

# CFA Society Chicago – Deep Value Investing

U.S. Value Equity  
December 2020

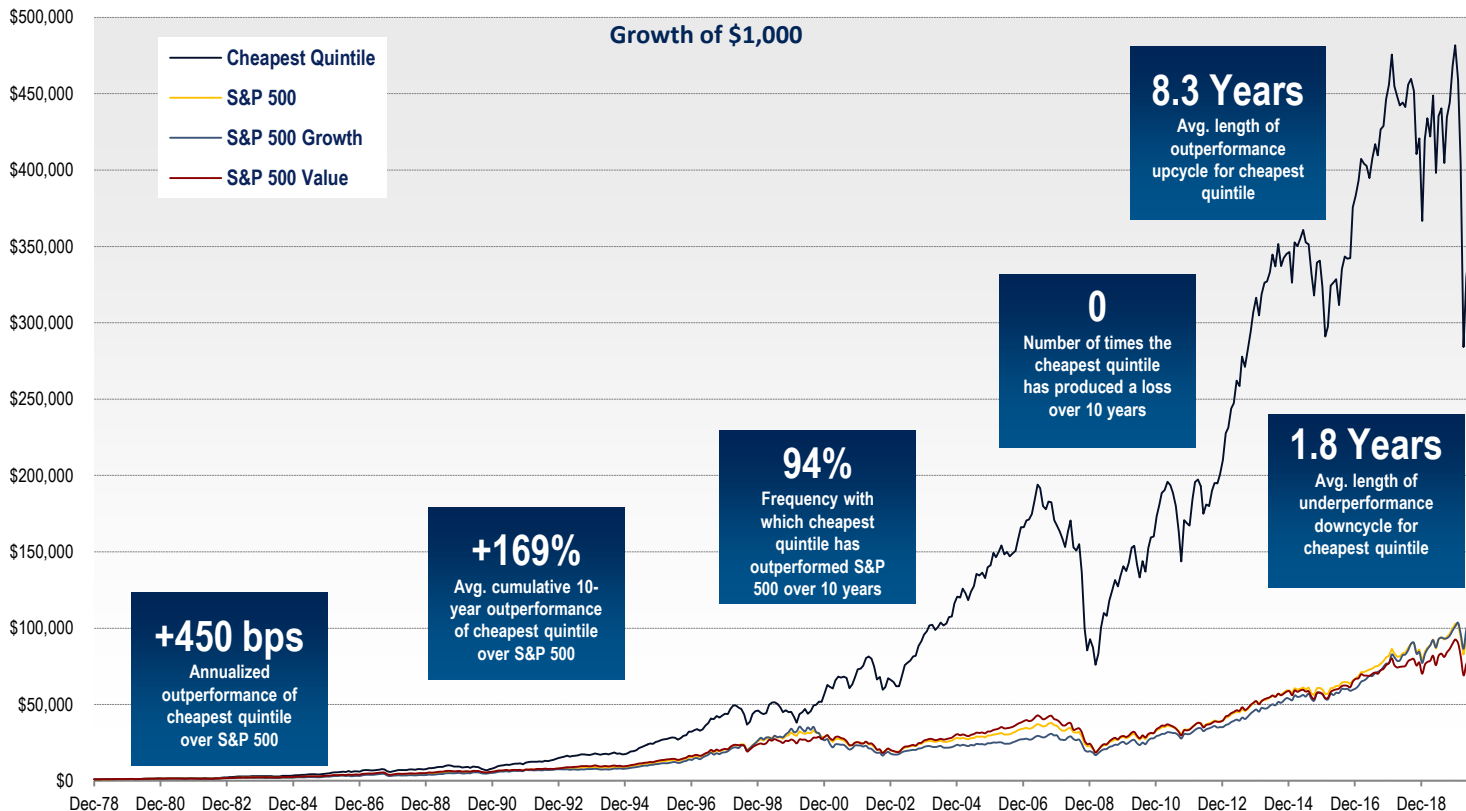
Presenter:  
Andrew Wellington



**Lyrical**  
ASSET MANAGEMENT

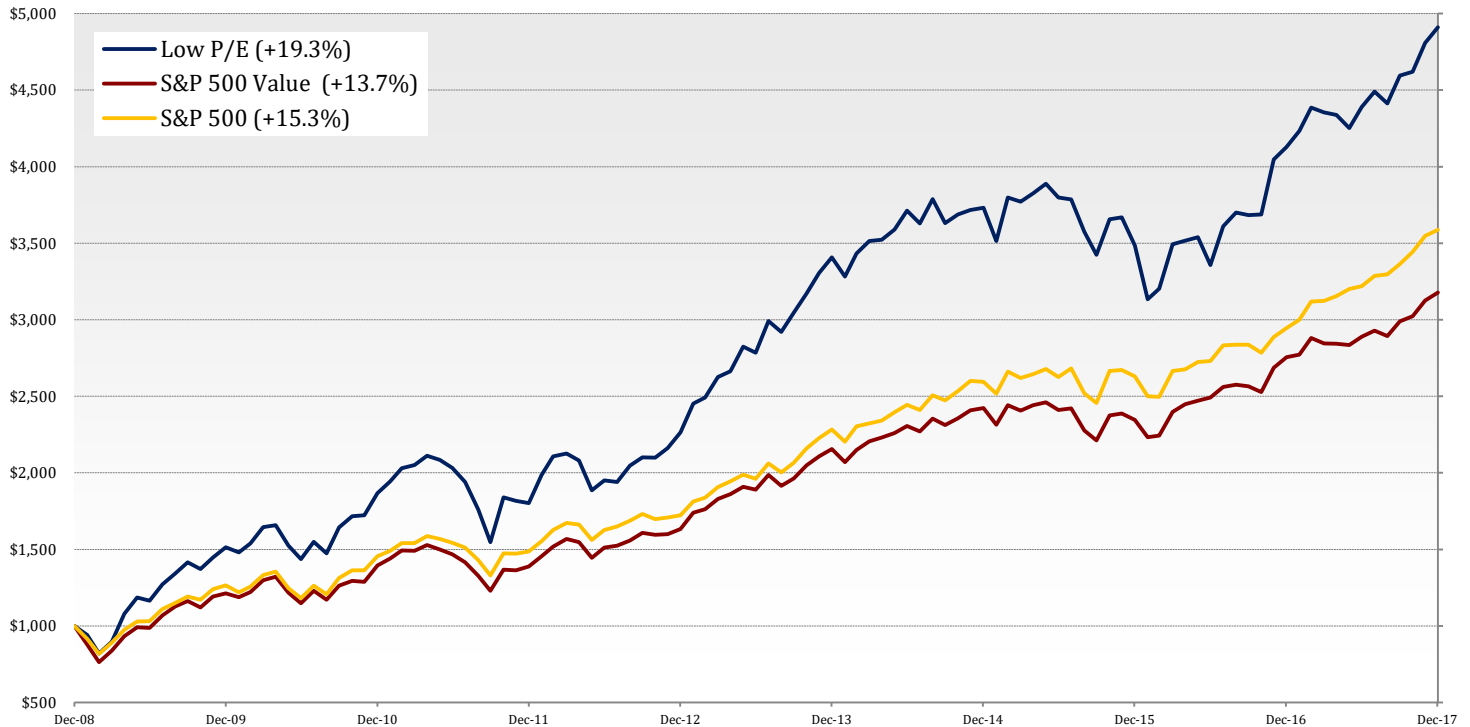
250 West 55<sup>th</sup> Street, 37<sup>th</sup> Floor  
New York, NY 10019  
T: 212.415.6600 F: 212.415.6699

# Why Value Stocks?



# Value Stocks Outperformed Even As The Value Index Did Not

## Growth of \$1,000: January 2009 – December 2017



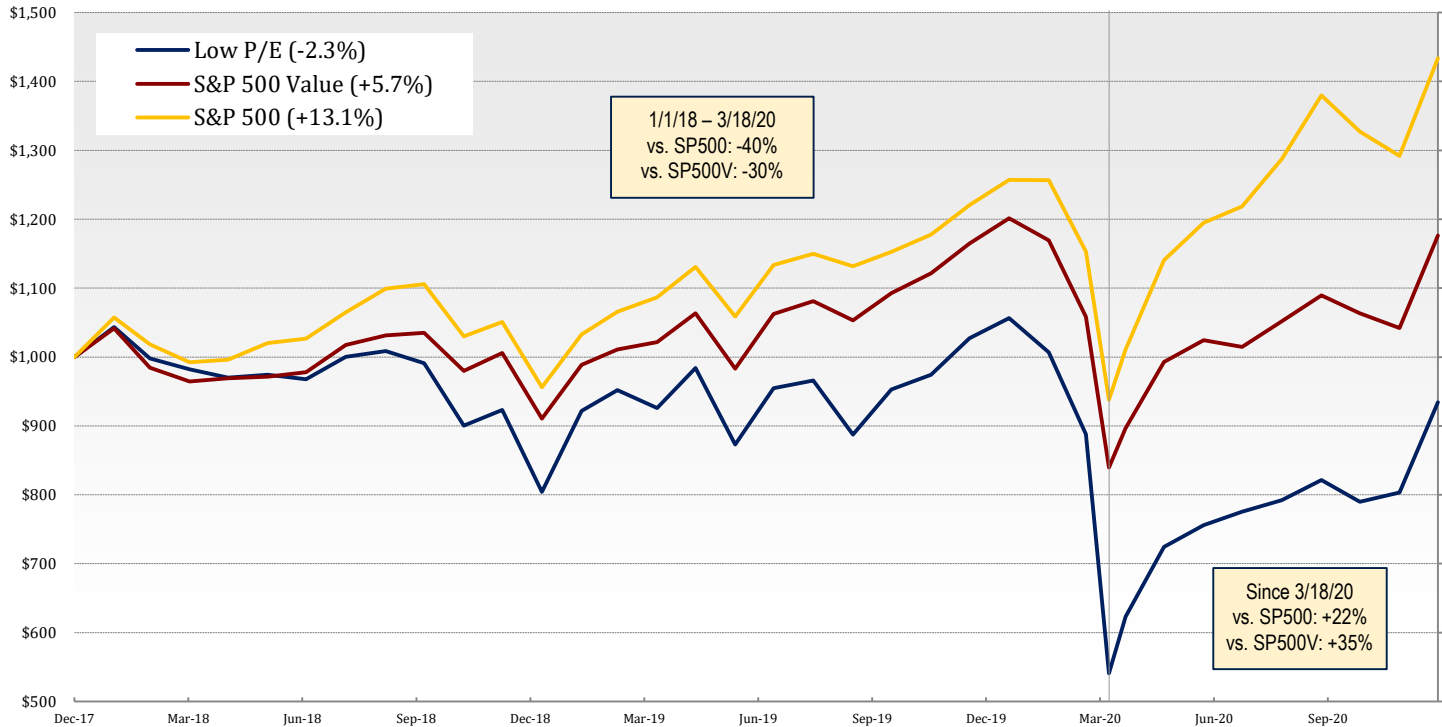
# You Can't Get Value From the Value Index

	Low P/E Quintile	S&P 500 Value
<b>Selection Universe</b>	1000 Largest Stocks	S&P 500
<b># of Holdings</b>	200	395
<b>Value Factor</b>	P/E (NTM)	P/B, P/E & P/S
<b>Growth Anti-Factor</b>	None	EPS, Sales & Momentum
<b>Weighting</b>	Equal Weighted	Capitalization Weighted
<b>Passive Share (S&amp;P 500)</b>	12%	62%
<b>Cum. Return ('98 – '20*)</b>	+845%	+333%
<b>Cum. Rel. Return ('98 – '20*)</b>	<b>+370%</b>	<b>-142%</b>

\*As of November 30, 2020, otherwise all data as of 12/31/19. Relative return vs. S&P 500

# Value Stocks Have Only Been Underperforming Since 2018

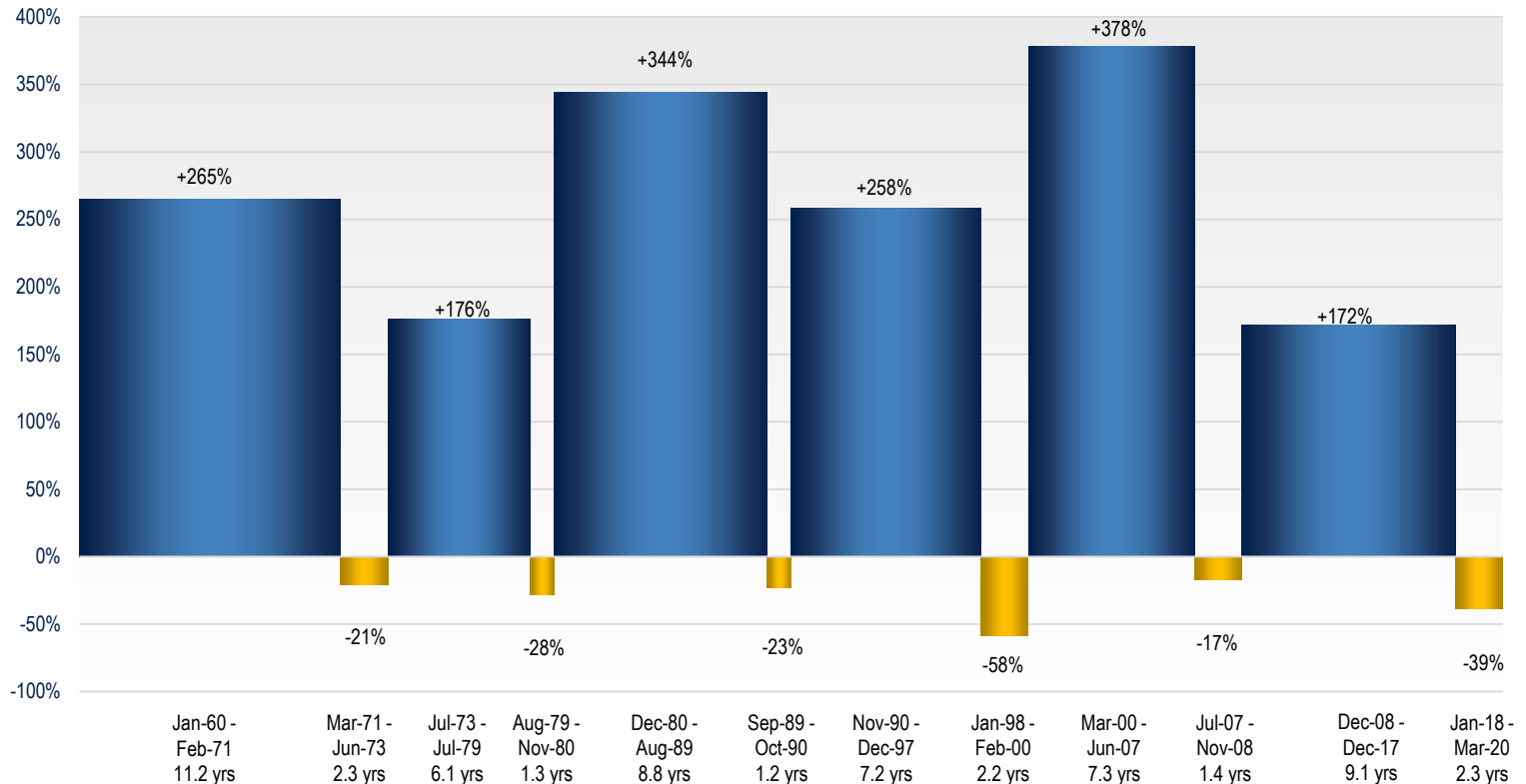
## Growth of \$1,000: January 2018 – November 2020



# History of Value Performance Cycles

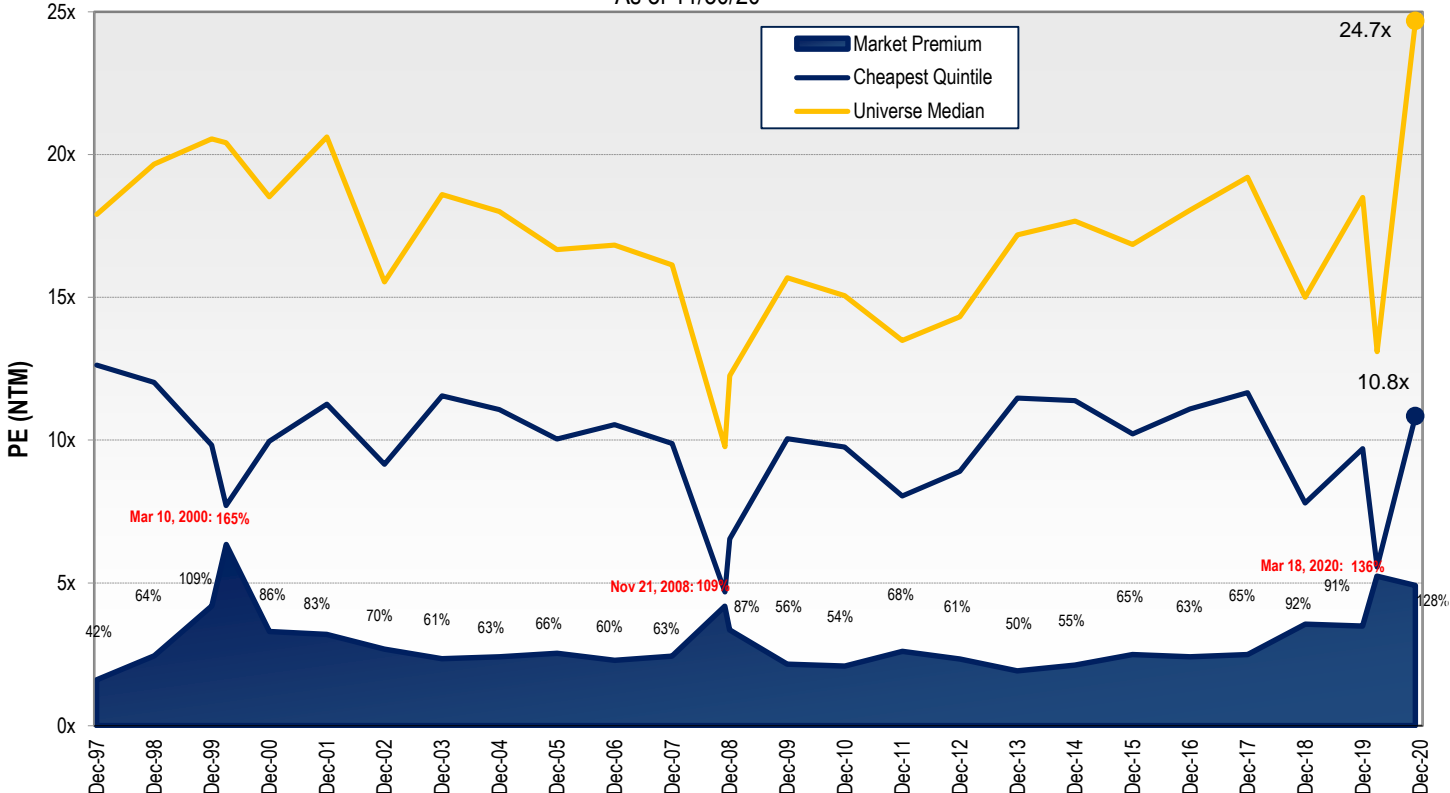
Start	End	Length (Yrs)	Cumulative			Annualized		
			Cheapest Quintile	S&P 500	Delta	Cheapest Quintile	S&P 500	Delta
Jan-60	Feb-71	11.2	477.9%	213.4%	+264.5%	17.0%	10.8%	+6.2%
Mar-71	Jun-73	2.3	-4.4%	16.3%	-20.7%	-1.9%	6.7%	-8.6%
Jul-73	Jul-79	6.1	206.4%	30.4%	+176.0%	20.2%	4.5%	+15.7%
Aug-79	Nov-80	1.3	17.4%	45.6%	-28.3%	12.8%	32.6%	-19.8%
Dec-80	Aug-89	8.8	606.0%	261.8%	+344.2%	25.0%	15.8%	+9.2%
Sep-89	Oct-90	1.2	-32.8%	-10.0%	-22.8%	-28.9%	-8.6%	-20.3%
Nov-90	Dec-97	7.2	544.5%	286.6%	+257.9%	29.7%	20.8%	+8.9%
Jan-98	Feb-00	2.2	-13.4%	45.0%	-58.4%	-6.4%	18.7%	-25.1%
Mar-00	Jun-07	7.3	402.4%	24.1%	+378.3%	24.6%	3.0%	+21.6%
Jul-07	Nov-08	1.4	-55.5%	-38.5%	-17.0%	-43.5%	-29.1%	-14.5%
Dec-08	Dec-17	9.1	434.2%	262.6%	+171.6%	20.3%	15.2%	+5.0%
Jan-18	Mar-20	2.3	-37.7%	1.1%	-38.8%	-19.0%	0.5%	-19.4%
<b>Total Period</b>		<b>60.3</b>	<b>391,624%</b>	<b>35,257%</b>	<b>+356,367%</b>	<b>14.7%</b>	<b>10.2%</b>	<b>+4.5%</b>
<b>Average Up Cycle</b>		<b>8.3</b>	<b>427.8%</b>	<b>152.2%</b>	<b>+275.6%</b>	<b>22.3%</b>	<b>11.8%</b>	<b>+10.5%</b>
<b>Average Down Cycle</b>		<b>1.8</b>	<b>-24.8%</b>	<b>5.4%</b>	<b>-30.2%</b>	<b>-14.8%</b>	<b>3.0%</b>	<b>-17.8%</b>

# 60+ Year History of Value Performance Cycles



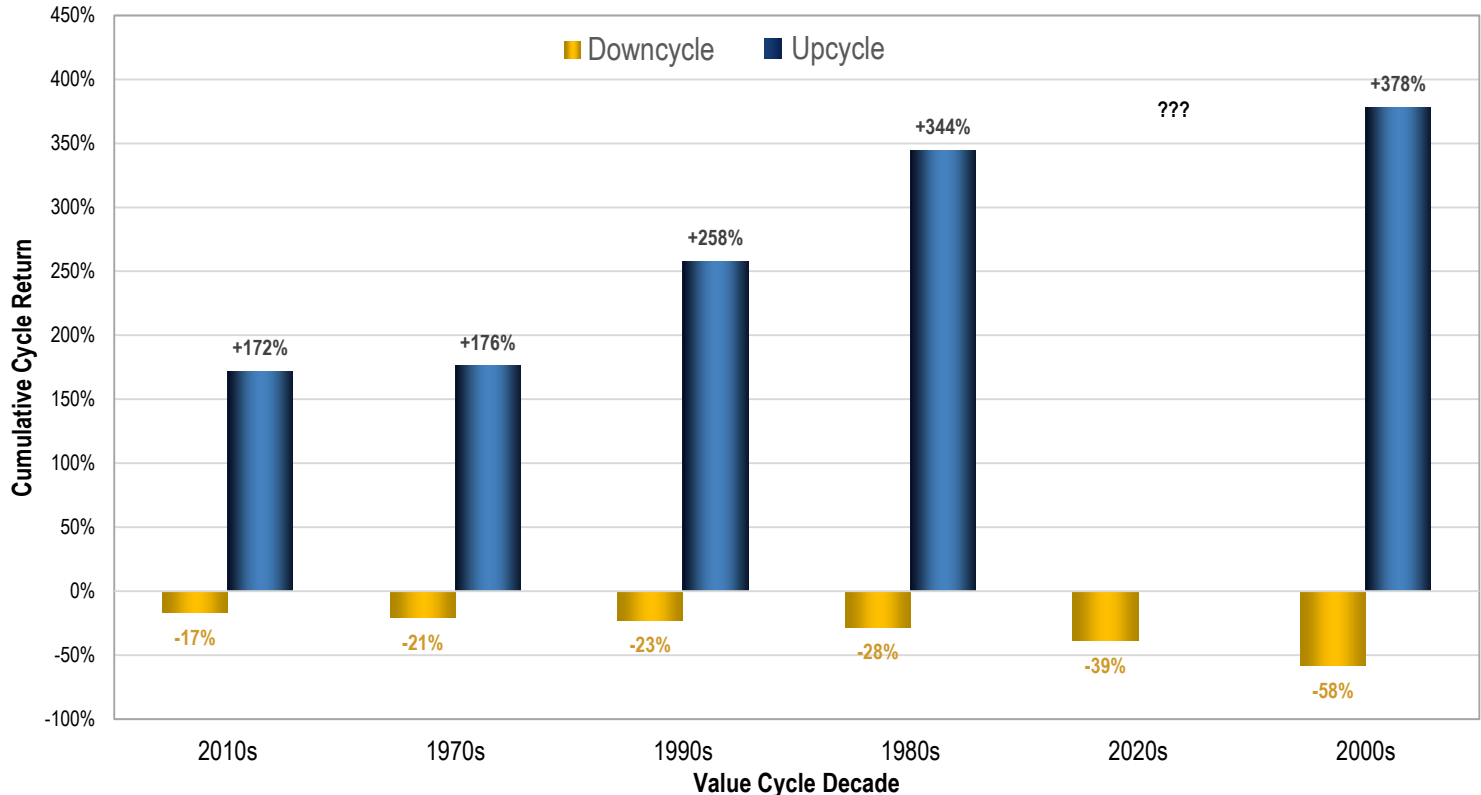
# Historical P/E Ratios and Valuation Spreads

As of 11/30/20



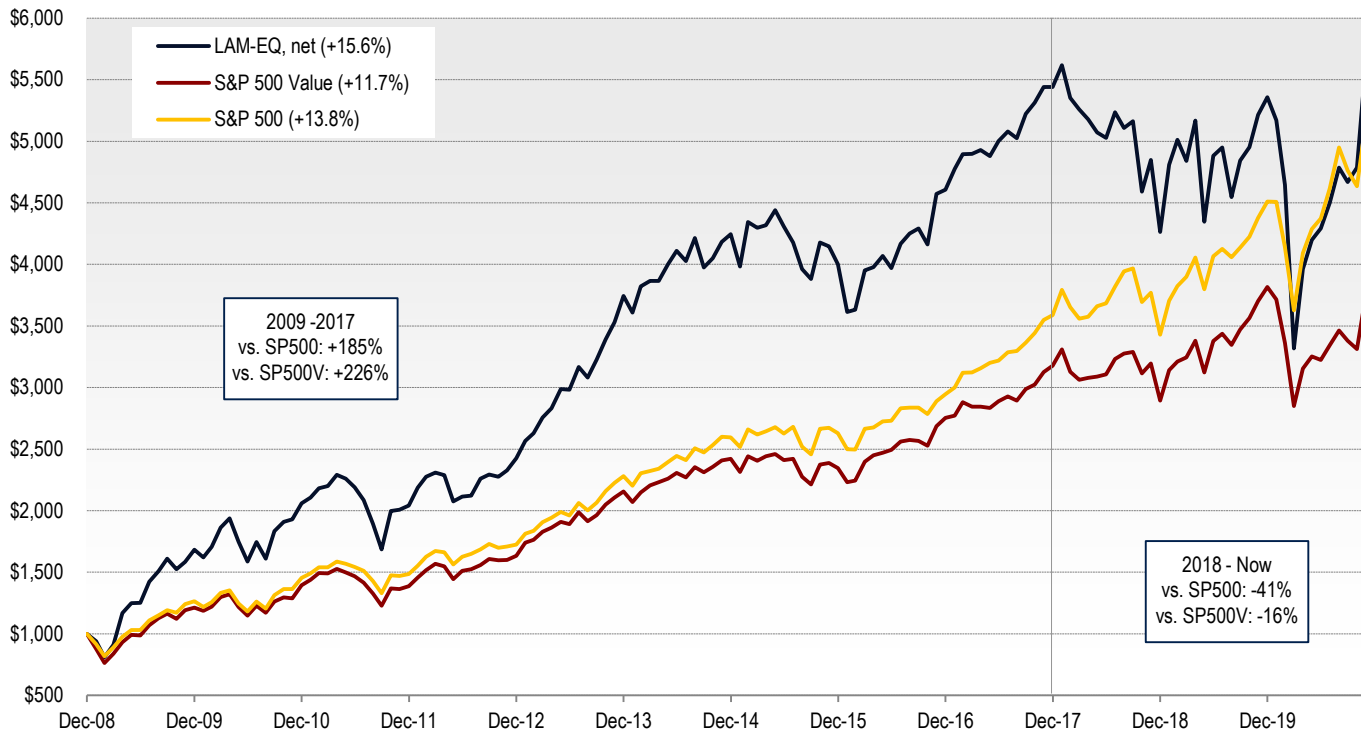


# Worse Down Cycles Have Led to Better Upcycles



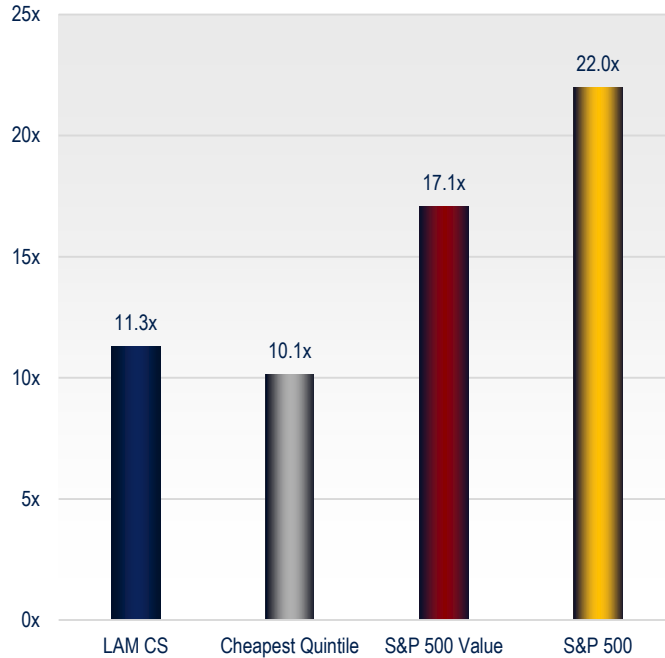
# Lyrical Historical Performance

Growth of \$1,000 Since LAM - EQ Inception (1/1/2009)

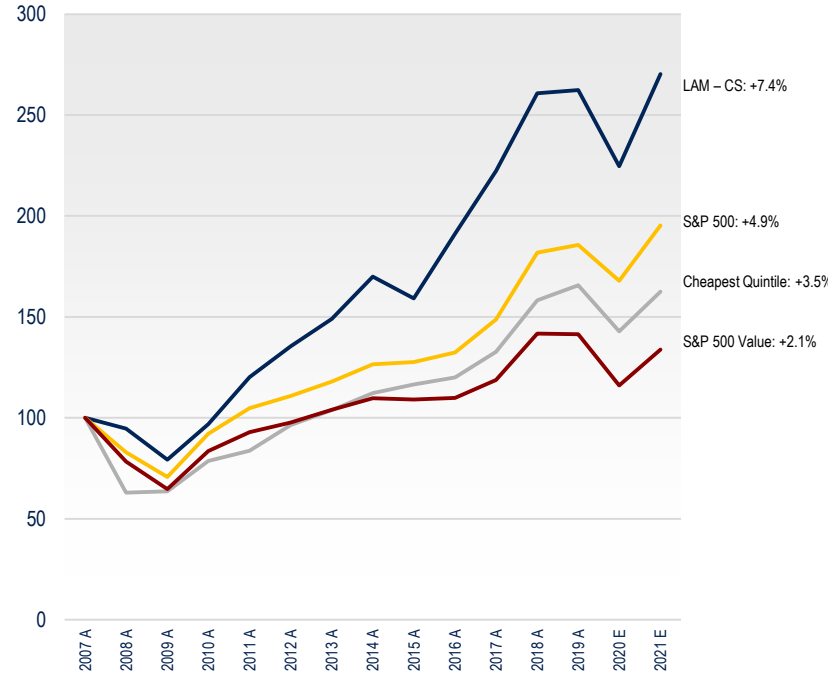


# Uncommon Combination of Deep Value and Growth

### Forward P/E Ratio



### Indexed EPS Growth



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MARKET DATA IS COURTESY OF FACTSET.

# Performance Notes – LAM U.S. Value Equity – EQ

These 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% base fee and a 20% incentive allocation for return over the S&P 500® Value subject to a high water mark provision.

Lyrical Asset Management LP ("LAM") claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. LAM has been independently verified for the periods from January 1, 2009 through December 31, 2019. The verification reports are available upon request. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with GIPS standards. Verification does not ensure the accuracy of any specific composite presentation. LAM is a U.S.-based registered investment adviser that provides financial services to individual and institutional investors.

The U.S. Value Equity Composite - EQ reflects all similar managed equity accounts, managed using LAM's equally weighted methodology. All accounts are fully discretionary. Average market capitalization of the securities traded in the accounts in this composite is similar to that of the S&P 500® Value index. Effective 5/21/2020, the benchmark was changed retroactively to the S&P 500® Value Index. The agreement with the licensor of the prior index concluded on that date. For the entire period, the investment guidelines and objectives of the portfolios represented herein remained the same. The U.S. Value Equity - EQ composite was created January 1, 2009. A list of composite descriptions is available upon request. Further composite information is as follows:

Period	U.S. Value Equity - EQ		S&P 500 Value Total Return	# of Portfolios at End of Period	Composite Dispersion*	Composite 3-Year Standard Deviation (Annualized)	Benchmark 3-Year Standard Deviation (Annualized)	Total Composite Assets at End of Period (\$ Million)	Strategy Assets (\$ Million)		Additional Non-Discretionary Assets (\$ Million) (Supplemental Information)	Non-Fee Paying Accounts as % of Composite
	Total Return Gross of Fees	Total Return Net of Fees							Total Firm Assets (\$ Million)	(Supplemental Information)		
2009	80.0%	67.3%	21.2%	3	N/M			12.04	12.36	12.36	0.00	8.8%
2010	25.2%	22.4%	15.1%	6	N/M			32.52	81.31	81.31	0.00	4.1%
2011	-0.2%	-1.0%	-0.5%	13	N/M	32.6%	21.1%	316.23	316.23	316.23	0.00	1.8%
2012	19.7%	18.7%	17.7%	12	0.7%	23.5%	15.8%	303.86	352.86	352.86	0.00	0.9%
2013	60.7%	54.1%	32.0%	92	0.3%	18.3%	13.0%	1,093.00	1,527.58	1,582.00	0.00	0.5%
2014	14.2%	13.2%	12.4%	225	0.6%	12.8%	9.5%	1,691.76	2,567.76	3,297.00	0.00	0.4%
2015	-5.0%	-5.7%	-3.1%	242	0.6%	14.2%	10.6%	2,495.09	3,055.73	4,141.50	69.71	0.3%
2016	16.0%	15.1%	17.4%	220	0.4%	15.5%	10.7%	2,376.04	3,402.07	5,671.92	195.74	0.3%
2017	19.0%	18.1%	15.4%	233	1.2%	14.2%	10.3%	2,814.65	4,432.54	8,318.37	432.70	0.4%
2018	-21.0%	-21.6%	-9.0%	193	1.1%	15.7%	11.0%	2,872.88	3,110.59	6,750.83	493.19	0.4%
2019	26.5%	25.6%	31.9%	117	1.2%	20.0%	12.7%	2,808.81	2,943.70	7,433.97	500.35	1.9%

\*Includes only those accounts that were in composite for the entire year. N/M = Not Meaningful

Composite policy requires the temporary removal of any portfolio incurring a client initiated cash inflow or outflow of at least 5% of portfolio assets. Additional information regarding the treatment of significant cash flows is available upon request.

Results are U.S. dollar-based, measured internally based upon trade-date accounting, and include the reinvestment of dividends and interest. The composite is valued monthly, and time-weighted portfolio returns are asset-weighted using beginning-of-month market values. Annual and annualized periods are calculated based upon geometrically-linked monthly returns. The dispersion of annual returns is measured by the standard deviation across equal-weighted portfolio returns represented within the composite for the full year. For those composites that are comprised of fewer than six portfolios, composite dispersion as measured by standard deviation is not meaningful. Policies for valuing portfolios, calculating performance and preparing compliant presentations are available upon request.

# Important Notes

## Index Information:

The S&P 500 Index is a market capitalization weighted index comprised of 500 widely-held common stocks.

The S&P 500 Value Index measures the performance of the large cap value segment of the U.S. equity universe. It includes those S&P 500 companies with lower price to book ratios and lower expected growth values. The S&P 500 Value Index is constructed to provide a comprehensive and unbiased barometer of the large cap value segment. The index is completely reconstituted annually to ensure new and growing equities are included and that the represented companies continue to reflect value characteristics.

The S&P 500 Growth Index measures the performance of the large cap growth segment of the U.S. equity universe. It includes those S&P 500 companies with higher sales growth, ratio of earnings change to price, and momentum. The S&P 500 Value Index is constructed to provide a comprehensive and unbiased barometer of the large cap growth segment. The index is completely reconstituted annually to ensure new and growing equities are included and that the represented companies continue to reflect value characteristics.

## History of Value Performance (Slide 2 - 9)

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 we use the methodology described in the Notes to Slide 2 set forth below.

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. The universe average is the simple average total return of the 1,000 stocks over the period presented. The returns reflected in the charts are annualized. This does not reflect the experience of any investor.

## Cheapest Quintile NTM P/E Ratios (Slide 11)

This chart uses the cheapest quintile methodology described in the Notes to Slide 2 set forth above.

## Indexed EPS (Slide 11)

This chart depicts the historical change of earnings per share of the companies in the LAM U.S. Value Equity strategies as of November 30, 2020 using current composite weights as of all November 30, 2020, and the change in earnings per share of the S & P 500 Index over the same period. Actual weights of such holdings varied over time. Earnings per share is computed using consensus earnings data per FactSet, which include certain adjustments from reported, GAAP earnings. Periods marked with an "E" include estimated earnings per share. The R-squared data shows the correlation to the dotted best fit line, and is indicative of the stability of earnings over the period shown.