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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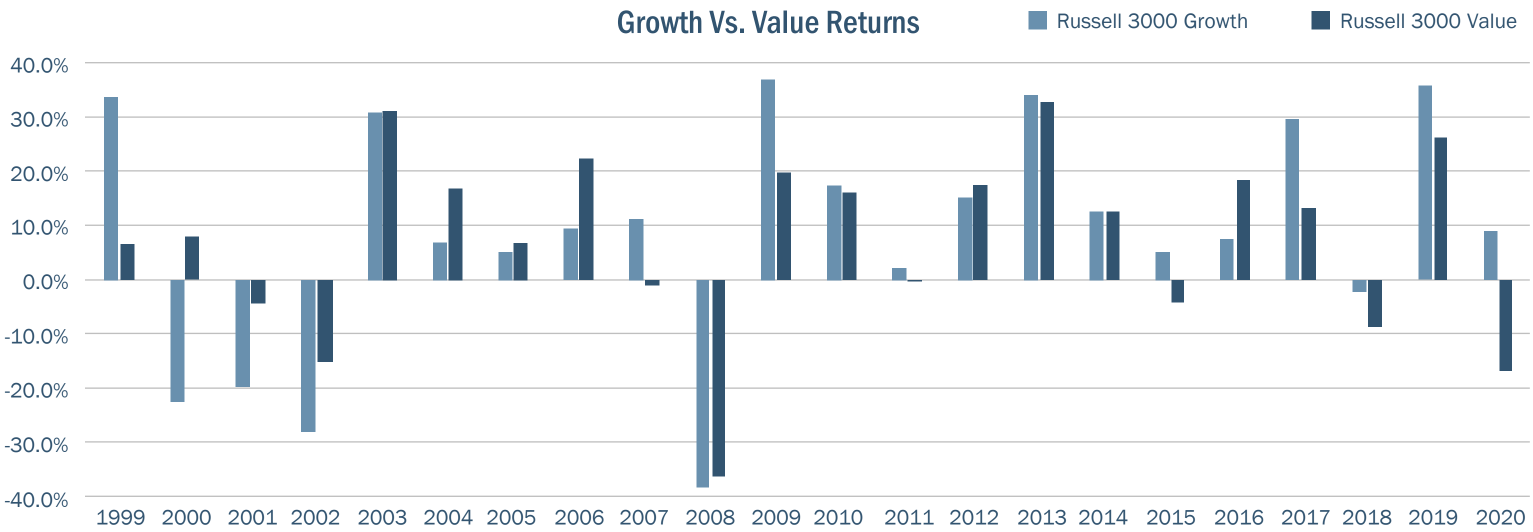
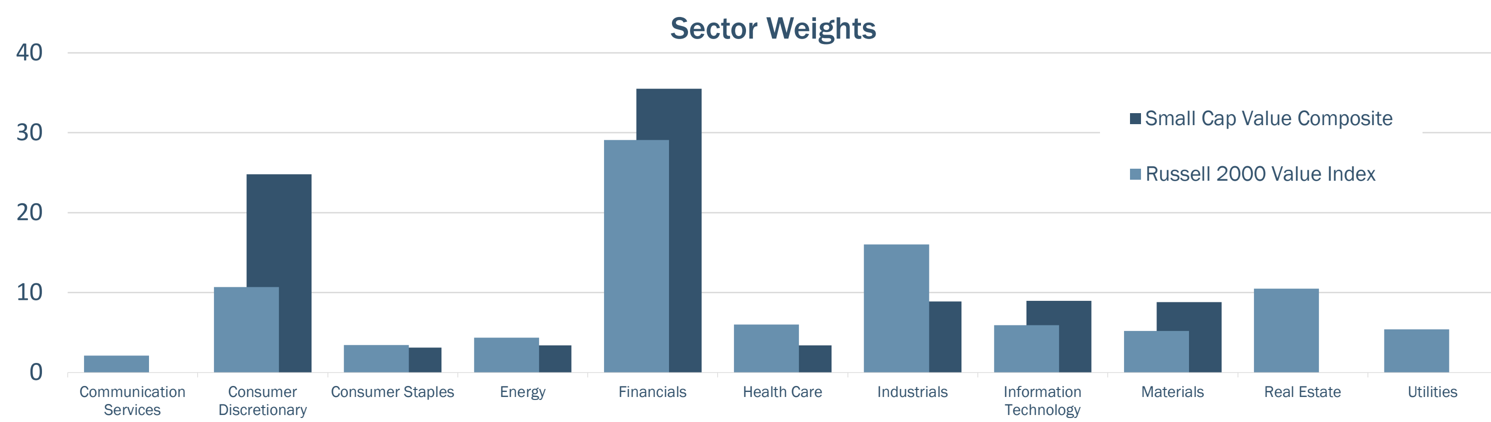
Figure 1:



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 contributor during the quarter was Magellan Health, Inc. (MGLN). Shares added to performance following the announced divestiture of its Medicaid Managed Care and Medicare Advantage business to Molina Health Care (MOH). Medifast, Inc. (MED) shares appreciated after reporting robust top line growth and impressive cost control, which offset a promotional environment to drive new customers. Quarantine driven weight gain will likely fuel sales while unemployment trends lead to new life coach acquisition and retention, both of which would please investors. Modine Manufacturing Company (MOD), recovered strongly during the quarter, as better than feared results assuaged investors. We continue to hold the position given its compelling valuation and strong upside potential. Bloomin' Brands, Inc. (BLMN) shares recorded strong earnings following the sharp sell-off in this restaurant operator during the first quarter. We remain invested in BLMN based on the shares' attractive valuation on normalized earnings and improving sales trends as the U.S. economy reopens. Super Micro Computer, Inc. (SMCI) shares positively contributed to performance as the company's quarterly results were generally resilient to COVID-19 and the company provided positive commentary related to its growth initiatives.

Performance Detractors

Our most significant detractor during the quarter was Great Western Bancorp, Inc. (GWB). Shares underperformed after the company reported weak earnings that included a sizable goodwill write down and increased loan provisioning for COVID-19 related impacts. GWB also halved its quarterly dividend. We remain invested in GWB shares given its attractive valuation. First Commonwealth Financial Corporation (FCF) shares underperformed during the period after reporting lower than expected earnings. We remain invested in FCF given its attractive valuation. The Andersons, Inc. (ANDE) shares fell as the company's businesses were negatively affected by COVID-19, forcing the company to push back several growth initiatives. We liquidated the position in order to invest in opportunities with more favorable risk/reward profiles. Regional bank, Umpqua Holdings Corporation (UMPQ) underperformed during the quarter. The company missed earnings expectations and investors became cautious on the banking industry ahead of a seemingly unknown credit-cycle. We feel these fears are fully ascribed to shares with the stock trading below tangible book value. Pilgrim's Pride Corporation (PPC) shares negatively impacted performance following a volatile swing in demand for PPC's products. Additionally, the company's CEO and two former employees were indicted by the Department of Justice for alleged price fixing . We expect news flow on the economy re-opening, protein plant operations and weekly commodity reports to positively impact the stock in the near-term, and therefore, retain the position.

IN CLOSING

Looking ahead, as the global economy continues a prolonged shutdown, we expect a severe downturn in economic activity unprecedented in its breadth and intensity. Yet, similar to previous enormous output losses, history suggests that rapid rebounds will follow. In our view, upon the passing of the pandemic, pent-up demand will turn into a torrent of growth fueling the economy and capital asset prices. Our assessment is that navigating the path ahead will require the right balance between offense and defense. Therefore, we have positioned the portfolio with companies that we believe are poised to outperform in a recovery and non-cyclical companies that will continue to generate steady earnings in any environment,

SNOW CAPITAL

SNOW SMALL CAP VALUE

4/1/20 – 6/30/20

HOLDING[1]	PORTFOLIO WEIGHTING[2]	PORTFOLIO CONTRIBUTION[3]
Contributors		
Magellan Health Inc.	2.73%	1.92%
Medifast Inc.	1.77%	1.68%
Modine Manufacturing Co.	2.86%	1.68%
Bloomin' Brands Inc.	4.15%	1.62%
Super Micro Computer Inc.	4.68%	1.47%
Detractors		
Great Western BanCorp. Inc.	2.05%	-1.03%
First Commonwealth FINL Corp.	2.45%	-0.33%
Andersons Inc/The	0.41%	-0.28%
Umpqua Holdings Corp.	3.67%	-0.09%
Pilgrim's Pride Corp.	2.05%	-0.09%

[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.

should capital asset prices lose value. As value investors, we have a particular focus on companies that have healthy balance sheets, strong cash flows and seasoned management teams – fundamental factors that investors tend to reward throughout economic and market cycles. All told, we remain dedicated to our investment discipline and delivering transparent communications to our investors. Thank you for your commitment to Snow Capital Management.

Russell 2000® Value Index

The Russell 2000 Value Index measures the performance of small-cap value segment of the U.S. equity universe. It includes those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.

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..

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

MORE INFORMATION

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