	Intl. FSV	ACWI Ex-US
Europe	44.5%	40.0%
Japan	20.9%	14.4%
Asia Ex China & Japan	16.3%	19.7%
China (Incl. Hong Kong)	10.4%	10.7%
Americas	7.9%	11.1%
Middle East & Africa	0.0%	4.1%

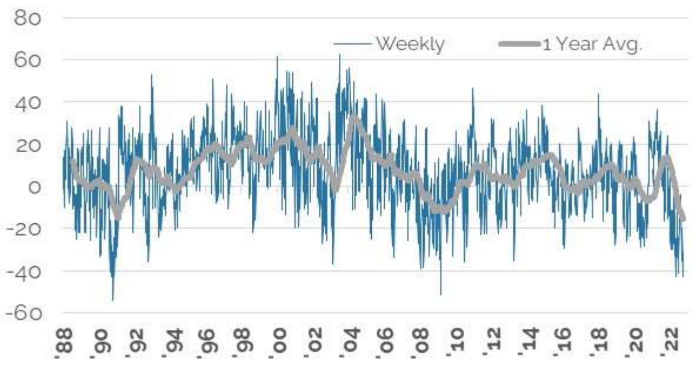
*as of 10/12//2022 and based on headquarter location using FactSet data.

Final Word

Market commentary and a variety of sentiment indicators remain extraordinarily bearish. The AAIA Bull/Bear sentiment indicator, as one example, is at an all-time low on a 12-month average (**See Figure 14**). Consistent with this bearishness, as we noted in Figure 8, overall market valuations point to fairly attractive potential returns for long-term investors.

The AAIA bull minus bear sentiment measure is near an all-time low and below the depths reached in both the financial crisis and pandemic.

Figure 14: AAIA Bull/Bear Investor Sentiment Measure



Source: FactSet, AAIA, data as of 10/12/2022

Complimenting Figure 8, **Figure 15** inverts the one-year average of sentiment from the previous figure and compares it to S&P 500 total returns over the following 5 years. The strong inverse relationship paints another more positive picture of the current opportunity. Beyond that, critically, we don't buy "the market", we buy select companies and in doing so, we are both avoiding those situations we see at risk for further pressure, but also, going back to the beginning of our letter, *concentrating on the turns,* and taking advantage of opportunities in businesses that are not meaningfully levered, have shown consistent value-creation across a variety of economic environments, and are now priced at levels that suggest they may do well long-term.

Investor sentiment appears negatively correlated to market returns over the following 5 years, with current bearishness boding potentially well.

Figure 15: AAIA Bull/Bear Investor Sentiment vs. S&P 500 Total Returns 5 Years Forward

Source: FactSet, AAIA, data as of 10/12/2022

Distillate Capital Partners LLC *("Distillate"), is a registered investment adviser with United States Securities and Exchange Commission in accordance with the Investment Advisers Act of 1940. The firm's list of composite descriptions is available upon request.*

Distillate claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Distillate has been independently verified for the periods June 1, 2017 through November 30, 2018. The verification report is available upon request. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.

To receive a GIPS compliance presentation and/or our firm's list of composite 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 model management fee of 0.39%, which is the highest investment management fee that may be charged for this composite. 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 portfolios, calculating performance, and preparing compliant presentations are available upon request.

The investment management fee schedule for the composite is 0.39%; however, actual investment advisory fees incurred by clients may vary.

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.

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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.*

Long-term Fundamental Stability *is Distillate Capital's proprietary measure of through-cycle cash flow stability with a higher value indicating greater stability.*

Methodology note for Figure 1 & 9: *free cash flow (FCF) figures reflect consensus estimates of next-twelve-months (NTM) FCF in comparison to enterprise value (EV) for the relevant portfolio/strategy or benchmark. Stocks without data are excluded and portfolios are reweighted accordingly. Stocks with FCF/EV values of greater than 50% or less than -20% have been eliminated to avoid distorting overall averages. Data as of 10/12/22.* ***For Figure 8:*** *trailing twelve month free cash flows are used and stocks with free cash yields over 50% or below -50% are eliminated and stocks without data are excluded and the index is reweighted accordingly. All data is as of 10/12/2022.*

The ***S&P 500 Index*** *is an index of roughly the largest 500 U.S. listed stocks maintained by Standard & Poor's. 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 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).*

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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