SIGNATURE RESOURCES CAPITAL MANAGEMENT

Commentary: June 2020

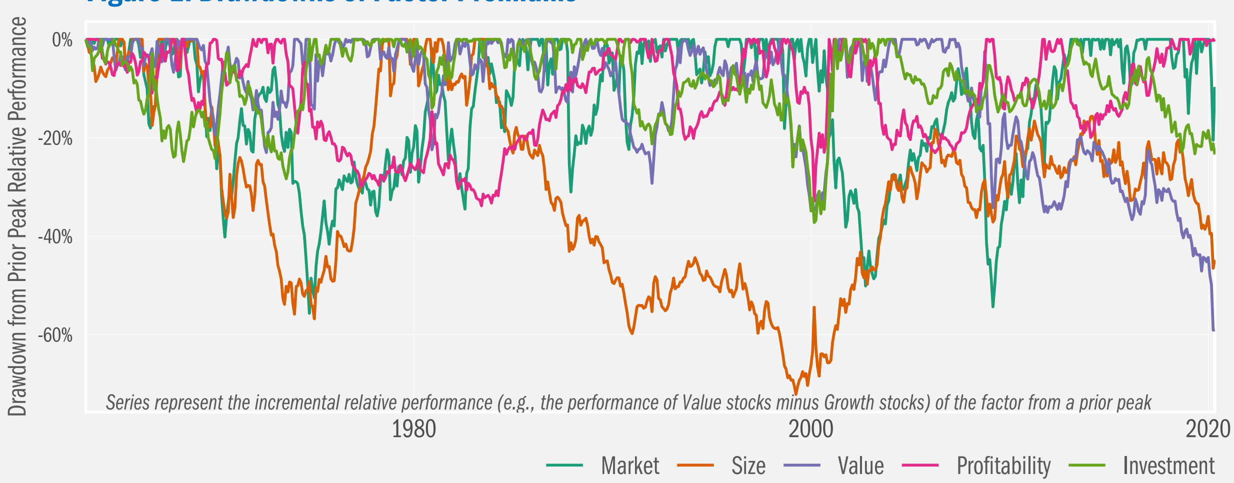
FAMILIAR THEMES

Among the equity market themes one learns early on is that market history is not prologue: past performance is not indicative of the future. We learn, too that market performance is not always positive. Another important premise is that diversification is your friend. These themes apply to the relative performance of the groups of stocks we tend to emphasize in our portfolios. Their long-term relative performances resemble, but generally are not exactly like, those seen in history. While long-term positive, they are not always so. And including a range of factors in the portfolio may lead to better outcomes over time.

Factor Diversification

In most portfolios we manage, we choose to include some manner of tilts toward those characteristics among stocks that can be seen to have been connected to outperformance over time. There are several of these characteristics, each supported by rigorous academic and industry-wide research. Purposefully selected and methodologically pooled together, they can provide the foundation for longer-term better-than-benchmark performance. But as we see in Figure 1, their nearer-term performance may at times be negative. Seems there's always a factor not "working". Even so, we mighty further see that relative performance is differentiated among the factors, potentially enhancing portfolio diversification.

Figure 1: Drawdowns of Factor Premiums



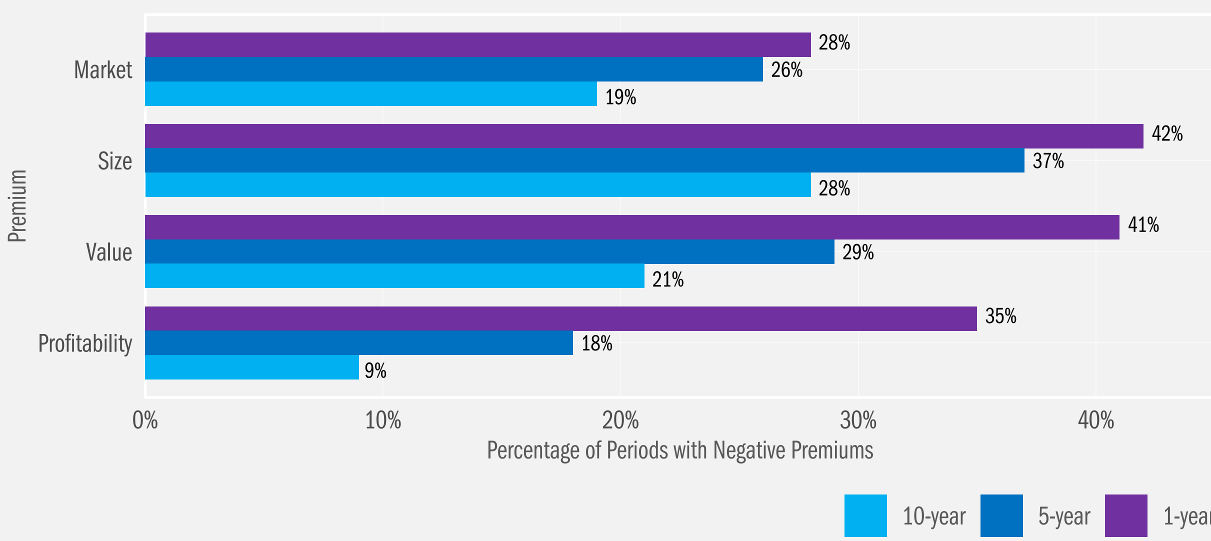
From 06.30.63 to 04.30.20. Market: Fama/French U.S. Total Market Index minus one-month U.S. Treasury Bills. Size: Fama/French Small Research Index minus Fama/French Large Research Index. Value: Fama/French U.S. Value Research Index minus the Fama/French U.S. Growth Research Index. Profitablility: Fama/French U.S. Robust Profitability Research Index minus the Fama/French U.S. Weak Profitability Research Index. Investment: Fama/French U.S. Conservative Investment Research Index minus the Fama/French U.S. Aggressive Investment Research Index. 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. Drawdown may be measured as the maximum loss from a prior peak value and/or the length of time the portfolio requires to return to breakeven after a prior peak. SOURCE: SRCM using data from Professors Eugene Fama and Kenenth French

In the Mix

The data in Figure 1 reflect performance subsequent to a prior peak. It does not show the extent to which those peaks over time reflect the outperformance of the factors. Reviewing the historical relative performance of the factors, a trend emerges: the tendency of the factors to have outperformed increases. Like many aspects of investing, then, patience may be rewarded through time. We show this tendency in Figures 2 and 3. Both charts consider rolling periods using monthly data. For example, for the rolling 10-year periods, we take the first set of 120 months starting with July 1963 and ending with June 1993 and calculate a value for the relative performance of the factors. We then increment the "window" by a month, moving to August 1963 through July 1993, and calculate another relative performance. We then calculate how many of these overlapping periods saw negative performance for any of the premiums.

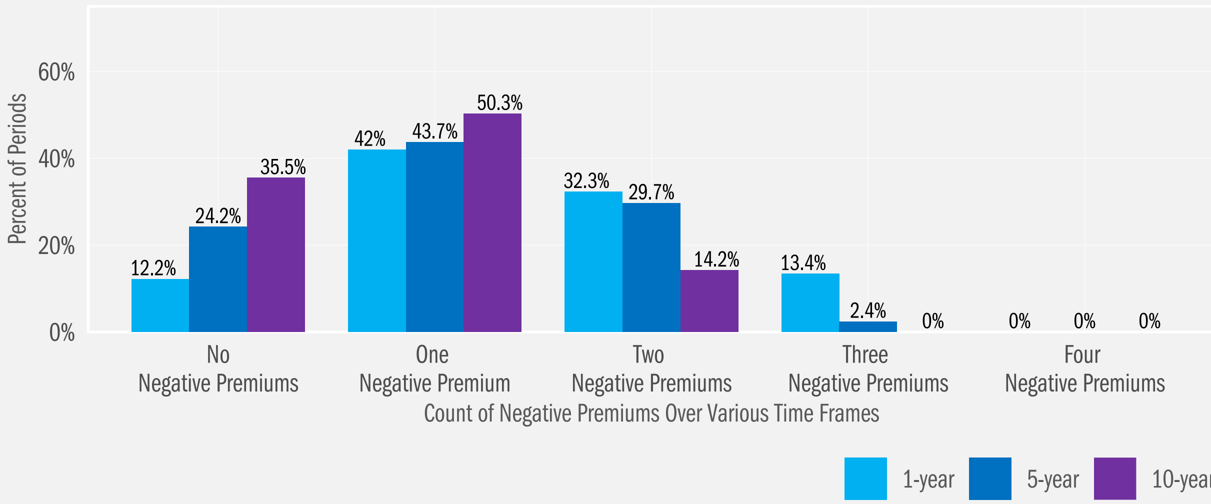
In the first, we see that about a third or more of the time over overlapping 1-year periods, each premium has seen a negative relative return (e.g., Value stocks underperformed Growth stocks). For the Market premium, that means stocks in general returned less than an investment in T-bills over that time frame. For the others (Size, Value and Profitability), a negative premium may not reflect a negative return for all stocks. Rather, it means that the return of the preferred exposure (small-cap, less-expensive and/or more profitable stocks) was weaker than its counterpart (large-cap, more-expensive and/or less profitable stocks). With longer periods of time, though, positive premiums tend to appear more frequently, though still variously so. Size and Value show a negative premium more often than the Market, while Profitability has tended to be more consistently positive.

Figure 2: Historical Realization of Negative Premiums



From 06.30.63 to 04.30.20. Market: Fama/French U.S. Total Market Index minus one-month U.S. Treasury Bills. Size: Dimensional US Small Cap Index minus the S&P 500 Index. Value: Fama/French U.S. Value Research Index minus the Fama/French U.S. Growth Research Index. Profitablility: Fama/French U.S. Robust Profitability Research Index minus the Fama/French U.S. Weak Profitability Research Index. 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

Figure 3: Historical Overlap of Negative Premiums



From 06.30.63 to 04.30.20. Premiums considered include Market, Size, Value and Profitability. Market: Fama/French U.S. Total Market Index minus one-month U.S. Treasury Bills. Size: Dimensional US Small Cap Index minus the S&P 500 Index. Value: Fama/French U.S. Value Research Index minus the Fama/French U.S. Growth Research Index. Profitablility: Fama/French U.S. Robust Profitability Research Index minus the Fama/French U.S. Weak Profitability Research Index. 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

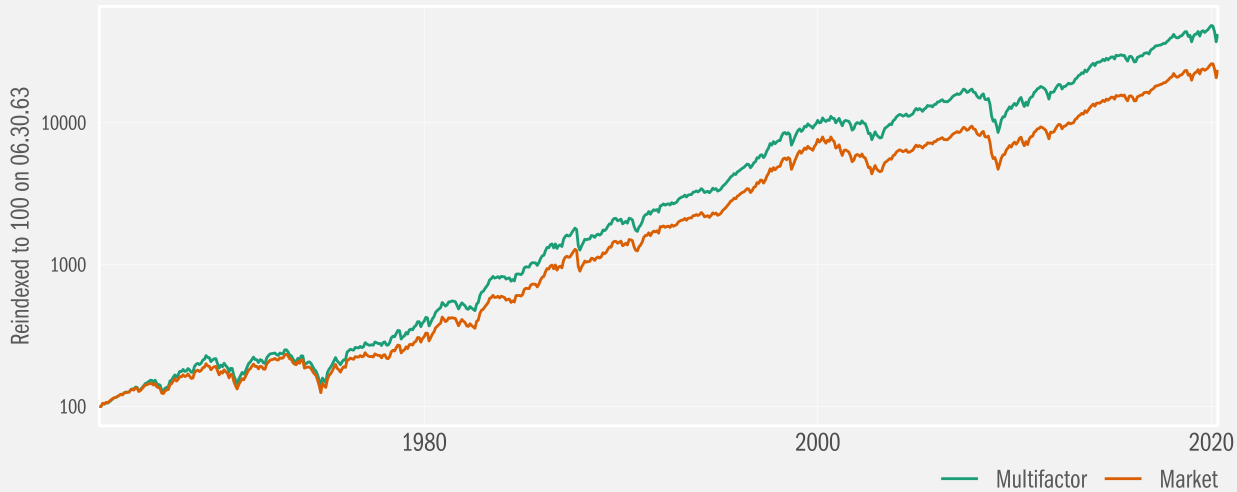
Back to the diversification aspect of incorporating multiple factors into the investment approach, one can sort of see in Figure 1 that the factors tend to move independent of each other, zigging and zagging to their own whims. Taken together, the diversity of performance tends to improve the longer-term outcomes of the multifactor investment approach.

To show what we mean, in Figure 3 we consolidate the data from Figure 2 and look at the four premiums together for each overlapping period. We then count how many of the premiums saw a negative relative return, finally tallying up what percentage of those periods saw which number of premiums underperforming. Here again, we see the patience-may-be-rewarded theme emerge. The longer the period considered, the more likely one was to see positive outcome across more of the premiums. While it's not at all rare to find one premium underperforming at any given time, it becomes increasingly rare to see multiple factors underperforming. This tendency provides another brick in the foundation of our investment approach.

Ultimately a Fine Stew

We now can roll up the data that we've seen so far to show that the diversification of the portfolio across factors may lead to better outcomes over time. In Figure 4, we provide the long-term returns of an index that consolidates the individual factors into a multifactor mix, as well as an index of the broader market. Note the longer-term outperformance of the multi-factor approach.

Figure 4: Long-Term Return of Factor Premiums



From 06.30.63 to 04.30.20. Logarithmic scale to show detail. Market: Fama/French U.S. Total Market Index. Multifactor: The Dimensional US Adjusted Market 1 Index is designed to reflect the performance of the broader U.S. equity market, while emphasizing (maintaining higher weights to) companies with smaller capitalization, lower relative price, and higher profitability, excluding those with the lowest profitability and highest relative price within the small-cap universe. The index also excludes those companies with the highest asset growth within the small-cap universe. 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 Professors Eugene Fama and Kenenth French

While accurate to the strategy the index represents, the long-term outperformance might be a bit too kind. To wit, even the multifactor index shown in Figure 4 does not outperform the broader market all the time. As we've mentioned in prior commentaries, the historical realization, and ongoing risk, of underperformance of the factors is at the foundation of the reasons factors are considered premiums.

Nonetheless, we believe the multifactor basis for our portfolio composition ranks among the more strongly supported aspects of our work, with the decades of research and real-world investment experience underpinning the approach. While perseverance may be challenged over shorter-term time horizons, we find that both the intuition behind the incorporation of investment factors into portfolio construction and the historical data that tend to confirm that intuition continue to provide robust support for our chosen investment methodology.

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The Dimensional US Adjusted Market 1 Index is designed to reflect the performance of the broader U.S. equity market, while emphasizing (maintaining higher weights to) companies with smaller capitalization, lower relative price, and higher profitability, excluding those with the lowest profitability and highest relative price within the small-cap universe. The index also excludes those companies with the highest asset growth within the small-cap universe. The Dimensional US Adjusted Market 1 Index has been retrospectively calculated by Dimensional Fund Advisors and did not exist prior to March 1st, 2007. Accordingly, the results shown during the periods prior to March 1st, 2007 do not represent actual returns of the Index. Other periods selected may have different results, including losses. Backtested index performance is hypothetical and is provided for informational purposes only to indicate historical performance had the index been calculated over the relevant time periods. Backtested performance results assume the reinvestment of dividends and capital gains. The index monthly returns are computed as the simple average of the monthly returns of 12 sub-indices, each one reconstituted once a year at the end of each month of the year. The Index is unmanaged. Past performance is no guarantee of future results. The calculation methodology for the Dimensional US Adjusted Market 1 Index was amended on January 1st, 2014 to include profitability as a factor in selecting securities for inclusion in the index. The calculation methodology for the Dimensional US Adjusted Market 1 Index was amended in December 2019 to include asset growth as a factor in selecting securities for inclusion in the index. Dimensional Index data compiled by Dimensional.

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.

Price-to-book (PB) is a ratio that compares market capitalization to the value of corporate assets. Price-to-earnings (PE) is a ratio that compares market capitalization to corporate earnings. Price-to-sales (PS) is a ratio that compares market capitalization to corporate revenue. Dividend yields (DY) is a ratio that divides annual dividends by market price.

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.

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