2021 Global Value Review

Upon examination, 2021 was a great year for Lyrical Global. Our strategy has now outperformed the World Value Index by 2,560 bps since inception and will reach its three-year performance mark later this year. For 2021 we returned 23%, compared to the ~22% for the MSCI World and World Value.

	2021	2020	2019*	Since Inception
MSCI WORLD (Total Return)	+21.8%	+15.9%	+16.3%	+64.3%
MSCI WORLD VALUE (Total Return)	+21.9%	-1.2%	+14.6%	+38.1%
LAM – Global (Net)	**+23.2%**	**+9.7%**	**+21.2%**	**+63.7%**

*Partial year, inception date of 5/31/19. Past performance is not necessarily indicative of future results.

The rebound in value stocks that began around the market bottom during the COVID panic in March 2020 continued into 2021. Cheap stocks—those with low P/E ratios—were one of the best performing groups of the year.

As the economy reopens, COVID is still wreaking economic havoc, but now in the form of inflation. Demand has come back strong after being impacted by lockdowns, but supply chains and labor forces are still recovering. With demand outstripping supply, shortages and upward price pressures are prevalent. While inflation has been bad for the broad market in the past, it has nonetheless been good for value stocks, a pattern we hope to see continue with any current bout of inflation.

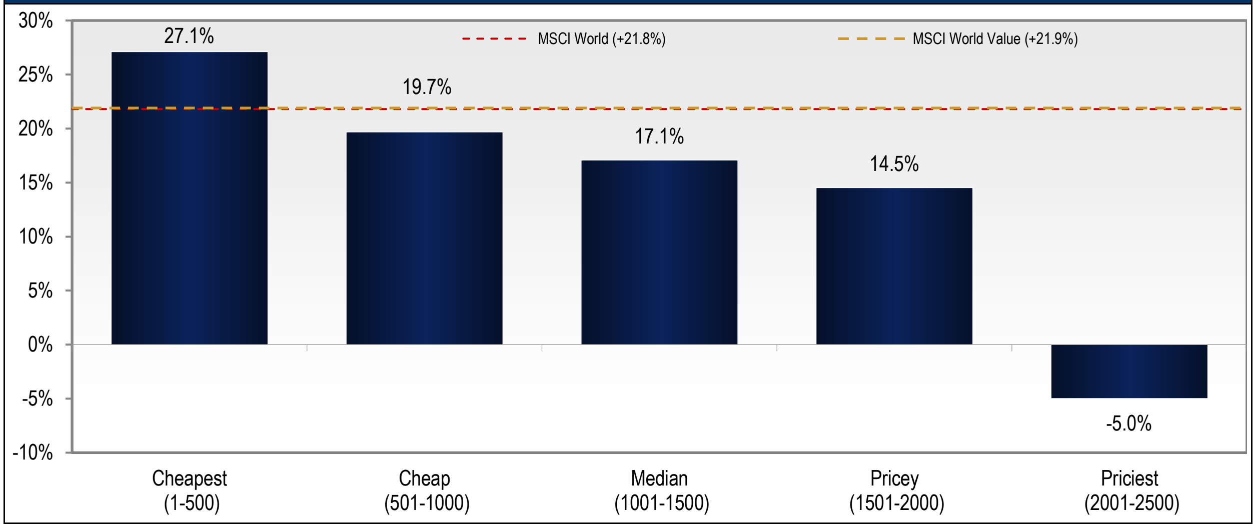
We head into 2022 well positioned. Our portfolio enters 2022 with a *lower* valuation than it started 2021 due to earnings growth and stock replacements. Moreover, COVID gave us deeper confidence in the fundamental strength of our businesses, whose earnings were revised down less than the market in 2020 and then revised up more in 2021. With a long-term earnings growth profile better than the MSCI World, our portfolio trades at nearly a 60% discount as of year-end, and our estimated upside to fair value is higher than usual at about 70%. While the strategy has performed well since inception, considering the portfolio's attractiveness we believe the best is still yet to come.

RETURN OF THE VALUE FACTOR

In 2021, the value factor once again returned to its historical norm, meaning a strong correlation between returns and valuation metrics. When we mention "value stocks" we are referring to the stocks with the lowest P/E ratios in our universe of the top 2,500 global stocks.

In the table below, we show the 2021 returns of our universe of the top 2,500 global stocks, sorted by P/E quintiles. The cheapest stocks with the lowest P/Es had the highest returns, and as each quintile got pricier with higher P/Es, the returns got lower.

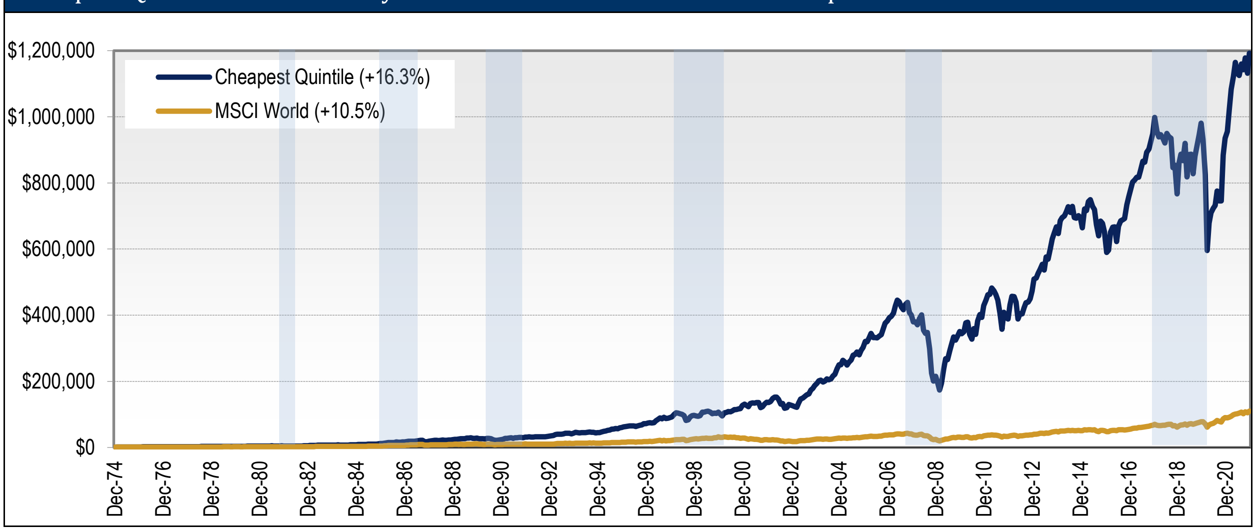
Global Returns by P/E Quintiles – 2021



Growth stocks have been in favor for so long, investors might think there was something wrong with the market in 2021, with the priciest stocks realizing the worst returns. To us, there is nothing unusual about this trend, as the outperformance of expensive stocks is historically rare, only having occurred in periods like 2018-2020 and the tech bubble of 1998-1999. For most of history, the norm has been higher returns for lower P/Es and lower returns for higher P/Es.

We believe this is just the beginning of value's outperformance. Looking back over the past 47 years in global stocks, we find that the cheapest quintile outperformed by nearly 600 bps per year and about 80% of the time as shown below. Our hunting ground has gone through several rough patches—six periods since 1975 shaded in the chart below—but each of those periods presented a compelling opportunity to buy value. We're about one and a half years into the current upcycle, and history suggests there are many more years to go.

Cheapest Quintile Return History Versus MSCI World: 5.8% Annual Outperformance



RETURN OF INFLATION

Until 2021, it had been almost 40 years since we last saw a period of high inflation globally. The US Federal Reserve and the European Central Bank each have a 2% target for inflation, measured as the Consumer Price Index (CPI) in the US and the Harmonized Index of Consumer Prices (HICP) in Europe. In April, the CPI rose above 4% and has remained above 4% for the last nine months, with the last reading of 7% in December. The HICP has now been running above 2% since May 2021, most recently reaching 5% in December.

Since it has been such a long time since inflation was a factor, we examined historical data to analyze the performance of value stocks during periods of inflation. Since 1960, there have been three distinct periods of elevated inflation in the US. As shown on the table below, in each of those periods value stocks (defined as the cheapest quintile) outperformed the S&P 500.

The highlighted row in the table below covers "The Great Inflation" period in the US. This is the most extreme case of inflation in the last 40 years when CPI averaged 9% for a decade. During that decade, the cheapest stocks in the market generated outperformance of 10.8% per annum, as shown on the graph below.

Start	End	Length (Years)	Avg CPI	Cumulative			Annualized		
				Cheapest Quintile	S&P 500	Delta	Cheapest Quintile	S&P 500	Delta
May-68	Sep-71	3.4	5.2	32.3%	13.1%	19.3%	8.5%	3.7%	4.9%
Mar-73	Nov-82	9.8	8.9	400.0%	96.9%	303.2%	17.9%	7.2%	10.8%
Aug-87	Jul-91	4.0	4.8	48.4%	39.9%	8.5%	10.4%	8.7%	1.6%

The results are similar in Europe, where, since 1975, there have been two distinct periods of inflation. As shown in the table below, in each of those periods, value stocks outperformed the MSCI EAFE, including 11 years of 3.7% alpha for value stocks during the 1970's and 1980's when CPI was stuck near 10%.

Period	Years	Avg EU CPI	Cumulative			Annualized		
			Cheapest Quintile	MSCI EAFE	Delta	Cheapest Quintile	MSCI EAFE	Delta
1975-1985	11	9.7%	+679%	+455%	+224%	+20.5%	+16.9%	+3.7%
1989-1995	7	5.5%	+57%	+32%	+25%	+6.7%	+4.1%	+2.6%

While value stocks in general have a history of outperformance in inflationary times, it is the quality of our companies that gives us confidence in this environment. We have seen the impact of eight months of above-target inflation so far and, on average, our companies have been able to mitigate or benefit from the inflationary effects. Since May 2021, our portfolio's consensus 2021 and 2022 EPS estimates have been revised up 11.4% and 6.2% compared to 6.3% and 3.2% for the MSCI World. Let's take a closer look at how our companies have managed this environment.

In an inflationary period, it is important for a business to have pricing power. Without pricing power, rising costs will squeeze the margins of a business that cannot pass along those costs to customers. The companies we are invested in possess several forms of pricing power. Some can increase prices because they provide critical products that represent a small portion of total cost for their customers. We own SK Kaken, which controls more than 50% of the architectural paint market in Japan. The quality of paint determines the strength and permanence of the coat, but the paint itself only represents about 15% of the cost of a project. As such, contractors choose paint based on brand and technical capability rather than price. SK Kaken has grown its earnings at a 9% rate since 2000 and trades for only a 13x forward P/E, before giving the company credit for the 103% of its market cap that it holds in net cash. Yes, it trades for less than net cash!

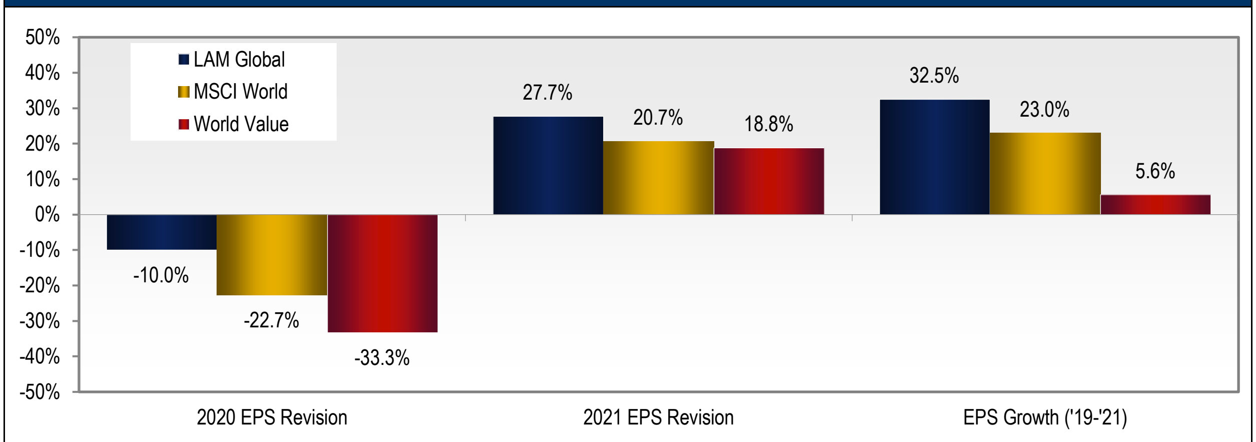
Other companies we own derive pricing power from dominant local positions. HCA is a great example of this. HCA is the largest private healthcare services provider in the US, processing more than 5% of all healthcare services in the country. But HCA's competitive advantage comes less from its national footprint and more from its dominant local footprints. In HCA's key markets they have a 25% market share of health procedures. For example, in Nashville alone, HCA has 13 hospitals, 57 doctor's offices, 21 specialty imaging centers, and more. This makes it very hard for an insurance provider in Nashville not to cover HCA facilities in-network and allows HCA the bargaining power to consistently increase prices at or above healthcare inflation. HCA has grown its earnings at an 18% annual rate over the past decade and trades for only 13.5x earnings today.

This bottom-up perspective along with the historical data lead us to believe inflation should be a positive factor for us.

FOLLOW THE FUNDAMENTALS

Having managed our portfolio through the COVID crisis, we now have strong evidence that our portfolio is less economically sensitive than the market with better full-cycle growth, despite a much cheaper valuation. We saw this during the COVID crisis, when earnings revisions for our portfolio were down less than the MSCI World Index in 2020 and up more than the MSCI World Index in 2021 as you can see below. And over the two-year period, the earnings growth of our portfolio was 32.5%, nearly 1,000 bps better than the MSCI World Index constituents and more than 2,500 for World Value[1].

EPS Revisions and EPS Growth (2019-2021E)

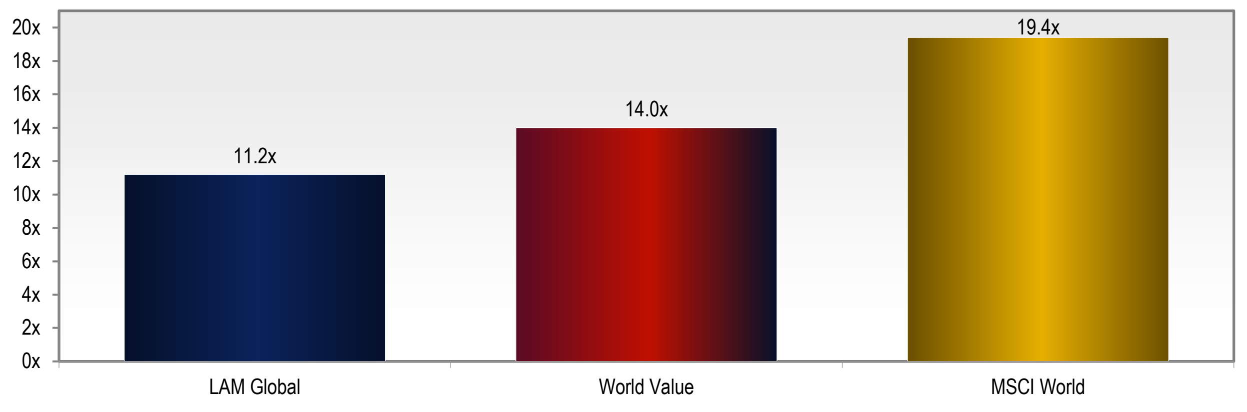


[1] World Value represents a combination of the holdings, as of December 31, 2021, of the MSCI EAFE Value Index and the S&P 500 Value index using the respective non-U.S. and U.S. regional weights in the MSCI World Value Index as of that date.

LONG-TERM THINKING IS OUR EDGE

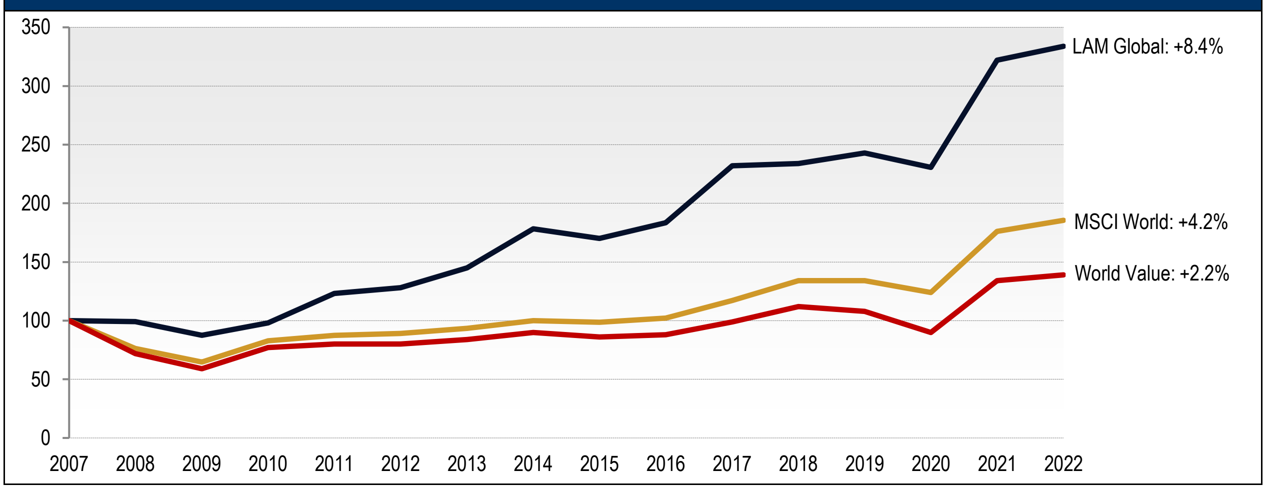
We believe our biggest advantage is our long-term time horizon, which is reflected in how we value companies. Our portfolio is cheap on a short-term basis, with the MSCI World trading at a 73% premium to our portfolio as you can see below. But forward P/E is only part of the story. We measure long-term earnings, seeking to buy the cheapest stocks based not on their one-year earnings but on their five-year forward earnings.

NTM P/E Ratios



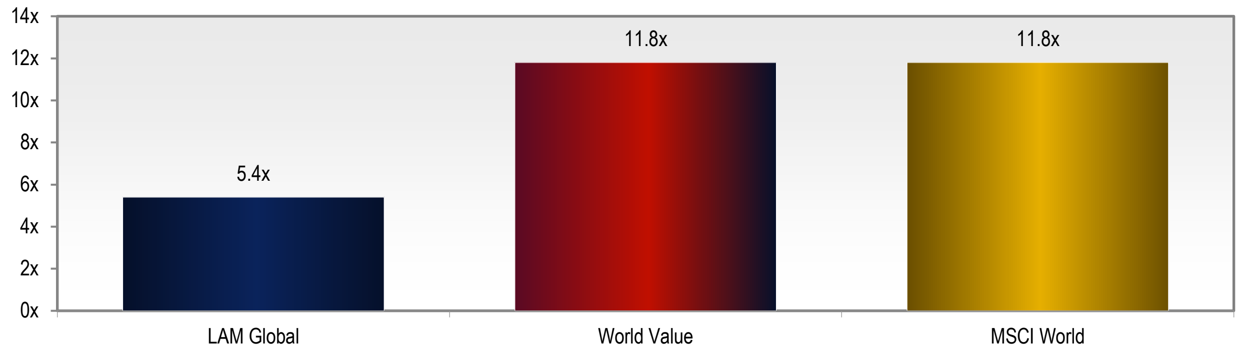
Many low P/E stocks have flat or declining earnings. This is especially true in international markets where large banks and cyclical business make up a large chunk of the cheapest quintile. Businesses with low P/Es, but with flat or declining earnings are not cheap; they are expensive. This is why we are highly selective within the cheapest quintile of stocks, seeking to only buy simple-to-understand, high-quality, and growing businesses. The result is that our portfolio has had superior earnings growth, compared to both the MSCI World Index and the cheapest stocks in the market. As you can see below, the companies in our portfolio have generated 8.4% annualized EPS growth going back to 2007 (including two economic recessions). That is significantly above the 4.2% for the MSCI World Index and 2.2% for World Value.

Indexed EPS Growth



Because of that growth, on a long-term basis our portfolio is even cheaper. As shown below, our portfolio trades at only 5.4x our estimate of five-year forward earnings, while the slower growth MSCI World Index trades at a 120% premium to that multiple. We believe it's this uncommon combination of value and growth that drives strong and sustainable returns to our clients, well above what near-term value factors can achieve.

5-Year Forward P/E Ratios



CONCLUSION

We had a good year, beating both the World and World Value Indices by around 100 bps, and we continue to think we are still in the early stages of a value upcycle. Historically, value upcycles have lasted six years on average and the past three upcycles have each been seven to nine years long. The current cycle started in June 2020, so we think there is plenty of runway ahead.

We have now outperformed the MSCI World Value by 2,560 bps since inception, and we will have a full three-year track record later this year. We feel good about that performance, but we think the best is yet to come. We have yet to see such a good combination of value and growth in the portfolio, and the upside in our portfolio—approximately 70% by our estimates—is near the highest we've seen.

The COVID shutdown and recovery gave us strong evidence of our ability to select good, resilient businesses within the cheapest quintile. The stocks we own were more resilient in the shutdown and showed better strength in the reopening, outgrowing the MSCI World earnings over 2020-2021 by nearly 10 percentage points despite trading at a significant discount.

As bottom-up stock pickers, we will continue to focus on the micro and select companies that perform well in any macro situation. That said, if we're entering a period of sustained inflation, we won't protest. History suggests value is the place to be in such an environment, and we feel strongly the fundamentals of our businesses will hold up if pricing continues to surge.

Looking forward, we anticipate strong returns both absolute and relative. Our portfolio trades for less than half of the MSCI World on a longer-term basis, and we see one of the highest levels of upside since our launch.

We thank you for your confidence, and, as always, we welcome your inquiries.

Andrew Wellington, John Mullins, and Dan Kaskawits

THIS IS NOT AN OFFERING OR THE SOLICITATION OF AN OFFER TO INVEST IN THE STRATEGY PRESENTED. ANY SUCH OFFERING CAN ONLY BE MADE FOLLOWING A ONE-ON-ONE PRESENTATION, AND ONLY TO QUALIFIED INVESTORS IN THOSE JURISDICTIONS WHERE PERMITTED BY LAW.

THERE IS NO GUARANTEE THAT THE INVESTMENT OBJECTIVE OF THE STRATEGY WILL BE ACHIEVED. RISKS OF AN INVESTMENT IN THIS STRATEGY INCLUDE, BUT ARE NOT LIMITED TO, THE RISKS OF INVESTING IN EQUITY SECURITIES GENERALLY, AND IN A VALUE INVESTING APPROACH, MORE SPECIFICALLY. MOREOVER, PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS.

LAM - GLOBAL RESULTS ARE UNAUDITED AND SUBJECT TO REVISION, ARE FOR A COMPOSITE OF ALL ACCOUNTS, AND SHOW ALL PERIODS BEGINNING WITH THE FIRST FULL MONTH IN WHICH THE ADVISOR MANAGED ITS FIRST FEE-PAYING ACCOUNT. NET RETURNS INCLUDE A 0.75% ANNUAL BASE FEE.

THE MSCI WORLD INDEX CAPTURES LARGE AND MID CAP REPRESENTATION ACROSS 23 DEVELOPED MARKETS (DM) COUNTRIES. WITH 1,601 CONSTITUENTS, THE INDEX COVERS APPROXIMATELY 85% OF THE FREE FLOAT-ADJUSTED MARKET CAPITALIZATION IN EACH COUNTRY.

THE MSCI WORLD VALUE INDEX CAPTURES LARGE AND MID CAP SECURITIES EXHIBITING OVERALL VALUE STYLE CHARACTERISTICS ACROSS 23 DEVELOPED MARKETS (DM) COUNTRIES*. THE VALUE INVESTMENT STYLE CHARACTERISTICS FOR INDEX CONSTRUCTION ARE DEFINED USING THREE VARIABLES: BOOK VALUE TO PRICE, 12-MONTH FORWARD EARNINGS TO PRICE AND DIVIDEND YIELD.

Notes:

All market and earnings estimate data are courtesy of FactSet.

Global Value Quintiles: The global value quintiles are a combination of the U.S. and International cheapest quintiles.

International Value Cycles:

For the period from January 1975 – December 2003 we use Fama French data (http://mba.tuck.dartmouth.edu/pages/faculty/ken.french/data_library.html) reflecting the cheapest 20% of stocks based on trailing P/E in developed international markets, weighted in proportion to the EAFE + Canada weights. For the period since December 2003, see notes below. Note that discretion was applied by Lyrical in determining the beginning and ending of each cycle.

International Return to Fair Quintiles are sorted by Lyrical's estimate of Return to Fair for each of the 1,500 largest non-U.S. developed market ("International") stocks. Quintiles are determined annually, using end of year Return to Fair quintiles. Return to Fair is the difference between the current market price and Lyrical's estimate of fair value. Fair value is the product of five-year forward projected earnings (determined by applying to the latest year of forward projected earnings the median analyst estimate of long-term growth rates, subject to a 17% maximum and a minimum of 10% less the dividend yield) multiplied by the country-specific earnings multiple, plus net cash, plus five times the positive (or minus five times the negative) difference between dividend yield and the median dividend yield of the investment universe. The returns reflected in the chart are annualized. This does not reflect the experience of any investor.

U.S. Value Cycles:

For the period from January 1960 – December 1984 we use Sanford Bernstein data for the cheapest quintile within the 1,000 largest U.S. stocks by market capitalization based on price to book value as the representative cheapest quintile.

For the period from January 1985 – December 1997 for each quarter, based on FactSet data, we divided the 1,000 largest U.S. stocks by market capitalization into quintiles based on their beginning of quarter price to median trailing earnings multiple. Return for the lowest p/e quintile is the simple average of the total returns, including dividends, of each stock in that quintile. Returns for stocks that ceased trading are included through the date they ceased trading.

For all periods after 1997, for each calendar quarter, based on FactSet data, we divided the 1,000 largest U.S. stocks by market capitalization into quintiles based on their beginning of quarter price to median forward earnings multiple. Return for each quintile is the simple average of the total returns, including dividends, of each stock in that quintile. Returns for stocks that ceased trading are included through the date they ceased trading.

Indexed EPS Growth:

This chart depicts the historical change of earnings per share of the companies comprising the LAM Global portfolio as of December 31, 2021, using equal weights as of all dates, and the change in earnings per share of the MSCI World Index and World Value (see note on page 4) over the same period. Earnings per share is computed using consensus earnings data, which include certain adjustments from reported, GAAP earnings. Periods marked with an "E" include estimated earnings per share. All portfolio holdings are included from the earliest date of their available data.

Performance prior to December 1, 2019 reflect the model, hypothetical results from a hypothetical portfolio comprised of LAM-CS and LAM International holdings at target weights as of inception of LAM International, and do not represent actual investments made. There are a variety of limitations inherent in model results. Transaction expenses incurred and dividends received on account of LAM-CS and LAM International holdings are reflected.