Q4 2020

The Tide May be Turning in Favor of Value

PORTFOLIO UPDATE

In the quarter ended December 31, 2020, the Snow Capital Management L.P. Focused Value Composite (FV) returned 22.1% gross of fees and 21.8% net of fees. This compares with a return of 16.2% for the Russell 1000 Value Index during the same period.

For the quarter, most major indexes were up double-digits. Markets reacted positively to news of two COVID-19 vaccine approvals, with the expectation that daily life will shift back to normal in the back half of 2021. Our investment style was in favor during the period as investors favored low price-to-earnings (P/E) stocks over high ones. Major beneficiaries were companies that have high COVID-19 sensitivity and securities that were most negatively affected in the earlier part of the year.

Period	Composite Gross	Composite Net	Russell 1000 Value Index
MTD	5.84%	5.76%	3.83%
QTD	22.08%	21.79%	16.25%
YTD	2.57%	1.53%	2.80%
1 Year	2.57%	1.53%	2.80%
3 Year	2.48%	1.46%	6.07%
5 Year	7.84%	6.78%	9.74%
7 Year	4.65%	3.61%	8.20%
10 Year	9.24%	8.24%	10.50%
Inception (10/31/2006)	13.90%	12.90%	11.65%

Source: Snow Capital Management L.P.

INVESTMENT STYLES

For much of the past decade, value stocks lagged behind their antithesis, growth. This was further compounded for the 2020 calendar year as growth outperformed value by over 35%, the largest margin on record as measured by the Russell 3000 Indexes. The high P/E style of investing was led higher by investors' penchant for high growth technology stocks and firms that benefit from the work-from-home environment. By contrast, value investing has struggled to keep pace chiefly due to its large exposure to the hobbled Financials sector due to the low interest rate environment and to the lack of value names in Technology.

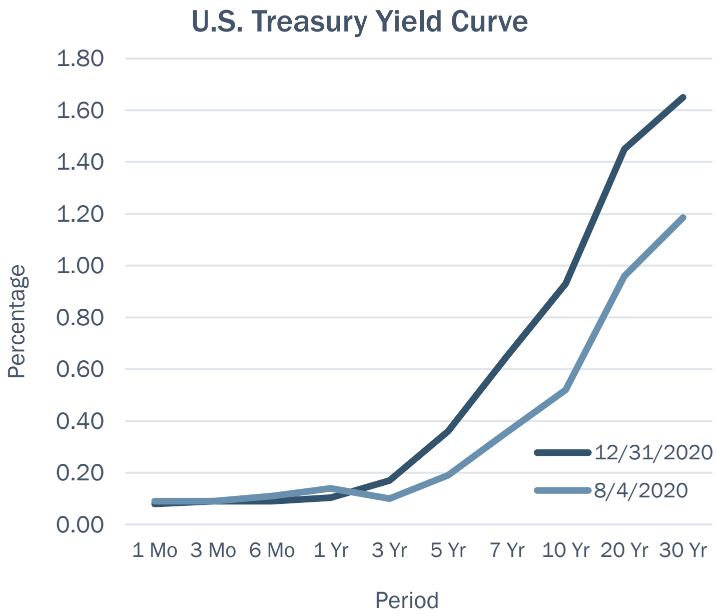
As a result of the divergence, the valuation gap between the two styles remains extremely wide, but we expect it to narrow with a post pandemic recovery. During the fourth quarter the tide turned in favor of value as the prospects of the coronavirus vaccine raised investor expectations of a return to a more historically normal economy. Market expectations are extremely elevated in the growth sectors and are more prone to upcoming earnings disappointments. This leads us to believe that value will come into favor as investors look for opportunities that are trading at favorable valuations. Further, in times past, value tends to perform well following recessions. Perhaps this might be the start of a long-heralded rotation from high P/E stocks to ones trading with compelling fundamentals.

STEEPENING OF THE YIELD CURVE

In the wake of the pandemic and the United States elections, Treasury yields gyrated significantly. The 10-year U.S. Treasury Bond hit an all-time (234 year) low yield of 0.52% on August 4th, 2020. During this time, there was growing concern of the short end of the yield curve moving into negative territory. Since then, the fear of negative rates has abated. In theory, negative rates spur economic growth by encouraging consumers and banks to take more risk by increasing the velocity of money. In reality, negative rates create less profit for banks, thereby possibly reducing lending. In addition, consumers would see lower returns on their investments. With a growing body of research that negative rates are counterproductive, we do not anticipate policy makers implementing such measures in the U.S.

Since the fear of negative rates, the yield curve steepened and the 10-year U.S. Treasury rate climbed to 0.93% at year-end (Figure 1.). In our view, yields will remain range-bound through the second quarter of 2021. Longer-term, we expect the short end of the curve to remain near-zero, but an improving economic environment will likely put upward pressure on longer term yields. A steeper yield curve and improved economic growth should bolster the profitability of banks and insurance companies.

SNOW CAPITAL



Disclosures: The graph shows the U.S. Treasury yield curve on August 4th, 2020 which was the date that the 10-year U.S. Treasury had its lowest yield in 234 years compared to the yield curve on the last day of the year.

The U.S. Treasury curve compares the yields of short-term Treasury bills with long-term Treasury notes and bonds. The U.S. Treasury Department issues Treasury bills for terms of less than a year. It issues notes for terms of two, three, five, and 10 years. It issues bonds in terms of 20 and 30 years. All Treasury securities are often called notes or Treasuries for short.

INDUSTRIES POISED TO OUTPERFORM IN 2021

Over the past year, paradigm shifts took place, changing consumer practices; however, with the introduction of a COVID-19 vaccine, we foresee spending habits to revert as COVID-19 restrictions are lifted. For this reason, we continue to see the greatest appreciation potential in the Consumer Discretionary sector. We believe pent up demand will fuel returns in the restaurant, retail, travel and leisure companies.

The Financials sector is another area we expect to see positive returns. With the precipitous decline in interest rates during 2020, banks and insurance companies lost value. We believe they are poised to benefit in the future as the yield curve steepens; we have already seen the beginnings of improved investor sentiment surrounding the financials. Consolidation, particularly in the regional-bank space, could be an additional catalyst. Our focus in the portfolio is on those financial firms that are well capitalized, with strong credit quality, and the ability to grow market share as well as net interest margins.

In contrast, we believe we could see investors start to rotate away from technology stocks. We believe there may be a demand shortfall in coming quarters since the pandemic brought some technology spending forward, and we think the boost to earnings from online spending and work from home has peaked.

PORTFOLIO ATTRIBUTION

Performance Contributors

Our top contributor to performance during the period was apparel company PVH Corp. (PVH). Shares increased as investors anticipate an earnings recovery in 2021 following the release of the vaccine data. While PVH's North America business remains challenged, the company has seen strength internationally and is well positioned when the macro environment improves. NetApp, Inc. (NTAP), a storage and data management solutions company delivered strong performance during the period. The company outperformed expectations on revenue, expanded profit margins and resumed a share repurchasing program. The Interpublic Group of Companies, Inc. (IPG), one of the world's largest advertising companies, added to performance due to strong results relative to expectations. The valuations of companies in the advertising space are down relative to historical levels given perceived structural headwinds in the industry, which enabled us to initiate a position. IPG's outsized exposure to high growth channels such as health care and technology in addition to their strategic acquisition of leading data analytics firm Acxiom in late-2018 have the company positioned well for future growth. Shares of our Financial holdings, including global bank JPMorgan Chase & Co. (JPM) and The Goldman Sachs Group, Inc. (GS), benefitted from the steepening of the yield curve. JPM reported better than expected earnings, with solid results in its Investment Banking business and relative strength in its Consumer business. GS posted strong earnings results and lower than expected expenses. In addition, investors reacted positively after GS announced a widely anticipated settlement with regulators.

Performance Detractors

Among our trailers during the quarter was B2Gold Corp. (BTG). Shares negatively impacted performance as investors took a risk-on approach following the results of several vaccine studies. Intel Corporation (INTC), a newer position in the portfolio, underperformed after reporting a slowdown in their Data-Centric business, an anticipated growth driver, after two strong quarters for the segment. We viewed the company's divestiture of their memory business to SK Hynix as a positive action, reducing annual capital expenditures and enabling the company to use the proceeds to invest in more profitable business lines. The company is facing some structural challenges which has depressed its valuation, enabling us to initiate a position. We believe that with its cash-flow profile and range of positive strategic actions INTC could present a favorable risk/reward profile where most peer valuations in the Technology sector are stretched. PulteGroup, Inc. (PHM) shares underperformed during the quarter following a strong run of performance.

Despite reporting an impressive quarter, a deliberate slowing of new home deliveries and the specter of rising lumber prices are expected to limit revenue and margins in the near-term. We continue to hold PHM, anticipating that low mortgage rates, demographic trends, and the company's focus on first-time home buyers should continue to buoy results and ultimately result in a re-rating of its shares. Cabot Oil and Gas Corporation (COG) shares underperformed as a seasonally warm winter weighed on its natural gas sentiment. We continue to hold COG and believe the setup for an undersupplied natural gas market remains favorable. With only ~22% of 2021 production hedged, COG remains exposed to potentially rising prices, however a healthy balance sheet should support periods of weakness in the commodity price. Lumen Technologies, Inc. (LUMN) negatively impacted performance as sales continue to be tepid. We continue to hold LUMN as the company consistently generates cost savings and free cashflow. LUMN should benefit from continued digitization in the business environment, spurred by the work from home trends in 2020.

FOCUSED VALUE

7/1/20 – 12/31/20

HOLDING[1]	PORTFOLIO WEIGHTING[2]	PORTFOLIO CONTRIBUTION[3]
Contributors		
PVH Corp.	4.88%	2.49%
NetApp, Inc.	4.72%	2.23%
The Interpublic Group of Companies, Inc.	4.54%	1.76%
The Goldman Sachs Group, Inc.	5.37%	1.65%
JPMorgan Chase & Co.	4.81%	1.54%
Detractors		
B2Gold Corp.	3.02%	-0.46%
PulteGroup, Inc.	4.45%	-0.35%
Cabot Oil & Gas Corporation	3.26%	-0.26%
Intel Corporation	2.99%	-0.15%
CenturyLink Inc.	3.60%	-0.10%

[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.

IN CLOSING

Since equity prices bottomed in March, the broad markets price-to-earnings multiples expanded above our estimate of fair value. While we are pleased with our performance during the period, we are also encouraged by our portfolio of stocks that remain discounted relative to the broad markets. In our view, the setup for 2021 is positive for our value strategy as we expect strong profit growth, low interest rates and market sentiment to support our relative returns.

The firms in which we have ownership have strong balance sheets, proven management teams, recurring cash flow streams and the flexibility to adapt to the new world post COVID-19. We believe these companies will be able to compound earnings over an extended period through both rising and declining markets. All told, we remain dedicated to our investment discipline, delivering strong investment results and transparent communications to our investors. Thank you for your commitment to Snow Capital Management.

Disclosures →

Russell 1000® Value Index
The Russell 1000 Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower expected growth values.

Chicago Board Options Exchange Volatility Index (VIX)

The Chicago Board Options Exchange (CBOE), the Volatility Index, or VIX, is a real-time market index that represents the market's expectation of 30-day forward-looking volatility.

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

MORE INFORMATION

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