MATARIN CAPITAL

Investing with Insight and Integrity

Matarin Capital Management, LLC aspires to be a symbol of stewardship within the investment management industry. We are dedicated to delivering above benchmark risk adjusted investment returns through insight, passion, and diligence. We aim to build strategic alliances with our clients based on the highest ethical standards.

Please refer to the last page for important disclaimers.

If It Were Easy, Everybody Would Do It

Value investing has been one of the most highly rewarded equity investment strategies over the long run. It works because investors tend to be uncomfortable purchasing unpopular companies perceived as having a less bright future. This contributes to value stocks becoming mispriced. Low expectations lead to low valuations, often too low. Value investors don't need low-expectation stocks to go from bad to great to earn an attractive return, they just need them to go from bad to average.

HML : Longest Historical Drawdowns

Date Range	Months	Drawdown
Feb '07 - Dec '18	144	-39.5%
July '94 - June '04	121	-55.9%
Aug '33 - Feb '43	116	-46.8%
May '27 - July '32	63	-38.8%
Mar '89 - Mar '93	49	-26.9%

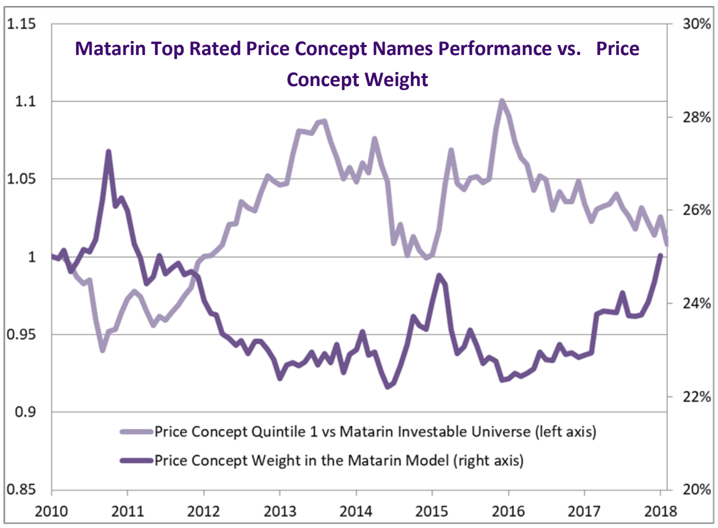
In recent years, though, value has struggled significantly. The difference in the performance of high and low book value/market value stocks (high minus low or HML), has been in the headlines recently because this period has been the longest running period of losses for these stocks since 1926. This is also the third deepest moment of loss for HML, exceeded only by the second wave and early recovery from the Great Depression and the dot.com bubble.

While there are some limitations to the use of HML as a predictor of future stock returns (we would be happy to discuss these with anyone interested), one thing important to note. The highest periods of return for this value factor followed its two largest periods of loss, whether measured over subsequent 1, 3, 5 and 10 year periods. Those two periods that were fraught with risk were the second wave of the Great Depression and the dot.com bubble. Value investing works, in a way, because it is so nerve-wracking to do it.

At Matarin, we believe that we have improved on HML by taking a diversified, core approach to stock selection. Value investing principles are quantified and applied within our Price concept, which is one of the four concepts (Price, People, Business, and Catalyst) employed in our stock selection process. To add deeper insight into our methodology, we've created a Matarin VALUE acronym that describes our approach.

Variety	We use a variety of indicators to gain insights into company valuation: both backward-looking and forward-looking data, sourced from a variety of financial statements.
Adaptive	Our goal is to "paint a unique picture" for each stock we are analyzing. Therefore, our mix of valuation metrics varies based on company size, industry, etc.
Logical	When comparing stocks, we strive to make logical, valid comparisons. In measuring relative valuations, we are typically comparing with others in their sector or industry.
Unemotional	Because our process is quantified and systematized, emotions don't impact buy and sell decisions. It's not always easy purchasing the less sexy stocks, as value investing requires.
Environment	We believe that we can add value by shifting the emphasis somewhat more onto our value factors at points in time when they look poised to add the most value (and the reverse).

Since Matarin's inception, the Price concept in our Active US Equity Strategies has added modestly to returns in an environment where value has significantly underperformed growth. This graph shows how over the last 9 quarters, our Price concept has performed poorly. We have been hurt by the significant underperformance of the most inexpensively valued stocks, and the outperformance of the most expensive ones, which often have no cash flow and/or no earnings and sometimes even have no sales. The outperformance of these most expensive stocks was particularly pronounced in Q1.2019, when these names outperformed inexpensively valued stocks by 6.2%



As noted above, Matarin's investment team has designed a timing model to gauge the forward looking opportunity for valuation indicators to outperform. The model works by looking at valuation 'spreads' across stocks. When comparable stocks are all trading at similar valuations, it makes less sense to choose stocks based on value. Conversely, when valuation spreads are wide, buying the cheap stocks tends to be a successful strategy.

But it is important to note that these periods of wide valuation spreads tend to follow periods of value underperformance – as in the example given by HML. As can be seen in the graph, valuation spreads as measured by Matarin, are currently as wide as they have been in 7 years – this is a result of the underperformance of value factors, with expensive stocks rising in price and cheap stocks on the decline. Because of this we are optimistic about the prospects for our Price concept to deliver above average performance going forward. With that said, can cheap stocks continue get cheaper and the expensive even more expensive? Of course.

Is value investing broken? No. Will value investing work again? Yes. Is value investing easy? No. Value investing is uncomfortable by nature. But at Matarin we are willing to be uncomfortable.

Data as of March 31, 2019. See disclaimers on last page. Sources: S&P, Compustat, Factset, Kenneth French.

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