

# Small-Mid Cap Core Fund

*William Blair*

*Quarterly Review*

*June 2023*

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**Risks:**

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**The Fund's returns will vary, and you could lose money by investing in the Fund.** The Fund invests most of its assets in equity securities of small cap and mid cap domestic growth companies where the primary risk is that the value of the equity securities it holds might decrease in response to the activities of those companies or market and economic conditions. Individual securities may not perform as expected or a strategy used by the Adviser may fail to produce its intended result. Investing in small and medium capitalization companies involves special risks, including higher volatility and lower liquidity. Small and mid-cap stocks are also more sensitive to purchase/sale transactions and changes in the issuer's financial condition. Convertible securities may be called before intended, which may have an adverse effect on investment objectives. Diversification does not ensure against loss. The Fund is not intended to be a complete investment program. The Fund is designed for long-term investors.

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## Market Overview

The U.S. equity market showed resilience throughout the first half of 2023, reflected in the positive performance across U.S. equity indices, albeit with a wide range of performance across style and size dimensions. Despite investors' concerns regarding regional bank failures and higher interest rates, positive developments such as robust jobs growth and moderating inflation provided a strong counterbalance for the market.

During the first quarter, moderating inflation and strong employment data provided optimism for a soft landing. The Federal Open Market Committee (FOMC) increased the target Federal Funds Rate by 25 basis points in both February and March. In March, the market experienced a decline due to the collapse of Silicon Valley Bank and concerns surrounding smaller banks. This led to a rally in U.S. Government bonds as investors questioned the stability of smaller banks and anticipated a potential pause in Federal Reserve (Fed) tightening. Despite these challenges, the job market remained resilient, with notable employment gains in leisure, hospitality, retail trade, and healthcare, somewhat offset by employment declines in information technology.

U.S. equities continued their advance in the second quarter as the likelihood of further bank failures appeared to diminish and the economy displayed modest growth. The revised Q1 Gross Domestic Product (GDP) figures revealed a year-over-year expansion of 2.0%, surpassing the previous estimate of 1.3% growth. In May, the Consumer Price Index (CPI) showed a year-over-year increase of +4.0%, underscoring ongoing inflationary pressures, albeit coming in lower than the multi-decade peak of +9.1%

reported in June of 2022. The FOMC raised interest rates by 25 basis points in May, bringing the Federal Funds Rate to a target range of 5.00%-5.25%, the highest level since August 2007.

## Fund Performance

During the second quarter, the SMID Core Fund (Class I) trailed the return of the Russell 2500 Index. Relative performance drivers were primarily stock specific. Top detractors from performance were Mercury Systems (Industrials) and Axon Enterprise (Industrials). Shares of Mercury Systems, a provider of sensor processing subsystems, declined on near term profit pressures amidst manufacturing and supply chain challenges. Shares of Axon, a leading provider of law enforcement technology, lagged after reporting strong quarterly results against elevated expectations. Other notable detractors included Sylvamo (Materials), Certara (Health Care) and Primo Water (Consumer Staples). Top contributors to performance were Industrials holdings Builders FirstSource and Chart Industries. Shares of Builders FirstSource, a materials manufacturer and distributor for home builders, benefited from demand strength in the multi-family unit end market, as well as continued share repurchases and favorable guidance. Chart Industries, a leading global manufacturer of highly engineered cryogenic equipment, demonstrated positive progress with respect to an acquisition announced late in 2022. Other strong performers included Encompass Health (Health Care), National Vision Holdings (Consumer Discretionary) and Cameco (Energy). Stock specific contributors and detractors for the second quarter are discussed in greater detail at the end of this quarterly review.

Over the year-to-date period, the Fund trailed the performance of the Russell 2500 Index driven by stock specific dynamics. Top detractors from performance included National Vision Holdings (Consumer Discretionary), Western Alliance Bancorp (Financials), Mercury Systems (Industrials), Columbia Banking System (Financials) and New Fortress Energy (Energy). National Vision Holdings, the largest value optical retailer in the U.S., was negatively impacted by a shortage in optometrists, resulting in a lack of available exam slots and pressuring revenue and margins in the near term. Western Alliance is a regional bank headquartered in Phoenix, Arizona. Western Alliance's deposit exposure to venture capital clients was much smaller than that of SVB Financial, but there was concern these deposits could leave and drive a broader liquidation of assets. Stock selection in Consumer Discretionary and Health Care also dampened relative performance. Positive stock selection in Industrials, including our positions in Builders FirstSource, ACV Auctions and Chart Industries, and Energy, including our position in Cameco, added value during the period. Shares of Builders FirstSource benefited from continued operational efficiency, as well as healthy demand for its value-added products and share buybacks, as highlighted above. ACV Auctions, a solutions provider that maximizes profitability for used car dealers, experienced better-than-expected volume growth in a challenging environment. Information Technology holding, Verra Mobility, was also among top contributors to performance.

## Outlook

As we enter the second half of the year, there is potential for the Fed's rate-hiking cycle to exert a slowing effect on economic growth. While the pace of inflation has

moderated, it remains above the Fed's target level, indicating the possibility of additional interest rate increases. Although the full impact of rate increases over the past 18 months has yet to be felt, there are already noticeable effects as lending conditions tighten for businesses, consumers, and real estate developers. Despite these potential headwinds, the current backdrop of a slowly expanding economy, robust consumer spending on areas such as travel and leisure, and new job growth offers support for equity investors.

Looking ahead, companies with strong balance sheets, durable business models, sustainable cash flow, and the ability to self-fund growth are likely to be uniquely positioned as the economic landscape unfolds. We believe our philosophy of identifying durable businesses whose stocks present attractive risk/reward opportunities should serve us well in a variety of economic environments, as it has historically.

	Value	Core	Growth
<b>Month to Date</b>			
Russell 3000	6.72	6.83	6.91
Russell 1000	6.64	6.75	6.84
Russell Midcap	8.67	8.34	7.73
Russell 2500	8.89	8.52	7.89
Russell 2000	7.94	8.13	8.29
<b>Quarter to Date</b>			
Russell 3000	4.03	8.39	12.47
Russell 1000	4.07	8.58	12.81
Russell Midcap	3.86	4.76	6.23
Russell 2500	4.37	5.22	6.41
Russell 2000	3.18	5.21	7.05
<b>Year to Date</b>			
Russell 3000	4.98	16.17	28.05
Russell 1000	5.12	16.68	29.02
Russell Midcap	5.23	9.01	15.94
Russell 2500	5.83	8.79	13.38
Russell 2000	2.50	8.09	13.55

Source: FactSet; Eagle

**Past Performance is not a guarantee of future results.** A direct investment in an index is not possible.

The Russell 3000 Index measures the performance of the all-cap segment of the U.S. equity universe. The Russell 1000 Index measures the performance of the large-cap segment of the U.S. equity universe. It includes approximately 1000 of the largest securities based on a combination of their market cap and current index membership. The Russell Midcap Index measures the performance of the mid cap segment of the U.S. equity universe. It includes approximately 800 of the smallest securities in the Russell 1000 Index based on a combination of their market cap and current index membership. The Russell 2500 Index measures the performance of the small to mid-cap segment of the U.S. equity universe. It includes approximately 2500 of the smallest securities in the Russell 3000 Index based on a combination of their market cap and current index membership. The Russell 2000 Index measures the performance of the small cap segment of the U.S. equity universe. It includes approximately 2000 of the smallest securities in the Russell 3000 Index based on a combination of their market cap and current index membership. Core returns represent the Total Return indices. The value segments of these indices include companies with lower price-to-book ratios and lower forecasted growth values. The growth segments of these indices include companies with higher price-to-book ratios and higher forecasted growth values. Please refer to the 'Important Disclosures' section of this document for further information.

### Market Performance

- U.S. equities advanced in the second quarter as the economy displayed modest growth and inflation continued to moderate.
- The revised Q1 Gross Domestic Product (GDP) figures revealed a year-over-year expansion of 2.0%, surpassing the previous estimate of 1.3% growth.
- In May, the Consumer Price Index (CPI) showed a year-over-year increase of +4.0%, underscoring ongoing inflationary pressures, albeit coming in lower than the multi-decade peak of +9.1% reported in June of 2022.
- The Federal Open Market Committee (FOMC) raised interest rates by 25 basis points in May, bringing the Federal Funds Rate to a target range of 5.00%-5.25%, the highest level since August 2007.

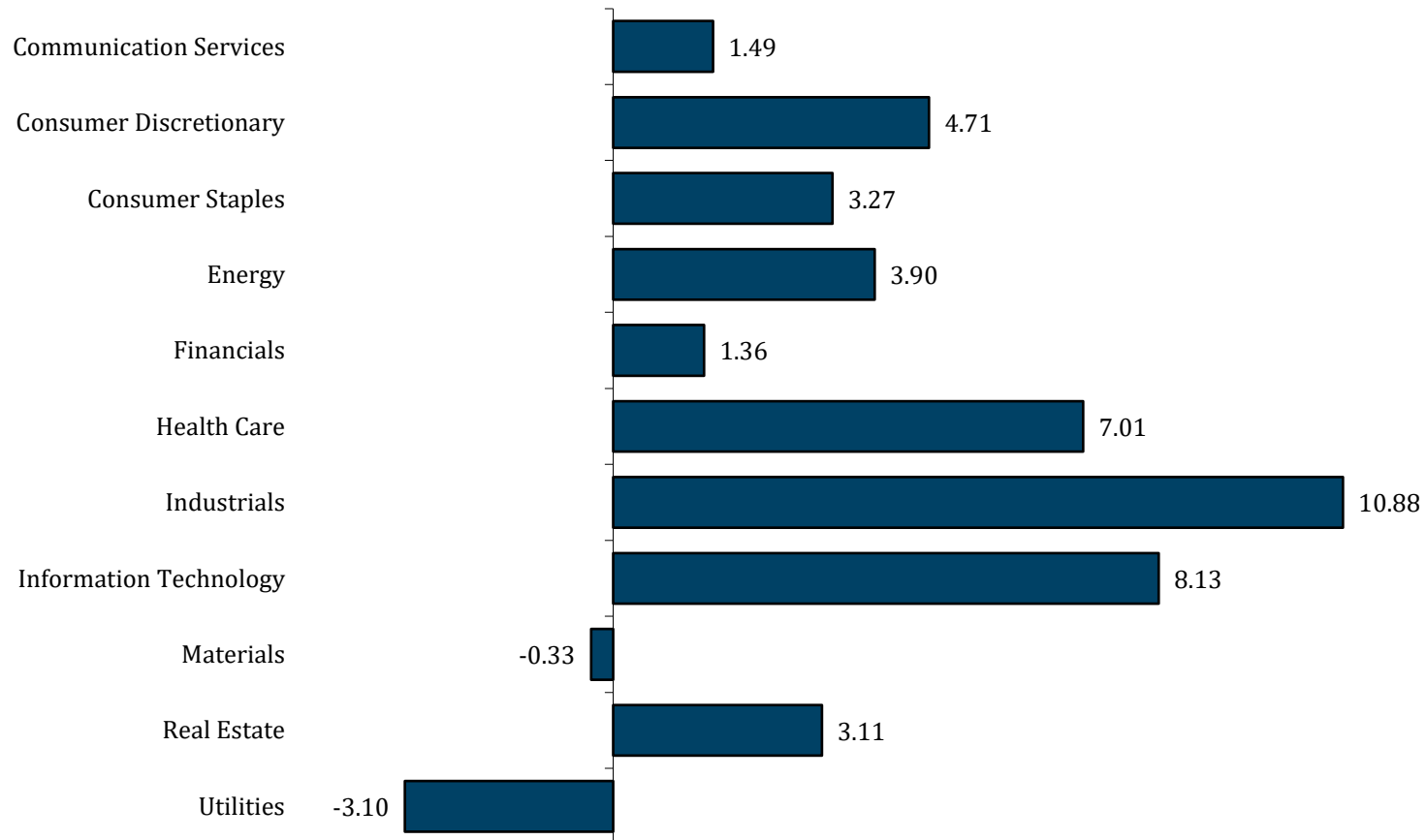
### Style Performance

- In June, there was minimal performance dispersion between growth and value benchmarks.
- For the quarter and year-to-date periods, growth benchmarks outperformed value benchmarks, with a more significant spread over the year-to-date period.

### Market Cap Performance

- In June, smaller caps outperformed larger caps across the style spectrum.
- For the quarter and year-to-date periods, larger caps outperformed smaller caps across the style spectrum. The performance spread in the growth benchmarks was much wider between market cap segments for both periods compared to a narrower spread in the value benchmarks.

**Russell 2500 Total Return  
Q2 2023**



*Data calculated in our proprietary attribution system. Past returns are no guarantee of future performance. The Russell 2500 Total Index measures the performance of the small to mid-cap segment of the U.S. equity universe. It includes approximately 2500 of the smallest securities in the Russell 3000 Index based on a combination of their market cap and current index membership. Based on Global Industry Classification Standard (GICS) Sectors. Please refer to the 'Important Disclosures' section of this document for further information.*

Periods ended 6/30/2023	Quarter	YTD	1 Year	3 Year	Since Inception*
Small-Mid Cap Core Fund (WBCIX) - Class I (net)	4.73%	8.06%	14.50%	15.19%	10.65%
Small-Mid Cap Core Fund (WBCRX) - Class R6 (net)	4.72%	8.13%	14.57%	15.20%	10.70%
Russell 2500 Total	5.22%	8.79%	13.58%	12.29%	8.69%

\*Class I & R6 Inception Date: 10/1/2019

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Small-Mid Cap Core Fund Expense Ratios:

	<u>Gross</u>	<u>Net</u>
Class I Shares	1.21%	0.95%
Class R6 Shares	1.05%	0.90%

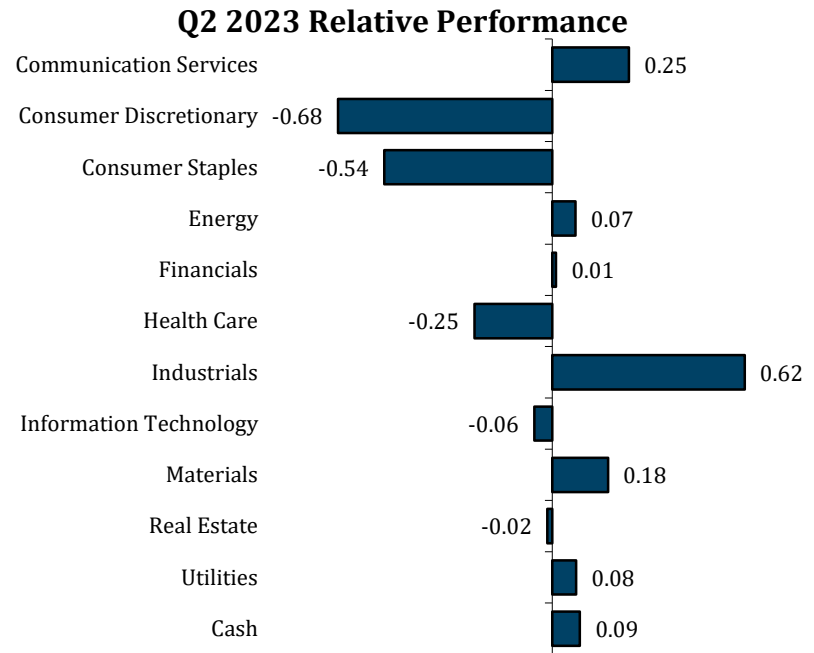
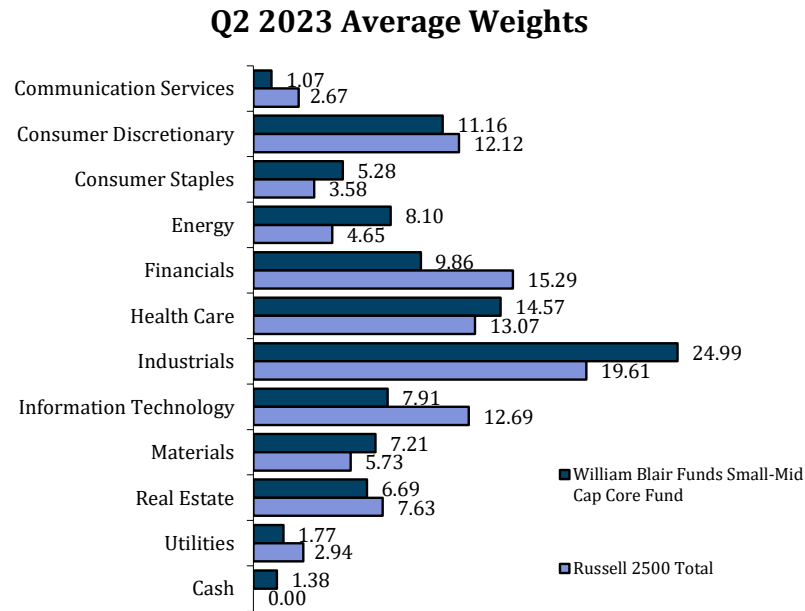
*Expenses shown are as of the most recent prospectus. The Fund's Adviser has contractually agreed to waive fees and/or reimburse expenses to limit fund operating expenses until 4/30/24.*

*A direct investment in an index is not possible. The Russell 2500 Total Index measures the performance of the small to mid-cap segment of the U.S. equity universe. It includes approximately 2500 of the smallest securities in the Russell 3000 Index based on a combination of their market cap and current index membership.*

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The charts below show the average sector weights and relative performance, by sector, for the Fund vs. its benchmark.



Source: Proprietary attribution system.

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**Builders FirstSource (BLDR)** is a materials manufacturer and distributor for home builders. The company is the largest value-added manufacturer in the industry by total revenue, geographic coverage, total facilities, and product scope. Builders FirstSource reported better than expected first quarter earnings results driven by higher than anticipated revenues and margins associated with the company's highest value product offerings, particularly in the multi-family market. Moreover, the company continued to repurchase shares and offered a positive outlook due to its robust platform and shift to higher value-added products. Management has demonstrated strong execution thanks to its robust platform, efficiency initiatives, and a strategic shift towards value-added products. As the share price has appreciated and the valuation multiple has moved higher, the risk/reward profile became incrementally less compelling and we trimmed our position.

**Chart Industries (GTLS)** is a leading global manufacturer of highly engineered cryogenic equipment for liquified natural gas and other industrial gases. Specifically, the equipment is used to store gases, to convert gases into liquids for transport and storage and, and then to re-gasify the liquids for consumption. In November 2022, the company had announced the acquisition of Howden and its intent to sell off specific assets from this deal. During the quarter, Chart Industries announced a \$300 million divestiture of assets acquired with the Howden acquisition that likely had taken longer than some investors had expected. At the same time, the company also indicated that the Howden acquisition itself was proving better than expected in terms of early progress, with revenue synergies and strong free cash flows. We trimmed our position modestly. We continue to believe Chart Industries has a long runway of demand as an enabler of the energy transition due to its core competencies in managing gasses/liquids at either high pressures or cryogenic temperatures.

**Encompass Health (EHC)** is a leading provider of rehabilitative healthcare services, through its network of inpatient rehabilitation facilities. During the quarter, the company reported strong volume growth, continued cost management and stabilizing wages and benefits. Additionally, the Centers for Medicare and Medicaid Services (CMS) published the fiscal 2024 Medicare payment and policy proposal for inpatient rehabilitation facilities (IRFs), which did not include payment transfer rules to inpatient rehabilitation hospitals. This was previously an investor concern as the inclusion of transfer rules could lower payment rates for certain patients. We maintained our position and continue to believe Encompass Health is well positioned given the industry shift toward lower cost, higher quality providers, and the accelerating demographics for its core customer.

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**Mercury Systems (MRCY)**, a provider of sensor processing subsystems, reported better than expected revenues and earnings, but issued weak guidance due to poor manufacturing yields caused by supply chain problems. The company expects margins to expand and trend back closer to pre-pandemic levels over the next year. At the same time, the company completed its strategic review and is focused on improved execution under new management. We believe the company offers sustainable growth potential over the long-term, driven by a long runway for outsourcing and acquisition opportunities. We maintained our position.

**Axon (AXON)** is a leading provider of law enforcement technology including conducted energy devices (branded TASER), on-officer and in-car cameras, as well as cloud-based digital evidence management software. Axon's overarching goal is to protect life through its stated mission to obsolete the bullet, reduce social conflict and enable a fair and effective justice system. While the company reported strong revenues and meaningfully increased guidance during the quarter, the earnings results were below elevated expectations following strong year-to-date stock performance, putting pressure on shares. However, Axon continues to execute well and growth was robust across products and segments. Demand trends across the public safety environment remain positive. We trimmed our position and continue to believe the company is well positioned to benefit from a healthy demand environment for all of its product offerings given the secular shift toward use of non-lethal force in the U.S. and internationally.

**Sylvamo (SLVM)** is a leading producer of Uncoated Free Sheet (UFS) paper, also known as copy paper. The company owns and operates some of the lowest cost mills in the world including the lowest cost mill in North America. The industry has consolidated over the years and there is no new UFS capacity coming online. Existing capacity is decreasing as higher cost mills are converting into packaging instead of upgrading their UFC capacity. During the quarter, Sylvamo reduced forward-looking earnings guidance due to declines in pulp pricing and a reduction of the company's energy surcharges, both of which had a larger earnings benefit at higher levels. With a current mid-teens free cash flow yield that we expect to move higher, as well as a clean balance sheet, we believe the risk/reward is attractive and maintained our position.

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<b>Top 10 Holdings by Weight</b>		
	<b>Small-Mid Cap Core Fund</b>	<b>Russell 2500 Total</b>
	<u>% in Fund</u>	<u>% in Index</u>
BWX Technologies Inc	2.36	0.12
Casella Waste Systems Inc-A	2.27	0.09
Encompass Health Corp	2.23	0.12
Bright Horizons Family Solut	2.20	0.09
Cameco Corp	2.17	0.00
Chart Industries Inc	2.11	0.12
Builders Firstsource Inc	2.10	0.31
Merit Medical Systems Inc	2.02	0.08
Verra Mobility Corp	1.82	0.05
Americold Realty Trust Inc	1.81	0.16
<b>Total:</b>	<b>21.10</b>	<b>1.14</b>

Source: Eagle.

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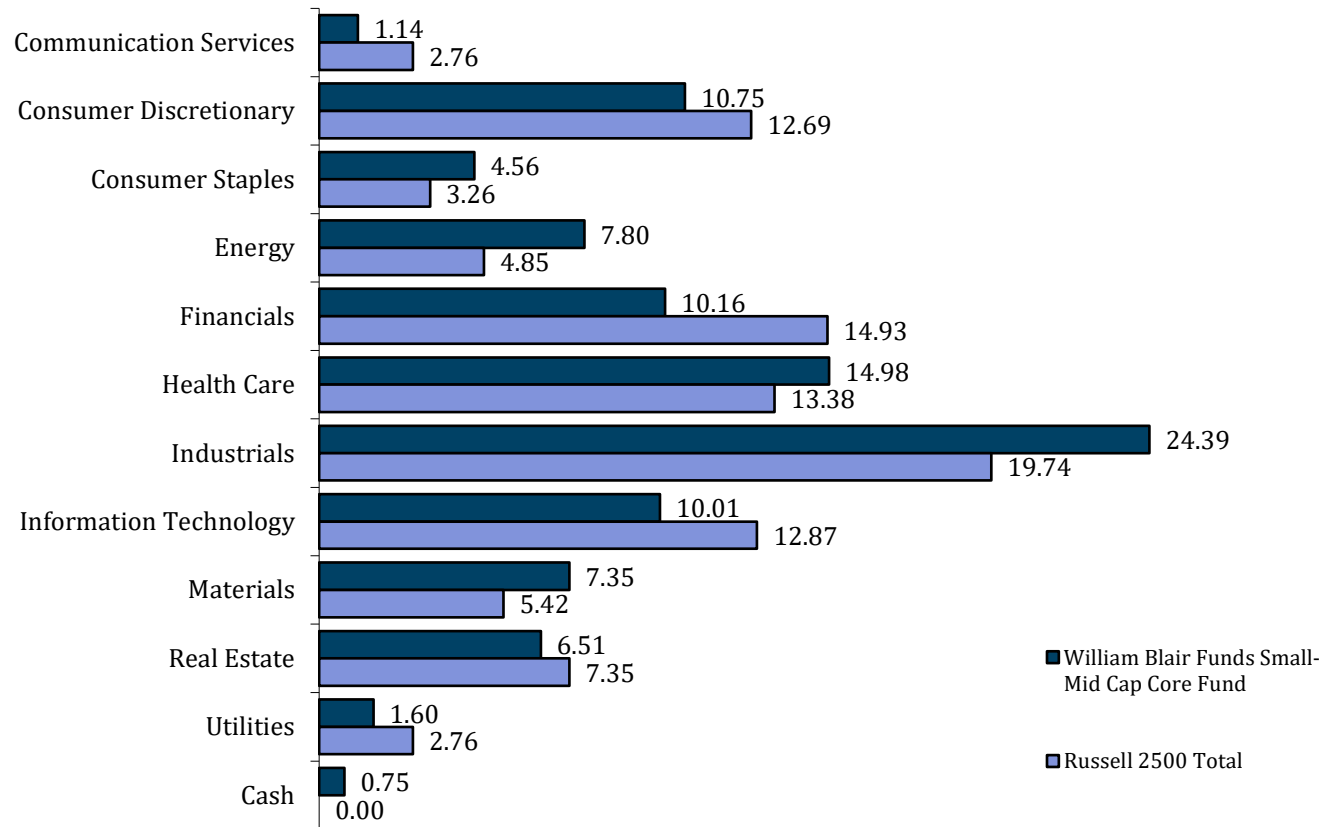
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	Small-Mid Cap Core Fund	Russell 2500 Total
<b>Quality</b>		
Return on Investment Capital	8.6%	5.9%
Free Cash Flow Margin	9.5%	7.0%
Debt to Total Capital Ratio	44.1%	43.9%
<b>Growth</b>		
EPS Growth Rate (3 Years)	21.5%	21.2%
EPS Growth Rate (5 Years)	18.6%	16.7%
<b>Valuation</b>		
P/E Ratio (1-year forecast)	18.1x	17.5x
<b>Capitalization (\$B)</b>		
Weighted Average Market Cap	\$7.1	\$6.3
Weighted Median Market Cap	\$6.1	\$5.6
<b>Portfolio Positions</b>		
Number of Securities	86	2,503

*Characteristics have been calculated by William Blair.*

*Please refer to the 'Important Disclosures' section of this document for further information on investment risks and returns.*

### Sector Weights as of 6/30/2023



Source: William Blair; Eagle

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	Portfolio Weight	Benchmark Weight		Portfolio Weight	Benchmark Weight		Portfolio Weight	Benchmark Weight
<b>COMMUNICATION SERVICES</b>	<b>1.14</b>	<b>2.76</b>	<b>FINANCIALS (continued)</b>			<b>INFORMATION TECHNOLOGY</b>	<b>10.01</b>	<b>12.87</b>
Ziprecruiter Inc-A	0.61		Hannon Armstrong Sustainable	0.84		Nice Ltd - Spon Adr	1.43	
Live Nation Entertainment In	0.53		Tradeweb Markets Inc-Class A	0.62		Dynatrace Inc	1.33	
<b>CONSUMER DISCRETIONARY</b>	<b>10.75</b>	<b>12.69</b>	<b>HEALTH CARE</b>	<b>14.98</b>	<b>13.38</b>	Entegris Inc	1.05	
Bright Horizons Family Solut	2.20		Encompass Health Corp	2.23		Wolfspeed Inc	0.93	
National Vision Holdings Inc	1.66		Merit Medical Systems Inc	2.02		Cognex Corp	0.89	
Pool Corp	1.41		Chemed Corp	1.81		Ambarella Inc	0.84	
Skyline Champion Corp	1.18		Acadia Healthcare Co Inc	1.16		Jfrog Ltd	0.71	
Fox Factory Holding Corp	0.83		Penumbra Inc	1.11		Pure Storage Inc - Class A	0.66	
Grand Canyon Education Inc	0.79		Globus Medical Inc - A	1.08		Mks Instruments Inc	0.62	
Signet Jewelers Ltd	0.70		Veradigm Inc	1.01		Alarm.Com Holdings Inc	0.58	
Boot Barn Holdings Inc	0.61		Bio-Techne Corp	1.00		Onto Innovation Inc	0.53	
Cavco Industries Inc	0.55		Sotera Health Co	0.86		Solaredge Technologies Inc	0.44	
Adt Inc	0.44		Certara Inc	0.85		<b>MATERIALS</b>	<b>7.35</b>	<b>5.42</b>
Revolve Group Inc	0.36		Neogen Corp	0.74		Crown Holdings Inc	1.72	
<b>CONSUMER STAPLES</b>	<b>4.56</b>	<b>3.26</b>	Avantor Inc	0.55		Sylvamo Corp	1.66	
Lancaster Colony Corp	1.35		Repligen Corp	0.55		Berry Global Group Inc	1.64	
Primo Water Corp	1.14		<b>INDUSTRIALS</b>	<b>24.39</b>	<b>19.74</b>	Eagle Materials Inc	1.24	
Inter Parfums Inc	1.10		Bwx Technologies Inc	2.36		Cf Industries Holdings Inc	1.09	
Performance Food Group Co	0.97		Casella Waste Systems Inc-A	2.27		<b>REAL ESTATE</b>	<b>6.51</b>	<b>7.35</b>
<b>ENERGY</b>	<b>7.80</b>	<b>4.85</b>	Chart Industries Inc	2.11		Americold Realty Trust Inc	1.81	
Cameco Corp	2.17		Builders Firstsource Inc	2.10		Equity Lifestyle Properties	1.56	
Denbury Inc	1.43		Verra Mobility Corp	1.82		Healthcare Realty Trust Inc	1.47	
Technipfmc PLC	1.28		Axon Enterprise Inc	1.69		Agree Realty Corp	1.23	
New Fortress Energy Inc	1.12		Willscot Mobile Mini Holding	1.58		Pebblebrook Hotel Trust	0.44	
Whitecap Resources Inc	0.92		Gxo Logistics Inc	1.58		<b>UTILITIES</b>	<b>1.60</b>	<b>2.76</b>
Green Plains Inc	0.87		Acv Auctions Inc-A	1.38		Idacorp Inc	1.60	
<b>FINANCIALS</b>	<b>10.16</b>	<b>14.93</b>	Brink's Co/The	1.37		<b>Cash</b>	<b>0.75</b>	<b>0.00</b>
Euronet Worldwide Inc	1.44		Mercury Systems Inc	1.15		<b>Total</b>	<b>100.00</b>	<b>100.00</b>
East West Bancorp Inc	1.26		Energy Recovery Inc	0.99				
Goosehead Insurance Inc -A	1.04		Trex Company Inc	0.97				
Columbia Banking System Inc	1.02		Shoals Technologies Group -A	0.93				
Western Alliance Bancorp	1.01		Agco Corp	0.81				
Wintrust Financial Corp	1.01		Lincoln Electric Holdings	0.71				
Virtu Financial Inc-Class A	0.96		Atkore Inc	0.56				
Carlyle Group Inc/The	0.95							

As of 6/30/2023.

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# Glossary - Terms

**Active Share:** A measure of the percentage of equity holdings in a portfolio that differ from the benchmark index. It is calculated by taking the sum of the absolute value of the differences of the weight of each holding in a portfolio versus the weight of each holding in the index and dividing by two.

**Alpha:** A measure of a portfolio's return in excess of the market return, after both have been adjusted for risk. It is a mathematical estimate of the amount of return expected from a portfolio above and beyond the market return at any point in time. For example, an alpha of 1.25 indicates that a stock is projected to rise 1.25% in price in a year over the return of the market, or the return when the market return is zero. When an investment price is low relative to its alpha, it is undervalued, and considered a good selection.

**Beta:** A quantitative measure of the volatility of the portfolio relative to the overall market, represented by a comparable benchmark. A beta above 1 is more volatile than the overall market, while a beta below 1 is less volatile, and could be expected to rise and fall more slowly than the market.

**Developed Markets:** Using the Morgan Stanley Capital International (MSCI) geographic definition, this region includes: United Kingdom, Europe (Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Netherlands, Norway, Spain, Sweden and Switzerland), Japan, Pacific Asia (Australia, Hong Kong, New Zealand, and Singapore) and the Western Hemisphere (Canada and other Americas).

**Debt to Total Capital Ratio:** This figure is the percentage of each company's invested capital that consists of debt. Companies with a high Debt to Total Capital level may be considered more risky. From a portfolio perspective, the portfolio Debt to Total Capital Ratio is a weighted average of the individual holdings' Debt to Total Capital Ratio.

**Emerging Markets:** Using MSCI's geographic definition, this region includes: Emerging Markets Asia (China, India, Indonesia, Malaysia, S Korea, Taiwan, and Thailand), Emerging Markets Europe, Mid-East and Africa (Czech Republic, Hungary, Poland, Russia, Turkey, Egypt, Morocco, and S Africa), and Latin America (Argentina, Brazil, Chile, Columbia, Mexico, Peru and Venezuela).

**EPS (Earnings Per Share) Growth Rate (Projected):** This measure represents the weighted average of forecasted growth in earnings expected to be experienced by the stocks within the portfolio over the next 3-5 years. From a portfolio perspective, the portfolio P/E ratio and EPS Growth Rate are weighted averages of the individual holdings' P/E ratios and EPS Growth Rates. Data calculated in FactSet.

**EV/EBITDA: (Enterprise Value / Earnings Before Interest, Taxes and Depreciation-Amortization):** The EV/EBITDA ratio is useful for global comparisons because it ignores the distorting effects of individual countries' taxation policies. It's used to find attractive takeover candidates. Enterprise value is a better measure than market cap for takeovers because it takes into account the debt which the acquirer will have to assume. Therefore, a company with a low EV/EBITDA ratio can be viewed as a good takeover candidate.

**EV/IC: (Enterprise Value / Invested Capital) Ratio:** Enterprise Value (EV), which is market capitalization minus cash plus debt divided by Invested Capital (IC), which is the sum of common stock, preferred stock and long-term debt. This number will get you a simple multiple. If it is below 1.0, then it means that the company is selling below book value and theoretically below its liquidation value.

**Information Coefficient:** A measure of the correlation between expected and actual returns.

**Information Ratio:** A measure of risk-adjusted return. The annualized excess return of the portfolio relative to a respective benchmark, divided by the annualized tracking error relative to that same benchmark. The higher the measure, the higher the risk-adjusted return.



## Glossary - Terms

**PBV: (Price/Book Value) Ratio:** The PBV Ratio measures the value of a company's common stock relative to its shareholder's equity. A price-to-book multiple above one means that the price of the company's common stock is higher than its common shareholder's equity. A price-to-book multiple below one means that the price of the company's common stock are less than its break-up value, and the shares may be undervalued.

**PCF: (Price/CashFlow):** Some analysts favor the price/cash flow over the price-earnings (PE) ratio as a measure of a company's value. Cash flow is a measure of a company's financial health. It equals cash receipts minus cash payments over a given period of time.

**P/E: (Price/Earnings) Ratio:** This is the most common measure of how expensive a stock is. Simply, it is the cost an investor in a given stock must pay per dollar of current annual earnings. A high P/E generally indicates that the market is paying more to obtain the stock because it has confidence in the company's ability to increase its earnings. Conversely, a low P/E often indicates that the market has less confidence that the company's earnings will increase rapidly or steadily, and therefore will not pay as much for its stock.

**R-squared:** A measurement of how closely the portfolio's performance correlates with the performance of its benchmark, such as the MSC AC World Free ex US Index. In other words, it is a measurement of what portion of a portfolio's performance can be explained by the performance of the overall market or index. Ranges from 0 to 1, where 0 indicates no correlation and 1 indicates perfect correlation.

**Risk (Standard Deviation):** A measure of the portfolio's risk. A higher standard deviation represents a greater dispersion of returns, and thus a greater amount of risk. The annualized standard deviation is calculated using monthly returns.

**Sharpe-Ratio:** A risk-adjusted measure calculated using standard deviation and excess return (Portfolio return – Risk Free Rate) to determine reward per unit of risk. The higher the Sharpe ratio, the better the portfolio's historic risk-adjusted performance.

**Tracking Error:** Tracking Error measures the extent to which a portfolio tracks its benchmark. The tracking error of an index portfolio should be lower than that of an active portfolio. The tracking error will always be greater than zero if the portfolio is anything other than a replication of the benchmark.

**Trailing 1-Year Turnover:** This figure reflects the portfolio's trading activity by calculating the amount of the portfolio's holdings bought or sold over the prior year, expressed as a percentage of the portfolio's average market value. Turnover figures may be related to the amount of trading costs experienced by the portfolio.

**Weighted Average Market Capitalization:** Market capitalization refers to the total market value of each company's outstanding shares. The Weighted Average Market Capitalization for a portfolio is calculated as the average market capitalization of the stocks within the portfolio, weighted by the amount of each stock owned.

**Weighted Median Market Capitalization:** This calculation represents the median market capitalization of the stocks in the portfolio, weighted by the amount of each stock owned.