

With 2020 leading Matarin and the global community at large into uncharted territory, we invite you to reviewing the year so far and previewing what might lie ahead.

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### **INVESTING IN RACIAL EQUITY**

“Advancing racial equity in the U.S. is an aspiration that many impact investors have, and research supports the thesis that advancing racial equity can reap economic rewards for both investors and the affected communities” says Essma Bengabsia of the Sustainable & Impact Investing team of Glenmede Trust.

Recently, Matarin’s Chief Compliance Officer, Melanie Mendoza, joined an advisory group focused on racial equity investing organized by Ms. Bengabsia. The group will publish a report on the state of the racial equity investing market in the U.S. and the compounding effect of racial inequities across different sectors. The paper explores how investments can be used to tackle the effects of systemic racial inequities such as gaps in homeownership, wealth, opportunities, health, and employment.

Some examples of how capital can support racial equity include investing in companies that serve diverse neighborhoods, that hire diverse talent at all levels, and that offer racially-inclusive products. Additionally, divesting from private prisons and immigration detention centers, placing capital with local and minority-owned banks, and investing with minority-owned asset managers.

We will be sure to share a copy of the paper with you upon publication in July.

*< Melanie Mendoza of Matarin Capital &  
Essma Bengabsia of Glenmede >*



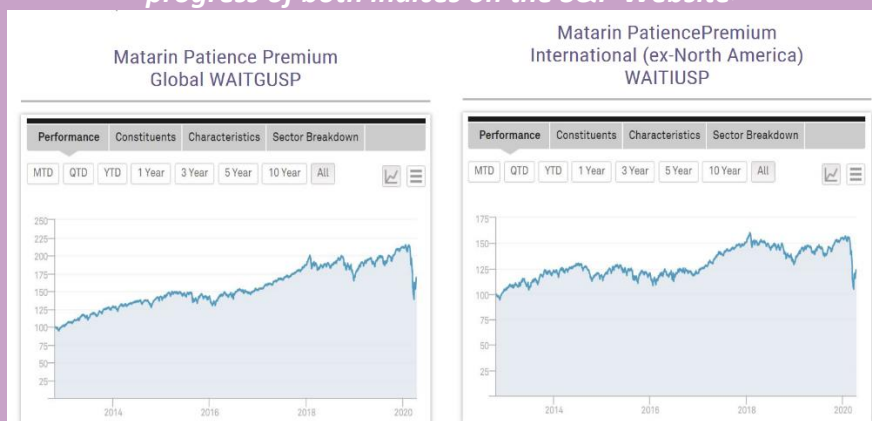
## MATARIN'S PATIENCE PREMIUM STRATEGY UPDATE

Matarin's Patience Premium indices are a core part of our work in ESG integration. We are pleased to share their recent progress.

Year-to-date, the Business Concept has been the top performer within the Patience Premium ratings, driven especially by a focus on companies delivering stable and long-term growth. The second highest performer has been the Catalyst Concept, which is focused on companies with good long-term ESG Momentum. The Price and People Concepts have been underperformers, as companies with more expensive valuations and asset growers have outperformed.

Year-to-date, the International version of the strategy (which excludes North America) has outperformed the S&P and MSCI benchmarks, while Global has underperformed. This difference comes primarily due to the selection among U.S. stocks in Global, specifically the underweighting of the mega cap stocks in the U.S. markets. As of May 31, the largest 5 companies make up 20.3% of the S&P 500, and Matarin's research suggests that this trend toward concentration in the very largest five stocks is set to turn. Read more about this in our [U.S. Strategies Newsletter](#). Matarin's insight on the U.S. large cap growth rally is also featured in the recent *Wall Street Journal* article, "[This Bull Market Isn't As Big As You Think.](#)"

<Please click on the image below to be track the progress of both indices on the S&P Website>



## **UNITED WE STAND: Matarin's Response and Community Activity**

As an asset manager, Matarin attempts to add value by taking account of unpriced drivers of risk and return, including systemic issues such as climate change and societal challenges. As a community member stakeholder in a broader community, we also focus on what we call the Fifth Pillar of Responsible Investing at Matarin – investing in [“Who We Are in the World.”](#)

Here are some of the steps the team at Matarin has taken in order to help combat the spread of COVID-19 and support our community:

- We donated blood.
- We made masks to give to local health facilities.
- We donated to World Central Kitchen, Meals 4 Heroes, HelloFresh, and the NY Common Pantry, which are providing meals for first responders and underfed communities, frontline workers in the ER and ICU departments of NYC hospitals, local food kitchens, and NYC families, respectively. We also supported the Mayo clinic for its health care response.
- We volunteered extra time to various non-profit boards we sit on, with a focus on emergency relief to vulnerable communities, middle and high school kids in NYC schools, local small businesses, and essential healthcare & food insecurity.

Below is a video taken from a teammate's home in Manhattan, where each day at 7 PM we join our neighbors in recognizing NYC's essential workers.

We have also added a brief video in which Matarin co-founder Nili Gilbert joins one of the many protests around the U.S. and the world, in a call for racial justice.

Both videos are powerful and inspiring reminders of our solidarity.

*< Please click on these short videos to see  
NYC's appreciation and peaceful protests >*



## **INVESTING IN THE EYE OF THE STORM: Finding Calm in a Time of Market Turmoil**

As we navigate today's uncertain markets, the team at Matarin has been reflecting on a number of topics and trends. We're excited to share our thinking with you below, and, as always, welcome your feedback and questions.

### **Equity Dispersion Is Creating Opportunity**

Current market dislocation has led to a large dispersion of returns among stocks, particularly in small cap. This means opportunity for active managers. In a recent thought piece, "[Opportunity Knocks, Skill Matters](#)," we describe what types of risk-taking is most likely to be rewarded in the coming period.

### **Positive Outlook for Value Investing**

Key among current opportunities, we are forecasting a turnaround for value investing. Valuation spreads have widened to levels not seen since the Great Financial Crisis and dot.com bubble, which suggests that value factors are positioned to perform well. We see particular opportunity in deep value factors focused on book value and sales.

### **Speculation Was Thriving During the Bear Market**

Unusually, the market remained speculative even as it declined earlier this year, for example continuing to reward money-losing stocks. This now presents a rare opportunity, in which some fundamentally good businesses are also available at inexpensive valuations. At Matarin, we are investing in this trend.

### **Rebalancing & Risk Management Amidst Volatility**

The current environment has reminded us of best practices for managing short-term risk and portfolio rebalancing during severe market dislocations. Because we are long-term investors, we have avoided rebalancing to short-term risk targets or responding to short-term spikes in certain risk indicators. This approach to rebalancing seeks to avoid the risk of being "whipsawed" by buying and selling into quickly changing trends, and also saves on trading costs, which have risen substantially in the current environment, especially among smaller stocks.

### **U.S. Small Cap Poised to Outperform Large**

Matarin maintains a "Size Model" which forecasts the relative returns of large vs. small cap U.S. stocks. For the first time in years, we have a statistically significant signal in favor of smaller stocks. Key components of this forecast include very attractive relative valuations for small stocks versus large; favorable financial conditions which favor smaller stocks which tend, on average, to borrow more at higher interest rates; relatedly, blown out credit spreads which look set to narrow; and the strength of the dollar, which favors smaller U.S. companies that earn more of their revenues domestically. Intermediate-term momentum strongly favors larger stocks, but momentum factors focused on long-term reversal strongly favor small.

### **Behavioral Alpha in Fearful Markets**

A lot of recent market volatility has been driven by investors seeking to understand the short-term impact of COVID-19 and the Great Lockdown on specific assets. At Matarin, while we have been testing our assumptions to be sure that they hold in the current environment, we are also finding benefit in sticking with our long-term discipline. Our systematic application of fundamental, unemotional, long-term investment beliefs is a cornerstone of Matarin's process, one which can be a driver of "behavioral alpha" in fearful environments like this one.

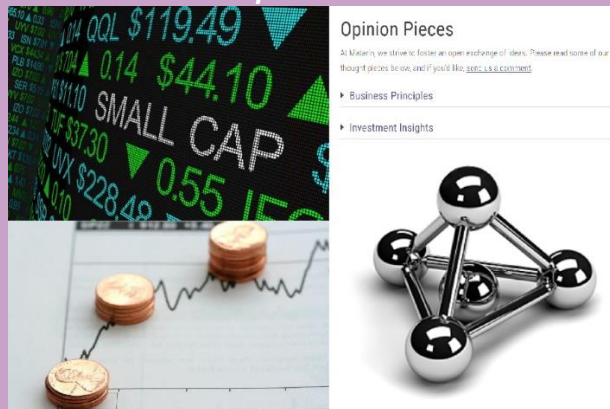
## Where Low Volatility Strategies Go Wrong

Low volatility strategies have drawn interest in the current market environment, but some of the most popular solutions have not performed as expected. With the S&P 500 Low Volatility Index returning -17.8% compared to -10.7% for the S&P 500, Matarin has analyzed the limitations in its design [in a recent opinion piece](#), in which we also offer insights on how the Matarin Low Volatility strategy seeks to improve on other approaches, and earn equity level returns with below-market risk.

## 12-Month Outlook

Matarin's 12-month stock market outlook is moderately bullish at this time. We believe that low inflation, easy financial conditions, weak investor sentiment (offering a supply of future buyers), and improved valuations will all be positive drivers which may overcome a weakened environment for earnings and impaired market trends. This forecast, while still positive, has declined recently as the market has risen.

*<Please click here to access  
Matarin's Opinion Pieces online>*



## DAVOS 2020:

### *Nili Gilbert Speaks at the Feminine Quotient*

Female representation is an ongoing concern at events like the World Economic Forum Annual Meeting in Davos, even as the event marks its 50<sup>th</sup> year.

Each year, there is a modest sample of women-focused, women-organized, and women-led events in Davos, and The Feminine Quotient (FQ) event space is key among those. Matarin's Nili Gilbert had the honor of participating in a panel discussion at the FQ Lounge on Ending Modern Slavery in the apparel industry. She was joined by Elizabeth Peyton-Jones, founder of Responsible Trust for Models, and Myriam Coudoux, Director of Sustainability for Swarovski.

Elsewhere, there was an intense focus on the importance of 2030 as it relates to climate change targets and the achievement of the other UN Sustainable Development Goals. This led to a discussion on measurement, metrics and benchmarks, which was of particular interest, given Matarin's ongoing research in the field of quantitative ESG integration.



<Please click on the image below to see an outline of Matarin's Responsible Investment framework>



## HERE AND THERE

As a prominent majority women-owned firm, Matarin has remained active in the diverse and emerging manager community. Here are some of the forums in which Matarin's team members have sought to learn, and, where appropriate, educate:

- Melanie Mendoza attended The NASP Diverse and Emerging Manager Forum and Kick Off Event in Chicago
- Marta Cotton attended the Emerging Manager conferences for the NY Common Retirement Fund, NY State Insurance Fund, NY State Teachers Retirement System, TRS/ERS of Texas.
- Nili Gilbert spoke at The Garrison Institute on Regenerative Economics and Impact Investing, Institutional Portfolio Princeton summit on Corporate Governance & ESG, The Managed Funds Association (MFA) on Optimizing Partnerships in ESG and SRI, at CleanTechIQ on Integrating Social Impact Themes & UN SDG Themes in investments, and NAA/Momentum Webinar on Impact Investing in the Era of COVID.
- Stuart Kaye, Valerie Malter, and Ralph Coutant attended the Berkshire Hathaway Annual Meeting virtually, after years of in-person attendance!



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