DISTILLATE CAPITAL

March 2020: Interim Update to Investors

During this volatile period in the markets, we wanted to reach out and provide a quick update.

Fundamentals & Performance:
While the near-term economic impact of the spreading coronavirus will be negative, equity values should reflect the much longer-term stream of future cash flows that companies are projected to generate, and these future profits should be relatively unimpaired by this disruption. But as Nobel-prize-winning economist Robert Shiller showed in his famous 1984 paper "Stock Prices and Social Dynamics", the opposite is true — prices are actually more volatile than the fundamentals they are supposed to reflect and markets are prone to panicking about near-term disruptions rather than looking beyond them to discount the longer-term future.

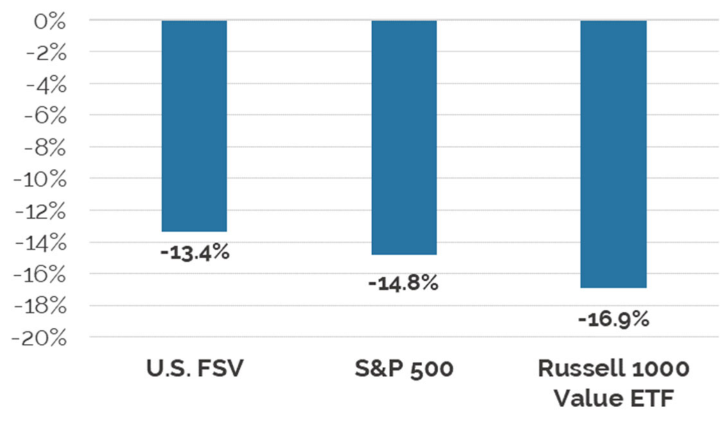
The current environment seems like exactly such an instance. Despite a likely disruption to cash flows in the next several months, the long-term future profit generating capacity of most companies should be generally unaffected. And for the companies with stable through-cycle cash flows, low leverage, and attractive free-cash-flow valuations that the U.S. Fundamental Stability & Value (U.S. FSV) investment process emphasizes, we would hope this to be especially true. Below is an updated table highlighting how the U.S. FSV strategy looks on these attributes versus the overall market (**see table 1**).

Table 1: U.S. FSV Portfolio Characteristics (as of 3/9/20)

	U.S. FSV Strategy	S&P 500
Free Cash Flow Yield[1]	6.9%	5.6%
P/E[2]	16.2	21.0
Fundamental Stability[3]	0.87	0.70
Leverage[4]	1.1	1.4

The intended goal of investing in companies with these attributes is to outperform the market over an economic cycle by weathering periods when fundamentals are challenged while still capturing upside in rising environments by being disciplined on valuation. We would therefore not necessarily expect the portfolio to outperform in an initial period of panicked selling when prices are decoupling from long-term fundamentals. Instead, we would hope that greater stability, lower leverage, and more attractive valuations would enable the portfolio to do well if worries about fundamental erosion came to fruition and as prices recouple with underlying fundamentals that have hopefully proven more resilient. That said, the portfolio has performed ahead of both the S&P 500 Index and Russell 1000 Value since the market peak in February (**See Figure 1**). After lagging the S&P somewhat at the beginning of the year, year-to-date performance is modestly ahead of that benchmark and is around 5½ percentage points ahead of the Russell 1000 Value ETF.

Figure 1: Total Returns from 2/19/20 through 3/10/20



[1] 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.
[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] Fundamental stability is Distillate Capital's proprietary measure of through-cycle cash flow stability with a higher value indicating greater stability.
[4] 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.)

Market Valuation:
If the longer-term cash generating ability of companies is largely unimpaired, the sharp recent decline in the market price presents a substantially improved valuation opportunity and a particularly compelling yield relative to alternatives. Based on trailing free cash flows, the current free cash flow yield of just over 5% ranks near the top 1/3rd of all valuations going back to 1985 when our free cash flow series for the S&P 500 begins. Put another way, since 1985, the market has been more expensive than it is now roughly 2/3rds of the time. In the context of record low yields on 10-Year Treasuries and BAA bonds, equities stand out as looking particularly compelling (**See Figure 2**). In this context, we are pleased to have seen net inflows into the strategy amid the sell-off and thank our investors for being oriented towards the long-term.

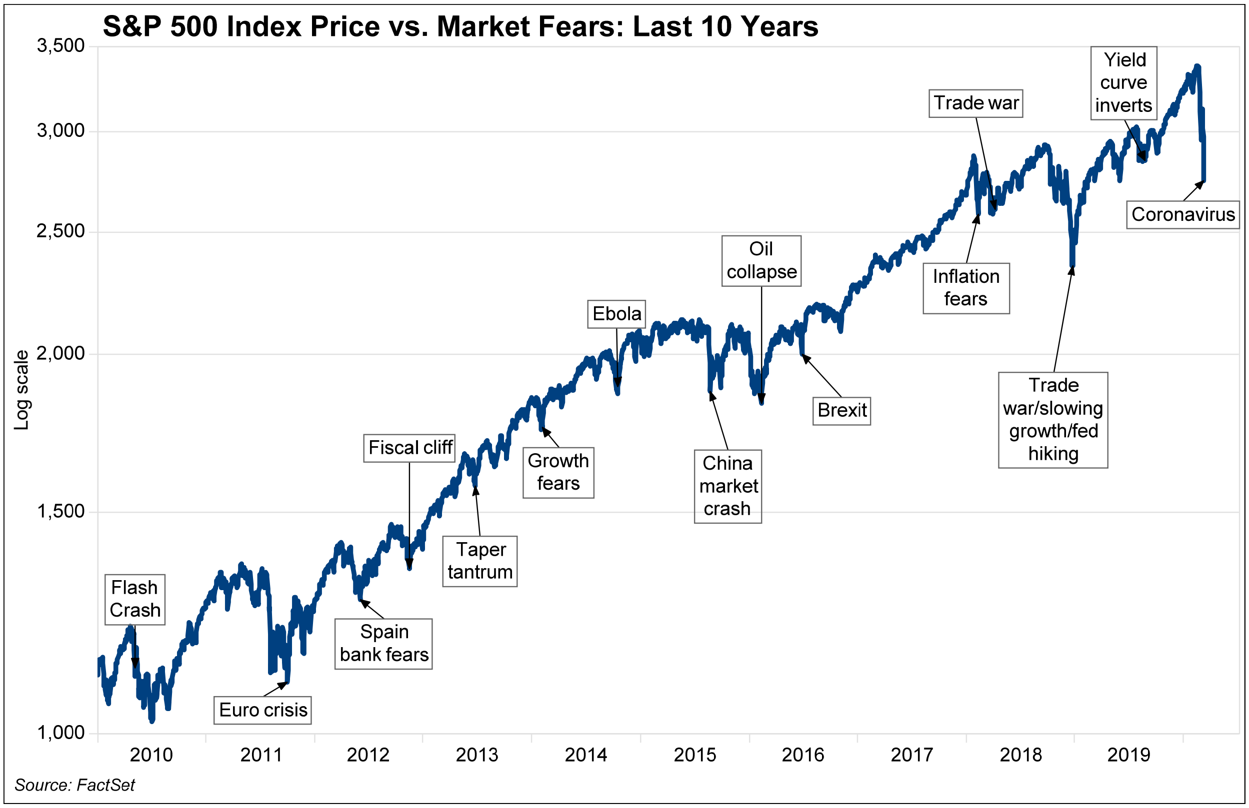
Figure 2: Current Yield vs. Historical Range & Median (1985 through 3/9/2020)

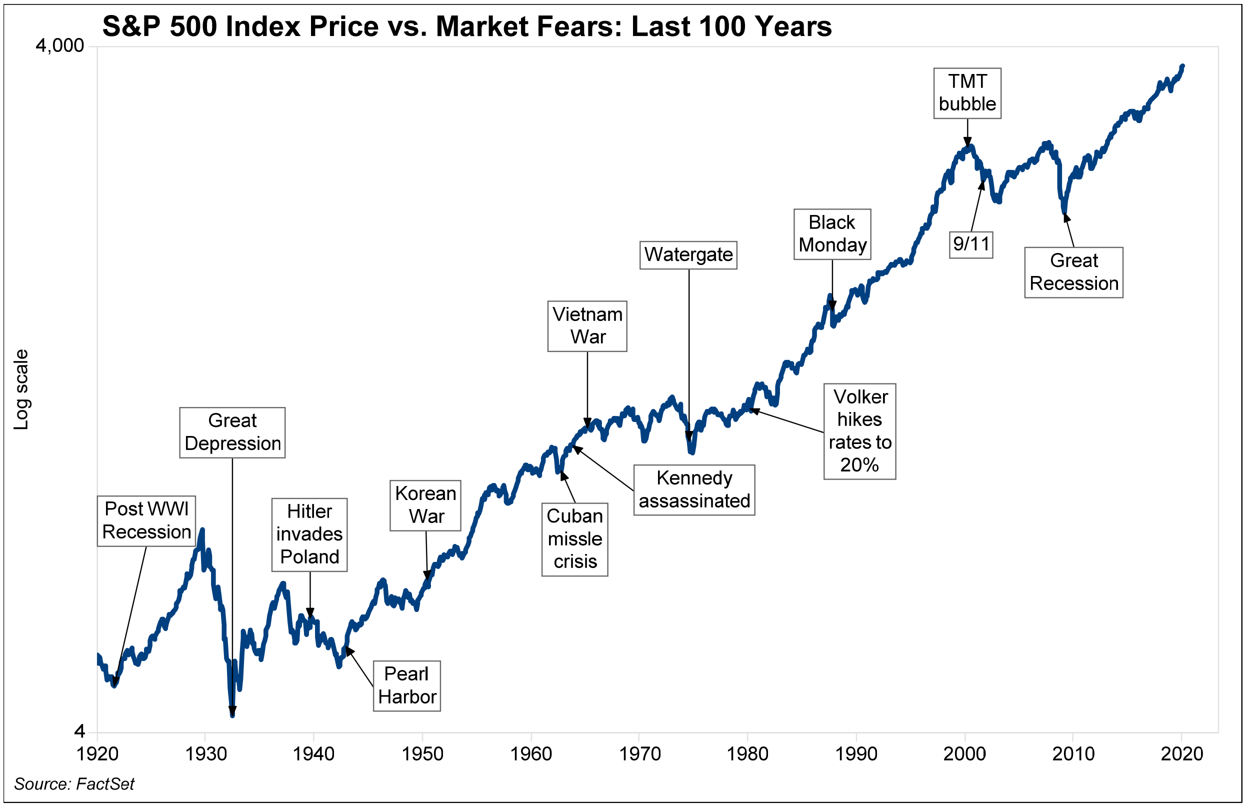
Source: See end-notes for methodology disclosures

Fear:
Warren Buffett advises to "Be fearful when others are greedy, and greedy when others are fearful." While this is extraordinarily wise advice, it is often much more difficult to follow. In that regard, we think the charts on the following page provide a good reminder of the litany of both sentiment swings and economic headwinds that have confronted corporations and investors in the past. Time and again, despite significant headwinds and frequent bouts of market volatility over both the past decade and century, the American workforce and its corporations have proven resilient and patient investors have been richly rewarded.

Summary:
While financial markets can be highly volatile in the short-term, we believe that owning a portfolio of companies with stable fundamentals, low leverage, and attractive valuations is a sound long-term strategy. We also hope that it is one that provides you with some confidence and reassurance at a time when it can be difficult to focus on the long-term opportunity over short-term fears.

With that, please be safe and we wish everyone well. We are, as always, available to you by phone or e-mail if there is anything we can help with.


S&P 500 Index Price vs. Market Fears: Last 10 Years
3,500
3,000
2,500
2,000
1,500
1,000
Log scale
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
Flash Crash
Euro crisis
Spain bank fears
Fiscal cliff
Taper tantrum
Growth fears
Ebola
China market crash
Oil collapse
Brexit
Inflation fears
Trade war
Trade war/slowing growth/fed hiking
Yield curve inverts
Coronavirus
Source: FactSet


S&P 500 Index Price vs. Market Fears: Last 100 Years
4,000
4
Log scale
1920
1930
1940
1950
1960
1970
1980
1990
2000
2010
2020
Post WWI Recession
Great Depression
Hitler invades Poland
Pearl Harbor
Korean War
Cuban missle crisis
Vietnam War
Kennedy assassinated
Watergate
Volker hikes rates to 20%
Black Monday
TMT bubble
9/11
Great Recession
Source: FactSet

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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__.

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.

__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 (such as Figure 3 above) refer only to these stocks' historical valuation and not their inclusion in any actual or hypothetical strategies/accounts managed by Distillate Capital Partners LLC.

__Figure 2 Methodology: Equity FCF yield__ is based on trailing free cash flow data from FactSet and the index is reweighted each quarter to exclude companies without data. __Real estate FCF__ data is based on capitalization rate yields for apartment buildings from RERC and adjusted by the historic ~30% free cash flow discount to net operating income per the NCREIF Q2 2018 Indices Review as well as Joseph Paglia's 2017 "Some Thoughts on Real Estate Pricing". Lastly, it should be noted that the RERC data is based on surveyed estimates of forward year net operating income and is thus more akin to forward estimated equity free cash flow. Yield data for __10-Year Treasury and BAA Bonds__ are sourced from FactSet. __BAA Bonds__ are U.S. corporate bonds rated "Baa" by Moody's Investors Service.

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