



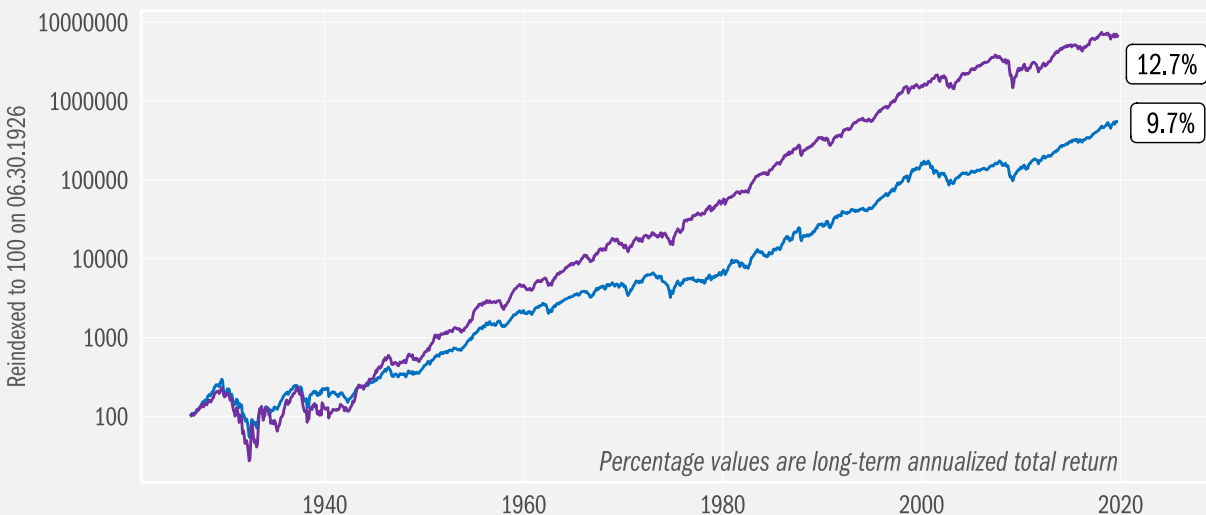
TIME FOR VALUE?

Depending on how one defines the group, Value stocks have underperformed Growth stocks for a decade or longer. This potential for long periods of underperformance is one of the primary reasons that we “tilt” our portfolios toward Value, while also incorporating multiple factors into the stock selection process. Value’s underperformance, nonetheless, does not dampen our preference for increased exposure to less-expensive stocks. The underperformance has coincided with an expanding valuation gap between Value and Growth stocks. We find that trend bolsters both the premise of our preference for Value and our belief that forward returns may benefit from favoritism toward stocks that have been left behind in this latest market surge.

Long-Term Outperformance...

Since the dawn of reliable record keeping, stocks that measure less-expensive based on some ratio of price to company “fundamentals,” such as assets, earnings or revenue, have outperformed stocks more expensive by that same metric (or group of metrics). The better historical performance of the former, Value stocks, versus the latter, Growth stocks, is looked upon as a premium that has been rewarded to investors for having taken on incremental expected risk when investing in the less-expensive subset.

Figure 1: Long-Term Performance of Value and Growth Stocks

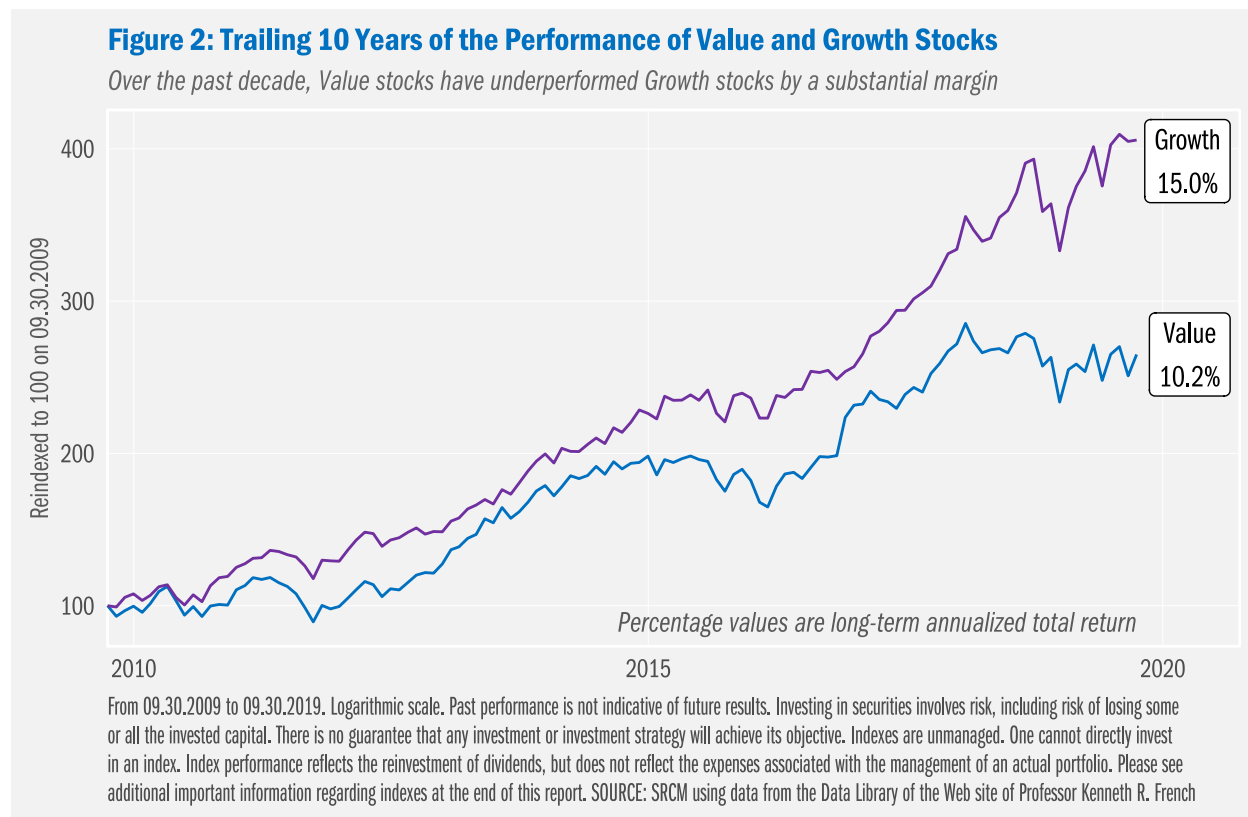


— Fama/French US Growth Research Index — Fama/French US Value Research Index

From 06.30.1926 to 09.30.2019. Logarithmic scale. Past performance is not indicative of future results. Investing in securities involves risk, including risk of losing some or all the invested capital. There is no guarantee that any investment or investment strategy will achieve its objective. Indexes are unmanaged. One cannot directly invest in an index. Index performance reflects the reinvestment of dividends, but does not reflect the expenses associated with the management of an actual portfolio. Please see additional important information regarding indexes at the end of this report. SOURCE: SRCM using data from the Data Library of the Web site of Professor Kenneth R. French

..May Need Short-Term Underperformance

It’s not called a risk premium for little reason, though, as Value stocks do not always outperform Growth stocks. In fact, depending on how one measures relative price, the underperformance of Value can be seen as having spanned decades. Looking at only the last ten years of data from Figure 1, in Figure 2 we see that the annualized underperformance of Value over the past decade has approximated 5 percentage points per year.



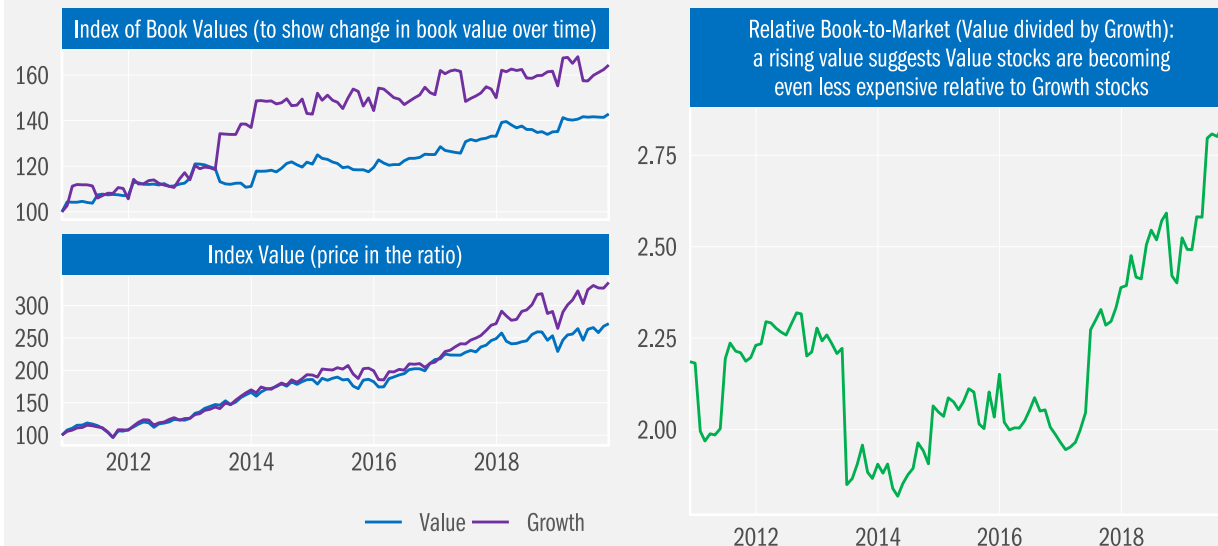
Most of that widening has occurred in the past two years, though, with an underlying trend we find reflective of an important shift in investor preference. As they are ratios of price to some measure of company fundamentals, valuations can change via movement in price or fundamentals or both. So a stock (or an index of stocks) can get cheaper because the price falls by itself and/or because the fundamentals by themselves improve. Normally, both series are moving, with the ratio netting out the two sometimes divergent trends.

In Figure 3, we show how that divergence might look over time, presenting book value data for the MSCI U.S. Value and Growth Indexes¹. Through the initial recovery from the Great Financial Crisis, improvement in Value stock fundamentals remained weak relative to that of Growth companies. The underperformance of Value stocks thus was perhaps justified by that relative weakness. More recently, though, Value stocks have seen relatively stronger improvement in corporate fundamentals

¹ For this particular chart, we switched from the Fama-French indexes to the MSCI indexes to provider a deeper view of the fundamental metrics, though the relevant data support a similar story for both sets of indexes. MSCI, via Bloomberg, is the source of those data.

Figure 3: Historical Book Values and Book-to-Market Ratios for Value and Growth Stocks

While Growth stocks saw strong book value growth early on in the last decade, Value stocks have taken the lead. With Value stock prices still relatively weak, they have become even less expensive relative to Growth stocks



From 2010 to 2019. Data are for the MSCI U.S. Value and Growth Indexes, descriptions of which are at the end of this commentary. Indexes are unmanaged. One cannot directly invest in an index. Index performance reflects the reinvestment of dividends, but does not reflect the expenses associated with the management of an actual portfolio. Please see additional important information regarding indexes at the end of this report. SOURCE: SRCM using data from MSCI via Bloomberg

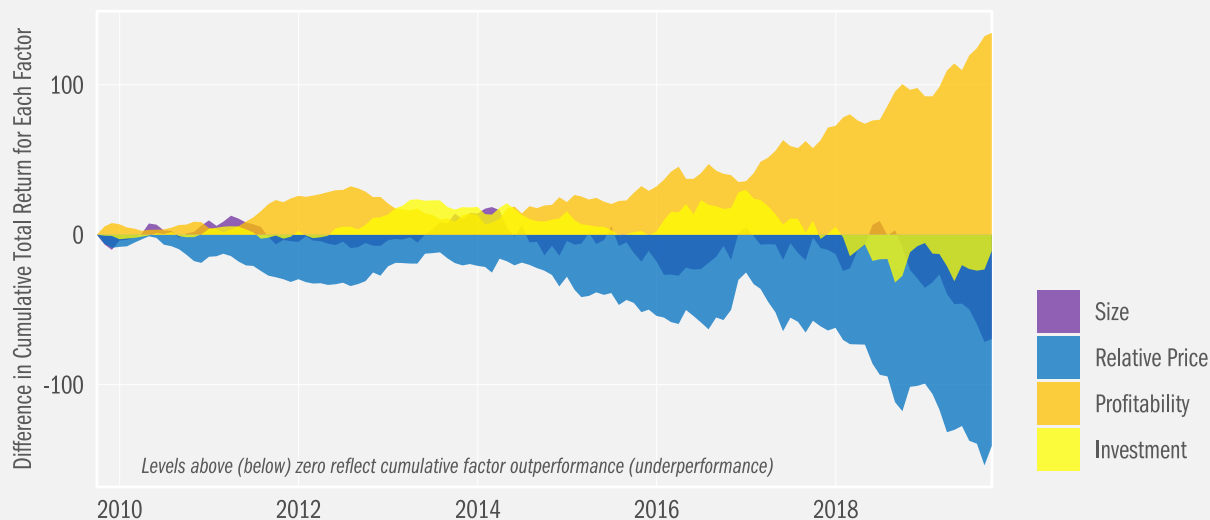
Perhaps it's time, then, for Value stocks to shine? Not possible to determine. Just as is the case with the equity market in general, we have yet to read a sufficiently defensible proposition for timing equity risk premiums that does not rely heavily on qualitative interpretation of external macroeconomic or market details. Even so, we welcome the additional fundamental support for the approach. We also welcome the empirical counter to the idea that, since there has been no Value-stock premium realized for such a long time, perhaps Value stocks do not really exist anymore (or fancier suggestions that effectively mean the same thing). Were that true, the gap between cheap and not-cheap would have narrowed, not widened. So we believe we retain reasonably robust support for our Value preference.

Multi-Chapter Multifactor

Lest we focus too greatly on Value, we want to offer the reminder that we implement a multifactor approach within our portfolios. That means Relative Price is just one factor among a few considered in the investment approaches underlying the exposures we incorporate into our investment models. The methodology seeks to provide a more efficient means of potential additional return from characteristics that have been shown in history to provide incremental performance over the market, while seeking to diversify the exposure to any one factor. The latter bit may help near- and medium-term returns as factors may cycle in and out of favor—much as is the case with Relative Price at the present—but are likely to do so at different intervals. That tendency can be seen even in the nearer term in Figure 4.

Figure 4: Performance of Investment Factors

Given variation in relative returns, the incorporation of multiple factors into the stock selection process may help diversify single-factor risk



From 09.30.09 to 09.30.19. Not all models or portfolios may consider these factors. Indexes utilized are described at the end of this commentary. Past performance is not indicative of future results. Investing in securities involves risk, including risk of losing some or all the invested capital. There is no guarantee that any investment or investment strategy will achieve its objective. Indexes are unmanaged. One cannot directly invest in an index. Index performance reflects the reinvestment of dividends, but does not reflect the expenses associated with the management of an actual portfolio. Please see additional important information regarding indexes at the end of this report. SOURCE: SRCM using data from the Data Library of the Web site of Professor Kenneth R. French

One More Thing...

Before we leave folks too concerned about Value, Value stocks over the past three months through November 14 have outperformed Growth stocks by 2.4 percentage points, with the MSCI U.S. Investible Market Value Index up 7.3% and the MSCI U.S. Investible Market Growth Index up 5.0%. Small-Cap Value stocks have seen even better performance. The MSCI U.S. Small-Cap Value Index is up 8.3% over that same time frame, versus 4.3% for the MSCI U.S. Small-Cap Growth Index. As so often has been the case with factor investing, it’s often just when the stress may becoming a bit closer to unbearable that discipline and patience may find suitable reward.

Important Information

Signature Resources Capital Management, LLC (SRCM) is a Registered Investment Advisor. Registration of an investment adviser does not imply any specific level of skill or training. The information contained herein has been prepared solely for informational purposes, is not intended as and should not be used to provide investment advice and is not an offer to buy or sell any security or to participate in any trading strategy. Any decision to utilize the services described herein should be made after reviewing such definitive investment management agreement and SRCM's Form ADV Part 2A and 2Bs and conducting such due diligence as the client deems necessary and consulting the client's own legal, accounting and tax advisors in order to make an independent determination of the suitability and consequences of SRCM services. Any portfolio with SRCM involves significant risk, including a complete loss of capital. The applicable definitive investment management agreement and Form ADV Part 2 contains a more thorough discussion of risk and conflict, which should be carefully reviewed prior to making any investment decision. All data presented herein is unaudited, subject to revision by SRCM, and is provided solely as a guide to current expectations.

The opinions expressed herein are those of SRCM as of the date of writing and are subject to change. The material is based on SRCM proprietary research and analysis of global markets and investing. The information and/or analysis contained in this material have been compiled or arrived at from sources believed to be reliable, however SRCM does not make any representation as to their accuracy or completeness and does not accept liability for any loss arising from the use hereof. Some internally generated information may be considered theoretical in nature and is subject to inherent limitations associated thereby. Any market exposures referenced may or may not be represented in portfolios of clients of SRCM or its affiliates, and do not represent all securities purchased, sold or recommended for client accounts. The reader should not assume that any investments in market exposures identified or described were or will be profitable. The information in this material may contain projections or other forward-looking statements regarding future events, targets or expectations and are current as of the date indicated. There is no assurance that such events or targets will be achieved. Thus, potential outcomes may be significantly different. This material is not intended as and should not be used to provide investment advice and is not an offer to sell a security or a solicitation or an offer, or a recommendation, to buy a security. Investors should consult with an advisor to determine the appropriate investment vehicle.

Domestic (U.S.) equity: The MSCI U.S. Investable Market 2500 Index is designed to measure the performance of the large-, mid- and small-cap segment of the U.S. equity market. The index represents approximately 99% of the free float-adjusted market capitalization in the U.S. equity market. "Value" and "Growth" versions of this index are constructed as described in the "MSCI Value and Growth Indexes" note below. May be referred to as "All Stocks" in a section specifically describing only U.S. stocks.

MSCI Value and Growth Indexes: The value investment style characteristics for MSCI index construction are defined using the following variables: book value to price, 12-month forward earnings to price and dividend yield. The growth investment style characteristics are defined using the following variables: long-term forward earnings per share (EPS) growth rate, short-term forward EPS growth rate, current internal growth rate, long-term historical EPS growth trend and long-term historical sales per share growth trend. The objective of the MSCI Value and Growth Indexes design is to divide constituents of an underlying market capitalization index into a value index and a growth index, each targeting 50% of the free float-adjusted market capitalization of the underlying index. The market capitalization of each constituent should be fully represented in the combination of the value index and the growth index, and, at the same time, should not be double-counted. One security may, however, be represented in both the value index and the growth index at a partial weight.

The MSCI information may only be used for your internal use, may not be reproduced or disseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each other person involved in or related to compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties (including, without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages. (www.msci.com)

Fama/French U.S. Book-to-Market Research Indexes: Provided by Professors Eugene Fama and Kenneth French. Index constituents are formed on book equity (BE) / market equity (ME) at the end of each June using NYSE breakpoints. The BE used in June of year t is the book equity for the last fiscal year end in t-1. ME is price times shares outstanding at the end of December of t-1. The reconstitution considers all NYSE, AMEX, and NASDAQ stocks for which we have ME for December of t-1 and June of t, and BE for t-1. The Fama/French U.S. Value Research Index includes the lower 30% in price-to-book. The Fama/French U.S. Growth Research Index includes the higher 30% in price-to-book.

Fama/French U.S. Size Research Indexes: Provided by Professors Eugene Fama and Kenneth French. Index constituents are formed at the end of each June using June market equity and NYSE breakpoints. The reconstitution considers for July of year t to June of $t+1$ include all NYSE, AMEX, and NASDAQ stocks for which are available market equity data for June of t . The Fama/French U.S. Small Research Index includes the lower 30% in market capitalization. The Fama/French U.S. Large Research Index includes the higher 30% in market capitalization.

Fama/French U.S. Profitability Research Indexes: Provided by Professors Eugene Fama and Kenneth French. Index constituents are formed on profitability (OP) at the end of each June using NYSE breakpoints. OP for June of year t is annual revenue minus cost of goods sold, interest expense, and selling, general and administrative expenses divided by book equity for the last fiscal year end in $t-1$. The reconstitution considers all NYSE, AMEX and NASDAQ stocks for which are available market equity data for June of t , (positive) book equity data for $t-1$, non-missing revenues data for $t-1$, and non-missing data for at least one of the following: cost of goods sold, selling, general and administrative expenses, or interest expense for $t-1$. The Fama/French U.S. Robust Profitability Research Index includes the higher 30% of stocks by profitability. The Fama/French U.S. Weak Profitability Research Index includes the lower 30% of stocks by profitability.

Fama/French U.S. Investment Research Indexes: Provided by Professors Eugene Fama and Kenneth French. Index constituents are formed on the change in total assets from the fiscal year ending in year $t-2$ to the fiscal year ending in $t-1$, divided by $t-2$ total assets at the end of each June using NYSE breakpoints. The reconstitution considers all NYSE, AMEX and NASDAQ stocks for which we have market equity data for June of t and total assets data for $t-2$ and $t-1$. The Fama/French U.S. Conservative Investment Research Index includes the lower 30% of stocks by profitability. The Fama/French U.S. Aggressive Investment Research Index includes the higher 30% of stocks by profitability.

One cannot invest directly in an index. Index performance does not reflect the expenses associated with the management of an actual portfolio.

Investing in any investment vehicle carries risk, including the possible loss of principal, and there can be no assurance that any investment strategy will provide positive performance over a period of time. The asset classes and/or investment strategies described in this publication may not be suitable for all investors. Investment decisions should be made based on the investor's specific financial needs and objectives, goals, time horizon, tax liability and risk tolerance.

Publication: 11.15.19

2019-SRCM-109