

# Meritage

## Small Cap Growth Equity

The Meritage Small Cap Growth Equity strategy was established in 2008, capitalizing on the firm's conviction in quantitative methodologies to drive security selection.

**The investment approach is quantitatively driven by the Meritage multi-factor ranking process which identifies attractive companies with reasonable valuations and above-average cash flow returns on invested capital. Earnings quality, investor sentiment, business momentum, capital efficiency and growth factors provide a collective assessment of upside opportunity based on historical correlations. The combination of these multiple perspectives results in a broad corroboration of appreciation opportunities in small-cap stocks. A qualitative assessment comes in at a secondary level, focused on non-quantitative aspects with regard to financial quality and portfolio diversification.**

### Core Beliefs

- Market inefficiencies and return opportunities are greater in small cap stocks.
- Small caps stocks provide diversification to currency exposure, geopolitical events, trade policy, and large-cap momentum driven markets.
- A systematic, factor-based security selection process is highly efficient for identifying companies that score the best across a set of pre-defined characteristics.
- A distinctive process to identify and assess investment opportunities is crucial in order to produce differentiated results.

### Key Facts

Inception:	December 31, 2008
Benchmark	Russell 2000 Growth
Firm AUM	\$1.8 Billion as of 12/31/19
Total Strategy Assets	\$5.7 million
Firm Associates	17

# Meritage Small Cap Growth Equity Investment Process

## Small cap universe defined by market cap range

between \$150mln and \$5.0B, financial quality of C+ or better, and minimum weekly trading value of \$1mln.

**6500 securities reduced to 2700**

**A sell discipline** is primarily driven by the deterioration in a stock's multi-factor rank.

**5-Yr. historical turnover approximately 85%**



## Multi-factor ranking process combines two independent perspectives:

1) Factor correlation that spreads across valuation, investor sentiment, business momentum and capital efficiency and growth factors; 2) Intrinsic valuation.

**Top ranked candidates (6%) form primary buy list**

**Qualitative assessment follows,** focused on risk control with regard to portfolio diversification and financial quality.

**Portfolio construction 80 – 110 securities**

## Portfolio Construction

- Sector diversification: Moderately sector neutral; Alpha driven primarily from security selection
- Non-U.S. holdings limited to 20% of portfolio value
- No quant-engineered ex-ante tracking error target or risk optimization
- Cash balances are primarily frictional
- Portfolio characteristics controlled within ranges relative to benchmark
- Top ten holdings will typically not exceed 20% of portfolio value

# Meritage Small Cap Growth Equity Performance

## Annualized Returns (%)

Periods Ending 12/31/2019

	QTR*	1 Year	3 Years	5 Years	10 Years
<b>Meritage Small-Cap Growth Equity Gross</b>	10.8	22.8	10.1	9.6	13.8
<b>Meritage Small-Cap Growth Equity Net<sup>1</sup></b>	10.6	21.8	9.1	8.6	12.8
Russell 2000 Growth Index	11.4	28.5	12.5	9.3	13.0

\*Unannualized results.

## Calendar Year Returns (%)

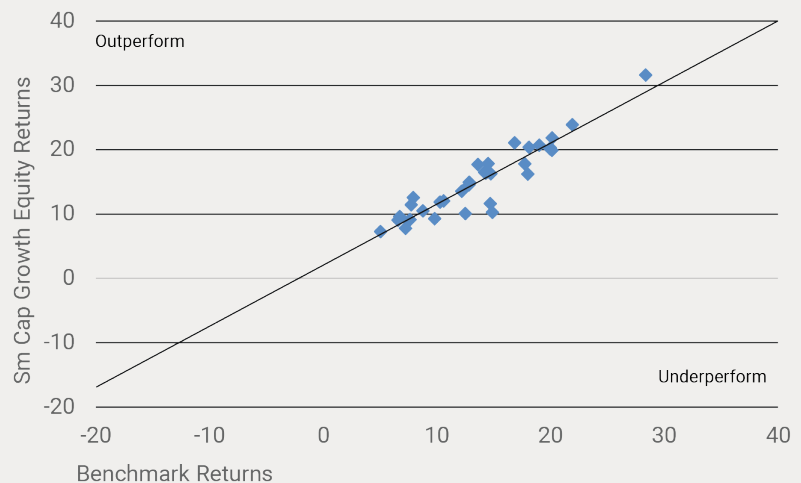
	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
<b>Meritage Small Cap Growth Equity Gross</b>	22.8	-8.1	18.1	15.4	2.6	4.2	47.4	17.8	2.2	24.8
<b>Meritage Small Cap Growth Equity Net<sup>1</sup></b>	21.8	-8.9	17.1	14.4	1.7	3.3	46.2	16.8	1.4	23.7
Russell 2000 Growth Index	28.5	-9.3	22.2	11.3	-1.4	5.6	43.3	14.6	-2.9	29.1

<sup>1</sup>The standard Meritage small-cap fee of 0.875%/year is modeled into results. Fee breaks at higher asset levels are not reflected.

### Consistency of Returns

**Rolling 3-Year Periods vs.  
Russell 2000 Growth Index**  
Exceeds benchmark 82% of periods  
For Periods 12/31/2008 to 12/31/2019

◆ Meritage — Russell 2000 Growth Index



Performance figures gross of fee. This information is presented as supplemental information to the GIPS Composite Report included at the end of this presentation.

# Meritage Small Cap Growth Equity Portfolio

Period Ending 12/31/2019

## Sector Diversification (%)

	Strategy	Index
Energy	0.0	0.6
Materials	0.0	3.1
Industrials	17.8	18.9
Consumer Discretionary	15.0	12.0
Consumer Staples	3.5	3.3
Health Care	33.4	30.5
Financials	5.1	5.7
Information Technology	22.8	17.3
Communication Services	2.4	2.4
Utilities	0.0	1.5
Real Estate	0.0	4.6
Market ETFs	0.0	0.0

## Top Ten Holdings (%)\*

Amedisys	2.6
Advantest Sp ADR	2.2
WNS Holdings Ltd ADR	1.9
Helen of Troy	1.8
Generac Holdings	1.8
Atkore Intl Group	1.7
Deckers Outdoor	1.7
National Healthcare	1.7
Fabrinet	1.7
AudioCodes	1.6

\* Not including periodic use of sector/market ETF's

This information is presented as supplemental information to the GIPS Composite Report included at the end of this presentation. Portfolio information is for a representative account.

## Portfolio Characteristics

	Strategy	Index
Risk (5 Yr Beta)	0.65	1.00
Price/Oper Earnings	24.1	31.3
Price/Cash Flow	19.8	23.5
CFROI	19.5	10.9
5-Yr Earnings Growth Est	12.0	17.5
Non-U.S. Holdings (%)	17.7	3.2
Dividend Yield (%)	0.6	0.7
MPM Growth Score	24	48
Wghtd Avg Mkt Cap (\$bil)	3.1	2.8
Median Mkt Cap (\$bil)	2.2	0.9

## Market Cap Distribution (%)

	Strategy	Index
> \$3 Billion	40	40
\$1 - \$3 Billion	36	47
< \$1 Billion	24	13

## Up/Down Capture Ratio 5 yrs (%)

Small Cap Growth Up	76
Small Cap Growth Down	61

# Why the Meritage Small Cap Growth Equity Strategy?

Having a process to make decisions is the first criteria of what distinguishes successful investors

- Strong results and attractive historical risk characteristics as measured by Sharpe Ratio and Upside/Downside figures
- Quantitative approach incorporates earnings quality, business momentum, capital efficiency and growth factors.
- Single decision maker since the strategy's inception, supported by a seasoned and stable Investment Team
- Competitive fee

## Fee Schedule (%)

\$1,000,000 to \$2,500,000	0.875
\$2,500,000 to \$5,000,000	0.750
\$5,000,000 to \$10,000,000	0.625
\$10,000,000 and above	0.500

# Meritage Small Cap Growth Equity Investment Team



**Leonard C. Mitchell, CFA**  
Principal, Senior Portfolio Manager

Len is a Principal and serves as the lead manager of the Meritage Growth Equity and Small Cap Growth Equity strategies. Len has over 35 years of investment experience. Len began his investment career as an oil and energy analyst.

Len serves as a primary contact on many of the firm's private and institutional relationships. He received his B.A. in Accounting and M.B.A. from Texas Christian University with Honors.



**Sharon L. Divine, CFA**  
Principal, Senior Portfolio Manager  
and Director of Quantitative Research

Sharon is a Principal and serves as the lead manager of the Meritage Small Cap Value Equity strategy. She leads the development of the quantitative aspects of the firm's equity investment process and serves as a primary contact for many of the firm's clients. Sharon has over 30 years of investment experience in portfolio management and investment analysis.

Sharon received her B.B.A. with emphasis in Computer Science and M.B.A. in Finance from the University of Missouri-Kansas City with Honors.



**John M. Wallis, CFA**  
Director of Qualitative Research

John leads the qualitative analysis component of the firm's equity investment process. He also manages the firm's macroeconomic environment analysis. John has 25 years of institutional experience in portfolio management, publicly traded security analysis and private investment analysis.

John has a B.S. degree from Arizona State University and an M.B.A. in Finance from Avila University, Kansas City, Missouri.

# Meritage Small Cap Growth Equity

## GIPS Composite Report



Meritage Small Cap Growth Equity Returns				Annualized Ex-Post		Composite Assets			
Year Ending	Total Gross Asset-Wtd.	Total Net Asset-Wtd.	R2000G* Benchmark	Gross Composite 3-Yr St Dev	Benchmark 3-Yr St Dev	Number of Portfolios	Asset-Wtd. Internal Dispersion	End of Period (MM)	Firm Assets (Mln)
12/31/10	24.8%	23.7%	29.1%	<3 Years	<3 Years	<6	N/A <sup>1</sup>	0.2	932.5
12/31/11	2.2%	1.4%	-2.9%	23.47%	24.31%	<6	N/A <sup>1</sup>	0.2	935.1
12/31/12	17.8%	16.8%	14.6%	18.36%	20.72%	<6	N/A <sup>1</sup>	0.2	1,113.1
12/31/13	47.4%	46.2%	43.3%	16.00%	17.27%	<6	N/A <sup>1</sup>	0.2	1,305.0
12/31/14	4.2%	3.3%	5.6%	13.18%	13.82%	<6	N/A <sup>1</sup>	0.2	1,593.3
12/31/15	2.6%	1.7%	-1.4%	13.32%	14.95%	<6	N/A <sup>1</sup>	0.3	1,528.3
12/31/16	15.4%	14.4%	11.3%	14.04%	16.67%	<6	N/A <sup>1</sup>	0.3	1,513.8
12/31/17	18.1%	17.1%	22.2%	12.30%	14.60%	<6	N/A <sup>1</sup>	0.4	1,646.6
12/31/18	-8.1%	-8.9%	-9.3%	14.02%	16.46%	8	N/A <sup>1</sup>	5.1	1,530.2
12/31/19	22.8%	21.8%	28.5%	13.81%	16.37%	<6	N/A <sup>1</sup>	2.0	1,810.4

N/A<sup>1</sup> - Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year.

### Annualized Returns (%)

Periods Ending 12/31/2019

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# Meritage Small Cap Growth Equity

## GIPS Composite Report

### Composite Description:

The Meritage Small Cap Growth Equity composite is an actively managed small-cap growth equity strategy that evaluates companies with capitalization levels within the small cap parameters set by the Russell 2000 index and is driven by Meritage's value-centric and growth quantitative process. Portfolio holdings focus on companies that exhibit attractive sustainable growth and above average cash flow/return on investment. The Manager combines experienced-based qualitative fundamental analysis with the firm's proprietary multi-factor models. The benchmark is the Russell 2000 Growth index.

### Benchmark Description:

The Russell 2000 Growth index is a market-cap weighted index and measures the performance of the small-cap growth segment of the U.S. equity universe.

### Definition of the Firm:

Meritage Portfolio Management is an independent investment management firm that is not affiliated with any parent organization.

### Basis for Composites:

Meritage Portfolio Management's Small Cap Growth Equity Composite, created on December 31, 2008, is composed of managed, fully discretionary accounts managed in the Meritage Small Cap Growth Equity strategy. The composite inception date is 12/31/2008. From inception through June 30, 2018 all accounts in the composite were non-fee-paying. As of December 31, 2018, 5.5% of the assets in the Small Cap Growth Equity composite were non-fee paying. As of December 31, 2019, 17.0% of the assets in the Small Cap Growth Equity composite were non-fee paying.

### Fees:

Returns are presented gross and net of management fees. Gross-of-Fees performance returns are presented before management fees. Net-of-Fees performance returns are calculated by deducting Meritage Portfolio Management's standard fee rates from the gross composite return on a monthly frequency. This produces a compounding effect on the total rate of net return. Other fees reflected in both gross and net returns include withholding taxes. Withholding taxes on foreign-based investments have been deducted from both gross and net performance, contingent on how the withholding information is received from the firm's independent third party pricing source. Once withholding tax information is received from the custodian, performance is trued up to be consistent with what the custodian withheld.

### Meritage Portfolio Management's standard fee schedules are as follows:

For Equity Strategy Composites the standard fees are: 0.875% on the first \$2,500,000; 0.75% on the next \$2,500,000; 0.625% on the next \$5,000,000; and 0.50% on assets over \$10,000,000.

Actual investment management fees incurred by clients may vary.

### Calculation Methodology:

Returns from cash and cash equivalents held in portfolios are included in total return calculations. Total return includes realized and unrealized gains and losses, plus reinvestment of income. Gross-of-Fees returns are calculated before the deduction of investment management fees and after the deduction of direct trading expenses. Net-of-Fees returns are calculated after the deduction of Meritage Portfolio Management's standard investment management fee rates and direct trading expenses. Both gross-of-fees and net-of-fees returns are calculated after or before the deduction of withholding taxes on foreign dividends, contingent on how the withholding tax information is received from our independent third party pricing source. Accounts may be subject to customized commission schedules.

Policies for valuing investments, calculating performance, and preparing GIPS reports are available upon request. Past performance is no guarantee of future results.

### Currency:

Returns are calculated and presented in U.S. dollars.

eVestment universe returns, benchmark indices and related statistics are presented Gross-of-Fee.

A complete list and description of Meritage Portfolio Management's composites is available upon request.

Meritage Portfolio Management claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Meritage Portfolio Management has been independently verified for the periods December 31, 2000 through June 30, 2019.

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 the GIPS standards. The Meritage Small Cap Growth Equity composite has been examined for the periods December 31, 2008 through June 30, 2019. The verification and performance examination reports are available upon request.

\*Russell 2000 Growth Index





Meritage Portfolio Management is an institutionally based investment management firm, providing asset management and wealth management services for individuals, families, foundations, corporations and qualified retirement plans. The firm manages \$1.8 billion in assets for local, regional, and national clients from its base in Overland Park, Kansas.

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