

Small Cap Value Equity strategy review

The recent passing of former Secretary of Defense, Donald Rumsfeld, brings to mind one of his most famous quips regarding known knowns, known unknowns, and the dreaded unknown unknowns as we evaluate our thoughts related to financial markets. With small cap equity indices rallying over 100% since the bottom of the COVID-induced fears in March 2020 and an economy poised to produce its highest GDP growth in over 20 years, it's no wonder some practitioners are beginning to consider whether or not the market is "priced for perfection". While the concept of perfect alignment to produce incremental gains is as old as "this time it's different", the fact remains that markets are forward-looking and the ability to forecast the future is paramount to how we position today.

Though it's unclear if COVID-19, including recent new strains, has been truly defeated, its negative impacts appear to have been effectively minimized. The immediate response from the Federal Reserve (FED) and Congress which initially produced over \$7T of monetary and fiscal stimulus had its desired impact. Financial markets were able to mitigate risks and consumers along with businesses were able to replace some lost wages and income. The additional \$1.9T of COVID relief in early 2021 also helped bolster consumer balance sheets creating excess savings. Fiscal and monetary support along with a highly-vaccinated population has instilled confidence and stability in the economy. As a result, small and SMID-cap equity markets produced favorable returns as the Russell 2000 Value Index gained 4.6% for the quarter driving its YTD gains to 26.7%.

During the quarter, market leadership remained mostly cyclical though some of the market dynamics changed as economic data slowed on the margin and yields on 10-year treasuries declined after meaningful increases in the previous two quarters. Communication Services (mostly driven by AMC Entertainment), Energy, and Consumer Discretionary were the best performing sectors along with Real Estate which benefited from the decline in rates. Traditional defensive sectors (Consumer Staples and Utilities) along with Financials

and Industrials were more challenged as slowing marginal growth and lower rates led to minor changes in investor preferences without a complete cyclical shift. Additionally, we continued to experience broad outperformance from lower-quality companies, illustrating factors such as higher beta, lower profitability, and higher leverage.

Over the last six months, most local economies have fully re-opened though the sudden rush in activity has been more disruptive and imbalanced than expected. Excess consumer savings has exacerbated already pent-up demand to create a flood of requests for goods and services which couldn't be matched by current levels of supply and inventory. This is producing considerable spikes in prices for various areas of the economy. As inventories return to normal, we would expect prices to moderate, however, the longer-term implications for inflation are still somewhat unknown. Furthermore, we continue to expect some level of incremental fiscal stimulus to serve as additional fuel for increased economic growth though the amount will be far below the initial \$2.3T floated by the Biden administration.

We remain confident that economic growth will be robust over the next 18-24 months, particularly, as we anniversary the COVID-related impacts in the latter part of this year. Government intervention, a highly-vaccinated population, favorable employment trends, and excess consumer savings are all contributing to a faster path for normalization. While current trends are supportive of healthy financial markets, we remain focused on the timing of an eventual FED tightening cycle, rising input prices with corresponding lower margins, disparities in the recovery for small businesses, lower fiscal support, and potentially higher taxes as risks that could prematurely truncate this recovery. Given current valuation multiples, we are aware that equity prices have recovered much faster than underlying fundamentals. We believe considerable economic and earnings growth is needed to justify further gains for equities and to serve as a cushion for the secondary impacts of higher inflation and interest rates.

COMPOSITE PERFORMANCE (6.30.2021)

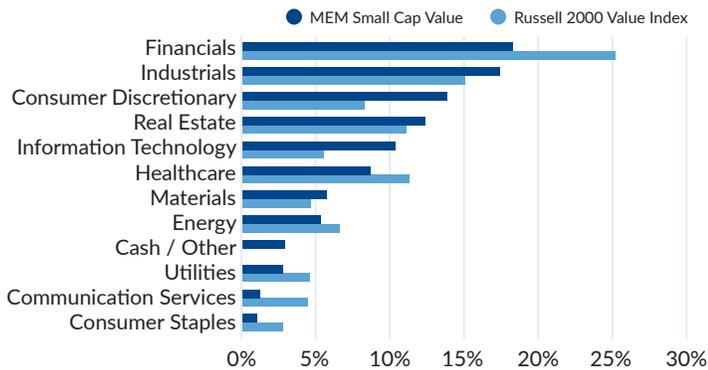
Total return (%)	QTD	YTD	1 yr	3 yr	5 yr	10 yr
MEM Small Cap Value (gross)	7.4	26.3	68.9	12.4	13.6	11.2
MEM Small Cap Value (net)	7.2	26.0	68.1	11.8	13.0	10.6
Russell 2000 Value Index	4.6	26.7	73.3	10.3	13.6	10.8

Performance is preliminary and includes reinvestment of all income. Returns greater than one year are annualized. Past performance is not indicative of future results. Please see the following page for additional, important disclosure information.

PORTFOLIO CHARACTERISTICS (6.30.2021)

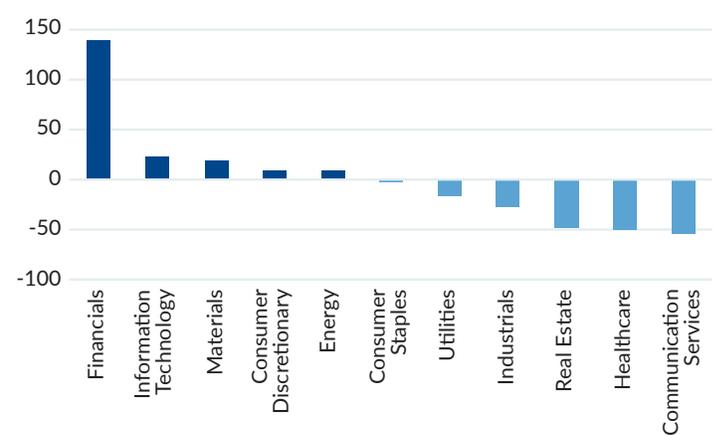
	MEM Small Cap Value	R2000 Value
Number of holdings	79	1,384
Forward price/earnings (median)	15.4x	17.1x
Year 2 EPS growth	14.1%	7.8%
5-year return-on-equity	7.2%	7.5%
Weighted median market cap	\$3.4 B	\$2.5 B
% of portfolio in top 10	16.8%	5.2%

SECTOR WEIGHTS (6.30.2021)



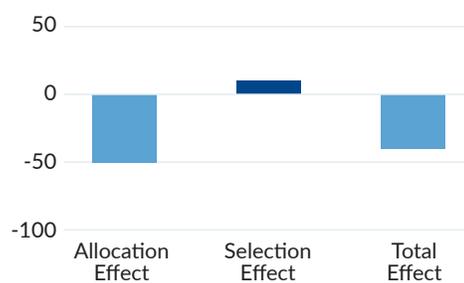
Sector weights and portfolio characteristics are calculated from a representative account invested in the MEM Small Cap Value Equity strategy.

RELATIVE STOCK SELECTION - YTD¹ (BPS)



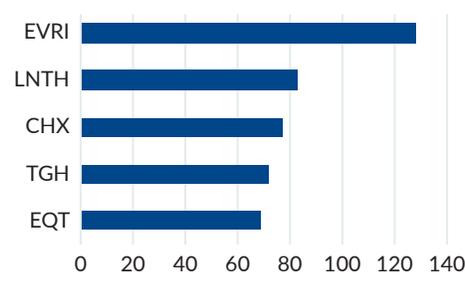
Source: Bloomberg. As of 6.30.2021.

ATTRIBUTION - YTD¹ (BPS)



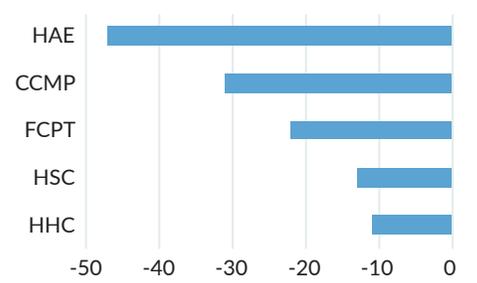
Source: Bloomberg. As of 6.30.2021.

POSITIVE CONTRIBUTION (BPS)



Source: Bloomberg. As of 6.30.2021.

NEGATIVE CONTRIBUTION (BPS)



Source: Bloomberg. As of 6.30.2021.

MEM SMALL CAP VALUE VS. RUSSELL 2000 VALUE INDEX

- Market leadership was cyclical
 - Communication Services was a significant outperformer
 - Energy, Consumer Discretionary and Materials also outperformed
 - Utilities was a significant underperformer
 - Consumer Staples and Information Technology were also leading underperformers
- The SCV Portfolio outperformed the Russell 2000 Value Index
- Lower quality leadership with outperformance during the period from:
 - Higher Beta
 - Higher Leverage
 - Lower Profitability
 - Highly-shorter companies
- Value outperformed Growth

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The performance presented herein represents past performance and is no guarantee of future results. Performance is measured against the primary benchmark represented by the Russell 2000 Value Index, with the Russell 2000 Index being presented as additional information. MEM and benchmark performance reflect the reinvestment of dividends and interest income, expressed in US dollars. Performance greater than one year is annualized. Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. MEM's small cap value accounts invest in stocks with market capitalizations within the range of the small-cap universe, defined by the Russell 2000 Index. The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe and is a subset of the Russell 3000® Index.

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