Q2 2020

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PORTFOLIO UPDATE

During the quarter ended June 30, 2020, equity returns posted their largest increase in over 20 years. For the same period, our portfolio outpaced its benchmark as the market rewarded companies with solid fundamentals and strong revenue streams. Recent equity market gains have been powered mainly by government stimulus packages as well as optimism surrounding the re-opening of the economy and the potential for a COVID-19 vaccine. Given the surge in returns off the market bottom, we believe further increases in equity prices will be driven by idiosyncratic, stock specific reasons.

Despite the quick rebound during the second quarter, investors will need to evaluate the impact of several extraneous risks that could cast a cloud over the economy and market. Currently, the chief risk for the broad markets is rising COVID-19 infection rates in several hot spots coupled with the possibility of a second wave this fall. As long as the viral threat remains, state and government initiatives to contain the disease could slow economic recovery and future growth. Additionally, we view the outcome of the upcoming presidential election as another notable risk for stocks. Investors may soon turn their attention to the increasing likelihood of a Democratic sweep that would give the party the White House and both houses of Congress. We anticipate this leading to downward pressure on equity prices driven by concerns over increased taxes and regulation. Joe Biden, the presumptive Democratic presidential candidate, has stated he wants to increase the corporate tax rate to 28% from 21% and roll back the Trump income tax cuts for high earners. Consequently, a change of this magnitude could reduce earnings per share growth for the broad markets by approximately 9%. We believe the odds of a Democratic trifecta are low; a more likely scenario is that Republicans keep control of the Senate. A split government could stymie moves to raise individual and corporate taxes.

INFLATION EXPECTATIONS

Thus far, the Federal Reserve has injected roughly $3 trillion into the economy. To help sustain the velocity of the economic system through the pandemic, additional monetary and fiscal stimulus is expected in the months ahead. Meanwhile, business closures are disrupting supply chains and hastening the breakdown of global trade. The combination of ample cash and shrinking inventories seems ripe for inflation. Yet, in our view, inflation is not an immediate danger. We believe there are likely to be several quarters of low inflation as a result of the supply shocks instigated by the drop-off in consumer demand. Once the unemployment rate approaches pre-crisis levels and a sustained recovery takes hold, rising inflation may come to fruition.

PARADIGM SHIFT - GROWTH TO VALUE

If inflation begins to rise, central banks will likely react by raising interest rates. Higher interest rates are a necessary ingredient to sustain a paradigm shift from growth to value. Meanwhile, the valuation spread based on trailing price-to-earnings (P/E) ratios between the two styles is similar to levels seen in the early 2000's. At the same time, growth stocks' valuation levels are approaching previous bubble extremes that in the past, indicated an eventual turning point. Since the inception of the Russell 3000 Growth and Value indices in 1984, there was only one year, 1999, when growth outpaced value by over 25%. This was subsequently followed by value outperforming growth by over 30% in 2000. While we still have six months left in the year, growth has already beaten value by over 25%. (Figure 1.)

We believe a sustained rotation into value hinges on a meaningful improvement in the economic and corporate earnings outlook. While it is difficult to predict the timing of a style shift, these rotations often follow sharp reversal patterns, producing sizable outperformance over a short period.

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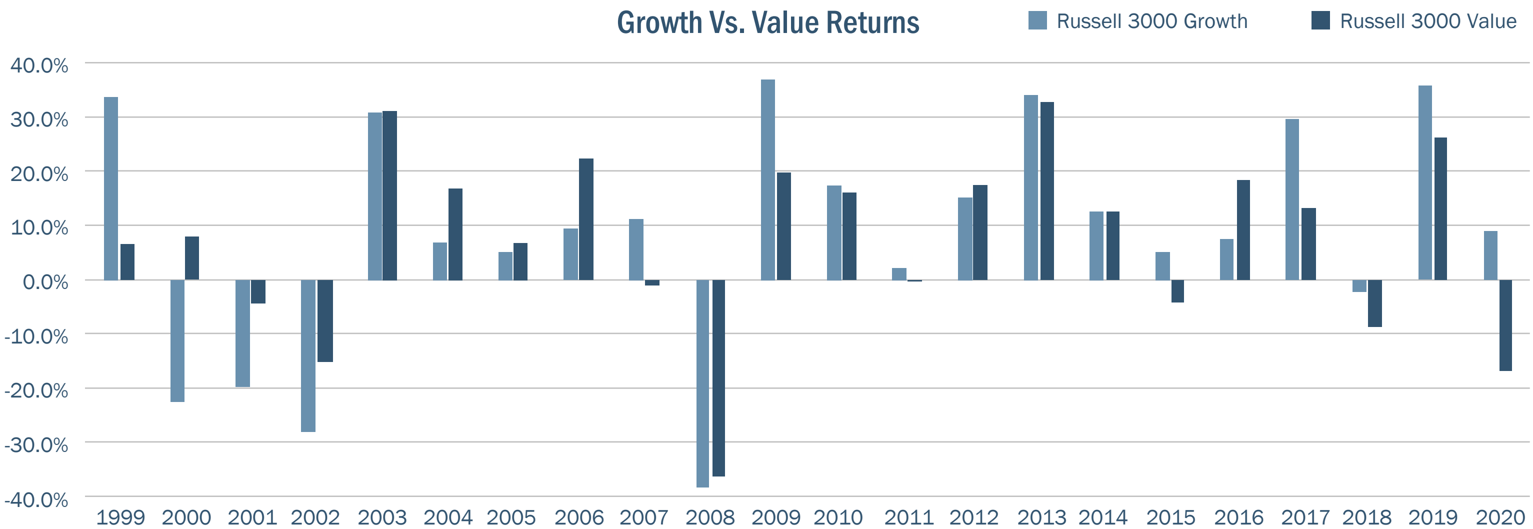
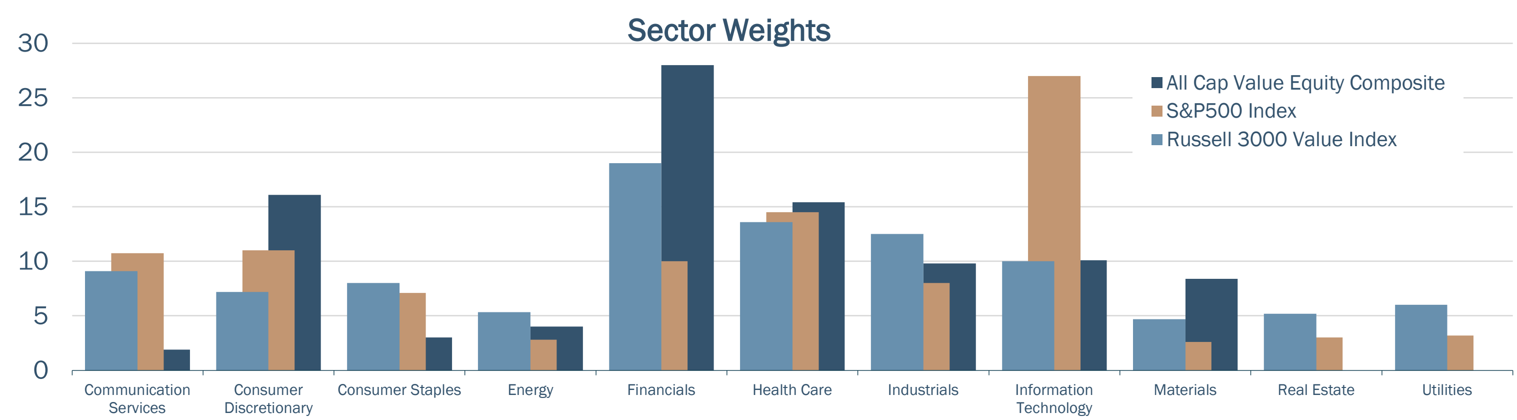
Figure 1:



Calendar year returns for the Russell 3000 Growth and Value Index from 1999 through 2019. The returns for 2020 are for the six-month period ending June 30, 2020. (Source: Morningstar)

PORTFOLIO POSITIONING

Figure 2:



Source: Snow Capital Management L.P.

Embedded in our process is the ability to be nimble in tactical portfolio positioning and in trading, which in turn, helps us manage price sensitivity, volume, liquidity and market breadth. Due to the heightened volatility in stock prices of late, portfolio turnover has increased as we are presented with what we believe is a massive buying opportunity. The dramatic price movements in the second quarter provided us with the opportunity to take advantage of this market dislocation by repopulating the portfolio with companies that were previously outside of our valuation range. While the broad markets trade at heightened multiples, we continue to find stocks with valuations substantially lower than their long-term earnings potential. In our opinion, there are clusters of value including stocks in the Consumer Discretionary, Financials and Health Care sectors.

Stocks within the Consumer Discretionary sector represent some of the greatest appreciation potential within the market. We believe the sector has not yet fully recovered from first quarter lows as it has a high degree of exposure to business shutdowns and quarantine orders. With the re-opening of the economy, we expect pent up consumer demand to drive revenue growth for these companies in the coming months.

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We also expect monetary and fiscal stimulus to provide tailwinds to the Financials sector. Financial institutions, several of which we hold, are the conduits by which billions of dollars will be funneled to businesses across the U.S. These companies have favorable valuations and are well capitalized with strong credit quality. Our focus within Financials is on those firms with the opportunity to grow market share and net interest margins throughout the economic cycle.

Further, our outlook for the Health Care sector remains positive as governments increase spending to fight the COVID-19 pandemic and prepare for future outbreaks. Our exposure to the sector is also driven by factors beyond the virus including an aging population and growing demand for drug treatments and medical care over time. The sector accounts for almost 20% of GDP with further increases in total spending expected in the future. Meanwhile, when we compare the group's relative multiples to its own history, valuations look attractive.

PORTFOLIO ATTRIBUTION

Performance Contributors

Among our top contributors during the quarter was Darden Restaurants, Inc. (DRI). Shares added to performance, rallying from March lows as investors grew more bullish on a recovery and the re-opening of the economy. DICK'S Sporting Goods, Inc. (DKS) also rallied from the market bottom after reporting strong e-commerce growth and encouraging re-opening results post-quarantine. Commercial Metals Company (CMC) shares positively contributed to performance as the company's operations experienced limited impact from COVID-19. CMC also posted margin gains from lower input costs while the company's backlog remains strong. Shares of Magellan Health, Inc. (MGLN) added to performance following the announced divestiture of its Medicaid Managed Care and Medicare Advantage business to Molina Health Care. Given the strong appreciation of MGLN's share price, we liquidated the position. Laboratory Corporation of America Holdings (LH) shares contributed to performance on the prospects of incremental income from various forms of COVID-19 testing, progress on cost saving initiatives and the eventual normalization of non-COVID-19 testing volumes.

Performance Detractors

Our most significant detractor during the quarter was Biogen, Inc. (BIIB). Shares underperformed during the quarter as the company delayed its filing with the FDA for its Alzheimer's treatment. BIIB also received an unfavorable ruling related to its patented Multiple Sclerosis treatment, which will result in an acceleration of generic competition; the company is expected to appeal the ruling. II-VI Incorporated (IIVI) was a detractor to performance largely based on liquidation of the position very early in the quarter. Bloomin' Brands, Inc. (BLMN) shares weighed on performance as this position was initiated late in the quarter and experienced some downside volatility. We remain invested in BLMN based on its attractive valuation on normalized earnings and improving sales trends as the U.S. economy re-opens. Delta Air Lines, Inc. (DAL) reduced overall performance after a volatile quarter for the airline industry with investors digesting the timing and magnitude of an air-travel recovery. We believe DAL has the best balance sheet profile of the large carriers and has ample capital to endure this period of limited travel, giving the stock significant upside in the months ahead. The Hartford Financial Services Group, Inc. (HIG) shares negatively impacted performance as investors questioned the liability, if any, insurance companies will face from COVID-19. While HIG expects the impact from virus to be limited, the expected loss of small business premiums combined with higher legal and workers compensation claims present uncertainty.

IN CLOSING

While we are pleased with our performance during the period, we are mindful that navigating the path ahead will require the right balance of offense and defense. Looking ahead, we will be monitoring changes in the shape of the yield curve, credit spreads and the patterns of stock price movements. We believe heightened volatility will be driven by an increasing list of ongoing challenges including social unrest, tension with China, election year rhetoric and setbacks should a second wave of the virus emerge.

As value investors, we have a particular focus on companies that have healthy balance sheets, strong cash flows and seasoned management teams.

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SNOW ALL CAP VALUE

4/1/20 – 6/30/20

HOLDING[1]	PORTFOLIO WEIGHTING[2]	PORTFOLIO CONTRIBUTION[3]
Contributors		
Darden Restaurants Inc.	3.36%	1.63%
Dick's Sporting Goods Inc.	1.91%	1.44%
Commercial Metals Co.	3.65%	1.08%
Magellan Health Inc.	1.36%	1.02%
Laboratory CRP of Amer Hldgs.	3.09%	0.95%
Detractors		
Biogen Inc.	2.18%	-0.37%
II-VI Inc.	0.36%	-0.22%
Bloomin' Brands Inc.	0.24%	-0.20%
Delta Air Lines Inc.	0.88%	-0.10%
Hartford Financial SVCS GRP	0.45%	-0.01%

[1]The holdings identified do not represent all of the securities purchased, sold, or recommended for advisory clients. A list showing the contribution of each holding in the representative account to the overall account's performance during the measurement period and all security recommendations during the previous year are available by contacting Snow Capital Management L.P.

[2]The Average Portfolio Weighting is determined by averaging the daily weights of each holding in the composite. The weight is the day's market value for each holding divided by the total value of all composite holdings.

[3]The Portfolio Contribution is the contribution of each composite holding determined by multiplying the Average Portfolio Weighting for each holding in the composite by the rate of return for that holding during the quarter. The result shows each holding's contribution to the composite's overall return during quarter.

These are fundamental factors that investors tend to reward throughout economic and market cycles. All told, we remain dedicated to our investment discipline, delivering strong performance and transparent communications to our investors. Thank you for your commitment to Snow Capital Management.

Snow Capital Management L.P. is a registered investment adviser. Registration of an Investment Advisor does not imply any level of skill or training. Snow Capital Management L.P. claims compliance with the Global Investment Performance Standards (GIPS®). A fully compliant GIPS presentation along with a complete list and description of all composites is available at www.snowcm.com or by calling 724-934-5800. The Snow Capital Management All Cap Value Equity Composite contains fully discretionary all cap value equity accounts and for comparison purposes is measured against the S&P 500 and Russell 3000 Value indices. Beginning July 1, 2005, there is no account minimum for this composite. Prior to July 1, 2005, the minimum account size for this composite was $200, 000. Prior to October 1, 2002, the minimum account size was $300,000 and prior to January 1, 2000, the minimum account size was $100,000. On January 1, 2008, the benchmark was changed retroactively from the Russell 3000 to the Russell 3000 Value to better reflect the All Cap Value Equity investment strategy. The U.S. Dollar is the currency used to express performance. Leverage is not used in this composite. **Investing involves risk; clients may experience a profit or a loss. Past performance is not indicative of future results.** Performance is preliminary. Performance includes the reinvestment of dividends and other earnings. Returns are presented gross and net of management fees. Actual returns will be reduced by advisory fees and other expenses incurred in the management of the account. Snow Capital's advisory fees are outlined in our Form ADV Part 2A (Brochure), which is available upon request. The effect of an advisory fee compounded over a period of years, on the total value of a client's portfolio is represented by the following example. Assuming an initial portfolio of $1 million earning a 10% return each year which incurs an annual advisory fee of 1.0% payable quarterly in advance, the portfolio would be worth $1.53 million net of fees and $1.61 million gross of fees after 5 years, $2.37 million net of fees and $2.59 million gross of fees after 10 years and $3.58 million net of fees and $4.15 million gross of fees after 15 years. Past performance is not guarantee of future results. The performance of any individual portfolio may vary from the Composite's performance

The views expressed herein are solely the opinions of Snow Capital Management L.P. We make no representations as to their accuracy. This communication is intended for informational purposes only and does not constitute a solicitation to invest money nor a recommendation to buy or sell certain securities.

The performance figures are based on a composite of many accounts and not all accounts owned the securities mentioned in this commentary. Holdings and sector allocations are subject to change.

Russell 3000® Value Index

The Russell 3000 Value Index measures the performance of the broad value segment of U.S. equity value universe. It includes those Russell 3000 companies with lower price-to-book ratios and lower forecasted growth values.

Russell 3000® Growth Index

The Russell 3000 Growth Index measures the performance of the broad value segment of U.S. equity growth universe. It includes those Russell 3000 companies with higher price-to-book ratios and higher forecasted growth values.

S&P500 Index

The S&P 500 Index is a broad-based unmanaged index of 500 stocks, which is widely recognized as representative of the equity market in general.

Indexes are unmanaged. It is not possible to invest directly in an index.

MORE INFORMATION

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