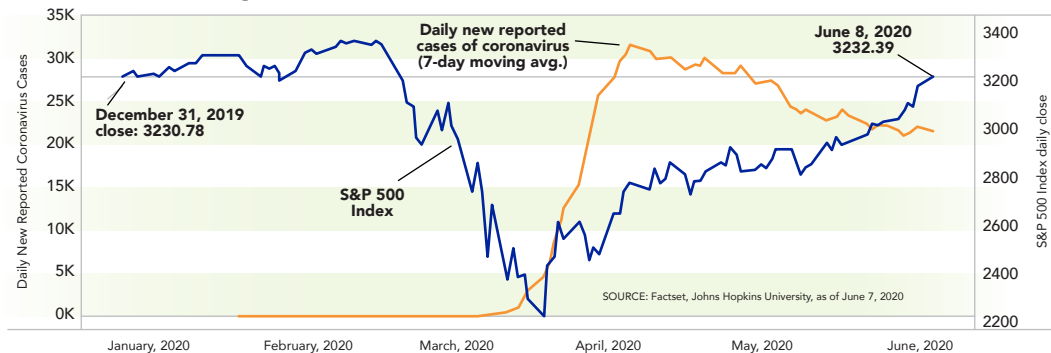


Quarterly Briefing

News and updates for advisors from the Portfolio Services team

S&P 500 vs. daily new coronavirus cases, 2020



Quarterly Rebalance Complete

The third quarter rebalance has been completed and we saw some trends. We sold out of convertible and investment grade bonds as these asset classes continue to perform well. Franklin Convertibles and DFA Investment Grade were up 15% and 7% respectively, at quarter end, as compared to the S&P 500, which was down 3% and the Aggregate Bond Index, which was up 6%. Proceeds were redeployed into International equities, U.S. Small Cap equities and CLOs.

Top 3 Dynamic Models

The top three utilized Dynamic models by AUM are Mid-size DFA (50% to 70%), Jumbo-size 60% and Small-size DFA 60%. These models represent \$50 million in assets and are comprised of Dimensional mutual fund equity positions. Multifactor investing remains the preferred investment style for our advisors, although we are quickly seeing growth in index-based ETF portfolios.

Value Investing Proves a Reliable Way

Over the past five decades, value stocks outperformed growth by more than 4%. That said, we have seen a reversal of that trend in the past four years with companies like Amazon, Facebook, Netflix and Google leading the charge. According to Dimensional Funds, which recently published an article discussing the value proposition, "We believe investors are best served by making decisions based on sound economic principles supported by a preponderance of evidence. Value investing is based on the premise that paying less for a set of future cash flows is associated with a higher expected return. That's one of the most fundamental tenets of investing. Combined with the long series of empirical data on the value premium, our research shows that value investing continues to be a reliable way for investors to increase expected returns going forward."

Source: <https://www.mydimensional.com/when-its-value-versus-growth-history-is-on-values-side>

Small Cap vs. Large Cap

U.S. Small Cap stocks have underperformed Large Cap stocks over the past three years by approximately 6% on an annual basis. It's not a surprise that investors are asking whether the size premium really continues to exist. Part of the reason for the underperformance is that the indices are market cap weighted and that the larger FAANG names have driven most of the growth. Although the underperformance trend has continued into 2020, with the S&P 500 up almost 5% and the Russell 2000 down 7%, there has been an interesting shift. If we look at the performance since the lows in March, the Russell has outperformed the S&P by almost 500 basis points. We believe that the historical size premium is still valid as small cap stocks are riskier, so they should provide additional returns. We continue to hold small cap within our models and believe that there will be a reversion to the mean over time.

ETFs to Launch from Dimensional

Dimensional Fund Advisors has announced that they will be launching ETFs later this year. The ETFs will be managed using the same investment philosophy and research as the current DFA funds. We are eagerly anticipating the new offering, but we will not be active participants initially. As with all of our investment selections, we monitor closely and include the positions in our models when certain criteria are met (AUM, history, etc.).

ESG and SRI Models Under Development

Environmental, Social and Corporate Governance (ESG) and Socially Responsible Investments (SRI) are two investment styles that are becoming ever more popular among clients. While Dynamic has had SRI and ESG models based on Dimensional mutual funds, we are in the process of developing ETF-based solutions. Expect to see these solutions from Dynamic in the coming months as the idea of investing while influencing companies about the environment, sustainability and social concerns—while receiving returns—continues to evolve.

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