



## DISTILLATE CAPITAL

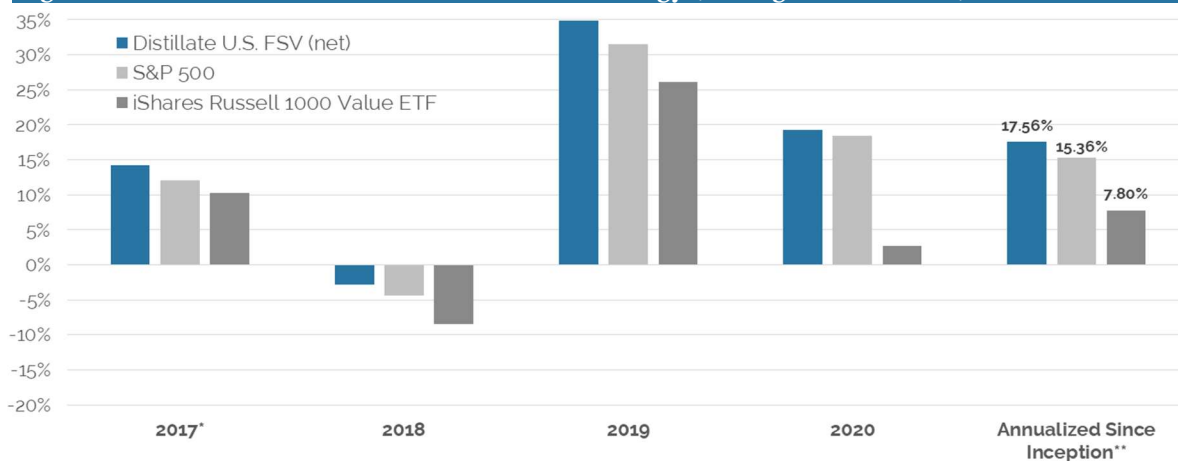
# 2020 Year-End Letter to Investors

### Strategy Description

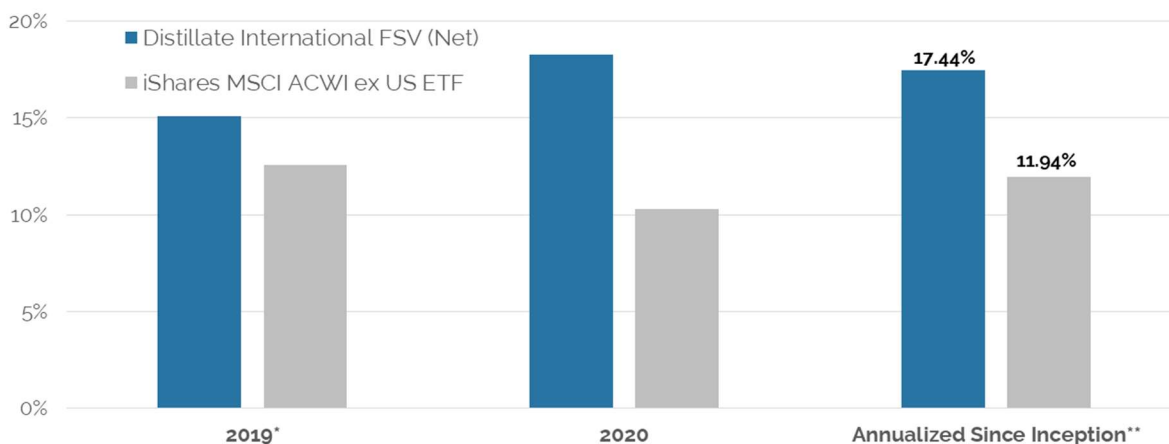
*Distillate Capital's Fundamental Stability & Value (FSV) strategies seek to outperform over the long-term by investing in stocks that are more fundamentally stable, less levered, and more attractively valued.*

Distillate Capital's U.S. FSV strategy outperformed both its S&P 500 Index and Russell 1000 Value ETF benchmarks in 2020 and our International strategy substantially outperformed its MSCI ACWI ex-US benchmark (See Figures 1 & 2).

**Figure 1: Performance of Distillate's U.S. FSV Strategy (through 12/31/2020)**



**Figure 2: Performance of Distillate's International FSV Strategy (through 12/31/2020)**



\* Strategy inception of 5/31/2017 through 12/31/2017 for US FSV; 1/31/2019 through 12/31/2019 for INTL FSV

\*\* Strategy inception of 5/31/2017 through 12/31/2020 for US FSV; 1/31/2019 through 12/31/2020 for INTL FSV

Please see important performance disclosures at the end of this document.

## Performance

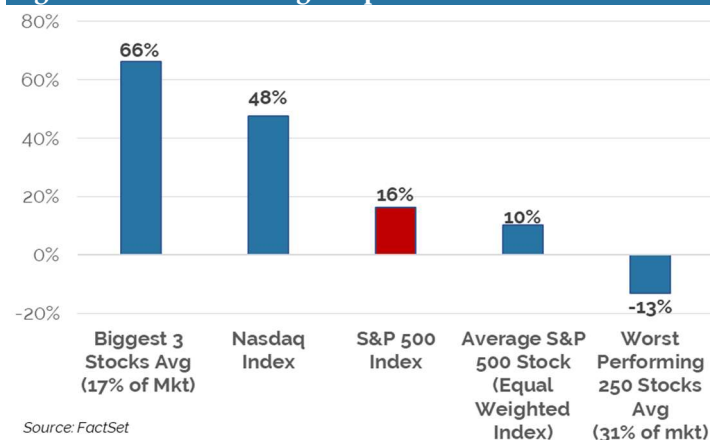
### *U.S. Fundamental Stability & Value (U.S. FSV)*

Despite the headwind from extremely concentrated gains among a few of the largest stocks in the market in 2020, Distillate's U.S. FSV strategy generated a total return of 19.22%, exceeding the comparable S&P 500 Index return of 18.4%, and was over 16 percentage points ahead of the Russell 1000 Value ETF's return of 2.67% (See Figure 1). By stock, contributors to relative performance versus the S&P 500 were well dispersed with the largest gains coming from Citrix and Teradyne, which contributed roughly 35 basis points each. Detractors from relative performance were much more concentrated and came from un-owned names that now look very expensive on a free-cash-flow basis. Amazon's 76% gain alone subtracted almost 2% from relative performance for the year, and Nvidia, PayPal, Netflix, and Adobe combined to detract another nearly 2 percentage points versus the S&P 500.

The headwind from the enormous gains of a select few stocks is representative of the extremely concentrated equity gains in 2020 overall. As highlighted in Figure 3, the top three stocks that now represent 17% of the overall S&P 500 were up 66% on average, while the tech-heavy Nasdaq Index was up 48% and the S&P 500 Index itself was up 16% on a price return basis. Because of the extraordinary gains of the largest stocks, the distribution of returns was such that almost 2/3rds of stocks in the S&P 500 Index underperformed the overall index, and the average stock as measured by the equal weighted index was up just 10% on a price return basis. Among the bottom 250 stocks in the S&P 500 Index, the average price return was -13%. Clearly, the entirety of the market has not recovered from the notable events of 2020.

*Market gains in 2020 were extremely concentrated.*

**Figure 3: 2020 U.S. Large Cap Stock Performance**

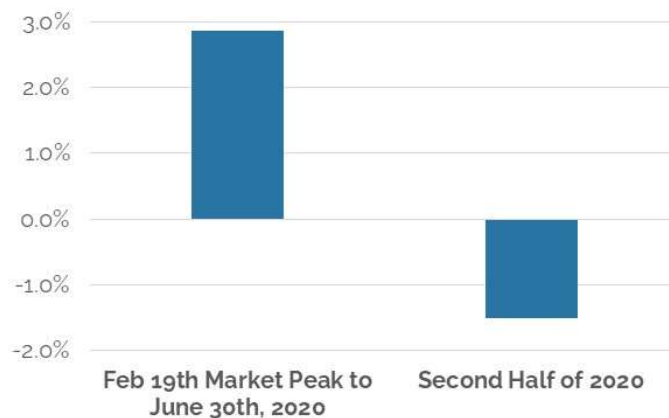


Another unusual feature of the equity market in 2020 was that it encapsulated both an environment in which we would expect our strategy to do well, as well as one in which we might have expected it to lag. After trailing the S&P 500 Index modestly at the beginning of the year, Distillate's U.S. FSV strategy performed very

well through the crisis and its initial aftermath. This was encouraging as the strategy's emphasis on through-cycle cash flow stability, leverage, and valuation is designed to do exactly this. While there were headwinds from un-owned work-from-home beneficiaries like Netflix and Amazon in this period, overall performance exceeded that of the S&P 500 from the February peak through the sell-off and initial recovery by around 3 percentage points (See Figure 4). In the second half of the year, however, many large stocks that looked richly valued on our work increased further in value and became substantially more expensive. This is precisely the environment in which we would expect the strategy to lag, and in the second half of the year it did fall short of the S&P 500 by about 1.5% (See Figure 4.)

*Consistent with expectations, Distillate's U.S. FSV strategy outperformed in the crisis and immediate recovery and lagged in the second half when large, expensive stocks became increasingly so.*

**Figure 4: Distillate U.S. FSV Strategy Relative to the S&P 500 Index by Period**



Source: FactSet

### *Non-U.S. Fundamental Stability & Value (U.S. FSV)*

Performance of the international FSV strategy did not have the headwind from concentrated stock gains like the U.S. strategy did and benefited significantly from a large positive valuation and quality spread over the underlying benchmark. Leverage and stability measures for the international strategy, in particular, are more differentiated from the benchmark than they are domestically and all of these factors contributed to the International FSV strategy's substantial 8% outperformance versus the MSCI ACWI Ex-U.S. benchmark.

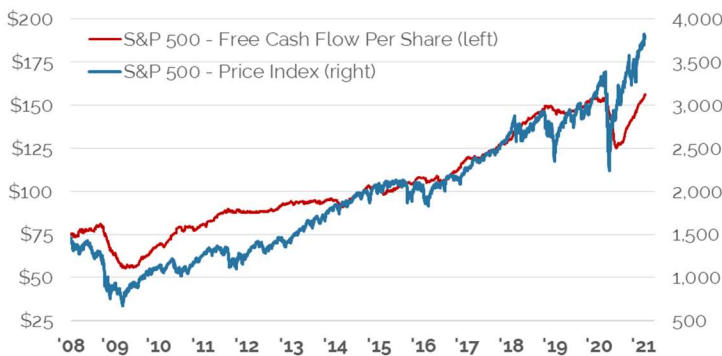
Performance was diverse across stocks with Taiwan Semiconductor Manufacturing and Samsung Electronics being the largest contributors to this relative performance at around 1.5 percentage points each. By region, relative performance versus the index was well diversified with gains coming from Asia ex-Japan, the Americas, and Western Europe. Japan was the only major region where performance lagged versus the benchmark by just under 1%, due partly to the performance of unowned names like Softbank Group, which was up 80% in the year.

## Market Backdrop

After rising to begin the year, U.S. equities fell sharply at the start of the global pandemic amid collapsing economic conditions and enormous uncertainty about the future. These same factors caused estimates for future free cash flows to plummet alongside prices. Then, as some of the uncertainty began to recede, with favorable progress in vaccine development and as economic conditions strengthened, both the stock market and estimates for future free cash flows began to recover, with stock prices advancing even more than cash flows most recently (See Figure 5).

*The S&P 500 Index and estimated free cash flows have recovered solidly.*

**Figure 5: S&P 500 Index Price vs. Next-Twelve-Month (NTM) Estimated Free Cash Flows Per Share**



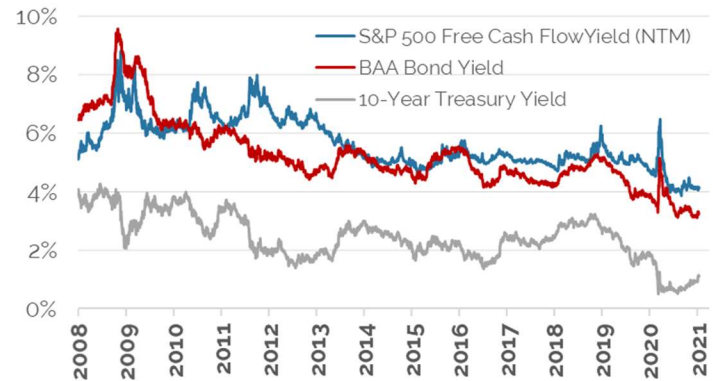
Source: FactSet

Along with improving free cash flow estimates and dissipating uncertainty, the strong equity recovery also benefitted from falling bond yields. This impact is evident in Figure 6 which shows how the equity free cash flow yield has generally tracked the BAA bond yield in recent years and how both moved sharply lower last year as the U.S. Federal Reserve slashed interest rates. The equity free cash yield did not fall as steeply as the BAA yield, however, and is currently almost a full percentage point above the latter. This suggests that equities are currently more attractively valued than the BAA bonds, even without considering the fact that the free cash flows underpinning the equity yield grow over time and the coupons determining the BAA yield do not.

While falling bond yields help explain the extent of the equity price recovery and equities look less expensive than BAA bonds, this relative valuation must be considered in the context of record low bond yields. While a 4% free cash flow yield does not suggest the overall market is outrageously valued as some are suggesting, it is also not particularly appealing from a historical perspective (See Figure 6). Fortunately, though, much of the valuation risk appears limited to certain pockets of the market, like some of the mega-cap and newly listed stocks, while much of the rest of the market looks much more reasonably priced.

*The free cash yield on the S&P 500 Index is higher than the BAA bond yield, which it has generally tracked in recent years.*

**Figure 6: S&P 500 Free Cash Flow Yield vs. BAA & 10-Year Treasury Bond Yields**



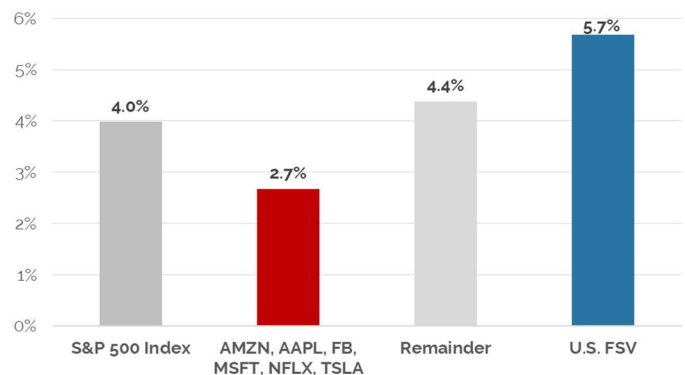
Source: FactSet

Figure 7 highlights how rich valuations in just a few large stocks are impacting the overall market valuation. When just six of the largest stocks (Amazon, Apple, Facebook, Microsoft, Netflix, and Tesla) are excluded from the S&P 500 Index, its overall valuation measured by free cash flow yield improves from 4.0% to 4.4%. It is from this richer field of candidates and by focusing on many of 2020's performance laggards that our U.S. FSV strategy achieves a substantially better free cash flow yield (indicated on the far right of Figure 7) than the broader market.

Overall, while the broad market looks somewhat expensive due to particular pockets where valuations are stretched, owning U.S. equities does not inherently mean taking on valuation risk as there is still a meaningful portion of the market that looks attractive.

*S&P 500 estimated free cash flows are recovering.*

**Figure 7: S&P 500 Free Cash Yield Excluding Several Large Richly Valued Stocks**



Source: FactSet, 1/8/2021  
Stocks without estimates are excluded and the index re-weighted

## Strategy Changes & Valuation

### U.S. Fundamental Stability & Value

After year-end rebalancing, the weighted average free cash flow yield for the U.S. FSV strategy is 5.7% versus a comparable yield of 4.0% for the S&P 500.<sup>1</sup> This is the largest positive spread over the market since the launch of the strategy in 2017, reflecting our view of the substantial dispersion in valuations across the market at present. Post rebalance, the U.S. FSV strategy also enjoys significantly more stable long-term fundamentals (See Table 1).

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

**Table 1: U.S. FSV Portfolio Characteristics\***

	U.S. FSV	S&P 500
Free Cash Flow Yield (NTM) <sup>1</sup>	5.7%	4.0%
P/E <sup>2</sup>	20.5	33.4
Fundamental Stability <sup>3</sup>	0.86	0.68
Leverage <sup>4</sup>	1.20	1.21

\*as of 1/8/2021

**Sector Changes:** The largest sector changes in the quarter was an approximate 2% increase in both industrials and consumer staples, which lagged in 2020, and a 2% decrease in communication services due to a reduction in the Alphabet position. The largest overweight is now industrials, which makes up around 20% of the portfolio vs. a 9% weight in the S&P 500. In comparing sector weights to the index, it should be noted that some weights are being distorted by mega-cap stocks. The U.S. FSV strategy's 10% consumer discretionary weight, for example, is modestly below the 11% S&P 500 weight, but the latter includes Amazon and Tesla which combined are 6% of the 11% weight.

**Sells:** After outperforming the market by around 15% last quarter, Booking Holding was sold as its normalized free cash flow valuation became relatively less appealing. Lockheed Martin was exited as its cash flow stability dropped below the threshold for inclusion. These were the two largest sold positions.

**Trims:** The two largest reductions in position size were Zebra Technologies and Alphabet. Zebra Technologies outperformed the index by nearly 40% and was reduced as its valuation became less attractive. Alphabet also outperformed and has seen its valuation drop to the bottom quintile of the portfolio where position sizes are capped at 2% upon rebalancing.

**Buys:** The largest new positions in the quarter were health care stocks Thermo Fisher Scientific, which lagged modestly last quarter, and Viatrix, which appears very attractively valued.

**Additions:** The biggest additions to the portfolio in the rebalance were Amgen and Home Depot. Both companies underperformed the S&P 500 Index last quarter even though their free cash flow estimates increased. Because the portfolio's weighting methodology is linked to free cash flow, position sizes increased to reflect improving fundamentals relative to prices, and the more attractive valuations that result.

**Exposure to Smaller Stocks:** As valuations among some of the largest stocks in the S&P 500 have become increasingly less appealing, the portfolio has continued shifting away from the mega-caps and more towards smaller stocks where valuations are more attractive. This is evident in the decline in the weighted average market cap of the portfolio, which is now approximately \$120 billion versus \$480 billion for the S&P 500. This shift has also caused the active share of the portfolio to rise to 80%, meaning only 20% of the portfolio is in common with the S&P 500 Index.

### International Fundamental Stability & Value

After being more expensive than the S&P 500 Index for much of the past decade on a free cash flow yield basis, and after lagging it substantially in performance, the international All Country World Index Ex-U.S. (ACWI Ex-US) now offers a higher free cash flow yield than its U.S. counterpart. Somewhat offsetting this is the level of underlying risk. ACWI Ex-US constituent companies generally have less stable cash flows as well as higher leverage than those in the S&P 500. Historic growth in free cash flow has also been more modest internationally. However, like with the U.S. strategy, the subset of companies held in Distillate's International FSV strategy offer a higher free cash flow yield and have substantially more stable fundamentals and are less levered than the index (See Table 2).

*Like its domestic counterpart, 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 2: International FSV Portfolio Characteristics\***

	Intl. FSV	ACWI Ex-US
Free Cash Flow Yield (NTM) <sup>1</sup>	6.2%	4.6%
P/E <sup>3</sup>	18.1	24.6
Fundamental Stability <sup>4</sup>	0.82	0.49
Leverage <sup>5</sup>	0.63	1.79

\*as of 1/15/2021

<sup>1</sup> Free Cash Flow Yield is based on the next-twelve-month free cash flow estimate relative to market capitalization. Stocks without estimates in the index are excluded and the remaining names are reweighted based on those exclusions.

<sup>2</sup> 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.

<sup>3</sup> Fundamental stability is Distillate Capital's proprietary measure of through-cycle cash flow stability with a higher value indicating greater stability.

<sup>4</sup> 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.)



## Historical Headwinds for Big Expensive Stocks

Given the enormous outperformance of the largest stocks in the market in 2020, and the resulting rich relative valuations, we thought it would be interesting to look at what has historically happened to the largest stocks over time. **Table 3** shows the weight of largest 10 stocks in the S&P 500 Index going back each decade to 1980, with the weights of those same stocks shown 10 and 20 years later where applicable. The analysis is imperfect in that it does not retroactively account for mergers like Exxon and Mobil, but it nonetheless shows a strong trend. Put simply, the largest stocks rarely remain so and this seems to be more true over a longer period of time and when the starting weight is larger.

There are several headwinds that may explain why the largest stocks tend to become smaller index weights over time. First, growth can become more challenging when the base business becomes larger. It is typically easier to expand and find new growth when a company is small. In opposition to this is the idea that entrenched larger companies have a benefit of scale. While this is clearly true, we think the first factor more often trumps the second. Walmart in the early 2000s offers a good example. Walmart had enormous scale and it was thought that no company could compete with its purchasing power and supply chain. Despite continued growth since then, those advantages were not sufficient to prevent Walmart from shrinking substantially in relative size. This example also ties in with the second headwind, which is economic change, innovation, and new competitive entrants. The rise of Amazon and online retailing supplanted Walmart's dominance despite the advantages size might have conferred. This tends to be true in other sectors, as well, and a remarkable number of the largest companies by market cap in each decade were substantially smaller or non-existent ten or twenty years later.

Finally, valuation can be a crucial obstacle to remaining at the top of the market. For stocks like IBM or AT&T in 1980, Cisco in 2000, or numerous stocks on the list today, rich valuation multiples leave them at risk of a contraction in valuation where index weights shrink even if fundamentals grow. At present, the weighted average free cash flow yield for the largest 10 stocks in the S&P 500 is just 3.3%, substantially less than the overall index yield of 4.0%.<sup>5</sup> One notable exception to the typical change from decade to decade in **Table 3** is the case of Microsoft and Apple in 2010, which were also notably cheaper than the overall market. Clearly, valuation matters. These stocks also were significant positions in our U.S. FSV portfolio until their valuations became stretched more recently (see our [Q3 2020 letter](#) for a more detailed analysis).

**Table 3: Top 10 S&P 500 Stocks by Decade**

December '80	Company	Weight	+10 Yrs	+20 Yrs	Curr.
	IBM Corp.	4.3%	3.0%	1.3%	0.4%
	AT&T Inc.	3.9%	1.5%	0.6%	0.6%
	Exxon	3.7%	2.9%	2.6%	0.6%
	Amoco Corp.	2.5%	1.2%		
	Schlumberger	2.4%	0.6%	0.4%	0.1%
	Shell Oil	1.9%			
	Mobil	1.8%	1.1%		
	Chevron Corp.	1.8%	1.2%	0.5%	0.5%
	Atlantic Richfield	1.6%	0.9%		
	General Electric	1.5%	2.3%	4.1%	0.3%
		25.6%	14.7%	9.4%	2.5%

December '90	Company	Weight	+10 Yrs	+20 Yrs	Curr.
	IBM	3.0%	1.3%	1.6%	0.4%
	Exxon Mobil	2.9%	2.6%	3.2%	0.6%
	General Electric	2.3%	4.1%	1.7%	0.3%
	Altria Group	2.2%	0.8%	0.4%	0.4%
	Royal Dutch	1.9%	1.1%		
	Bristol-Myers	1.6%	1.2%	0.4%	0.4%
	Merck	1.6%	1.9%	1.0%	0.7%
	Wal-Mart	1.6%	2.0%	0.9%	0.6%
	AT&T	1.5%	0.6%	1.5%	0.6%
	Coca Cola	1.4%	1.3%	1.3%	0.7%
		20.0%	16.9%	12.1%	4.7%

December '00	Company	Weight	+10 Yrs	Curr.
	General Electric	4.1%	1.7%	0.3%
	Exxon Mobil	2.6%	3.2%	0.6%
	Pfizer	2.5%	1.2%	0.6%
	Cisco	2.4%	1.0%	0.6%
	Citigroup	2.2%	1.2%	0.4%
	Wal-Mart	2.0%	0.9%	0.6%
	Microsoft	2.0%	1.8%	5.3%
	AIG	2.0%	0.3%	0.1%
	Merck	1.9%	1.0%	0.7%
	Intel	1.7%	1.0%	0.6%
		23.4%	13.4%	9.8%

December '10	Company	Weight	Curr.
	Exxon Mobil	3.2%	0.6%
	Apple	2.6%	6.7%
	Microsoft	1.8%	5.3%
	General Electric	1.7%	0.3%
	Chevron	1.6%	0.5%
	IBM	1.6%	0.4%
	P&G	1.6%	1.1%
	AT&T	1.5%	0.6%
	J&J	1.5%	1.3%
	JPMorgan	1.5%	1.2%
		18.6%	18.0%
	Ex APPL & MSFT	14.2%	6.0%

December '20	Company	Weight
	Apple	6.7%
	Microsoft	5.3%
	Amazon	4.4%
	Alphabet	3.3%
	Facebook	2.1%
	Tesla	1.7%
	Berkshire H.	1.4%
	J&J	1.3%
	JPMorgan	1.2%
	Visa	1.2%
		28.6%

<sup>5</sup> Free Cash Flow Yield is based on the next-twelve-month free cash flow estimate relative to market capitalization. Stocks without estimates in the index are excluded

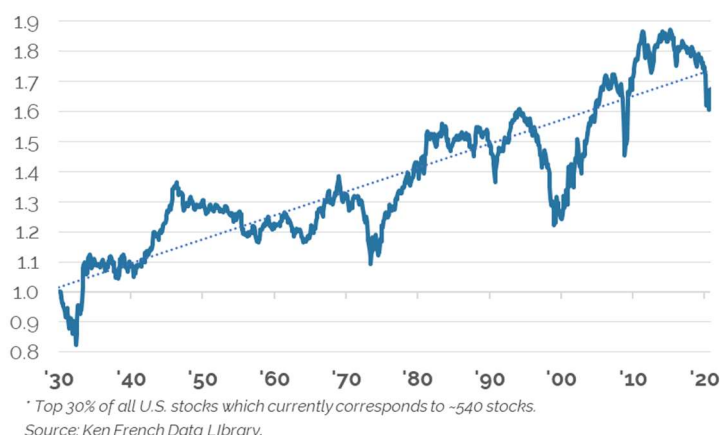
and the remaining names are reweighted based on those exclusions. Source is FactSet for all data including the tables.

The challenge of growing a large base, economic changes, innovation, and the threat of new entrants, combined with rich valuations explain leadership changes in the stock market over time. While it is always hard to envision the largest and most dominant companies *at that moment* not being the largest and most dominant in the future, history would suggest that change is likely.

The portfolio implication of this analysis is that it may make sense for longer-term investors to be biased against the largest stocks in the market unless their valuations are especially compelling. Supporting this notion is the long-term performance of an equal-weighted index of the largest U.S. stocks relative to a capitalization-weighted index of the same stocks (See Figure 8). This figure shows the largest 30% of stocks in the market, which currently corresponds to ~540 stocks. Using the top 30% of stocks eliminates the distortion that comes from the inclusion of very small stocks in the market that are not easily traded and can significantly bias equal-weighted analyses that fail to exclude them.

*Over the long-term, because the largest stocks tend to lag, an equal weighted index of large U.S. stocks outperforms the cap-weighted index.*

**Figure 8: Equal Weight vs. Capitalization Weighted Index of Large U.S. Stocks**



While the equal-weight strategy does better over the longer-term, it does tend to underperform in times of economic stress. As Figure 8 shows, in addition to lagging in the late-1990's TMT bubble when you might have expected that outcome, the equal-weighted index did worse in the Great Depression, the OPEC induced recession in the early 1970s, the S&L crisis in 1990, the great financial crisis in 2008, and again in the pandemic in 2020.

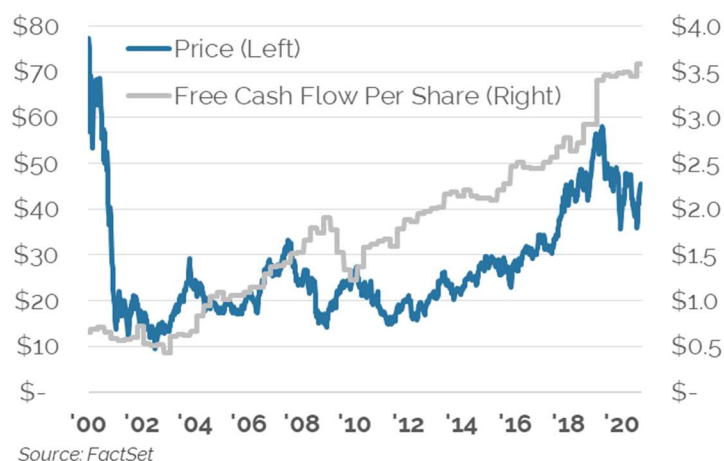
In this historical context, the outperformance of the biggest stocks and underperformance of the equal-weighted index in 2020 is less anomalous. It also suggests that market performance may broaden as the economy recovers and that the largest stocks could struggle going forward, especially given their rich relative valuations. For Distillate's U.S. FSV strategy, such a shift would be welcome as our valuation methodology has moved the strategy increasingly away from the largest names and the weighted average market cap of the portfolio has become smaller over the past several quarters.

## Valuation Risk: Tesla in 2021 vs. Cisco in 2000

The stratospheric performance and extreme valuation of Tesla brings to mind the example of Cisco two decades ago. In March of 2000, after a 1,300% price increase over the prior three years, Cisco's weight in the S&P 500 hit 4%. Its stock price of \$77 then was around 120x trailing twelve-month free cash flows and reflected enormous optimism about future growth prospects. This optimism was not unfounded as free cash flows increased 450% over the ensuing 20 years. But despite this growth, the stock remains more than 40% below its price in 2000 (See Figure 9.) The explanation for this disconnect between the stock price and its fundamentals is simple—the multiple paid for free cash flow contracted by 90%, providing a stunning example of the risk over overpaying for the shares of a good business.

*Cisco's stock price is over 40% below its March 2000 level even though free cash flows have increased 450% since then.*

**Figure 9: Cisco Stock Price vs. Free Cash Flow**



Tesla today looks remarkably similar to Cisco in 2000. Tesla is up around 1,300% over the prior three years and is valued at roughly 300x forecast next-twelve-month free cash flows of \$2.7B. Similar to Cisco in 2000, this valuation does not leave any cushion or downside protection and the risk of valuation compression over time will be a substantial obstacle for growth to overcome.

While it is not unusual for certain stocks to periodically achieve rich valuations, Tesla is somewhat unique in that it was added to the S&P 500 Index after its extraordinary rise and then moved substantially higher again on only the news of its inclusion. We doubt that many investors would be happy with a manager who announced to the world their intention to buy a substantial amount of a stock in several months' time and then after the stock went up significantly on the news, bought that much more of it, yet this is the path of the S&P 500 and all those who are simply invested in a passive vehicle mimicking it.

## Final Word:

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Overall, U.S. equities appear somewhat expensive. Fortunately, the risk from valuation appears concentrated in certain parts of the market and our work suggests there are opportunities beneath the surface as long as a valid and rigorous valuation discipline is employed. While fundamental stability and leverage were particularly important through the recent crisis, we believe valuation may be the more important risk control going forward.

Looking back on the past several years since founding Distillate Capital in 2017, we have encountered a remarkable range of market environments. Throughout, we have been pleased that our investment strategies have generally performed along the lines of what we would have expected, including in the severe crisis earlier this year and amid the challenging domestic market backdrop in the second half of 2020. We do not purport to know what the future will hold, but we continue to believe that owning a diversified portfolio of attractively valued stocks with stable fundamentals and low leverage is a prudent strategy over the long-term, regardless of the myriad environments that may be encountered in the shorter-term.

Lastly, while 2020 was an extremely difficult year in so many ways, one positive, and one we are extremely proud of and grateful for, is to be partnered with outstanding clients. We are deeply honored by the trust you place in us and wish you a safe and healthy 2021. As always, please contact us with any questions or comments.

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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](mailto: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.

**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.

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

**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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