



DISTILLATE CAPITAL

2023 Q4 Letter to Investors: "Fish Where the Fish Are"

Letter Summary

2023 was anomalous in the degree to which gains were concentrated among a select few stocks in the large-cap space. **Figure 1** compares the annual performance of an equal-weighted index of large stocks to a capitalization-weighted one and shows that 2023 was the second worst year for the equal weight index going back to 1930! Yet while the market's overall valuation became more stretched as some of the largest companies meaningfully outperformed, we continue to find attractive situations such that our U.S. Fundamental Stability and Value (U.S. FSV) strategy's free cash yield of 6.9% is well above the comparable 4.5% for the S&P 500 ETF, while still emphasizing quality. We are also finding highly attractive opportunities among international and smaller U.S. stocks, where our process avoids the debt and profitability issues that we believe are hampering performance of the broader benchmarks and adding considerable risk. Beneath the surface of the broader indexes that look expensive or risky in other ways, we are still finding attractive investments by following the advice of the late great Charlie Munger to "fish where the fish are" and avoiding the over-fished spots.

Performance Summary

U.S. Fundamental Stability & Value (U.S. FSV): The concentrated gains in the large cap space created a headwind to performance for our large-cap U.S. FSV strategy (U.S. FSV), where a total return net of fees of 22.7% lagged the S&P 500's 26.3% total return by 3.6% in 2023. The strategy outperformed the Russell 1000 Value ETF's total return of 11.3% by 11.4%. Annualized net of fee performance since inception is 2.2% ahead of the S&P 500 and 6.9% ahead of the Russell 1000 Value ETF.

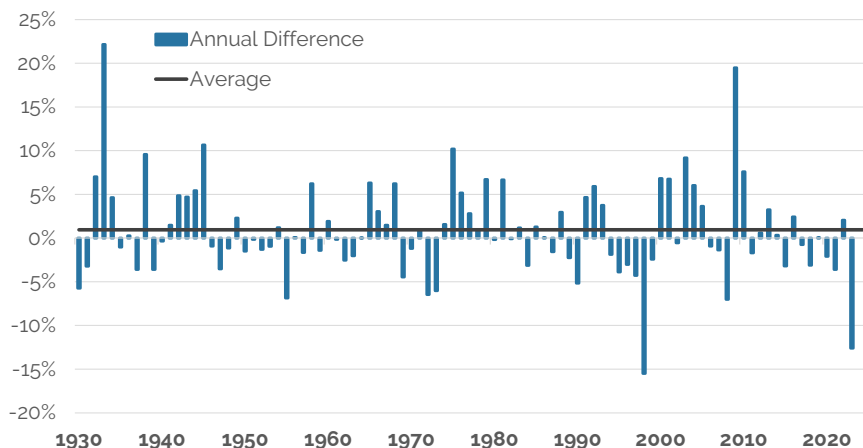
U.S. Small/Mid Cap Quality & Value (SMID QV): The 29.5% net of fee total return for our SMID QV strategy bested the Russell 2000 ETF benchmark by 12.6% and the Russell 2000 Value ETF benchmark by 15.0% in 2023, and annualized excess returns since inception and net of fees are 9.7% and 9.2% ahead of those benchmarks.

International Fundamental Stability & Value (Intl. FSV): Our International FSV strategy returned 20.1% net of fees in 2023, 4.6% ahead of the MSCI All Country Ex U.S. ETF benchmark. Annualized net of fee performance since inception is ahead of the benchmark by 0.9%.

U.S. Large Cap Value Long 130%/Short 30% (U.S. Value 130/30): Our 130/30 strategy, which by design produces more variable performance, returned 12.1% net of fees through in 2023 and trailed S&P 500 Index by 14.2%. It remains 5.7% ahead of the S&P 500 ETF on an annualized net of fee basis and above the Russell 1000 Value ETF by 10.6% since inception.

Additional performance analysis and rebalance data for all strategies can be found in the Performance Appendix of this letter.

Figure 1: Annual Return of Equal-Weighted Index Less Market Cap-Weighted Index



* Largest 30% of all U.S. stocks which currently corresponds to around 560 stocks.
Source: Ken French Data Library, 2023 uses equal weight S&P 500 ETF (RSP) vs. S&P 500 ETF (SPY)

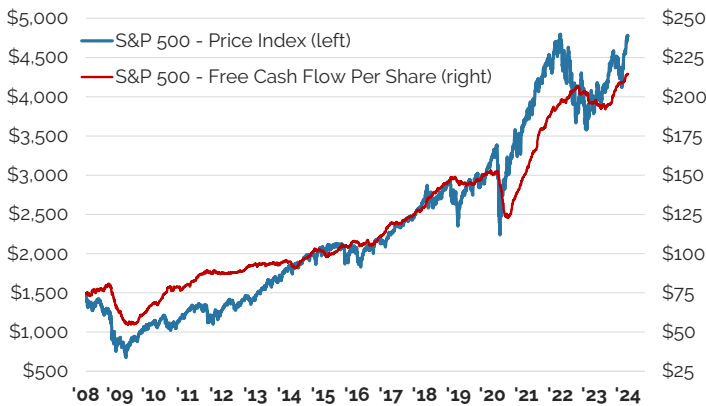
Past performance does not guarantee future results. One cannot invest directly in an index.

Market Commentary:

Despite expectations for a recession and pessimism on the outlook for equities coming into 2023, economic growth remained positive as inflation moderated and the S&P 500 Index rose sharply. The consensus weighted average next-twelve-month (NTM) free cash flow per share estimate for the S&P 500 continued on the downward trajectory of 2022 into the start of the year but bottomed in May and ended the year 9.2% higher. (See [Figure 2](#)).

Free cash estimates rose in 2023, but lagged price gains.

Figure 2: S&P 500 Free Cash Flow vs. Price

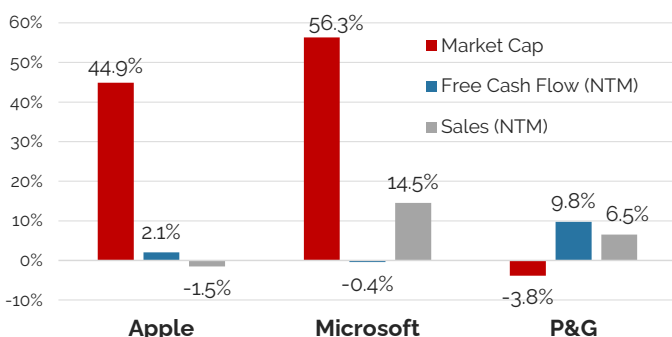


Source: FactSet, data as of 12/31/2023

This rise in estimated free cash flows, though positive, considerably trailed the S&P 500's price rise such that its free cash flow yield fell from 5.1% at the start of the year to 4.5% at year end. Much of this deterioration in valuation, however, relates to the same concentration issue highlighted in [Figure 1](#) on the previous page. Apple and Microsoft are the biggest two stocks in the S&P 500 Index with staggeringly large weights of nearly 7% each. The market value of each stock soared by approximately one trillion dollars in 2023 while their free cash flows (and sales in the case of Apple) were stagnant (See [Figure 3](#)). Valuations became significantly richer as a result, with Apple now trading with a 3.6% free cash flow yield and Microsoft under 2.6%, a valuation where Microsoft would need to fall by over 40% to be valued in-line with the overall market.

Price gains for Apple and Microsoft in 2023 far outpaced fundamentals.

Figure 3: Microsoft & Apple 2023 Change in Valuation vs. Estimated Free Cash Flows & Sales



Source: FactSet

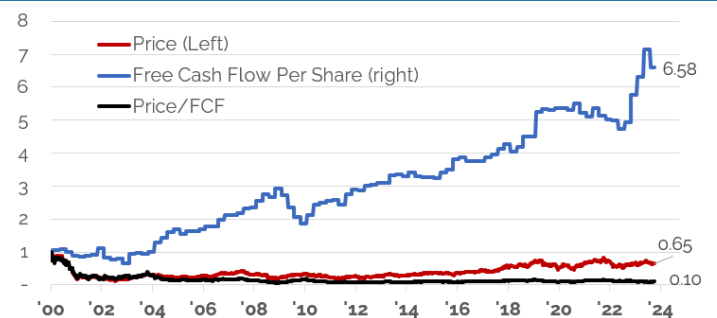
[Figure 3](#) contrasts Apple and Microsoft with Procter & Gamble, which became more attractively valued over the year as its estimated free cash rose while its market value fell. Consequently, P&G was one our largest purchases in the most recent rebalancing. We believe this highlights two key points. First, there is significant risk in having almost 15% of a portfolio in two richly valued stocks with high growth expectations and anemic free cash flow gains over the past year, as many people do through passive exposure to the capitalization weighted S&P 500 Index. Second, we believe it is important to be able to take advantage of situations like P&G when sentiment and market fluctuations provide opportunities in highly desirable businesses.

Microsoft and Apple are two of the often mentioned “Magnificent 7” that are responsible for a significant portion of the market’s rise in 2023. But not all seven are the same. While Microsoft and Apple each added around one trillion in market value purely on the basis of multiple expansion, Amazon and NVIDIA shares were driven by significant increases in free cash flow expectations, such that their multiples actually declined. At year-end, NVIDIA’s free cash flow yield of 3.5% makes it considerably less expensive than Microsoft, though still much richer than the overall market. Tesla, by contrast, is priced with a free cash flow yield of less than 1%. Its market value doubled in 2023 even as estimated free cash flows fell by half and rolling estimates for next-twelve-month sales were flat.

Our exposure to the group of seven that have taken so much of Wall Street’s attention remains solely in Alphabet, which continues to look attractively valued, though less so than it did previously and thus our position size has been reduced. As for the others, our process emphasizes valuation to avoid situations where sentiment pushes a stock to a place where the risk/reward may be unfavorable despite (and often because of) a compelling growth story. As we have noted before, investors paying over 118x free cash flow for Cisco in 2000 were correct in expecting substantial free cash flow growth over the next quarter century, but the stock is still 35% below where it was then because of the 90% compression in its valuation (See [Figure 4](#)).

Investors were correct to be optimistic about Cisco’s growth prospects in 2000, but overpaid for the opportunity.

Figure 4: Cisco Free Cash Per Share, Price, and Valuation Indexed to March 2000



Source: FactSet

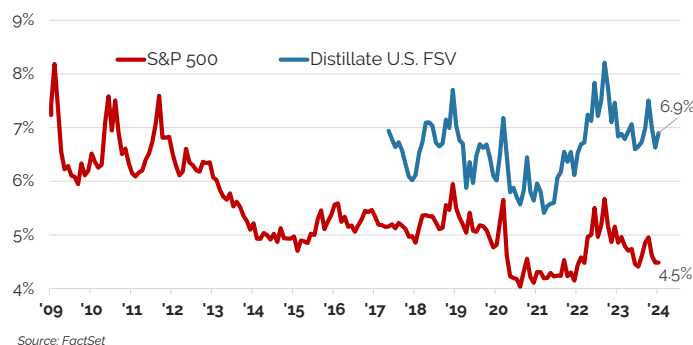
	Mar '00	Dec '23	Change
FCF Per Share (LTM)	\$0.65	\$4.28	558%
Price	\$77.31	\$50.52	-35%
Free Cash Multiple	118.9	11.8	-90%

When we launched our strategy in 2017, Apple and Microsoft were our largest positions. They were among the absolute cheapest stocks in the marketplace and both are incredibly durable businesses. At present, both stocks look to be embedding substantial growth into their prices based on their valuations. As a result, there is potential significant risk of valuation compression should this growth disappoint. If valuations improve, or if any of the other mega-caps become attractively valued enough to fit our criteria, we will own them. But for now, aside from Alphabet, we are seeing considerably more opportunity elsewhere.

By focusing on the parts of the market that are not rich and taking advantage of the valuation dispersion at present, our U.S. FSV strategy is able to achieve a 6.9% free cash flow yield, which is the largest premium to the S&P 500 yield since it launched (See [Figure 5](#).) Notably, our strategy does this while also investing in a portfolio of stocks that have low levels of debt and considerably more stable cash generation profiles than the broader market.

While Distillate's U.S. FSV strategy has always had a higher free cash yield than the S&P 500, the premium is at its widest yet.

Figure 5: Free Cash Yield (NTM) for Distillate's U.S. FSV Strategy and the S&P 500

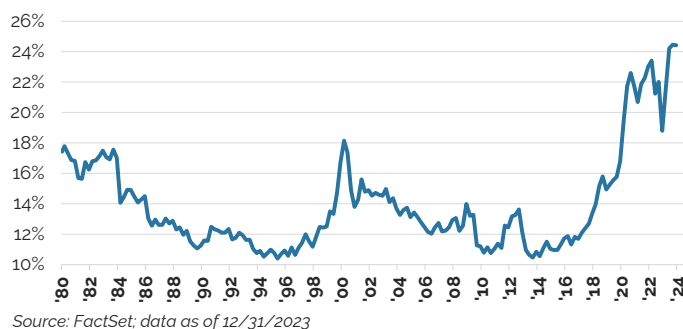


Because our strategy achieves this free cash yield premium to the S&P 500 by avoiding some of the richly valued mega-cap stocks, our strategy has tended to look a bit more like the equal-weighted S&P 500 than the more standard capitalization-weighted version. There are several elements of this that we believe are worth discussing.

At present, there is an extremely high level of concentration in the market (see [Figure 6](#)) which inherently brings more risk to the cap-weighted benchmark. As a point of comparison, the combined weight of the largest five positions in our U.S. FSV strategy is 11%. There is thus much less risk of any single stock having an outsized negative impact on our portfolio than for the broader capitalization-weighted market.

Concentration is very elevated for the S&P 500 at present.

Figure 6: Weight of the Largest 5 Stocks in the S&P 500



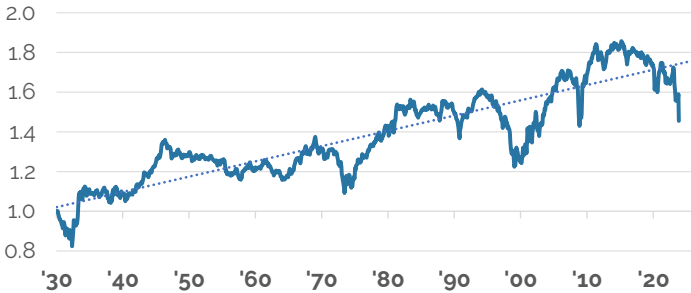
Second and worth noting, an equal-weighted version of a benchmark tends to outperform a capitalization-weighted version over the longer-term. In [Figure 1](#), while the equal-weighted index of large U.S. stocks underperformed considerably in 2023, it has outperformed by 0.9% on average going back to 1930. It does so because of our dynamic and entrepreneurial economy where the largest stocks tend not to remain the largest stocks, being displaced by newer companies over time. Despite the seeming benefits of incumbency and size, the largest companies tend to succumb to forces like creative destruction, active inertia, and the innovator's dilemma that are well documented and expounded upon in economic theory and corporate strategy ([Shumpeter](#), [Sull](#), [Christensen](#)). For example, IBM's enormous research budget in the 1970s and 80s or Walmart's supply chain and ability so squeeze suppliers in the 1990s and early 2000s did not prevent either from falling out of the ranks of the top ten currently. Consistent with this turnover in leadership is the fact that many of the current largest stocks in the S&P 500 were only added to it in the last 20 years (Amazon 2005, Alphabet 2006, NVIDIA 2011, Meta 2013, Tesla 2020). And the same will likely be true of the next group of largest stocks two decades from now.

Last, cap-weighted indexes by design place more weight in stocks with higher valuations and less weight in shares that are potentially less expensive. This also works against the performance of capitalization weighted indexes relative to equal-weighted ones. While cap-weighted benchmarks were a vast improvement over price-weighted benchmarks when their use began in the 1920's, they are hardly optimal for long-term investors, despite their general use.

[Figure 7](#) depicts the relative performance of the equal-weighted vs. cap-weighted index of the largest U.S. stocks over time. While the considerable outperformance of the equal-weighted index is clear, it highlights the extent and severity of the recent underperformance as the market became so highly concentrated. It also demonstrates that there have been other episodes of underperformance, and while it is desirable to resemble the equal-weighted index over time, it would be preferable to mitigate some of the drawdowns.

Over the long-term, an equal-weighted index of large U.S. stocks outperforms a capitalization-weighted one, but there are periods of underperformance like the present.

Figure 7: Performance of Equal-Weighted vs. Cap-Weighted U.S. Large Cap Stocks*

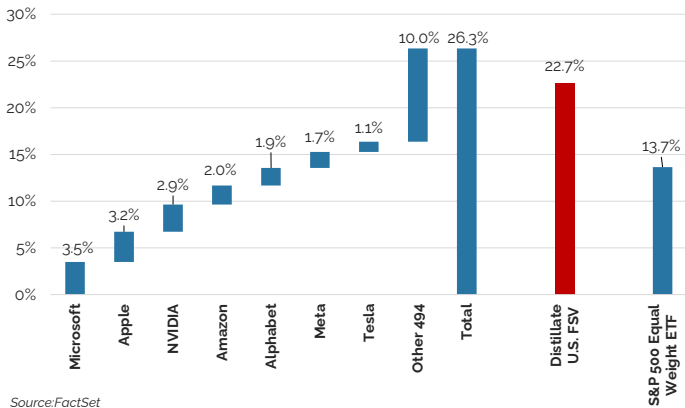


* Top 30% of all U.S. stocks which currently corresponds to ~540 stocks. Source: Ken French Data Library, data through Nov '23

In 2023, our U.S. FSV portfolio was able to do exactly that and moderated some of the headwind from the near-record negative relative performance of the equal weight index. **Figure 8** shows how the largest seven stocks contributed 16.3% of the S&P 500's total return with the remaining 493 adding just 10%. We also highlight our U.S. FSV's 22.7% return and that of the equal weighted S&P 500 ETF. Despite the disappointment of underperforming the capitalization-weighted S&P 500 in 2023, we were pleased to considerably outperform the equal-weighted index, taking advantage of the valuation opportunities hidden below the surface of the headline numbers.

The seven largest stocks in the S&P 500 contributed 16.3% of the total 26.3% return in 2023 while the remaining contributed only 10.0%, which is consistent with the 13.7% performance of the equal weight S&P 500.

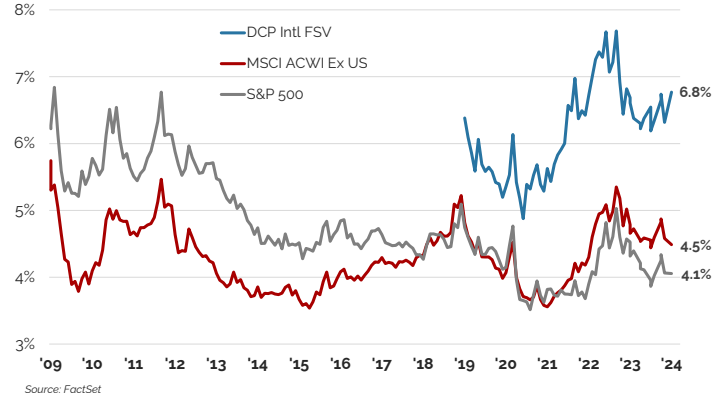
Figure 8: S&P Performance in 2023 & Key Contributors



We avoid predictions and ultimately have little idea when the equal-weighted S&P 500 might resume its historical outperformance of the capitalization-weighted benchmark, but history, current valuations, economic theory and corporate strategy relating to the challenges of incumbency and size all suggest that in time it will.

The All Country World Index Ex-U.S. traded at a lower free cash to EV yield than the S&P 500 Index for much of the past 15 years, but is now cheaper and our International FSV strategy is substantially cheaper than it.

Figure 9: Free Cash to EV Yield (NTM) for Distillate's INTL FSV Strategy, ACWI Ex US and S&P 500

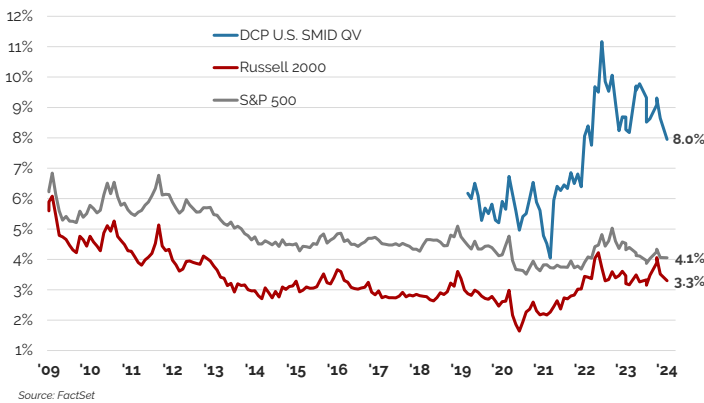


Internationally, we are finding attractive investment opportunities, but again believe that selectivity is essential to navigating risks in the benchmark. On the basis of next-twelve-month consensus-estimated free cash flows to enterprise value, the international All Country World Index Ex-U.S. (ACWI Ex U.S.) is finally cheaper than the S&P 500 after the reverse was the case for much of the past 15 years (See **Figure 9**). Price-to-earnings-based valuations signaled that international stocks were cheaper 15 years ago, but as we have discussed extensively, such metrics suffer from significant distortions and we do not believe give an accurate indication of value. Free cash flows compared to market prices, by contrast in our estimation, provide a much more accurate and consistent view of the opportunities available to investors. But while the international benchmark is at long last cheaper than its U.S. counterpart, it does still suffer from having more leverage and a significantly less stable profile of cash flow generation. As well, the ACWI Ex U.S. benchmark also has a very large weight in banks, a sector with significant leverage and the additional risk that many banks are run secondarily in the interest of shareholders, often instead behaving first as arms of their governments, a risk we are happy to avoid.

While we see the international opportunity set as increasingly compelling as the headline valuation indicates, we believe it needs to be accessed selectively. Our International Fundamental Stability and Value (Intl. FSV) strategy assesses quality by utilizing our same examination of fundamental stability and leverage that is used in our domestic FSV portfolio. We begin there, but believe that paying less also provides downside protection. Consistent with that, the current International FSV portfolio provides a free cash flow to enterprise value yield of 6.8% versus the benchmark's 4.5%, and the S&P 500's 4.1%, as is also evident in **Figure 9**.

Small cap stocks overall are more expensive than large cap stocks, but there is enormous opportunity beneath the surface.

Figure 10: Free Cash to EV Yield (NTM) for Distillate’s SMID QV, Russell 2000 Index and S&P 500

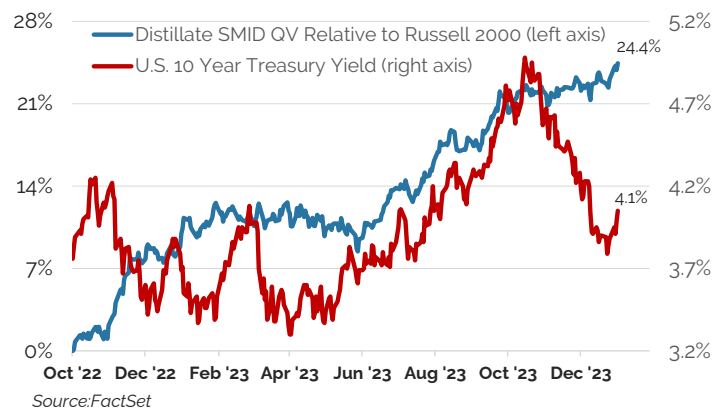


Lastly, we believe a similar issue is occurring with small cap stocks in the U.S. where investors are being misled on valuation by headline P/E ratios, but where there is likewise tremendous opportunity below the surface through selectivity. On the same basis of free cash flow to enterprise value yields, the Russell 2000 has been more expensive than the S&P 500 benchmark for the past 15 years (See **Figure 10**), but unlike the ACWI Ex-U.S. benchmark which is at long last cheaper, smaller stocks remain more expensive in aggregate. In addition, small cap stocks overall have greater debt burdens, which look particularly problematic with higher rates. Compounding these issues is the fact that over 15% of the benchmark by weight is not predicted to generate positive cash flows in the next twelve months. But beyond these risks, we see tremendous opportunity and our Small/Mid Quality Value (SMID QV) strategy offers a substantially better free cash flow yield (see **Figure 10**), with negligible debt and no exposure to unprofitable stocks.

The issue of leverage is an interesting one. We were recently asked in response to our “[Small Stocks Big Debt Problems](#)” paper, how our SMID QV fund might perform relative to the more leveraged Russell 2000 benchmark if interest rates began to fall. The logic was that because our strategy has dramatically lower leverage than its benchmark, some of its recent outperformance may relate to rising rates and could reverse if interest rates began to fall. It was an excellent question and the recent sharp decline in interest rates helped to supply an answer. **Figure 11** plots the relative performance of Distillate’s Small/Mid QV strategy versus the Russell 2000 ETF against the 10-year Treasury yield. While the strategy did outperform considerably in the April to October period that coincided with sharply rising rates, it also outperformed as rates fell in late '22 and late '23.

Our small cap strategy which has considerably less debt than its benchmark performed well in periods of both rising and falling rates.

Figure 11: Relative Performance of Distillate’s Small Quality & Value Strategy vs. Interest Rates



A Final Word

Though we would have preferred to remain on a path to chase Bill Miller’s notable string of S&P 500-beating years of performance, we did not design our processes to outperform cap-weighted benchmarks in each quarter or each year. Rather, their architecture seeks to protect capital and take advantage of opportunities that arise. In that regard, while staying within our defined quality metrics, we remain very pleased with the absolute and relative free cash flow yields available to us in all of our strategies. There do appear to be key risks around valuation and quality in the broader benchmarks, but fortunately we are not buyers of the aggregate market but of individual stocks. To us, now in particular seems like a good time to “fish where the fish are.”

We also want to express our appreciation to you our clients that our business grew meaningfully again in 2023, with assets under management now exceeding \$1.6 billion. We appreciate your partnership and confidence in what we are doing. Never hesitate to reach out should you have questions. We are better investors for the sake of the interactions we have with all of you.

Finally, please join us in welcoming John Olsen to Distillate Capital. John is joining us as a partner, having an extensive 25-year history in our industry in client-facing roles at several notable firms. We look forward to the opportunity to introduce you to John in person if we have not already done so.

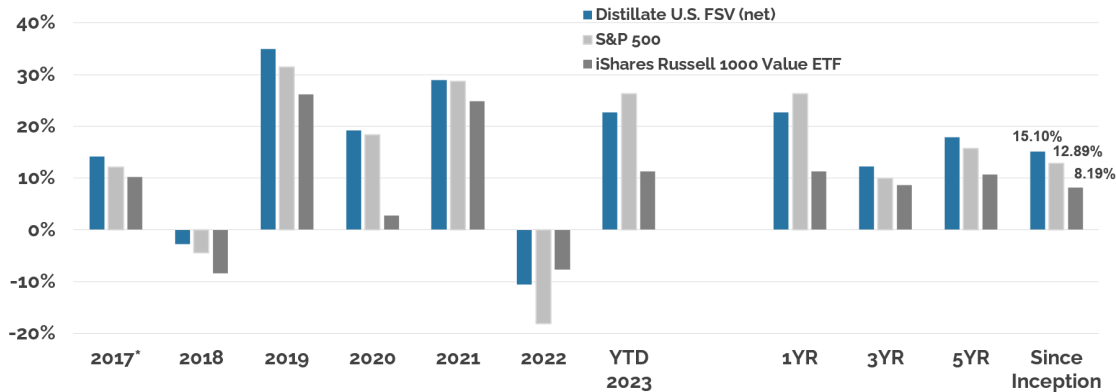
Best to all of you and we wish you well in 2024!

Performance & Rebalance Appendix

U.S. Fundamental Stability & Value Composite Performance:

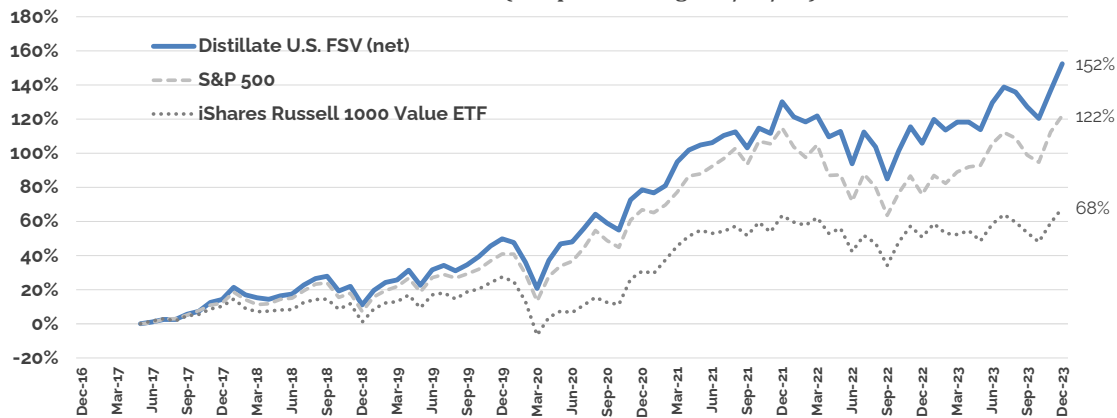
As of December 31, 2023

	2017*	2018	2019	2020	2021	2022	YTD 2023	1YR	3YR	5YR	Since Inception
Distillate U.S. FSV (net)	14.18%	-2.79%	34.91%	19.22%	28.91%	-10.58%	22.67%	22.67%	12.24%	17.86%	15.10%
S&P 500	12.11%	-4.39%	31.49%	18.40%	28.71%	-18.11%	26.29%	26.29%	10.00%	15.69%	12.89%
iShares Russell 1000 Value ETF	10.27%	-8.41%	26.13%	2.73%	24.91%	-7.72%	11.31%	11.31%	8.66%	10.70%	8.19%



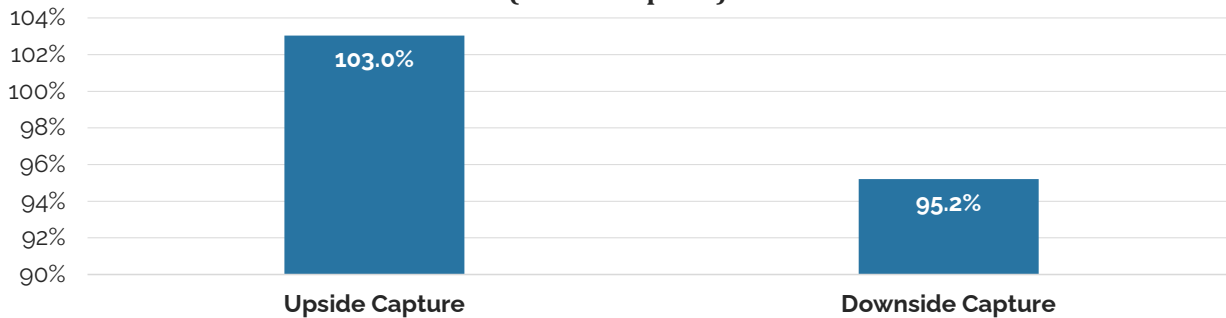
Source: U.S. Bank, Morningstar Data; Inception 5/31/2017; the period "2017*" reflects returns from inception through 12/31/2017. One cannot invest directly in an index. See performance disclosures.

Cumulative Return (Inception through 12/31/23)



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. S&P 500 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 2023 YTD Impact to Relative Returns (vs. S&P 500)

Top Contributors	Impact	Largest Detractors	Impact
Broadcom Inc.	0.7%	Advance Auto Parts, Inc.	-0.6%
Jabil Inc.	0.4%	Hormel Foods Corporation	-0.5%
Lam Research Corporation	0.4%	CVS Health Corporation	-0.4%
Williams-Sonoma, Inc.	0.4%	PayPal Holdings, Inc.	-0.4%
Owens Corning	0.3%	Johnson & Johnson	-0.4%

Rebalance Summary:

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

Largest Purchases	Weight	Largest Sales	Weight	Largest Sector Changes
Visa Inc. Class A	2.0%	Advance Auto Parts, Inc.	-0.6%	Cons Staples (+3.1%)
Procter & Gamble Company	1.7%	Hormel Foods Corporation	-0.5%	Healthcare (+1.7%)
QUALCOMM Incorporated	1.3%	CVS Health Corporation	-0.4%	Communications (-2.0%)
				Industrials (-2.5%)

Largest Adds	Weight	Previous	Largest Trims	Weight	Previous
Amgen Inc.	1.5%	1.2%	Alphabet Inc. Class A	2.0%	3.8%
Bristol-Myers Squibb Co	1.7%	1.4%	Broadcom Inc.	2.0%	2.4%
Hormel Foods Corporation	0.8%	0.6%	GoDaddy, Inc. Class A	0.8%	1.0%

Rebalance Calculation Date: 12/29/2023

U.S. FSV Portfolio Characteristics*

	U.S. FSV	S&P 500	Russell 1000 Val ETF
Free Cash Yield to Mkt Cap ¹	6.9%	4.5%	5.5%
Free Cash Yield to EV ¹	6.0%	4.1%	4.4%
P/E ²	15.0	19.3	14.9
Leverage ³	1.2	1.1	2.1
Cash Flow Stability ⁴	0.85	0.69	0.53
Dividend Yield	2.0%	1.6%	2.4%

*as of 1/5/2024, see methodology endnotes.

U.S. FSV Portfolio Sector Weights

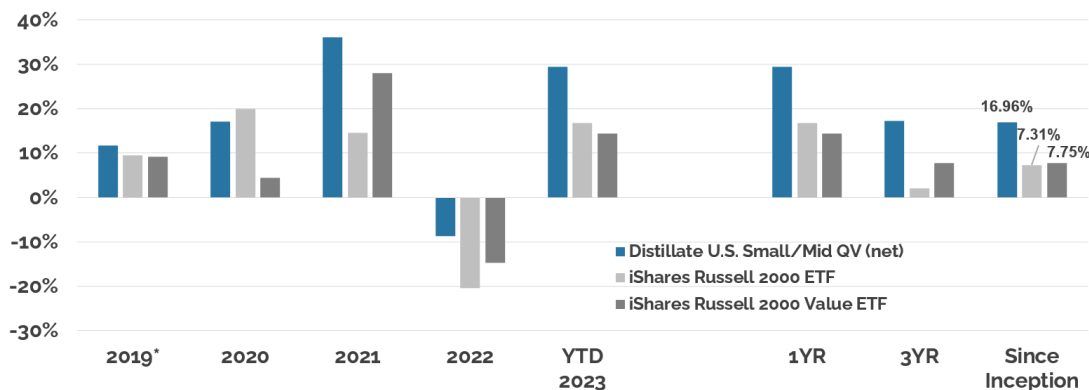
	U.S. FSV	S&P 500
Communication Services	6.9%	8.7%
Consumer Discretionary	12.5%	10.7%
<i>Ex AMZN & TSLA</i>	12.5%	5.3%
Consumer Staples	9.3%	6.3%
Energy	2.4%	4.0%
Financials	10.0%	13.3%
<i>Ex Banks</i>	10.0%	9.1%
Health Care	21.2%	13.1%
Industrials	19.9%	8.4%
Information Technology	16.3%	28.1%
<i>Ex Apple & Microsoft</i>	16.3%	14.5%
Materials	1.6%	2.4%
Real Estate	0.0%	2.5%
Utilities	0.0%	2.4%

*as of 1/5/2024

Past performance does not guarantee future results. Top contributors and detractors are calculated gross of fees and use end of day pricing, which might differ from actual transactions. The top contributors and top detractors represent extracted performance. Strategy level net performance is available on pg 7 and upon request. For the Rebalance Summary, position weights and changes are as of the portfolio reconstitution calculation date and data may vary slightly compared to actual implementation based on price fluctuations. Statistical data is sourced from FactSet. Portfolio holdings may change at any time without notice.

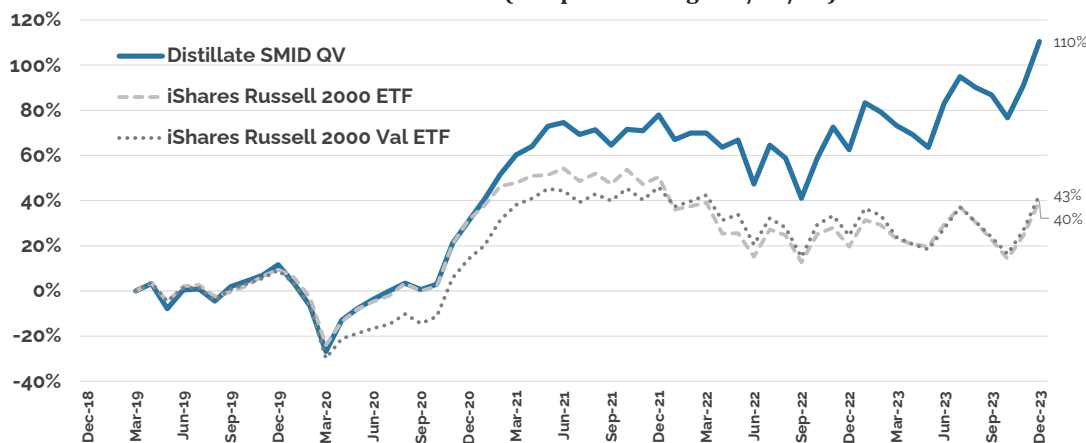
U.S. Small/Mid Cap Quality & Value Composite Performance:

	YTD					As of December 31, 2023			
	2019*	2020	2021	2022	2023	1YR	3YR	5YR	Since Inception
Distillate U.S. Small/Mid QV (net)	11.65%	17.15%	36.03%	-8.64%	29.46%	29.46%	17.18%	n/a	16.96%
iShares Russell 2000 ETF	9.49%	19.91%	14.64%	-20.49%	16.81%	16.81%	2.11%	9.87%	7.31%
iShares Russell 2000 Value ETF	9.18%	4.50%	27.96%	-14.67%	14.43%	14.43%	7.70%	9.79%	7.75%



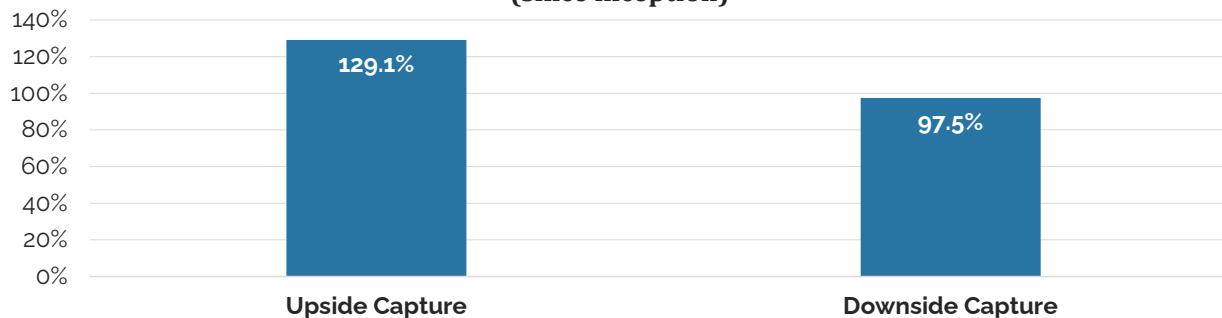
Source: U.S. Bank, Morningstar Data; Inception 3/31/2019; the period "2019" reflects returns from inception through 12/31/2019. One cannot invest directly in an index. See performance disclosures.

Cumulative Return (Inception through 12/31/23)



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 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:

U.S. SMID QV: Owned Stocks 2023 YTD Impact to Relative Returns (vs. Russ 2000 ETF)

Top Contributors	Impact	Largest Detractors	Impact
Toll Brothers, Inc.	0.8%	Nu Skin Enterprises, Inc. Class A	-0.4%
Builders FirstSource, Inc.	0.7%	Advance Auto Parts, Inc.	-0.4%
Dorian LPG Ltd.	0.6%	Premier, Inc. Class A	-0.4%
Alpha Metallurgical Resources, Inc.	0.6%	Medifast, Inc.	-0.3%
Williams-Sonoma, Inc.	0.5%	United Therapeutics Corporation	-0.3%

Rebalance Summary:

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

Largest Purchases	Weight	Largest Sales	Weight
J.M. Smucker Company	1.5%	PennyMac Financial	-1.1%
Quest Diagnostics Inc	1.5%	Knight-Swift Transportation	-0.8%
Best Buy Co., Inc.	1.4%	Crocs, Inc.	-0.8%

Largest Adds	Weight	Previous	Largest Trims	Weight	Previous
Williams-Sonoma, Inc.	2.2%	1.2%	Victoria's Secret & Company	0.5%	1.2%
Alpha Metallurgical Resource	2.1%	0.8%	Interpublic Group of Co	0.6%	1.2%
Dick's Sporting Goods, Inc.	2.0%	1.2%	DXC Technology Co.	0.5%	1.1%

Rebalance Calculation Date: 11/30/2023

U.S. SMID QV Portfolio Characteristics*

	SMID QV	Russell 2000 ETF	Russell 2000 Value ETF
Free Cash Yield to Mkt Cap ¹	9.3%	4.7%	6.0%
Free Cash Yield to EV ¹	8.0%	3.3%	3.9%
P/E ²	10.7	13.8	11.7
Leverage ³	0.6	2.0	2.8
Fundamental Stability ⁴	0.51	0.41	0.35
Negative FCF Weight ⁵	0.0%	15.4%	16.4%

*as of 1/5/2024, see methodology endnotes.

U.S. SMID QV Portfolio Sector Weights

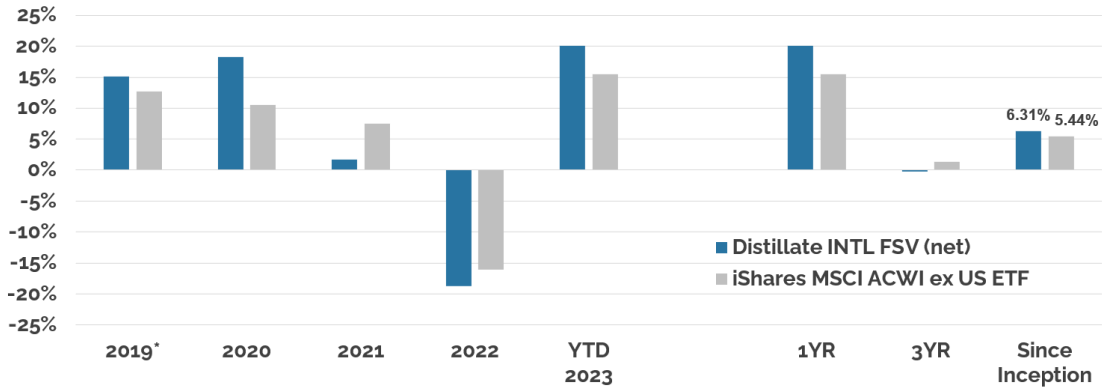
FactSet Sector	SMID QV	Russell 2000 ETF	Russell 2000 Val ETF
Commercial Services	7.2%	3.8%	2.4%
Communications	0.5%	0.6%	0.8%
Consumer Durables	9.9%	3.3%	4.8%
Consumer Non-Durables	2.4%	3.1%	1.8%
Consumer Services	3.0%	3.3%	2.6%
Distribution Services	3.8%	1.8%	2.3%
Electronic Technology	5.3%	6.9%	4.5%
Energy Minerals	14.0%	3.9%	6.3%
Finance	4.5%	23.7%	37.2%
Health Services	2.9%	1.7%	0.9%
Health Technology	3.9%	12.4%	7.6%
Industrial Services	0.8%	4.2%	2.8%
Miscellaneous	0.4%	0.2%	0.1%
Non-Energy Minerals	4.2%	2.1%	3.1%
Process Industries	6.5%	3.2%	2.2%
Producer Manufacturing	5.0%	7.6%	5.4%
Retail Trade	16.5%	3.2%	3.8%
Technology Services	3.6%	9.8%	3.7%
Transportation	5.6%	2.5%	3.5%
Utilities	0.0%	2.9%	4.1%

*as of 1/5/2024

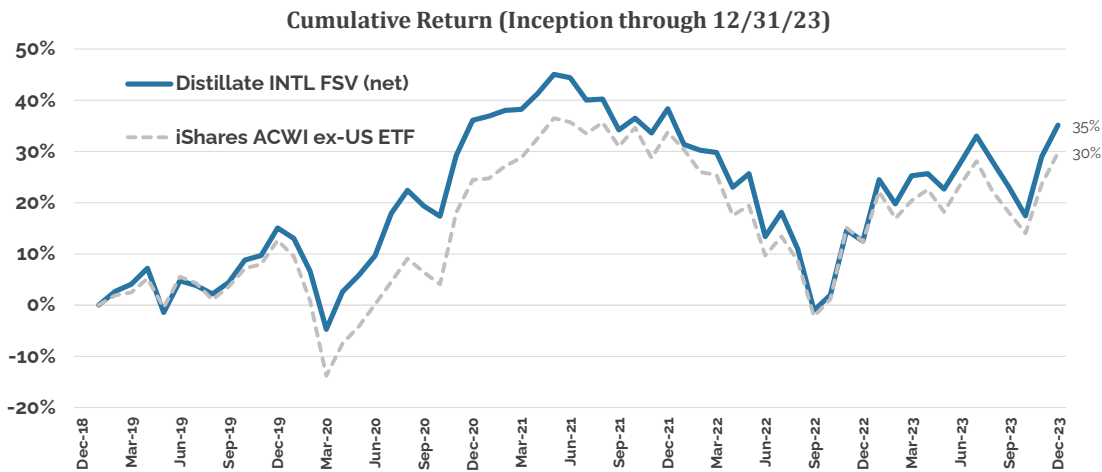
Past performance does not guarantee future results. Top contributors and detractors are calculated gross of fees and use end of day pricing, which might differ from actual transactions. The top contributors and top detractors represent extracted performance. Strategy level net performance is available on pg 9 and upon request. For the Rebalance Summary, position weights and changes are as of the portfolio reconstitution calculation date and data may vary slightly compared to actual implementation based on price fluctuations. Statistical data is sourced from FactSet. Portfolio holdings may change at any time without notice.

International Fundamental Stability & Value Composite Performance:

	2019*	2020	2021	2022	YTD 2023	As of December 31, 2023			
						1YR	3YR	5YR	Since Inception
Distillate INTL FSV (net)	15.08%	18.26%	1.67%	-18.68%	20.10%	20.10%	-0.24%	n/a	6.31%
iShares MSCI ACWI ex US ETF	12.67%	10.48%	7.48%	-16.01%	15.47%	15.47%	1.39%	6.89%	5.44%

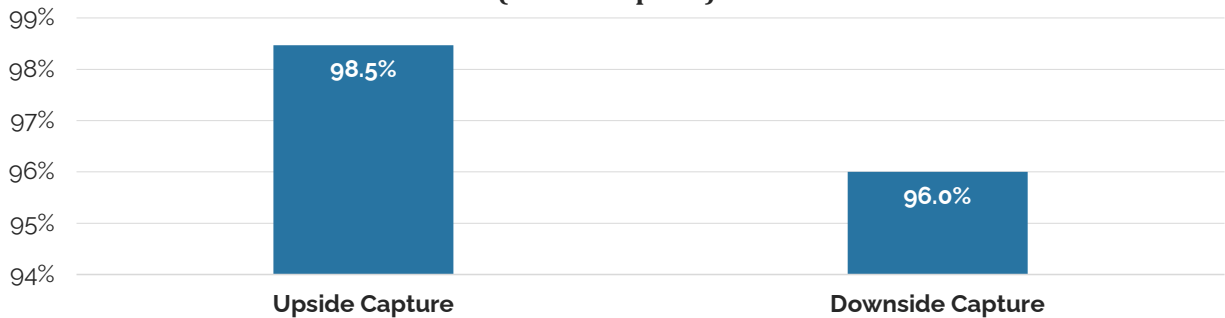


Source: U.S. Bank, Morningstar Data; Inception 1/31/2019; the period "2019" reflects returns from inception through 12/31/2019. One cannot invest directly in an index. See performance disclosures.



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 2023 YTD Impact to Rel Returns (vs. ACWI Ex U.S.)

Top Contributors	Impact	Largest Detractors	Impact
Avantest Corp.	0.8%	NCsoft Corporation	-0.6%
Industria de Diseno Textil, S.A.	0.7%	British American Tobacco PLC	-0.5%
Pandora A/S	0.6%	JD.com, Inc. Class A	-0.5%
LVMH Moet Hennessy Louis	0.6%	Roche Holding Ltd Sponsored	-0.4%
Fomento Economico Mex	0.5%	Teleperformance SA	-0.4%

Rebalance Summary:

INTL FSV Strategy: Portfolio Changes During Recent Quarterly Rebalancing

Largest Purchases	Weight	Largest Sales	Weight
Petroleo Brasileiro ADR	2.7%	Recruit Holdings Co	-1.4%
PDD Holdings Inc. ADR	1.9%	Atlas Copco AB	-1.2%
Canadian Natural Resources	1.2%	Fomento Economico Mex	-1.1%

Largest Adds	Weight	Previous	Largest Trims	Weight	Previous
Alibaba Group Holding	2.9%	2.3%	Shin-Etsu Chemical Co Ltd	1.1%	1.5%
Burberry Group plc	0.7%	0.5%	Chugai Pharmaceutical Co.	0.9%	1.3%
Valeo SE	0.7%	0.5%	Grupo Mexico S.A.B. de C.V.	1.1%	1.3%

Rebalance Calculation Date: 12/29/2023

INTL FSV Portfolio Characteristics*

	INTL FSV	ACWI Ex U.S. ETF
Free Cash Yield to Mkt Cap ¹	7.5%	5.5%
Free Cash Yield to EV ¹	6.8%	4.5%
P/E ²	12.7	12.6
Leverage ³	0.5	1.6
Cash Flow Stability ⁴	0.79	0.52
Dividend Yield	3.0%	3.3%

INTL FSV Portfolio Region Weights

Region	INTL FSV	ACWI Ex U.S. ETF
Europe	43.8%	43.2%
Japan	20.1%	14.5%
Asia Ex China & Japan	11.2%	20.1%
China & Hong Kong	9.6%	8.3%
Americas	14.8%	10.4%

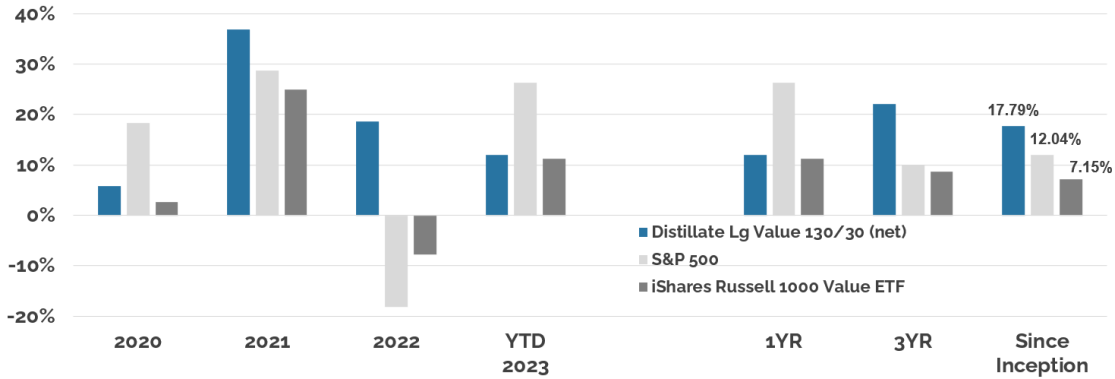
*as of 1/5/2024

*as of 1/5/2024, see methodology endnotes.

Past performance does not guarantee future results. Top contributors and detractors are calculated gross of fees and use end of day pricing, which might differ from actual transactions. The top contributors and top detractors represent extracted performance. Strategy level net performance is available on pg 11 and upon request. For the Rebalance Summary, position weights and changes are as of the portfolio reconstitution calculation date and data may vary slightly compared to actual implementation based on price fluctuations. Statistical data is sourced from FactSet. Portfolio holdings may change at any time without notice.

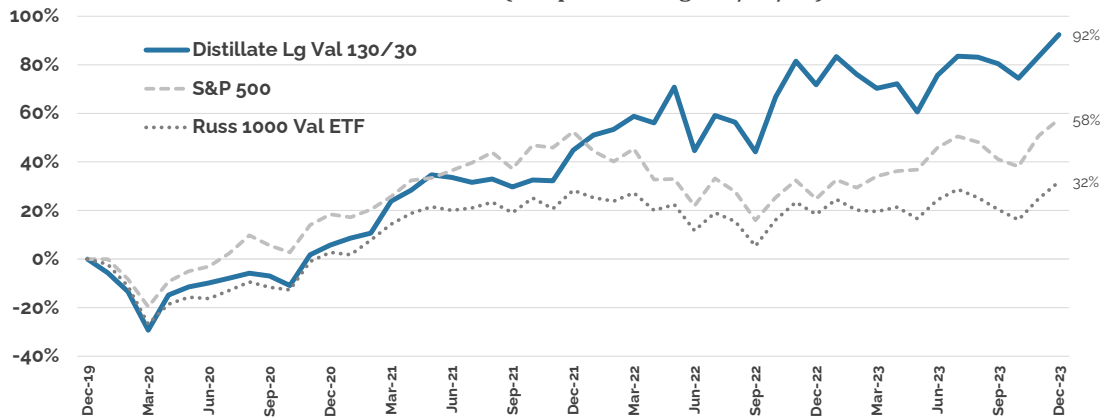
U.S. Large Cap Value 130/30 Composite Performance:

	YTD				As of December 31, 2023			
	2020	2021	2022	2023	1YR	3YR	5YR	Since Inception
Distillate Lg Value 130/30 (net)	5.81%	36.86%	18.59%	12.08%	12.08%	22.07%	n/a	17.79%
S&P 500	18.40%	28.71%	-18.11%	26.29%	26.29%	10.00%	15.69%	12.04%
iShares Russell 1000 Value ETF	2.73%	24.91%	-7.72%	11.31%	11.31%	8.66%	10.70%	7.15%



Source: U.S. Bank, Morningstar Data; Inception 12/31/2019. One cannot invest directly in an index. See performance disclosures.

Cumulative Return (Inception through 12/31/23)



Source: U.S. Bank, Morningstar Data; Inception 12/31/2019. One cannot invest directly in an index. See performance disclosures.

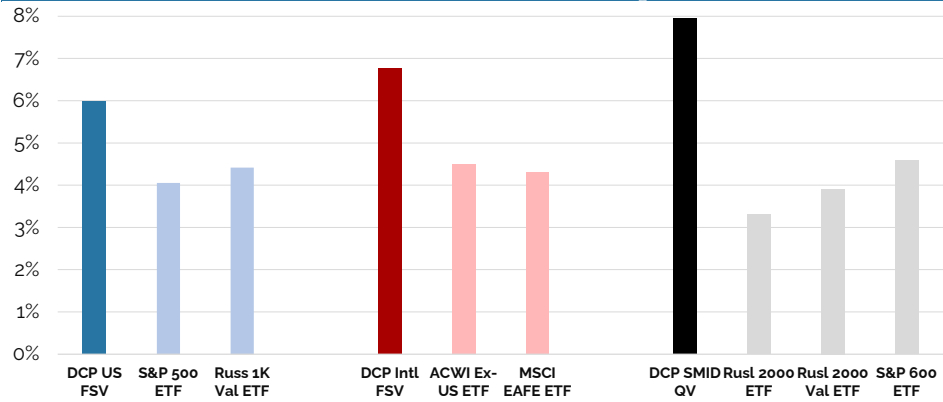
U.S. Value 130/30 Portfolio Characteristics*

	Long	Short	S&P 500
Free Cash Yield to Mkt Cap ¹	9.5%	0.5%	4.5%
Free Cash Yield to EV ¹	7.6%	0.5%	4.1%
P/E ²	11.3	23.9	19.3
Leverage ³	1.3	1.9	1.1
Fundamental Stability ⁴	0.58	0.57	0.69
Dividend Yield	2.6%	1.3%	1.6%

*as of 1/5/2023, see methodology endnotes.

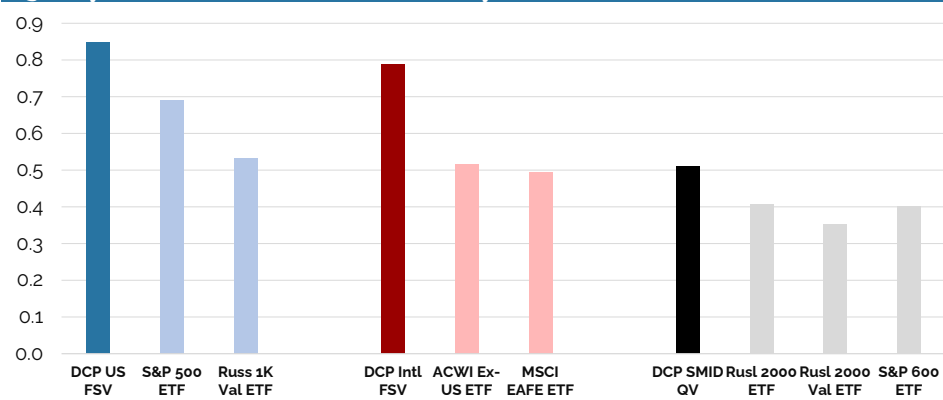
Past performance does not guarantee future results. See disclosures. Statistical data is sourced from FactSet.

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



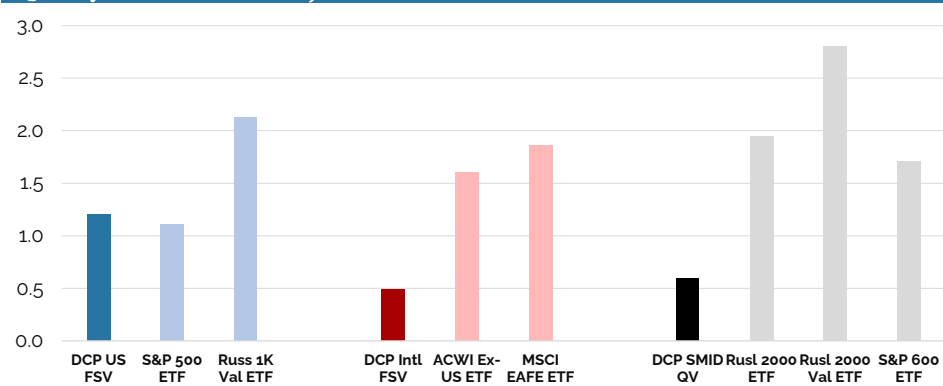
Source: FactSet. See end-notes for methodology. As of 1/5/2023

Quality: Distillate's Cash Flow Stability Score



Source: FactSet. See end-notes for methodology. As of 1/5/2024

Quality: Net Debt to Adjusted EBITDA



Source: FactSet. See end-notes for methodology. As of 1/5/2024

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®). 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; 0.79% for U.S. Large Cap Value 130/30; 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.

This material is provided for informational purposes only and is not intended as an offer or solicitation for the sale of any financial product or service or as a recommendation or determination by Distillate that any investment strategy is suitable for a specific investor. Investors should seek financial advice regarding the suitability of any investment strategy based on their objectives, financial situations, and particular needs. The investment strategies discussed herein may not be suitable for every investor. This material is not designed or intended to provide legal, investment, or other professional advice since such advice always requires consideration of individual circumstances. If legal, investment, or other professional assistance is needed, the services of an attorney or other professional should be sought. The opinions, estimates, and projections presented herein constitute the informed judgments of Distillate and are subject to change without notice. Any forecasts are subject to a number of assumptions and actual events or results may differ from underlying estimates or assumptions, which are subject to various risks and uncertainties.

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 **U.S. Large Cap Value 130/30** 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.

Methodology note for **Figures 5, 9, and 10**: free cash flow (FCF) 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).

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.

© Copyright 2024 Distillate Capital Partners LLC; published January 11, 2024