DISTILLATE CAPITAL

2024 Q1 Letter to Investors: The Magnificent 1?

Letter Summary

Last year's concentrated market gains among the "Magnificent 7" have diverged entering 2024, and you might now argue that the Mag-7 has become the "Magnificent 1", as staggering gains in NVIDIA have put the company nearly in a category of its own. NVIDIA's rise in market capitalization to nearly $2.5 trillion, from around $350 billion at the start of last year is stunning in an absolute sense, and large enough to have a meaningful impact on the overall market's apparent valuation levels. We will explore that issue and the stock within our framework and provide some historical comparisons. Away from NVIDIA and AI, we continue to find interesting valuation opportunities that meet our quality standards where we believe the risk/reward relationships are favorable for investors. Our large-cap U.S. FSV strategy's free cash flow yield of 6.6% on next-twelve-month consensus estimates is over 60% higher than the S&P 500's corresponding 4.1% yield, and this relative premium is the widest it has been in our strategy's history (See **Figure 1**). Our small/mid U.S. and international portfolios likewise offer very attractive combinations of valuation and quality with comparable free cash flow yields of 9.0% and 8.2%, respectively.

Performance Summary

U.S. Fundamental Stability & Value (U.S. FSV): In the face of a 2.6% headwind to relative performance from simply not owning NVIDIA, our large-cap U.S. FSV strategy (U.S. FSV) lagged the S&P 500 by 0.99% in the first quarter with a total return net of fees of 9.57% compared to the S&P 500's comparable 10.55%. The strategy outperformed the Russell 1000 Value ETF's total return of 8.94% by 0.63%. Annualized net of fee performance since inception in May 2017 is 2.49% ahead of the S&P 500 and 5.25% ahead of the Russell 1000 Value ETF.

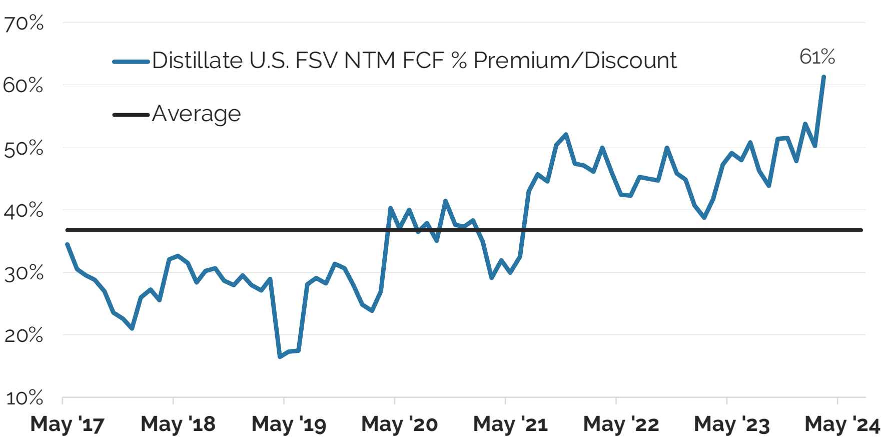
U.S. Small/Mid Cap Quality & Value (SMID QV): Our SMID QV strategy outperformed the Russell 2000 benchmark by 2.54% and the Russell 2000 Value benchmark by 4.86% in Q1 2024. Annualized excess net returns since inception in March 2019 are 9.77% and 9.83% ahead of those benchmarks.

International Fundamental Stability & Value (Intl. FSV): Our International FSV strategy returned 3.07% after fees in the first quarter of 2024 and trailed the MSCI All Country Ex US ETF benchmark gain of 4.65%. Annualized net of fee performance since inception in January 2019 is ahead of the benchmark by 0.52%.

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 13.94% net of fees in Q1 2024 vs. the S&P 500 Index comparable rise of 10.55%. It remains 5.75% ahead of the S&P 500 on an annualized net of fee basis and above the Russell 1000 Value ETF by 10.64% since inception in December 2019.

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

Figure 1: Distillate's U.S. FSV's Free Cash Yield Premium to that of the S&P 500



Source: FactSet

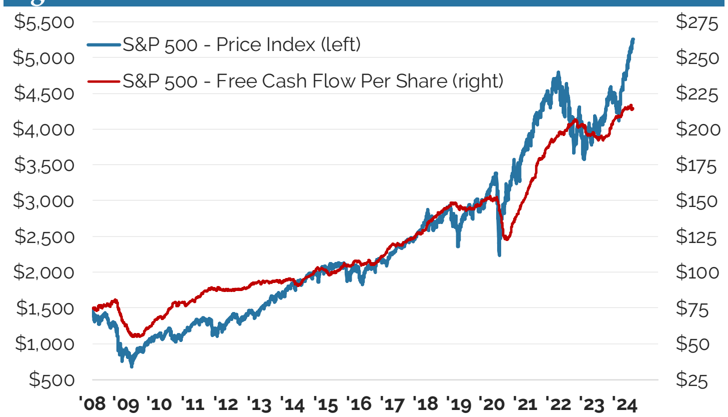
Past performance does not guarantee future results. One cannot invest directly in an index.

Market Commentary:

Strong gains for the S&P 500 Index continued into 2024 with a total return of 10.55% in the first quarter. Continuing with last year's trend, rising prices have steadily exceeded growth in underlying free cash flows (See **Figure 2**) such that the S&P 500 free cash flow yield has fallen from a recent high of 5.6% in October of 2022, to just 4.1% today. Crucially though, this overall yield is heavily influenced by very rich valuations among a select few stocks at the top of the market, and there are considerable opportunities among stocks that are not garnering the same share of investor attention as are NVIDIA and a few others.

Price increases for the S&P 500 continue to exceed free cash flow gains.

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

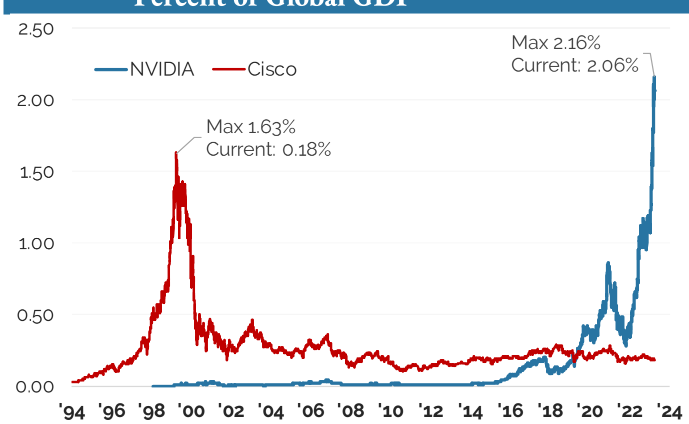


Source: FactSet, data as of 3/31/2024

As we hinted at earlier, NVIDIA has become an epic story in its own right, and is one of the key stocks pulling down the overall market free cash flow yield. To give some sense of perspective, NVIDIA's market cap is scaled to global GDP in **Figure 3**. Representing more than 2% of global GDP, NVIDIA's rise is evocative of Cisco's similar move around 25 years ago. And while only one simple measure and hardly a complete assessment, NVIDIA's current market cap versus global GDP is a third higher than was Cisco's at the peak of the TMT bubble.

NVDA's market cap, measured as a percentage of GDP, now exceeds that of CSCO at its peak.

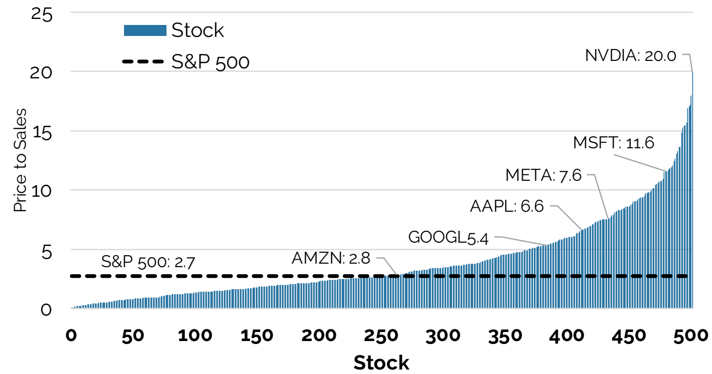
Figure 3: Cisco vs. NVIDIA Market Capitalization as a Percent of Global GDP



Source: FactSet, data as of 3/31/2024

NVDA ranks as the most expensive stock in the S&P 500.

Figure 4: S&P 500 Price to Sales (NTM) by Stock



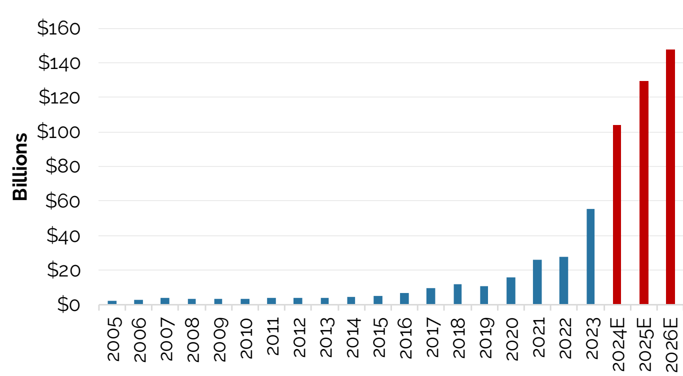
Source: FactSet, data as of 3/31/2024

Taking a deeper dive into valuation, NVIDIA's revenues and free cash flow generation tell a somewhat similar story. Cisco at its peak traded at 37.2x trailing twelve-month sales and 118x trailing free cash flows. NVIDIA is currently valued at a similar 37.1x trailing sales but a lower multiple of trailing free cash flows (83.6x). By comparison, the S&P 500 is currently valued around 2.7x sales and 27x trailing free cash flows. On a forward price to sales basis using consensus next-twelve-month estimates, NVIDIA trades at 20.0x vs. Cisco's peak of 24.2. For NVIDIA, this is more reasonable than the trailing 39x, but still makes it the most expensive stock in the S&P 500 on this metric and leaves it at more than 7x the market average (See **Figure 4**). On forward free cash flows, NVIDIA looks somewhat more reasonable at 40.6x free cash flows vs. the S&P 500's 24.4 (there is no comparable figure for Cisco as reliable forward free cash estimates were not available in 2000).

The growth NVIDIA is generating helps explain why investors would pay such a high price for the shares. By any measure NVIDIA's growth, experienced and expected, is extraordinary. **Figure 5** depicts the sales history along with analyst estimates for 2024 and beyond based on company guidance and commentary.

NVDA's sales and projected sales have grown rapidly.

Figure 5: NVDIA Calendar Year Sales & Estimates



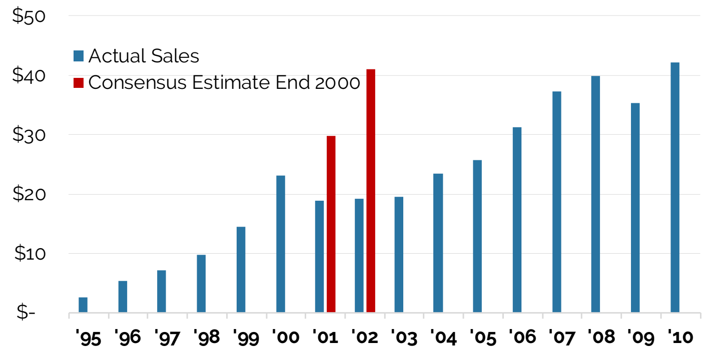
Source: FactSet, data as of 3/31/2024

Sales have risen sharply amid a frenzied surge in demand in their product set that not only enabled the company to sell significantly more graphics processing units, but also to sell them at very high prices. This pricing power is evident in profitability, with EBITDA margins rising from an average of around 33% between 2018 and 2022, to 55% in 2023, and further gains are projected, with expectations averaging to a 65% margin in 2024 and beyond.

A similar surge in demand and sales propelled Cisco to the levels it reached in 2000. This is evident in the sales growth prior to 2000 as well as from estimates in 2000 for expected sales in 2001 and 2002. However, when demand cooled for Cisco's products, estimates proved optimistic, and actual sales fell well short of expectations. This is evident in **Figure 6** which shows actual sales for Cisco and projected sales for 2001 and 2002 in the year 2000. At the same time that sales moderated, Cisco's valuation multiple compressed sharply, causing the market value of the stock to fall from $550 billion in 2000 to $70 billion at its low in 2002 (See **Figure 7**). Cisco has recovered in value since, but its valuation multiple has remained well anchored at a fraction of its previous peak.

Consensus estimates for Cisco in 2000 proved optimistic following rapid prior growth.

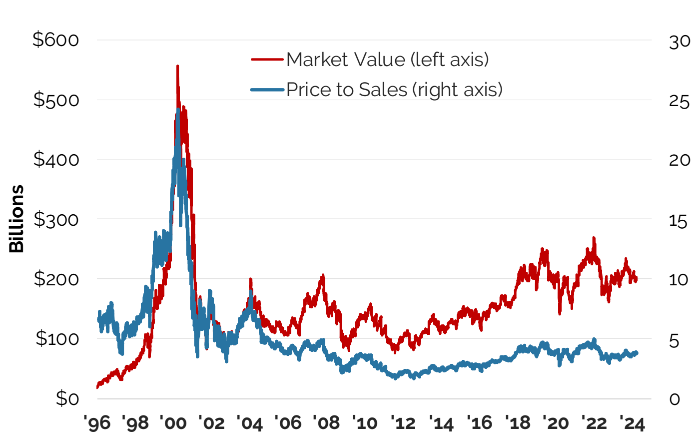
Figure 6: Cisco Actual Sales vs. Predicted in 2000



Source: FactSet, data as of 3/31/2024

Cisco's price to sales and market value both collapsed after 2000.

Figure 7: Cisco Price to Sales (NTM) vs. Market Cap



Source: FactSet, data as of 3/31/2024

We draw this comparison between Cisco and NVIDIA not to suggest that NVIDIA is destined to follow the same path, but to highlight the downside risk of lofty valuations should expectations not be met. NVIDIA certainly seems incredibly well positioned amid the current AI boom and may well sustain its value should it continue to achieve or exceed expectations.

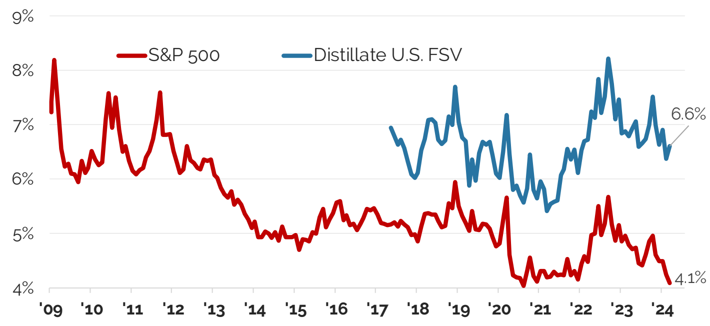
Our investment process emphasizes capital preservation and insulating our clients from downside risks as best we can—what Benjamin Graham referred to as "margin of safety." Should end demand for AI and the profitability of supplying those services not live up to current expectations, demand could moderate. High prices and profitability levels could also entice more competition that over time that could erode NVIDIA's competitive advantage or may encourage customers to find ways to become more productive and efficient, hence needing less NVIDIA product. If this were to happen, or were any other number of other unforeseen events to occur, there is substantial downside risk. Our process seeks to avoid these situations.

Much like prior sweeping structural changes, the market senses something big is afoot, and armed with the knowledge that structural change is always underestimated, players become more willing to pay to be involved, no matter the price. While we are optimistic about what AI will bring, we are not naive enough to think we have any idea exactly how it will play out and who the long-term winners will be. Investors who poured money into the Railway Mania of the 1840s were absolutely correct that trains would change the world, but lost vast amounts of money by overpaying for shares amid excess investment by the rail companies. Similarly, to paraphrase Warren Buffett, at the advent of the automobile in the early 1900s, since it would have been very difficult to predict Ford or GM as the ultimate long-term winners from among the 2,000 auto companies that failed or nearly did, the better bet would have been to short the horse. Likewise, in the tech boom of the late 1990s and early 2000, investors were right to predict that the internet would have profound changes to our world, but no one accurately anticipated that cell phones would become the key vehicle for that technology and that Apple Computer would ultimately dominate the space (the iPhone didn't debut until 2007). Even when a transformative technology comes along and is correctly identified as such, it can be difficult to accurately predict how it will play out and which companies will be long-term winners or losers. Or as Yogi Berra put it more succinctly, "it's difficult to make predictions—especially about the future."

Our investment process instead relies on what is knowable today—valuation. Rather than take on the downside risk where an unknowable future might disappoint lofty expectations embedded in rich prices, we prefer to own shares of companies where valuation and quality might limit downside and where discounted valuations leave plenty of room for upside surprises relative to what is implied in share prices. In this light, we would not have owned Cisco in 2000 at 118x trailing free cash flows, but are happy to own it today at 13.5x estimated forward free cash flows to enterprise value.

As the S&P 500's FCF yield is pulled lower by rich valuations among the biggest stocks, Distillate's U.S. FSV strategy is still finding attractive combinations of value and quality to maintain an attractive FCF yield.

Figure 8: Free Cash to Mkt Cap Yield (NTM) for Distillate's U.S. FSV vs. S&P 500



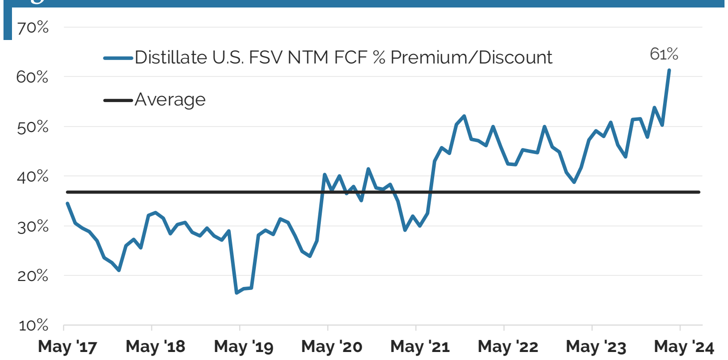
Source: FactSet

Should NVIDIA or any other of the mega-cap tech stocks (other than Alphabet which we do own) become attractively valued on current prices, we will gladly own the shares. As we noted at the beginning of this letter, there has been a healthy divergence in performance among the largest stocks, and the consequence is a greater range of valuations with some of the Mag-7 looking more reasonably valued after underperforming. While some of these stocks may eventually become cheap enough for us to own, there are a large number of other stocks that already fit our investment criteria and where valuations have become attractive.

Distillate's U.S. FSV strategy is consequently at a record valuation spread over the S&P 500. The current free cash flow to market cap yield on next-twelve-month consensus estimates of 6.6% substantially exceeds the 4.1% comparable yield for the S&P 500 (See **Figure 8**). This 2.5 percentage point gap is at a record level since we funded the strategy, both in absolute and relative terms, with the 6.6% yield representing a 61% premium to the S&P 500's valuation (See **Figure 9**). Notably, our strategy achieves this valuation advantage while also investing in a portfolio of stocks that have low levels of debt and more stable cash generation than the broader market average.

Distillate's U.S. FSV strategy's free cash yield is at a record premium over the S&P 500.

Figure 9: Distillate's U.S. FSV's Free Cash Yield Premium



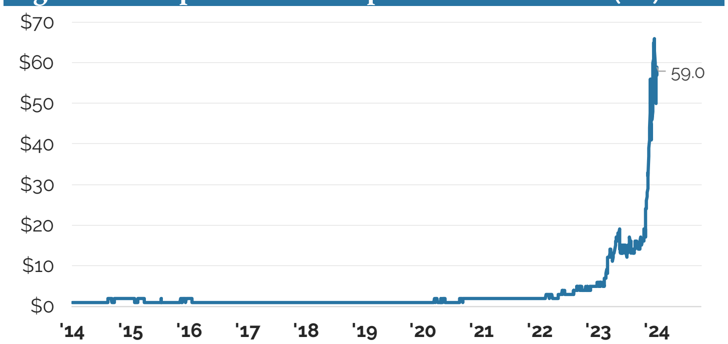
Source: FactSet

Small/Mid

Some of the same dynamics of AI and NVIDIA in the large cap space are also playing out among smaller U.S. stocks. Super Micro Computer is benefitting from similar exposure and has increased in market value from $4.4 billion at the start of 2023 to almost $60 billion now (See **Figure 10**.) The valuation compares to estimated free cash flow generation in 2024 of $300 million. The stock has contributed 1.4% to the Russell 2000's 2.6% year-to-date gain and was recently added to the S&P 500. Not to be outdone, MicroStrategy has also surged recently largely as a bitcoin beneficiary. The company owns 214k bitcoin worth $14 billion and has been issuing debt to purchase more. The company redeployed all of the proceeds from a $592 million convertible debt issue at the end of March into additional bitcoin purchases. The strategy is so far being richly rewarded with the stock's market cap now at $26 billion, up from $1.3 billion at the start of 2023.

Super Micro Computer has surged in the small cap space for similar reasons to NVDA.

Figure 10: Super Micro Computer Market Value ($B)



Source: FactSet, data as of 3/31/2024

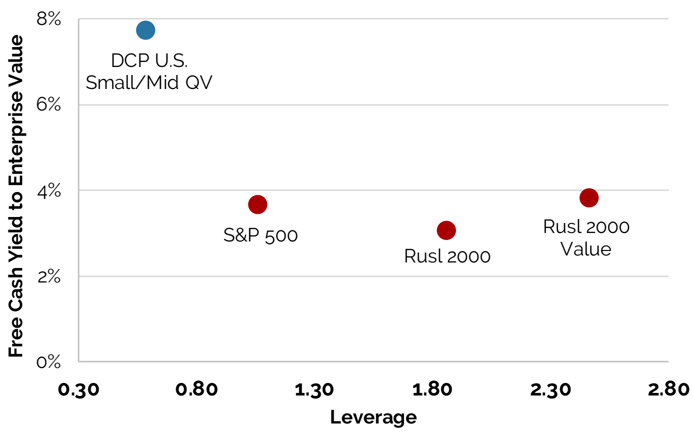
As we avoid these types of situations in large cap, so do we in smaller companies, but more important in our estimation is navigating two other systemic risks we see at play. First, we have discussed on several occasions that there is substantially more leverage among smaller companies than larger firms and how this is a critical risk for many companies that will have to replace less expensive debt with more expensive financing in the coming years. Second, there is an enormous number of unprofitable companies in the smaller section of the U.S. equity market, with 15% of the Russell 2000 by weight not expected to generate positive next-twelve-month free cash flows. This lack of profitability is also distorting traditional measures like price-to-earnings ratios that exclude negative earning companies and so flatter market averages that include such companies.

We worry that investors who are invested in smaller stocks only through the broad benchmarks are exposed to each of these key risks—owning richly valued companies; highly leveraged situations facing rising borrowing costs that are not well telegraphed; and many unprofitable businesses. In our strategy, we seek to avoid each of these issues and compile a next-twelve-month free cash flow to market cap yield of 9.0% versus the Russell 2000's comparable yield of just 4.1%. The difference is substantial.

When debt is included in valuation, which is critical in assessing smaller stocks at present, and free cash flow (FCF) is measured relative to enterprise value (EV), the gap between Distillate's Smid QV strategy and the smaller stock benchmarks is even more stark. The FCF/EV for Distillate's Smid QV strategy is 7.7% while that of the Russell 2000 is 3.1% and the Russell 2000 Value's is 3.8%. This FCF/EV valuation metric that includes negative earning companies and incorporates leverage also paints a very different picture of the attractiveness of small cap stocks in aggregate. But as is highlighted in the metrics for Distillate's strategy, if the expensive, unprofitable, and highly leveraged stocks are avoided, there are outstanding opportunities to be had. **Figure 11** plots the FCF/EV valuation on the vertical axis and leverage on the horizontal axis and contrasts Distillate's SMID QV strategy with its small cap benchmarks as well as the S&P 500.

Small stocks in aggregate do not look especially attractive vs. large stocks when leverage and negative earning stocks are included,, but Distillate's Smid QV strategy does.

Figure 11: Free Cash to EV vs. Leverage for Distillate's SMID QV strategy vs. Various Benchmarks



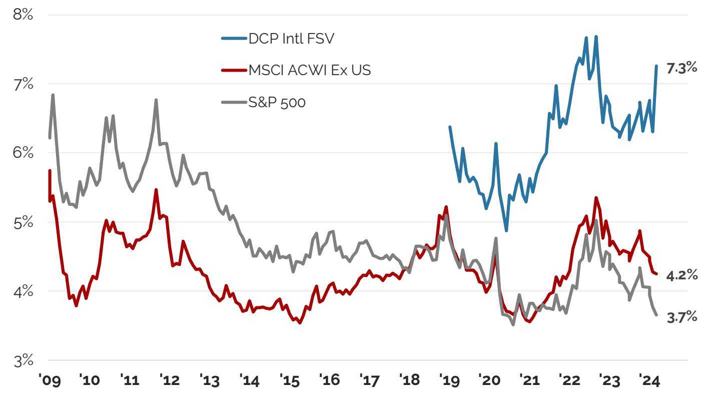
At the end of the first quarter, our Small/Mid QV strategy achieved the milestone of a five-year track record. We will send out a specific packet examining its track record, as we did when our large-cap U.S. strategy hit the same signpost, but the quick highlight is that annualized performance after fees since inception is 9.77% ahead of the Russell 2000 benchmark and 9.83% above that of the Russell 2000 Value. The upside capture vs. the Russell 2000 of 128.2% compares favorably with the downside capture of 96.8%. These are obviously results we are pleased with, but more importantly we are optimistic that the strategy's current relative valuation and quality measures bode well for continued performance differentiation going forward.

International

With NVIDIA and all things AI the center of investor focus, we believe international opportunities are also being overlooked. Around 15 years ago in the wake of the financial crisis and following a period of international outperformance, sentiment favored foreign stocks despite that they were more expensive with a lower free cash flow yield than domestic indexes (See **Figure 12**). Versus domestic peers, international stocks also had more leverage, less fundamental stability, and lower expected growth, which made domestic equities seem the more attractive opportunity at the time. But now, after an extended period of underperformance, international stocks (proxied by the MSCI ACWI-Ex U.S. index) offer a better starting valuation than their domestic counterparts, as is evident again in **Figure 12**. Leverage is still higher abroad and fundamental stability lower and so foreign stocks broadly look less appealing on these risk metrics, but with selectivity these risks can be mitigated. Our International Fundamental Stability & Value strategy attempts to do this by selecting stocks with low leverage, more consistent cash flow generation, and better valuations. While the valuation can be somewhat volatile, we are encouraged by the differentiated 7.3% FCF/EV yield vs. the benchmark's 4.2%, especially given the strategy's substantially lower debt and significantly greater cash flow stability.

International stocks are at long last cheaper than domestic ones and Distillate's International strategy offers an even better FCF/EV yield.

Figure 12: Free Cash to EV Yield for Distillate's INTL FSV strategy vs. ACWI-Ex U.S. and S&P 500



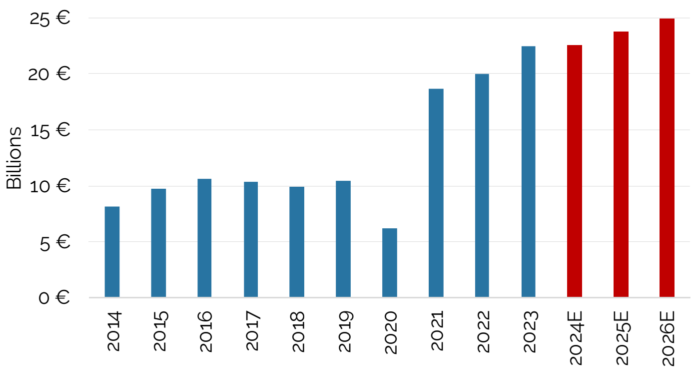
Source: FactSet

We typically do not highlight individual holdings, but Stellantis, the parent company of Chrysler, Dodge, Fiat, Jeep, Maserati, Peugeot, and Ram was the largest new purchase in the international strategy in the quarter, and offers a good example of how the strategy is constructed and what kinds of opportunities are available abroad. The company has a market value of around €80 billion with roughly €20 billion of net cash. It is projected to earn around €11 billion of free cash flow in each of the next three years, which amounts to over 40% of the market capitalization and 50% of the enterprise value. The company has already committed to returning €7.7 billion, or around 12.5% of enterprise value, to shareholders in 2024 through a €3 billion share repurchase and €4.7 billion in dividends — a very large return of capital indeed.

Stellantis has a somewhat lower level of cash flow stability, but this has improved enough recently (see **Figure 13**) that it now passes the threshold for inclusion in our strategy and is well above the stability level of the average international stock. While lacking the appeal of AI, the stock does have a large net cash position, produces relatively stable cash flows, and is priced at a valuation at which it will earn back its entire enterprise value in just six years. The margin of safety consequently looks very appealing with a favorable skew to the upside given the inexpensive valuation.

Stellantis has improved its cash flow consistency recently.

Figure 13: Stellantis Cash Flow From Operations



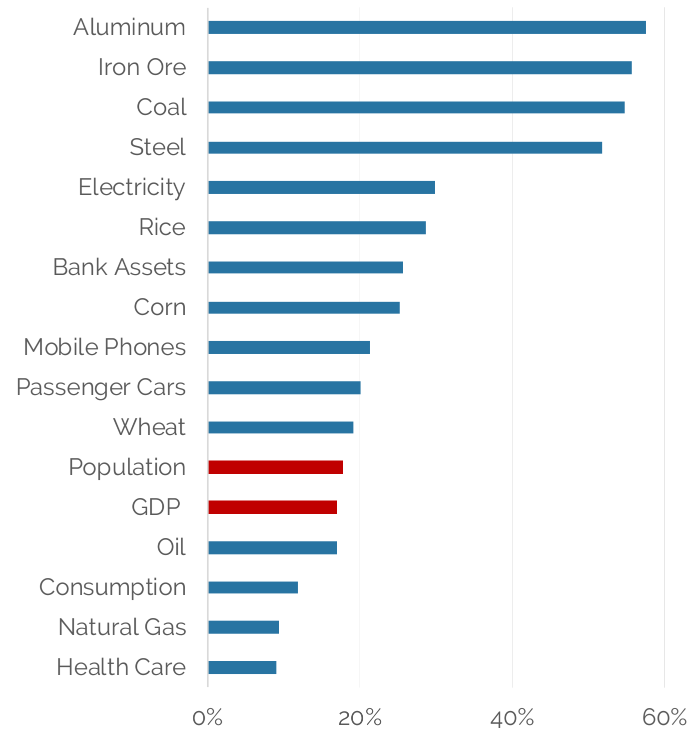
Source: FactSet, data as of 3/31/2024

Turning to geographic weights, our current positioning fairly well matches the underlying geographic weights of the ACWI-Ex U.S. benchmark. Said differently, our relative valuation advantage is not achieved by leaning into any one country or region offering opportunities. Distillate's strategy and the benchmark weight in Europe are both around 43%, and Distillate's Japan weight of 17% is slightly ahead of the ACWI-Ex U.S. weight of 16%, though less than it was before the recent rebalance which resulted in a reduction in weight given strong recent performance. The weight of emerging markets in Distillate's strategy of 30% is also in line with the benchmark weight of 29%. As a reminder, geographic weights are determined by bottom-up stock selection per the strategy's parameters, but are limited to 150% of the benchmark weight to avoid outsized currency or other country specific influences.

Distillate's international strategy does own several Chinese stocks, but through Hong Kong shares rather than U.S. ADR listings given the Variable Interest Entity (VIE) ownership issues. With regards to China, the strategy has a slight overweight at 9% vs. 8% for the benchmark. Importantly, however, our exposure does not include the highly levered state-owned enterprises (SOEs), banks, developers, or construction related stocks that are at the epicenter of current woes. The Chinese economy is highly distorted with massive levels of construction skewing its world share of demand for things like aluminum, iron ore, steel and electricity. Conversely, China has a very low relative level of household consumption and health care expenditures compared to global peers. **Figure 14** highlights these differences in China's share of the world total for various categories.

China overconsumes construction related and banking goods relative to its share of world GDP and population and under-consumes health care, household spending and other areas.

Figure 14: China Share of World Total by Category



Source: BP Global, FactSEt, IMF, International Organization of Vehicle Manufacturers, Statista, U.S. Department of Energy, USDA, World Bank, World Steel Association

Our exposures in China lean into these trends with holdings like Alibaba and JD.com in the retail sector, Li Auto in the auto segment, and Baidu and Kuaishou Technology in the tech sector. Though the trends are more favorable for these names, crucially, the valuations for many of these stocks are extremely depressed as they have been swept up in the broader concern, giving us attractive entry points. Alibaba, for example, has a market cap of around $180 billion and cash net of debt of roughly $70 billion. It is projected to generate free cash flow of around $22 to $24 billion per year in each of the next three years, or roughly 40% of its market capitalization. JD.com is similarly valued with a market cap of around $43 billion with net cash of $21 billion. It is forecast to produce free cash flows of $4 to $6 billion per year for the next three years which sums to roughly $16 billion, or 40% of its market capitalization. While there are clearly strains in the Chinese economy and other valid concerns, these are notably inexpensive valuations for companies that have large net cash positions, stable cash flow generation, and are exposed to the segments of the Chinese economy that will likely grow in relative terms in the coming years. The risk/reward profiles for these stocks consequently look very attractive.

A Final Word

We do not pretend to know what will happen with any individual stock. NVIDIA could well continue to ascend to new heights and dominate the AI landscape for years to come such that it continues to favorably surprise the expectations that have pushed the stock to current valuations. The same could be true of Super Micro Computer or MicroStrategy. Stellantis, Alibaba, and JD.com could also disappoint and underperform going forward. Our strategy aims to tip the odds in the favor of our clients. If expectations for our holdings do disappoint, low debt levels, consistent cash generation, and cheap valuations should help cushion the downside. In the same light, stocks such as NVIDIA or Super Micro Computer look especially risky as rich valuations demand that results well into the future surpass current not-shy expectations, with the potential for substantial downside if they do not. For us, it is this upside to downside skew that is so critical, as capital protection is paramount to generating good long-term returns.

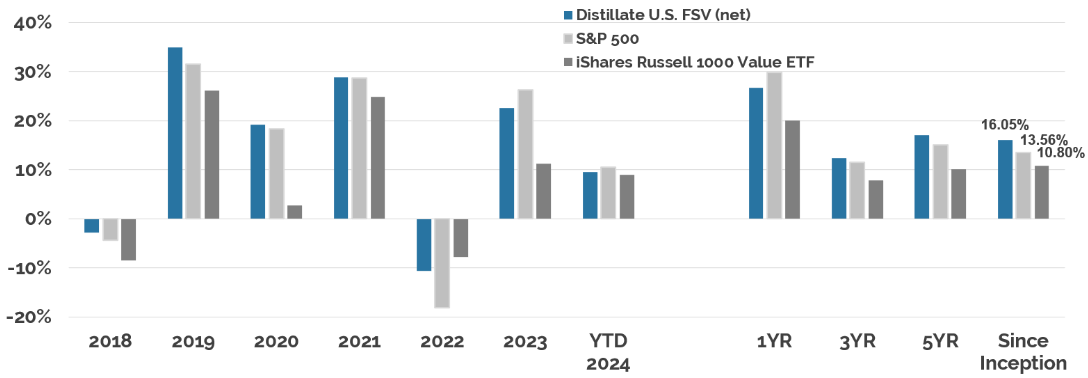
We've written this before, but in our collective careers that date back to the 1980s, we've yet to see a "normal" market. Just the seven years since we started Distillate Capital have seen market gyrations relating to a taper tantrum, a government shutdown, the pandemic, meme stocks, AI, inflation fears, trade wars, and actual wars in Europe and the Middle East. The underlying causes of what can propel or perturb market sentiment are varied and unpredictable, but greed and fear and their effect on prices is enduring. Fortunately, these immutable forces also continually create opportunities to invest in attractive stocks that for various reasons are being overlooked or cast aside. When such stocks with favorable upside/downside skews are then aggregated into a larger portfolio, there is an even greater benefit. It is precisely with this dynamic in mind that our portfolio construction and strategy will remain steadfast, and why regardless of circumstance we will invest in companies with consistent cash flow generation, low leverage, and attractive free cash flow valuations.

Performance & Rebalance Appendix

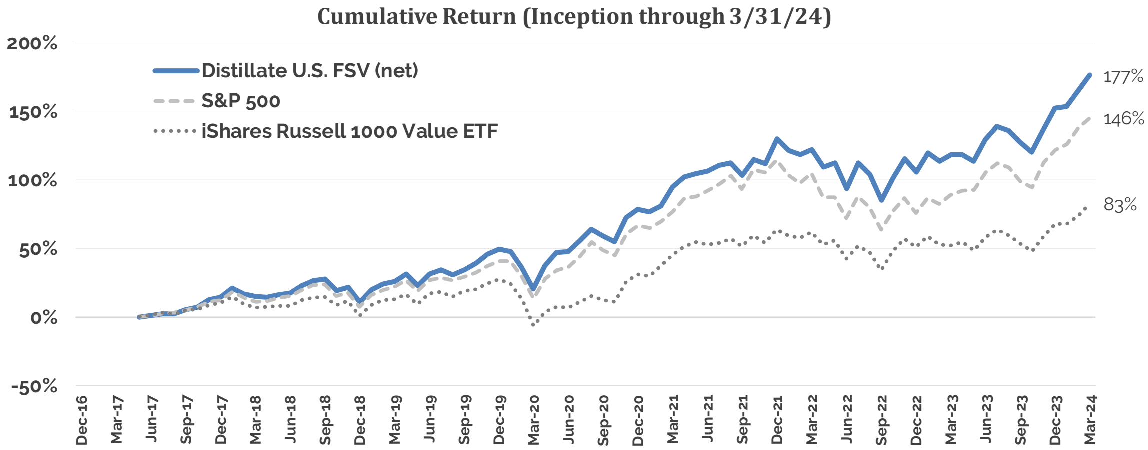
U.S. Fundamental Stability & Value Composite Performance:

As of March 31, 2024

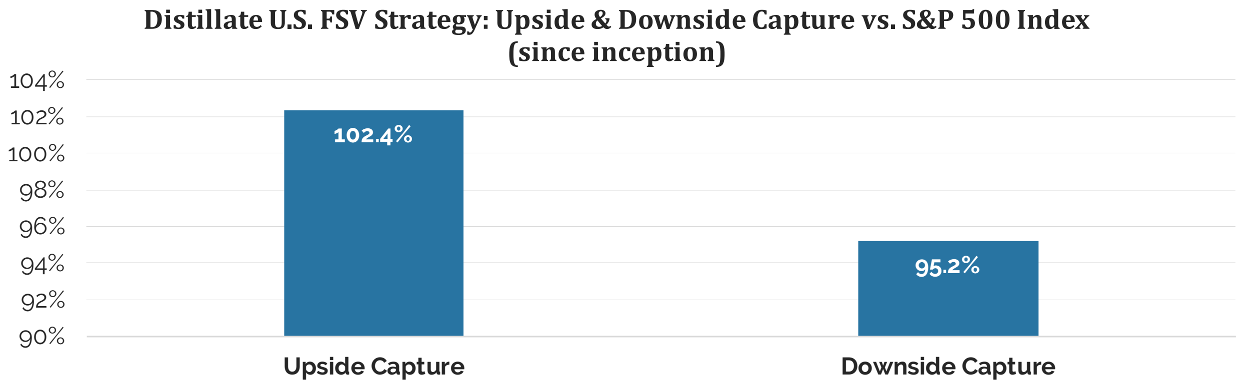
	2017*	2018	2019	2020	2021	2022	2023	YTD 2024	1YR	3YR	5YR	Since Inception
Distillate U.S. FSV (net)	14.18%	-2.79%	34.91%	19.22%	28.91%	-10.58%	22.67%	9.57%	26.75%	12.37%	17.08%	16.05%
S&P 500	12.11%	-4.39%	31.49%	18.40%	28.71%	-18.11%	26.29%	10.55%	29.88%	11.49%	15.05%	13.56%
iShares Russell 1000 Value ETF	10.27%	-8.41%	26.13%	2.73%	24.91%	-7.72%	11.31%	8.94%	20.09%	7.89%	10.13%	10.80%



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



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



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 2024 YTD Impact to Relative Returns (vs. S&P 500)

Top Contributors	Impact	Largest Detractors	Impact
Williams-Sonoma, Inc.	0.4%	Humana Inc.	-0.3%
Dick's Sporting Goods, Inc.	0.3%	UnitedHealth Group Incorporated	-0.2%
Applied Materials, Inc.	0.2%	Dropbox, Inc. Class A	-0.2%
Diamondback Energy, Inc.	0.2%	Etsy, Inc.	-0.2%
Toll Brothers, Inc.	0.1%	Robert Half Inc.	-0.1%

Rebalance Summary:

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

Largest Purchases	Weight	Largest Sales	Weight	Largest Sector Changes
Booking Holdings Inc.	1.3%	Broadcom Inc.	-2.3%	Health Care (+5.1%)
Honeywell International Inc.	1.2%	Visa Inc. Class A	-2.1%	Tech (-3.8%)
Enterprise Products Partners	1.1%	Home Depot, Inc.	-1.9%	Staples (-2.6%)

Largest Adds	Weight	Previous	Largest Trims	Weight	Previous
UnitedHealth Group Inc	3.0%	2.3%	Dick's Sporting Goods, Inc.	0.8%	1.1%
Johnson & Johnson	2.5%	1.9%	Williams-Sonoma, Inc.	0.8%	1.1%
T-Mobile US, Inc.	2.0%	1.5%	PACCAR Inc	1.0%	1.1%

Rebalance Calculation Date: **3/22/2024**

U.S. FSV Portfolio Characteristics*

	U.S. FSV	S&P 500	Russell 1000 Val ETF
Free Cash Yield to Mkt Cap[1]	6.6%	4.1%	5.0%
Free Cash Yield to EV[1]	5.7%	3.7%	4.1%
P/E[2]	15.2	21.0	16.2
Leverage[3]	1.1	1.1	2.0
Cash Flow Stability[4]	0.84	0.70	0.55
Dividend Yield	1.9%	1.4%	2.2%

*as of 3/31/2024, see methodology endnotes.

U.S. FSV Portfolio Sector Weights

	U.S. FSV	S&P 500
Communication Services	7.4%	9.0%
Consumer Discretionary	12.0%	10.3%
Ex AMZN & TSLA	*12.0%*	*5.5%*
Consumer Staples	6.3%	6.0%
Energy	4.7%	4.0%
Financials	8.3%	13.2%
Ex Banks	*8.3%*	*9.0%*
Health Care	24.2%	12.4%
Industrials	19.9%	8.8%
Information Technology	13.2%	29.5%
Ex Apple & Microsoft	*13.2%*	*11.6%*
Materials	3.9%	2.4%
Real Estate	0.0%	2.3%
Utilities	0.0%	2.2%

*as of 3/31/2024

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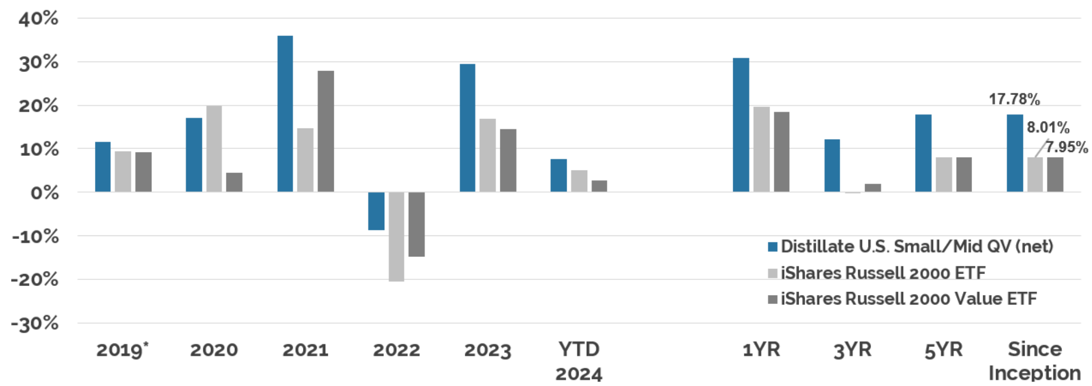
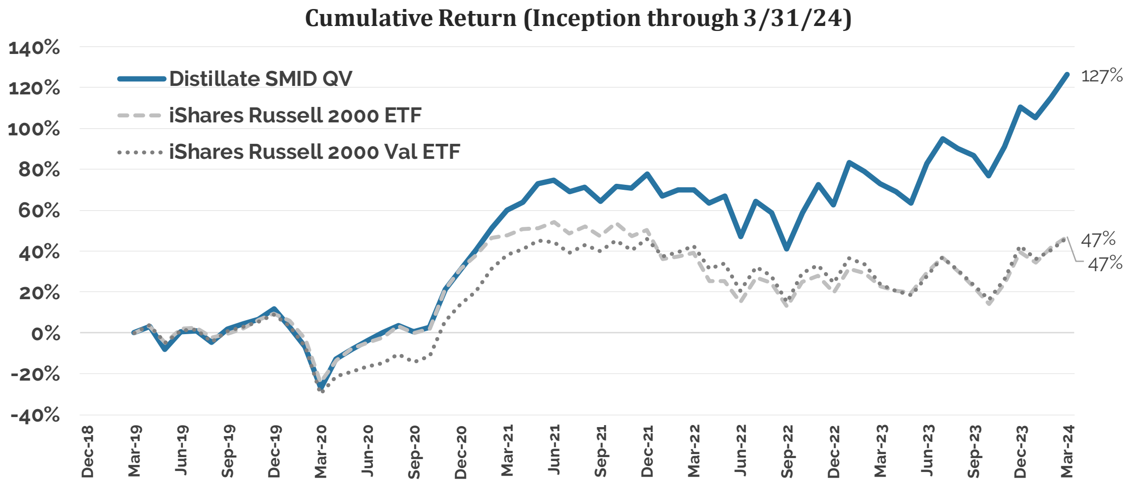
U.S. Small/Mid Cap Quality & Value Composite Performance:

As of March 31, 2024

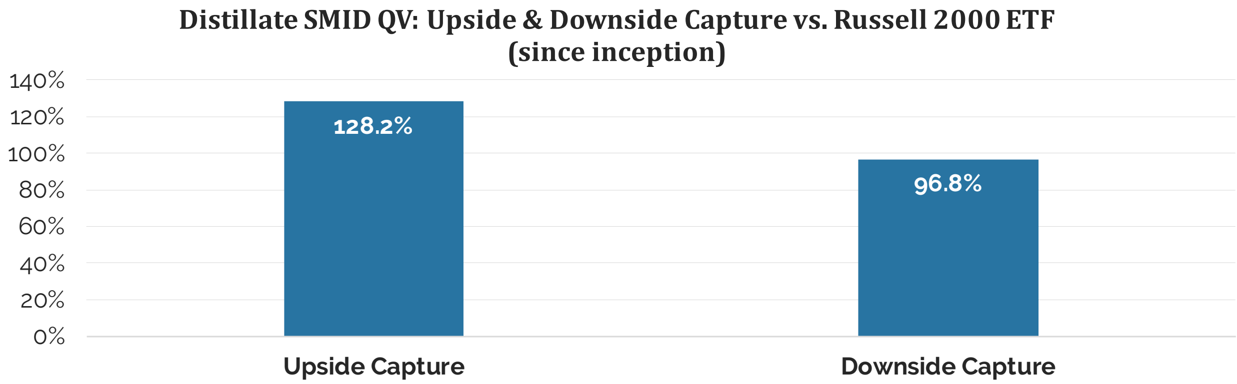
	2019*	2020	2021	2022	2023	YTD 2024	1YR	3YR	5YR	Since Inception
Distillate U.S. Small/Mid QV (net)	11.65%	17.15%	36.03%	-8.64%	29.46%	7.68%	30.83%	12.24%	17.78%	17.78%
iShares Russell 2000 ETF	9.49%	19.91%	14.64%	-20.49%	16.81%	5.14%	19.53%	-0.21%	8.01%	8.01%
iShares Russell 2000 Value ETF	9.18%	4.50%	27.96%	-14.67%	14.43%	2.82%	18.36%	1.99%	7.95%	7.95%



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



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



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 2024 YTD Impact to Relative Returns (vs. Russ 2000 ETF)

Top Contributors	Impact	Largest Detractors	Impact
Williams-Sonoma, Inc.	0.8%	Forward Air Corporation	-0.2%
Dick's Sporting Goods, Inc.	0.8%	Medifast, Inc.	-0.2%
Advance Auto Parts, Inc.	0.3%	eXp World Holdings, Inc.	-0.2%
Acuity Brands, Inc.	0.2%	EchoStar Corporation Class A	-0.1%
Eagle Materials Inc.	0.2%	AMN Healthcare Services, Inc.	-0.1%

Rebalance Summary:

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

Largest Purchases	Weight	Largest Sales	Weight
Snap-on Incorporated	1.5%	Best Buy Co., Inc.	-1.4%
Skyworks Solutions, Inc.	1.5%	J.M. Smucker Company	-1.4%
Jones Lang LaSalle Inc	1.0%	WEX Inc.	-1.2%

Largest Adds	Weight	Previous	Largest Trims	Weight	Previous
Forward Air Corporation	0.5%	0.3%	Williams-Sonoma, Inc.	1.5%	2.4%
Chemours Co.	0.5%	0.3%	Alpha Metallurgical Res	1.5%	2.4%
Landstar System, Inc.	1.0%	0.8%	Dick's Sporting Goods, Inc.	1.5%	2.3%

Rebalance Calculation Date: **3/1/2024**

U.S. SMID QV Portfolio Characteristics*

	SMID QV	Russell 2000 ETF	Russell 2000 Value ETF
Free Cash Yield to Mkt Cap[1]	9.0%	4.1%	5.2%
Free Cash Yield to EV[1]	7.7%	3.1%	3.8%
P/E[2]	11.6	15.2	12.5
Leverage[3]	0.6	1.9	2.5
Fundamental Stability[4]	0.51	0.41	0.37
Negative FCF Weight[5]	0.0%	14.5%	15.0%

*as of 3/31/2024, see methodology endnotes.

U.S. SMID QV Portfolio Sector Weights

	SMID QV	Russell 2000 ETF	Russell 2000 Value ETF
Communication Services	3.1%	2.1%	2.3%
Consumer Discretionary	25.6%	10.8%	11.0%
Consumer Staples	2.7%	3.3%	2.2%
Energy	16.0%	7.2%	9.9%
Financials	4.7%	15.8%	25.7%
Health Care	6.6%	15.3%	9.3%
Industrials	19.7%	17.6%	14.9%
Information Technology	10.4%	14.9%	5.9%
Materials	10.0%	4.5%	5.0%
Real Estate	1.3%	5.6%	9.7%
Utilities	0.0%	2.5%	3.7%
Not Classified	0.0%	0.3%	0.3%

*as of 3/31/2024

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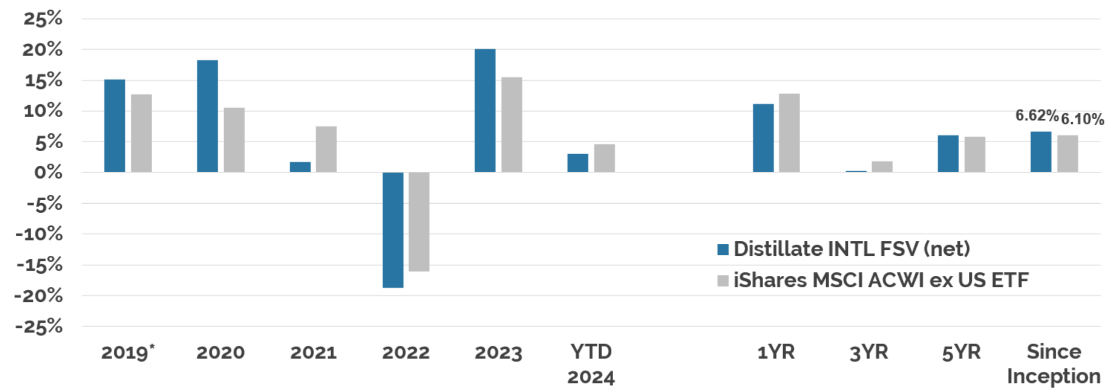
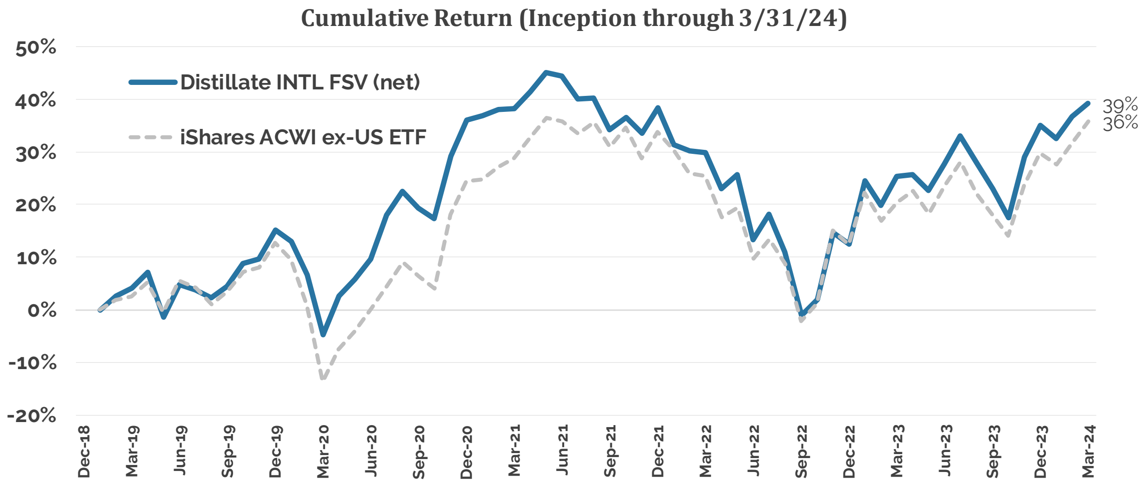
International Fundamental Stability & Value Composite Performance:

As of March 31, 2024

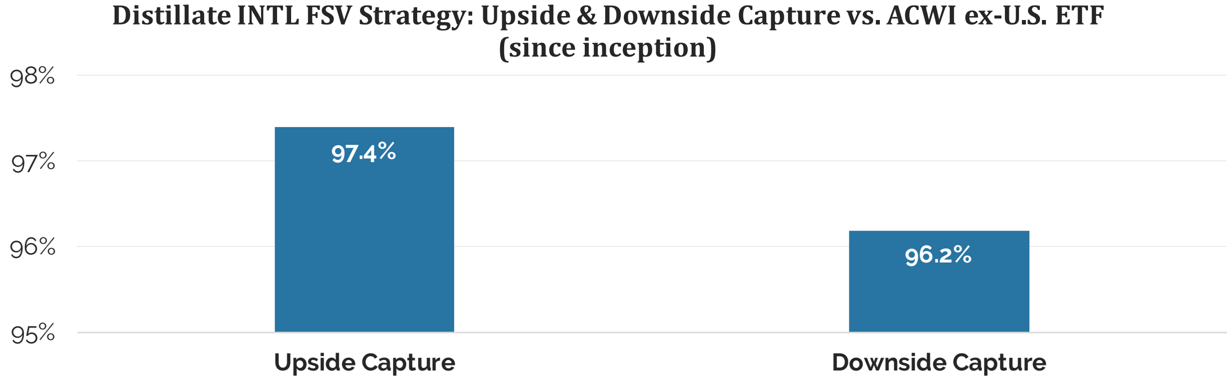
	2019*	2020	2021	2022	2023	YTD 2024	1YR	3YR	5YR	Since Inception
Distillate INTL FSV (net)	15.08%	18.26%	1.67%	-18.68%	20.10%	3.07%	11.19%	0.26%	6.01%	6.62%
iShares MSCI ACWI ex US ETF	12.67%	10.48%	7.48%	-16.01%	15.47%	4.65%	12.78%	1.77%	5.79%	6.10%



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.



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 2024 YTD Impact to Rel Returns (vs. ACWI Ex U.S.)

Top Contributors	Impact	Largest Detractors	Impact
Taiwan Semiconductor Manuf	0.8%	PDD Holdings Inc. ADR	-0.4%
Niterra Co.,Ltd.	0.3%	Petroleo Brasileiro SA ADR	-0.4%
UCB S.A.	0.3%	Roche Holding Ltd ADR	-0.4%
DENSO CORPORATION	0.2%	BayCurrent Consulting, Inc.	-0.3%
Safran SA	0.2%	Alibaba Group Holding Limited	-0.3%

Rebalance Summary:

INTL FSV Strategy: Portfolio Changes During Recent Quarterly Rebalancing

Largest Purchases	Weight		Largest Sales	Weight	
Stellantis N.V.	2.1%		LVMH Moet Hennessy	-3.1%	
Siemens Aktiengesellschaft	1.9%		PDD Holdings Inc	-1.6%	
SK hynix Inc.	1.7%		Schneider Electric SE	-1.5%	
Largest Adds	**Weight**	**Previous**	**Largest Trims**	**Weight**	**Previous**
Teleperformance SE	0.9%	0.4%	Taiwan Semiconductor Manuf	2.0%	3.8%
PT Astra International Tbk	0.9%	0.5%	Pandora A/S	0.8%	1.2%
JD Sports Fashion Plc	0.8%	0.4%	ASE Technology Holding Co	0.8%	1.2%
Rebalance Calculation Date:	**3/22/2024**				

INTL FSV Portfolio Characteristics*

	INTL FSV	ACWI Ex U.S. ETF
Free Cash Yield to Mkt Cap[1]	8.2%	5.1%
Free Cash Yield to EV[1]	7.3%	4.2%
P/E[2]	11.9	13.5
Leverage[3]	0.5	1.4
Cash Flow Stability[4]	0.76	0.53
Dividend Yield	3.3%	3.2%

*as of 3/31/2024, see methodology endnotes.

INTL FSV Portfolio Region Weights

Region	INTL FSV	ACWI Ex U.S. ETF
Europe	42.9%	43.6%
Japan	16.5%	14.7%
Asia Ex China & Japan	15.5%	20.3%
China & Hong Kong	9.5%	7.9%
Americas	14.9%	10.2%
Middle East & Africa	0.7%	3.4%

*as of 3/31/2024

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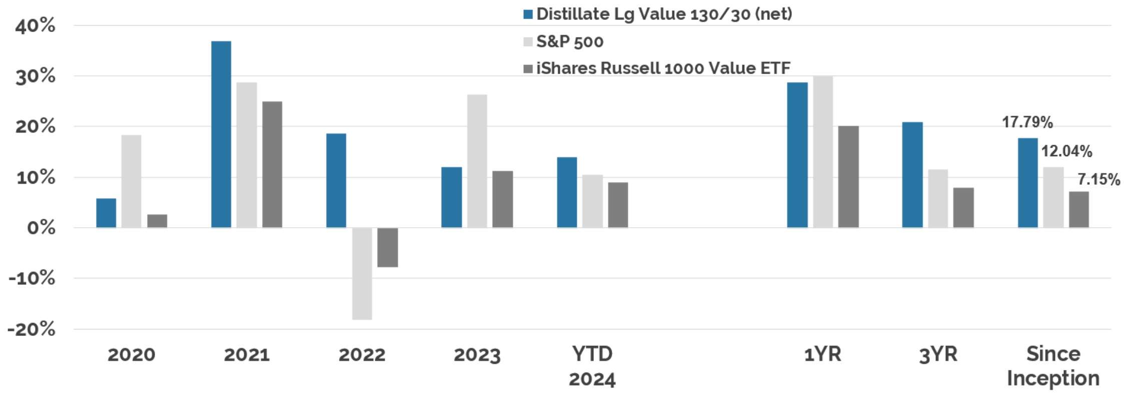
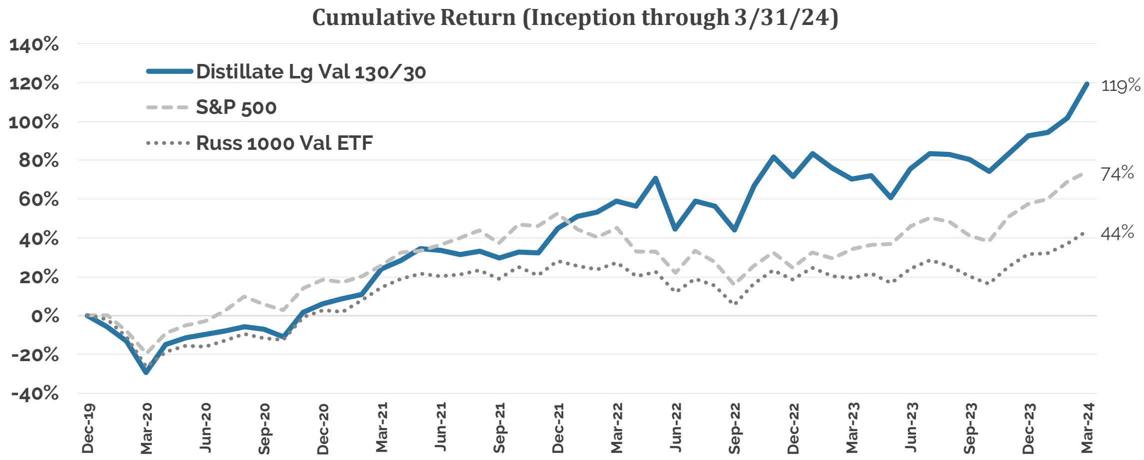
U.S. Large Cap Value 130/30 Composite Performance:

As of March 31, 2024

	2020	2021	2022	2023	YTD 2024	1YR	3YR	5YR	Since Inception
Distillate Lg Value 130/30 (net)	5.81%	36.86%	18.59%	12.08%	13.94%	28.74%	20.97%	n/a	17.79%
S&P 500	18.40%	28.71%	-18.11%	26.29%	10.55%	29.88%	11.49%	15.69%	12.04%
iShares Russell 1000 Value ETF	2.73%	24.91%	-7.72%	11.31%	8.94%	20.09%	7.89%	10.70%	7.15%



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



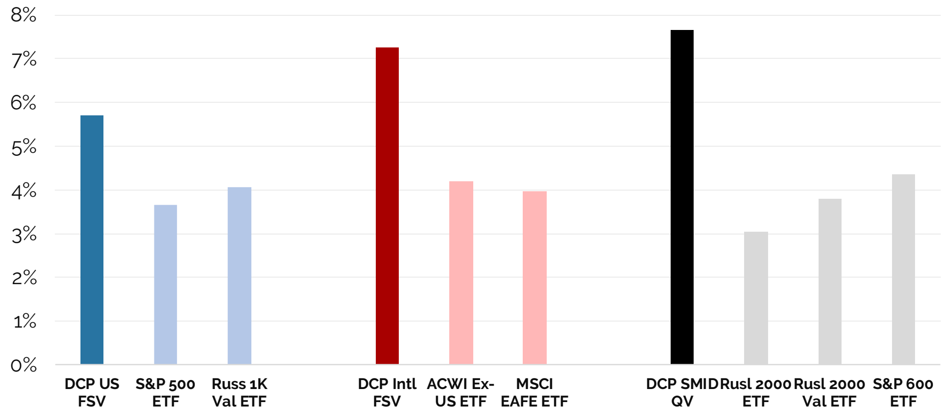
Source: U.S. Bank, Morningstar Data; Inception 12/31/2019. One cannot invest directly in an index. See performance disclosures.

U.S. Value 130/30 Portfolio Characteristics*	Long	Short	S&P 500
Free Cash Yield to Mkt Cap[1]	8.6%	0.4%	4.1%
Free Cash Yield to EV[1]	6.9%	0.6%	3.7%
P/E[2]	12.0	23.7	21.0
Leverage[3]	1.3	1.8	1.1
Fundamental Stability[4]	0.53	0.58	0.70
Dividend Yield	2.5%	1.4%	1.4%

*as of 3/31/24, see methodology endnotes.

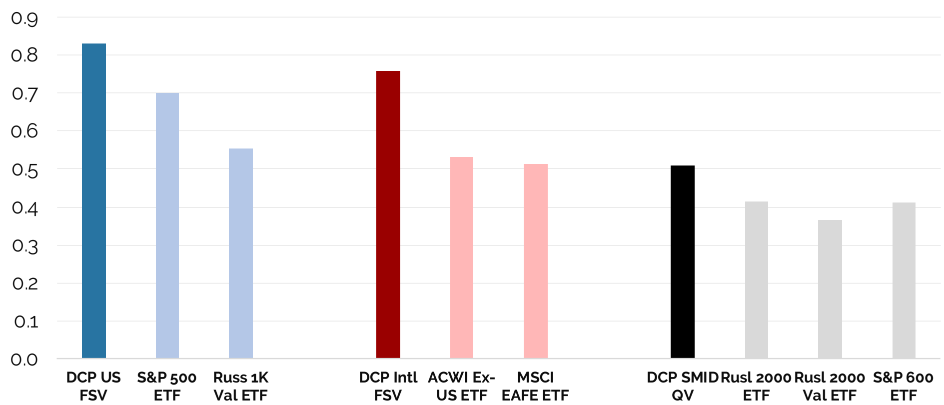
Past performance does not guarantee future results. See disclosures. Statistical data is sourced from FactSet.

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



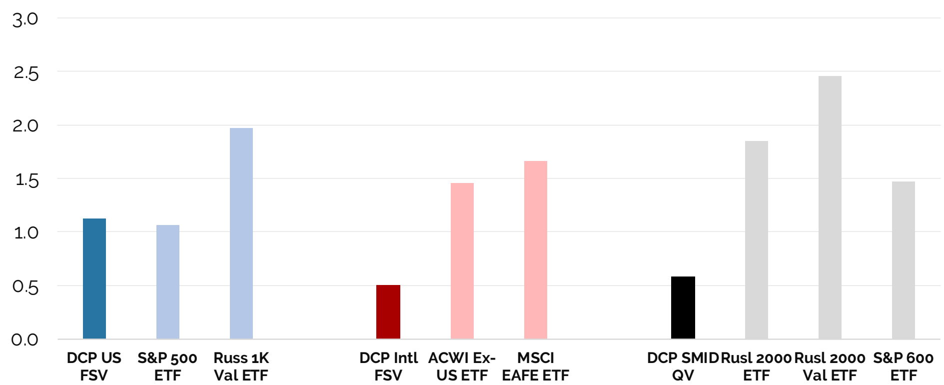
Source: FactSet, See end-notes for methodology. As 3/31/2024

Quality: Distillate's Cash Flow Stability Score



Source: FactSet, See end-notes for methodology. As of 3/31/2024

Quality: Net Debt to Adjusted EBITDA



Source: FactSet, See end-notes for methodology. As of 3/31/2024

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.

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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.* ***Leverage*** *is based on Distillate Capital's proprietary measure of indebtedness which looks at the ratio of adjusted net debt to an adjusted measure of forecast Earnings Before Interest, Taxation, Depreciation, and Amortization (EBITDA.)*

Methodology note for ***Figures including free cash flow yield (FCF)*** *or* ***free cash flow to enterprise value yield (FCF/EV):*** *figures reflect consensus estimates* *of next-twelve-months (NTM) FCF in comparison to market capitalization or enterprise value (EV) for the relevant portfolio/strategy or benchmark. Stocks without data are excluded and portfolios are reweighted accordingly. Stocks with FCF/Market Cap or FCF/EV values of greater than 50% or less than -20% have been eliminated to avoid distorting overall averages.*

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

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

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.