SKBA Market Perspectives

March 31, 2021

Pendulums Part II
Signs of Life for Value

| Pendulums

Pendulum [pen-juh-luh m, pen-duh-luh m]

Something that tends to move from one position, condition, etc., to the opposite extreme and then back again.

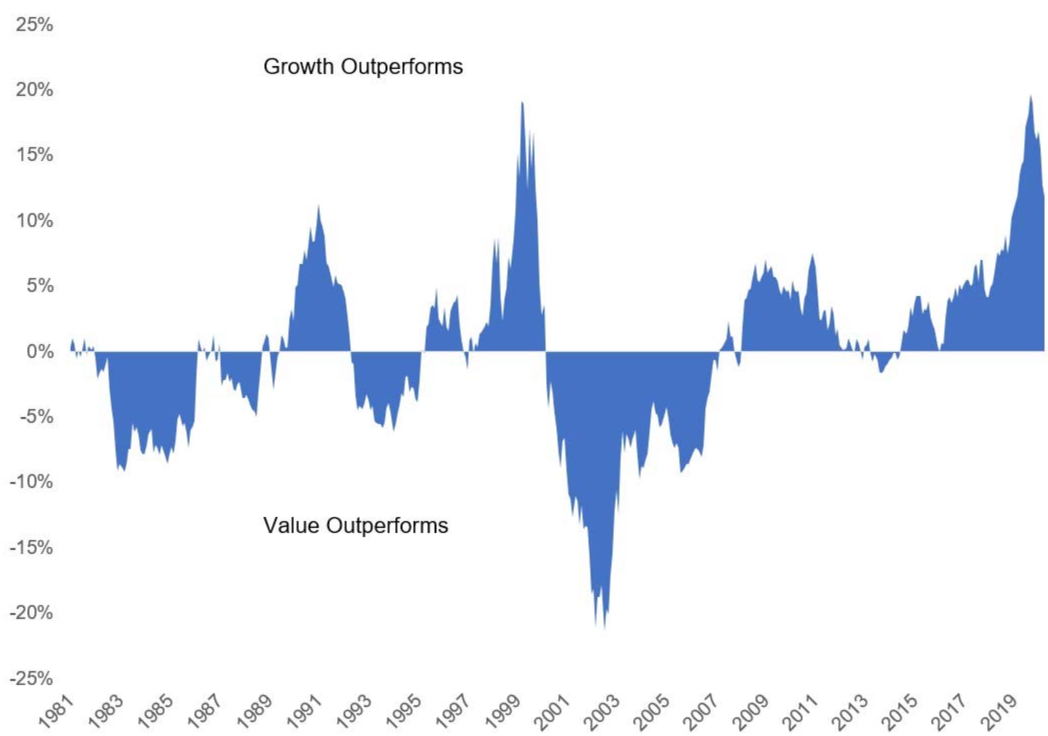
For some time now we have expressed how we see similarities in the current market environment to that in the late 1990s. Both represent periods where Growth outperformed Value considerably as you can see below. But also, there are a number of anomalies present that have pushed the pendulum to extremes that are eerily familiar: excessive valuations, sector/industry index concentration and stock specific index concentration.

Since the market lows on March 23, 2020 we've seen a resurgence in Value that gained momentum in the fourth quarter of 2020 and continued in the first quarter of this year. What we are witnessing, just as we did in the late '90s, is the reversal of factors that contributed to the relative outperformance of growth stocks. The market has recently shown its preference for companies that have been ignored, companies that we believe offer desirable fundamental and valuation attraction. In fact, should history repeat itself, and we think it could, we believe we are at the very early stages of a long-term change in preference for actively managed value strategies such as SKBA's Value*Plus* and Socially*Responsible* Value portfolios.

| We've Seen this Story Before… Rolling 3 Year Annual Return Difference of Growth vs. Value: 1979-2021

(Russell 1000 Value vs. Russell 1000 Growth Indices)

It can be hard to remember at times, but returns for Value and Growth are cyclical.



Source: Ben Carlson. "The Growth-Value Cycle" A Wealth of Common Sense, April 5, 2021, awealthofcommonsense.com /2021/04/the-growth-value-cycle/, April 13, 2021.

| Echoes of Bubbles Past…

Before the pandemic, we at SKBA frequently commented on the unmistakable signs of market extremes as Value underperformed not only "Growth", but also "core". Such was the case as fewer and fewer growth-oriented stocks came to dominate what were once considered to be diversified, broad market indices – like the S&P 500 Index. The impact of the forced closure of the US and global economies only threw fuel on the fire as Value, having little connection of "shelter in place" activities, failed to provide traditional downside protection. The divide further widened as growth oriented portfolios massively outperformed in 2020.

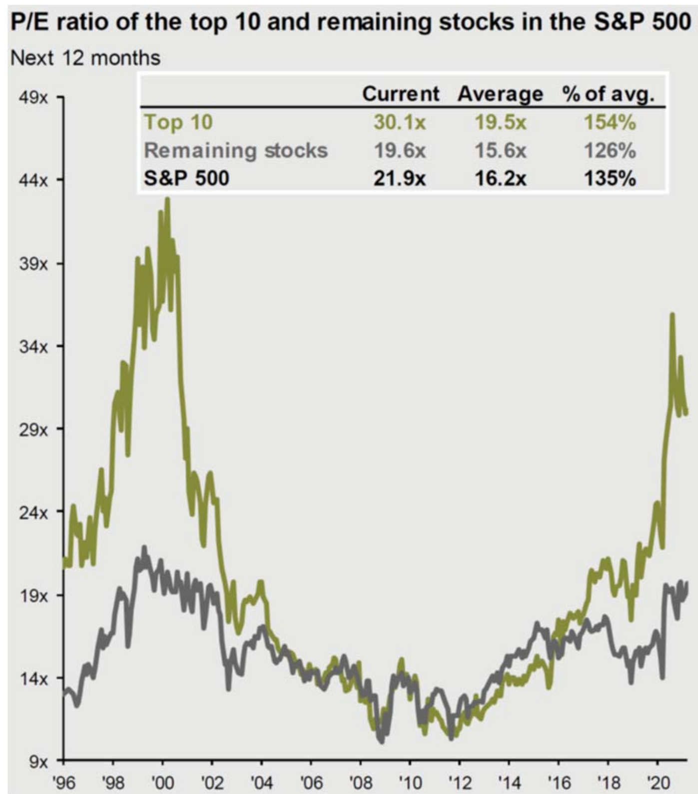
For the year as a whole, 2020 proved to be challenging as typical behaviors did not initially repeat. The common refrain was "Value underperformed Growth! Therefore, this must be the end of Value investing. And it must also be the end of Active management." Yet through it all, we stated how this was among the best environments we had seen in years, and it was so precisely because the prevailing wisdom was that Value AND Active management were going the way of the Dodo. Yet, the pendulum swings both ways, changing direction at extremes, and once it does, it continues to do so for some time.

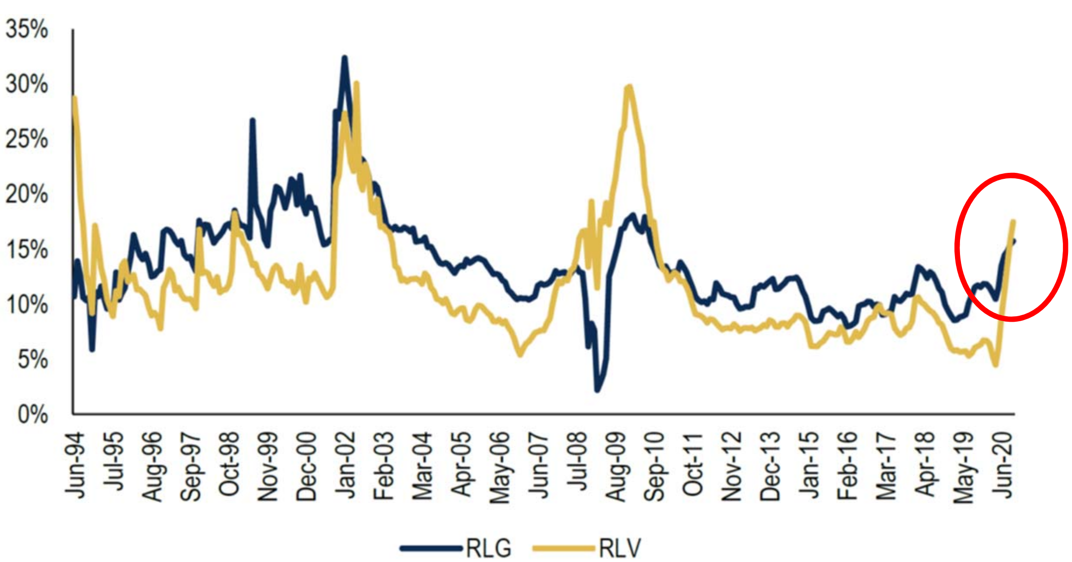
Even with Value's resurgence in 4Q20 and 1Q21, many of these extremes have yet to completely unwind. Yet, the pendulum will swing, as it always does. In our opinion, the likelihood for Value to continue its outperformance for an extended period of time becomes greater and greater.

Market valuations, as measured by the P/E ratio shown to the right, remain excessive by our estimation. But even more so when you look at the largest stocks in the S&P 500, the same that have been the primary driver to returns for both Growth and the broad market.

| As of March 31, 2021

Source: J.P. Morgan Asset Management, "Guide to the Markets - U.S. I 2Q 2021 I As of March 31, 2021" (FactSet and Standard & Poor's).





| Next 24-month aggregate earnings growth for the Russell 1000 Value vs Growth (1994-Present) as of November 24, 2020

Source: FactSet; BofA Securities, BofA US Equity & Quant Strategy "US Equity Strategy Year Ahead" November 24, 2020

Wall Street's estimated earnings growth for value stocks over the next 24 months now tops Growth stocks'.

| Why Pay Up?

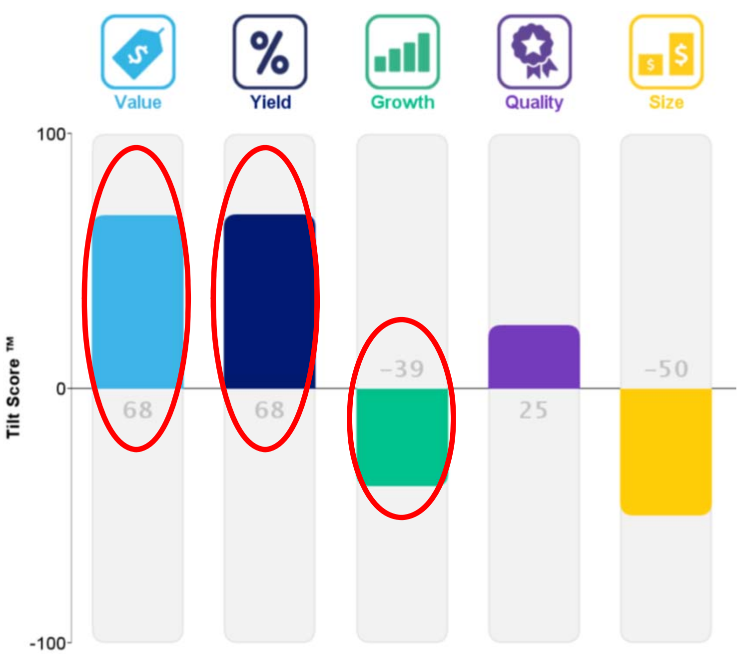
Recently, future growth expectations for Value stocks, as represented by the Russell 1000 Value Index, surpassed that of their Growth counterparts as shown above. The Value areas of the market now remain one of the few fair to undervalued investment opportunities when looking at valuations. And now they also a looking to show stronger growth. Why would an investor look to put new money to work in a growth portfolio that would appear to be more "expensive" and have lower future earnings growth potential?

After lagging badly for much of 2020 and much of the last decade, returns for Value strategies shined in the first quarter of 2021. Large-cap value benchmarks Morningstar, S&P, and Russell all reported value-style returns above 10%. In contrast, these same firms' large cap growth benchmarks gained less than 2%. While the seesaw between Growth and Value occurred daily and weekly, the shift toward active value management appears to be the beginning of a trend that has legs with long strides to go.

| Value*Plus* = Value + Yield + Active Management

Portfolio Factor Exposure Analysis as of March 31, 2021^

Source: StyleAnalytics



For over 30 years SKBA has been committed to providing investors with differentiated value investment solutions. Even with the siren song of Growth over the past decade, we did not deviate from our discipline. As you can see in the chart above, our Value*Plus* portfolio has exhibited consistently high value <u>and</u> dividend factor exposure.

At the same time, we haven't looked to "cheat" in an effort to keep up with the aforementioned irrationalities in the market. Our portfolios have not tilted towards Growth and will remain a true representation of a Value investment philosophy.

As the pendulum continues its swing back in favour of Value, clients can be sure that our portfolios will benefit from the tailwinds that will be provided to those dedicated adherents to active value investing that remain.

| Inflection Points & Mean Reversion

It is challenging at best to try to time the peaks and troughs of the market. However, we believe it would be prudent to not give up on Value.

As value investors, we look for inflection points and opportunities for mean reversion. We believe that as the current recovery continues, a strong argument can be made for stocks outside the mega caps, as well as more undervalued companies, are the more likely to continue to rally. Pendulums by their nature don't stay one side for too long and will eventually and quickly swing back. Would it not be more likely that the sectors, industries and stocks that aren't at excessive valuations would be more likely to be the winners in the future?

We perhaps are prone to say too frequently, we expect forthcoming returns to be more muted than recent ones. Due to this outlook, we will continue to manage our Value*Plus* and Socially*Responsible* Value portfolios in a prudent fashion. We will invest in companies with sound financials able to pay us—as shareholders—directly in the form of dividends and indirectly in the form of improving thru-cycle earning power. When we are able to purchase such securities at reasonable if not downright ridiculously attractive prices, we will act, as we have done time and again over the past 30 years.

| Disclosures

The information contained herein represents the opinion of SKBA and should not be construed as personalized or individualized investment advice. Analysis and opinion expressed in this report are subject to change without notice.

^The Master Skyline aggregates exposures of multiple sub-factors as described below relative to the Russell 1000 Value Index as of March 31, 2021.

Value: Value is meant to identify those stocks the market has undervalued: the market price is below what the fundamental data suggests it should be worth. The sub-factors that typically go into identifying Value may include book-to-price, annual cash flow yield, earnings yield, cash flow yield, and sales-to-price. Tilts bigger than 1 (or less than negative 1) are considered significantly different from the benchmark.

Yield: Yield is sometimes considered part of the Value factor and is closely related to it. The sub-factors that typically go into identifying Yield include dividend yield and shareholder yield.

Growth: Growth measures the extent to which a company is growing in a number of different ways. The sub-factors that typically go into identifying Growth include dividend growth, earnings growth, sales growth, and forecast growth.

Quality: Quality is a broad factor that includes a wide range of loosely related measures such as profit-based measures, debt and leverage, and stability. The sub-factors that typically go into identifying Quality include return-on-equity, profit margin, low gearing, sales growth stability, and earnings growth stability.

Size: Size is the simplest factor that captures how large a company is. It's really only described by one sub-factor: market capitalization.

For more information, please contact:
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