SYCAMORE MID CAP VALUE EQUITY QUARTERLY COMMENTARY

As of December 31, 2023

EXECUTIVE SUMMARY

Sycamore Capital's Mid Cap Value investment team employs a disciplined, bottom-up, fundamental process to invest in what we believe are better businesses that trade at a discount to the team's estimate of intrinsic value and possess fundamental drivers that may narrow the valuation gap. By investing in businesses that exhibit these attributes, we seek to minimize downside risk without sacrificing the upside potential.

- The Sycamore Mid Cap Value Equity strategy underperformed the Russell Midcap® Value Index during the fourth quarter of 2023 and for the 12-month period ended December 31, 2023.
- For the fourth quarter, stock selection was the primary driver of relative underperformance, while sector allocation had a trivial negative impact. For the 12-month period, stock selection was also the primary driver of relative underperformance; however, sector allocation partially offset the unfavorable impact of selection. Sector weighting is a by-product of the bottom-up stock selection process.

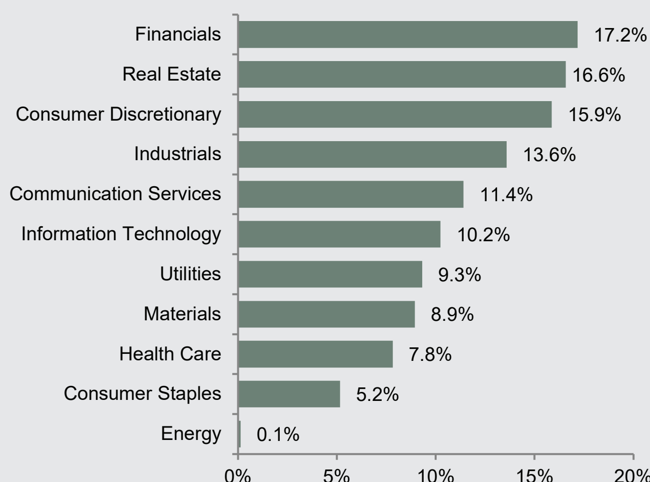
SOLID GAINS TO CLOSE A "HEAD-SCRATCHER" OF A YEAR

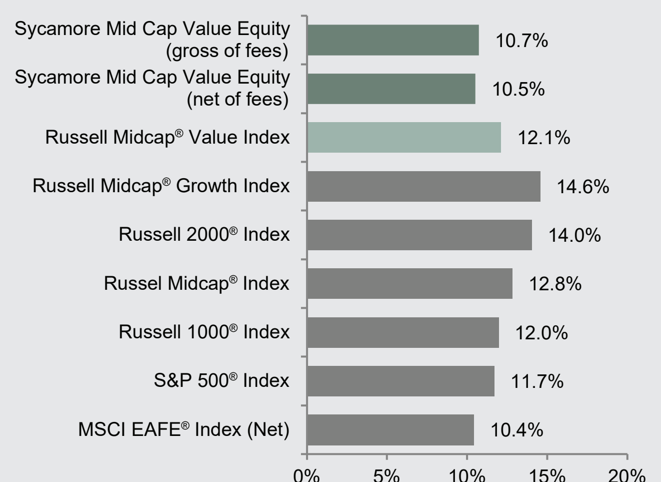
U.S. equities closed the year on a positive footing, with all major indices posting double-digit gains. During the fourth quarter, the broad market S&P 500® Index rallied 11.69%, while the tech-centric NASDAQ Composite posted a return of 13.79%. Market breadth broadened during the quarter with small-cap equities deciding to join the party. The Russell 2000® Index returned 14.03%. Returns for both the S&P 500® Index and Russell 2000® Index marked the best quarterly results since the fourth quarter of 2020 (COVID-19 vaccine announcement), when the indices returned 12.15% and 31.37%, respectively.

The fourth quarter rally was chalked up to several factors—chiefly, the Federal Reserve's (the "Fed") perceived pivot, which signaled the end to the hiking campaign. With financial conditions loosening, animal spirits were unleashed and an "everything rally" ensued. The Fed's dovish pivot likely came quicker than some anticipated. However, disinflation remained on the right trajectory and the November core PCE number, the Fed's preferred metric, registered 1.9% (6-month annualized)—the first time the inflation figure dipped below 2% in three years. The December FOMC meeting added fuel to the fire, with the median 2024 dot plots implying cuts of at least 75 bps. Despite Fed Chair Powell's attempts to temper expectations for more aggressive cuts, the market closed the year pricing in roughly six cuts in 2024. With the euphoric response to the end of the tightening campaign, the "soft-landing/no-landing" narrative made a vengeful comeback, and most calls for a recession were withdrawn or ultimately dismissed.

In the finance and economics profession, practitioners generally look to history for parallels. While history can be a useful tool, it may not yield a similar outcome under current circumstances. A key takeaway from the year should be that economic models and playbooks are not always reliable. At the beginning of the year, expectations were that the aggressive tightening campaign would create a domino effect that would ultimately steer the economy into a recession. In hindsight, that's not exactly what transpired. While inflation has declined, the economy is still growing above trend, the labor market remains robust, and the consumer remains resilient (for now). The point being that market participants were looking for clues from prior playbooks. What we learned instead is that the COVID-19 era injected certain (and unique) dynamics into the economy that existing models or playbooks may have overlooked or did not fully appreciate. That's why we believe so many investors were "offsides" during the year.

With that said, we are not necessarily out of the woods yet. It is still possible that the lagged effects from an aggressive tightening campaign can still bite even though the current consensus has mostly dismissed that possibility. Furthermore, prematurely easing failed to subdue inflation in the 1970s and early 1980s. Whether that happens in the current environment remains to be seen. However, upside risks to inflation cannot entirely be ruled out. In a scenario where interest and mortgage rates decline, and the housing market recovers, a second wave of inflation is a possibility. Therefore, it behooves us to ponder whether the "soft-landing" camp has prematurely done a victory lap. Time will tell!





Past performance does not guarantee future results. See the final page for standardized performance. Source: Zephyr & FactSet.

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Performance Attribution Relative to the Russell Midcap® Value Index – 4Q 2023

Positive Contributors	Negative Contributors
Stock Selection in Information Technology	**Stock Selection in Industrials**
Stock Selection in Health Care	**Stock Selection in Financials**
Stock Selection in Real Estate; *partially offset by underweight*	**Stock Selection in Materials**
	Stock Selection in Consumer Discretionary; *partially offset by overweight*
	Stock selection in Energy; *mostly offset by underweight*
	Cash Position

Source: FactSet.

PERFORMANCE BY SIZE AND STYLE

Improving market breadth enabled small-cap equities to outpace both mid- and large-cap equities during the fourth quarter. Small-cap stocks, as measured by the Russell 2000® Index, returned 14.03% during the quarter. Mid-cap equities, as measured by the Russell Midcap® Index, returned 12.82%, while large-cap equities, as measured by the Russell 1000® Index and the S&P 500® Index, posted returns of 11.96% and 11.69%, respectively. Broken down by style, growth outpaced value within the large- and mid-cap size segments, while value outpaced growth within the small-cap segment. Specifically, for mid-caps, the Russell Midcap® Growth Index returned 14.55%, outpacing its value counterpart, which returned 12.11%.

For the 12-month period ended December 31, 2023, large-cap equities outpaced both mid- and small-cap equities. Large-cap equities, as measured by the Russell 1000® Index and the S&P 500® Index, posted returns of 26.53% and 26.29%, respectively. Mid-cap equities, as measured by the Russell Midcap® Index, returned 17.23% during the period, while small-cap stocks, as measured by the Russell 2000® Index, returned 16.93%. Broken down by style, growth notably outpaced value within the large- and mid-cap size segments, and reasonably outpaced within the small-cap segment. Specifically, for mid-caps, the Russell Midcap® Growth Index returned 25.87%, outpacing its value counterpart, which returned 12.71%.

PORTFOLIO ATTRIBUTION – FOURTH QUARTER

The Sycamore Mid Cap Value Equity strategy underperformed the Russell Midcap® Value Index (the “Index”) in the fourth quarter of 2023.

During the quarter, stock selection was the primary driver of relative underperformance, while sector allocation had a trivial negative impact. Index returns were positive across each of the 11 major economic sectors and varied widely, with only four sectors outpacing the broader Russell Midcap® Value Index. Sector leadership was mostly cyclical, with Real Estate sprinkled into the mix. The possibility of an end to the Fed’s hiking campaign buoyed pro-cyclical pockets within the market and interest-sensitive areas, such as Real Estate. Financials was the top-performing sector, returning 17.18%. By contrast, Energy was the worst-performing sector for the quarter, posting a return of 0.12%.

Specifically, for the portfolio, stock selection in Industrials, Financials, Materials, Consumer Discretionary and Energy detracted from relative performance for the quarter. However, an underweight in Energy (the worst-performing sector) as well as an overweight in Consumer Discretionary partially offset the unfavorable impact of selection in the sectors. Additionally, the portfolio’s cash position during the quarter was a drag on performance. Conversely, stock selection in Information Technology, Health Care and Real Estate contributed to relative return for the period. However, an underweight in Real Estate partially offset the favorable impact of selection in the sector.

TOP CONTRIBUTORS – FOURTH QUARTER

All five top contributors during the quarter benefited from the potential end to the Fed’s hiking cycle. Three of the top contributors were REIT holdings. Like other REITs, **Lamar Advertising Co. (LAMR)**, **Alexandria Real Estate Equities, Inc. (ARE)** and **NNN REIT, Inc. (NNN)** were under pressure for most of the year given the rising interest rate backdrop. Therefore, the possibility of a reprieve on the rate front was welcomed by investors. LAMR is a pure-play billboard REIT that is well-positioned to benefit from the upcoming political season. ARE is a pure-play life science REIT that has evolved into the go-to landlord for some of the world’s leading biotechnology and pharmaceutical companies. NNN is a well-managed triple net retail REIT with a management team committed to disciplined capital stewardship. While the fundamental thesis remains intact for these REITs, we suspect the share price rally for all three was likely due to a bounce in interest-sensitive pockets of the market after the Fed telegraphed they may be at the end of the hiking campaign. The other two holdings to make the top contributor list were in Consumer Discretionary, which was one of the best-performing sectors in the quarter. **Ross Stores, Inc. (ROST)** and **Dick’s Sporting Goods, Inc. (DKS)** likely also benefited from the dovish messaging from the Fed. Lower rates are generally favorable for consumers, which is why retail within the Consumer Discretionary group meaningfully outperformed the broader market. Specifically, for ROST, results were ahead of consensus expectations in 3Q and management maintained its 4Q guidance. The off-price category’s value proposition continues to resonate with consumers, especially in a tougher macro environment. DKS also reported solid 3Q results. The largest sporting goods retailer in the U.S. continues to gain market share given scale and the ability to deliver a premium shopping experience. Shares sold off after their 2Q earnings miss; therefore, we suspect the underperformance over the past couple of months resulted in a catch-up opportunity for the stock during the quarter given the compelling relative valuation. We remain invested in all five holdings.

TOP DETRACTORS – FOURTH QUARTER

Franco-Nevada Corp. (FNV), a commodities-focused royalty and streaming company, was the top detractor for the quarter. FNV underperformed due to the prospective loss of royalty income from a copper mine in Panama (Cobre Panama) that accounts for about 15% of the company’s earnings. Panama’s Supreme Court ruled that a previously agreed-to mining contract was unconstitutional. Consequently, the mine was ordered to be shut down, which was executed in December 2023. This was an unexpected development driven by escalating public protests. The mine’s operator, First Quantum, has entered international arbitration with Panama’s government over the mine. For reference, this mine has already been built out and was a meaningful supplier of copper on the world stage (~1% of global production) and also accounted for a significant portion of Panama’s GDP (~4%). While we are mindful that this development is likely to inject some short-term volatility into the stock, we continue to see the precious metal royalty and streaming business as having a favorable risk/reward profile. Furthermore, FNV remains an astute capital allocator—an attribute we view favorably. Therefore, our thesis for FNV remains unchanged at this time. Two of the detractors were Consumer Discretionary names that are linked to automobile components. Shares of **Aptiv PLC (APTV)**, a designer and manufacturer of electrical, electronics and safety solutions to the automotive industry, reacted negatively to a softer-than-expected 3Q earnings report. While the disappointing results can be chalked up to the UAW strikes, we suspect that the stock was penalized due to slowing EV penetration. Slower-than-anticipated EV adoption is well understood now, and the hangover from this is likely to persist in the short term. We view this as a near-term headwind and not a fundamental one. APTV remains well-positioned to benefit from the electrification trends given its best-in-class product offering and innovative capabilities. Similarly, shares of **BorgWarner, Inc. (BWA)**, a supplier of engineered components for automotive powertrain and drivetrain applications, sold off after the 3Q earnings report. While the company reported a solid quarter, guidance was reduced given uncertainty around its suite of eProducts—mainly due to slowing EV adoption. Again, we believe this is a near-term headwind for BWA. The company also still

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Performance Attribution Relative to the Russell Midcap® Value Index – Full Year 2023

Positive Contributors	Negative Contributors
Stock Selection & Overweight in Information Technology	**Stock Selection in Industrials;** *partially offset by overweight*
Stock Selection in Materials	**Stock Selection in Consumer Discretionary**
Underweight in Utilities	**Stock Selection in Financials**
Stock Selection & Underweight in Communication Services	**Stock Selection in Real Estate**
Stock Selection in Health Care	**Stock Selection in Energy**

Source: FactSet.

has exposure to ICE and hybrid vehicles, which should offset slowing sales from EV-related products. We maintain a position in both BWA and APTV. Rounding out the list of top detractors were two holdings in the Energy sector. **Coterra Energy, Inc. (CTRA)** traded in sympathy with the Energy sector, which underperformed due to a challenging commodity backdrop. Specifically, CTRA's natural gas exposure contributed to the weakness in the share price. Regardless of the stock's performance, CTRA boasts one of the best balance sheets in the space, which offers the management team optionality to reduce debt and opportunistically buy back shares. The thesis for CTRA remains intact. **Hess Corp. (HES)** was the other detractor. During the quarter, Chevron (CVX) announced that it would acquire the company in an all-stock transaction valued at ~$53 billion. The acquisition was not the premium we expected; however, it was in line with other transactions in the Energy space during the year.

PORTFOLIO ATTRIBUTION – FULL YEAR 2023

The Sycamore Mid Cap Value Equity strategy underperformed the Russell Midcap® Value Index for the 12-month period ended December 31, 2023.

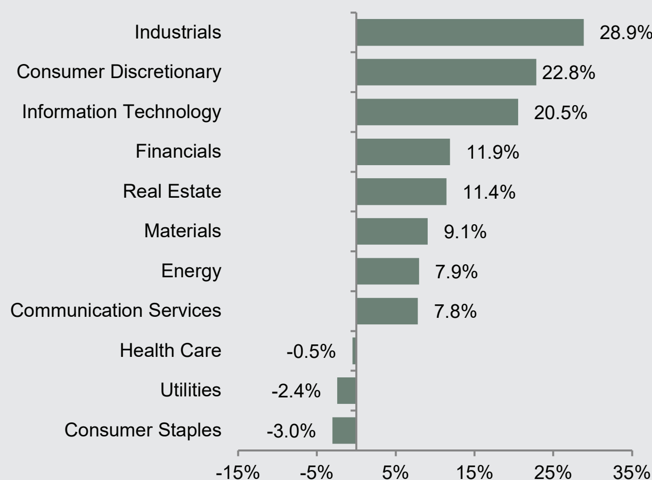
For the year, stock selection was the primary driver of relative underperformance. Sector allocation partially offset the unfavorable impact of selection for the period. Index returns were positive across eight of the 11 major economic sectors for the year and varied widely, with only three sectors outpacing the broader Russell Midcap® Value Index. Industrials was the top-performing sector, posting a return of 28.88%. By contrast, Consumer Staples was the worst-performing sector, returning -3.04%.

Specifically, for the portfolio, stock selection in Industrials was the largest detractor from relative performance for the year; however, an overweight in the top-performing sector partially offset the unfavorable impact of selection. Stock selection in Consumer Discretionary, Financials, Real Estate and Energy also detracted from relative return. Conversely, stock selection in Materials, Information Technology, Health Care and Communication Services contributed to relative return for the year. An underweight in Utilities and Communication Services, as well as an overweight in Information Technology, also augmented performance.

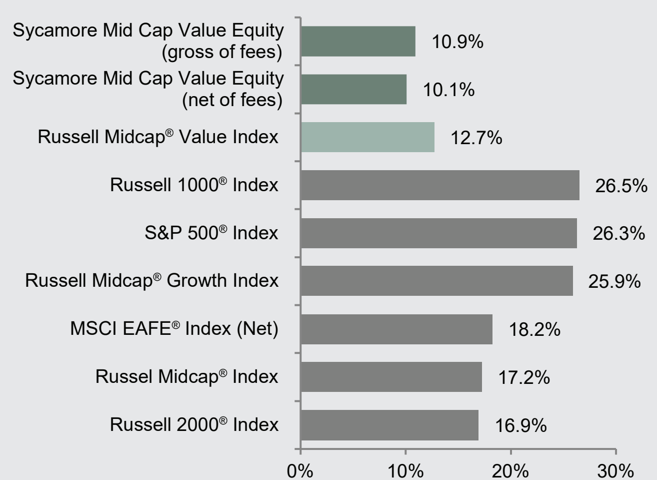
TOP CONTRIBUTORS – FULL YEAR 2023

Flex Ltd. (FLEX), a leading provider of technology solutions, supply chain management and electronics manufacturing services to various end markets, was the top contributor for the year. FLEX shares benefited from the price appreciation in NexTracker (NXT). FLEX spun off NXT in February but maintained a majority ownership. NXT provides intelligent solar tracker solutions for utility scale and distribution solar generation. NXT released its first earnings report as a public company in May. Revenues were ahead of expectations, as demand for solar solutions remained robust and supply chain headwinds eased during the period. **Western Digital Corp. (WDC)**, a leading data storage solutions provider, was also a top contributor. Despite the company's below-consensus FY 2024 guidance, signs that fundamentals are inflecting is what likely helped propel shares higher. Management noted that HDD and Flash revenue are expected to improve in 2024 as demand for storage normalizes and the Flash segment sees higher content per unit. Management has navigated the challenging demand backdrop better than peers by controlling costs and cutting capacity. We also suspect that merger rumors between WDC and Kioxia, another major player in the NAND manufacturing space, were a tailwind for shares during the year. According to news outlets, WDC terminated merger talks during the fourth quarter due to opposition from a major Kioxia shareholder. **Owens Corning (OC)**, a leading provider of insulation, roofing, and composites, was another top contributor. The company continued to post earnings reports that beat consensus estimates. OC's low inventory at distributors helped them navigate the destocking headwinds that many industries faced over the past several months. Pricing for its products continued to hold up. Falling asphalt prices also helped margins as the company controlled costs while maintaining an advantage on price. Two holdings in the Materials sector rounded out the top contributors list for the year. Performance of **Packaging Corp. of America (PKG)** shares, a leading containerboard producer, rallied during the period likely due to a bottoming of containerboard end market demand dynamics sooner than the market expected. The company was able to drive more cost savings than expected to offset volume/pricing declines. Consequently, the supply/demand backdrop has become more balanced. PKG remains a best-in-class operator, making the risk/reward

Russell Midcap® Value Index Sector Returns – Full Year 2023



Strategy and Market Performance – Full Year 2023



Past performance does not guarantee future results. See the final page for standardized performance. Source: Zephyr & FactSet.

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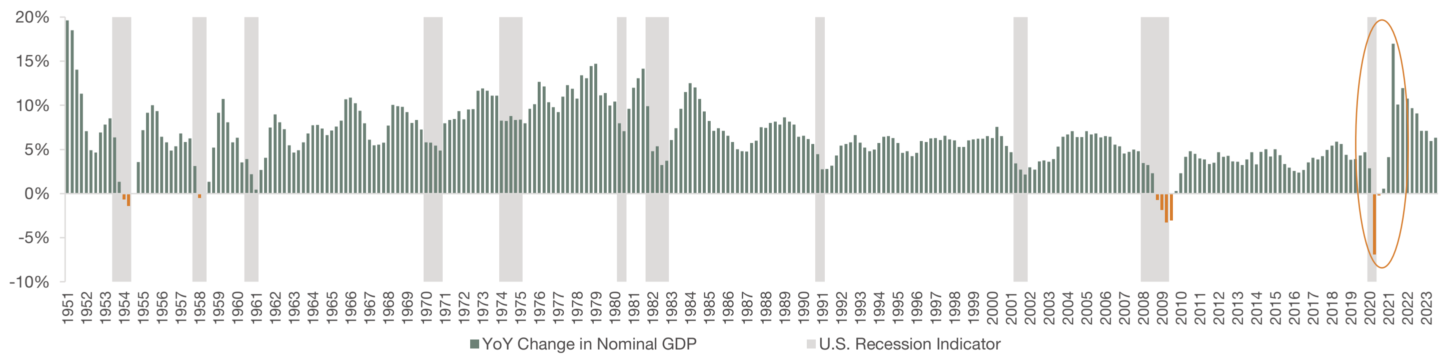
Illustration 1: Year-Over-Year Change in Nominal GDP Since 1951



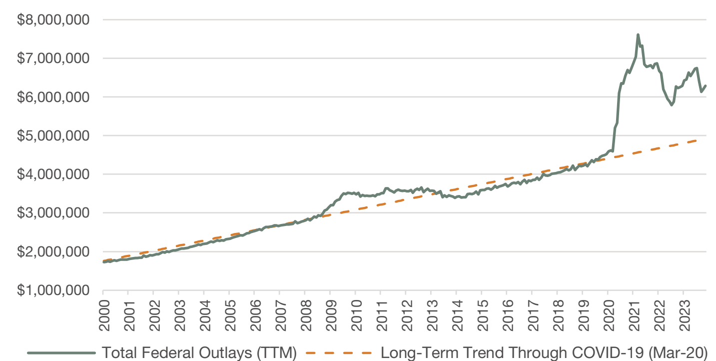
Source: Federal Reserve Economic Data (FRED) & NBER. As of September 30, 2023. Data compiled and analyzed by Sycamore Capital.

compelling. The performance of **Westlake Corp. (WLK)**, a manufacturer of housing-related products such as siding and trim, shutters, roofing materials, decorative stone, windows, pipe & fittings, PVC compounds, and other outdoor solutions was surprising. The company's commodity-tied business has been weak due to unfavorable supply demand dynamics (e.g., weakness in China and other global markets). However, the Housing & Infrastructure Products segment realized better-than-expected margin performance and offset some of the weakness in the commodities business due to WLK's vertical integration, which provides a cost advantage. WLK has been gaining market share in their housing-related product offerings due to them being more on-trend (e.g., lightweight/lower cost for builders), which resulted in better-than-expected volumes.

TOP DETRACTORS – FULL YEAR 2023

Zions Bancorp. (ZION) was the top detractor for the year. At the onset of the banking sector tremors in the first quarter, we reviewed all of our bank holdings to determine which banks were at risk given the uncertainties surrounding the sector. Given what we knew at the time, we divested ZION given concerns relating to: lower earnings due to higher funding costs; deposit retention; and the possibility of a capital raise given potential for lower earnings, higher funding costs, and significant unrealized losses on investment portfolio. **Genpact Ltd. (G)**, a business processes outsourcing company, was another top detractor during the year. Gross margin declined marginally due to severance costs related to workforce reductions (short-cycle advisory business), higher travel costs, and investments for new deal activity. Further weighing on the stock was the potential impact from AI. Like many of its BPO peers, investors worry that the introduction of AI will jeopardize some of its business lines. It is currently not known whether companies will turn to AI to manage key processes such as accounting, finance, risk, supply chain, etc. The company is a late-cycle business that typically benefits from companies looking to reduce costs ahead of an economic downturn. We maintained a position in G at year-end. Diversified E&P company **Devon Energy Corp. (DVN)** was another top detractor. After meaningful outperformance over the past couple of years, 2023 was a reset year for the company. Production misses due to timing of completions and asset integration coupled with collapse in oil prices weighed on DVN's share price in a challenging macro backdrop for the sector. We believe the bar has been reset for one of the most compelling cash flow generators in the sector. We suspect that it will likely take a couple of earnings beats to get investors excited about the stock again. However, the management team has the operational track record of creating value for shareholders, and we would anticipate that shareholder focus will be a priority next year. We remain invested in DVN given the compelling valuation. **Franco-Nevada Corp. (FNV)** was discussed in the fourth quarter 2023 section and was also a top detractor for the year. Rounding out the top detractors for the year was **Tyson Foods, Inc. (TSN)**, a leading producer of diversified proteins and prepared meats. Shares were beleaguered for most of the year following consecutive disappointing quarterly results. TSN reported a significant drop in beef and chicken segment margins, which surprised investors. Management noted last year that there is uncertainty over the outlook for beef supply over the next couple of years. Higher feed costs and drought conditions are driving herd liquidation, which will reduce beef supply availability. Chicken margins were also adversely impacted due to rising feed costs and lower prices due to market oversupply. While the murky outlook for beef supply is well known by now, the magnitude of the margin erosion is likely what investors found

Illustration 2: Total Federal Outlays Since 2000 ($ Millions, Trailing 12-Months)



Source: Federal Reserve Economic Data (FRED). As of November 30, 2023. Data compiled and analyzed by Sycamore Capital. Long-term trend line is regressed through March 31, 2020.

perplexing. Despite the disappointing share price performance, TSN remains well-positioned to capitalize on the growing global demand for protein given its scale and diversification across proteins. Nevertheless, we de-risked our position during the year given the cloudy near-to-intermediate-term outlook.

A YEAR IN REVIEW

The Elusive Recession…

In the investment profession, the exercise of reflecting over a year can be a somber reminder that attempting to prognosticate the direction of the market is often fraught with speculation. A year ago, the overwhelming consensus among market participants, economists and other practitioners was that the economy was on the cusp of the most anticipated recession in history. Very few would have thought that the economy could withstand the most aggressive tightening campaign in decades without something breaking. Furthermore, few would have expected the magnitude of the melt-up in the U.S. equity market.

The impacts from the COVID-19 era are underappreciated, in our opinion. The lockdowns, monetary and fiscal response, and the eventual recovery upended the traditional economic playbook, which is partly why the behavior of the economy (business cycle) and financial markets has been perplexing. Despite evidence from yield curve inversions and other data that generally presage a recession, the table has turned, and a soft-landing/no-landing scenario is suddenly plausible.

While the objective in this commentary is not to conduct a deep dive on why so many in the field struck out in 2023, we will share some brief observations on why we believe the environment over the past year confounded many investors:

- **COVID-19 injected some "extremes" into the system.** For example, shortly after the onset of the pandemic, U.S. GDP contracted by 6.9% year-over-year in the second quarter of 2020 (Illustration 1). Within a year, the economy grew by 17% year-over-year in the second quarter of 2021. That was the first time the U.S. economy had experienced such a wild swing in just four quarters since World War II. Furthermore, the

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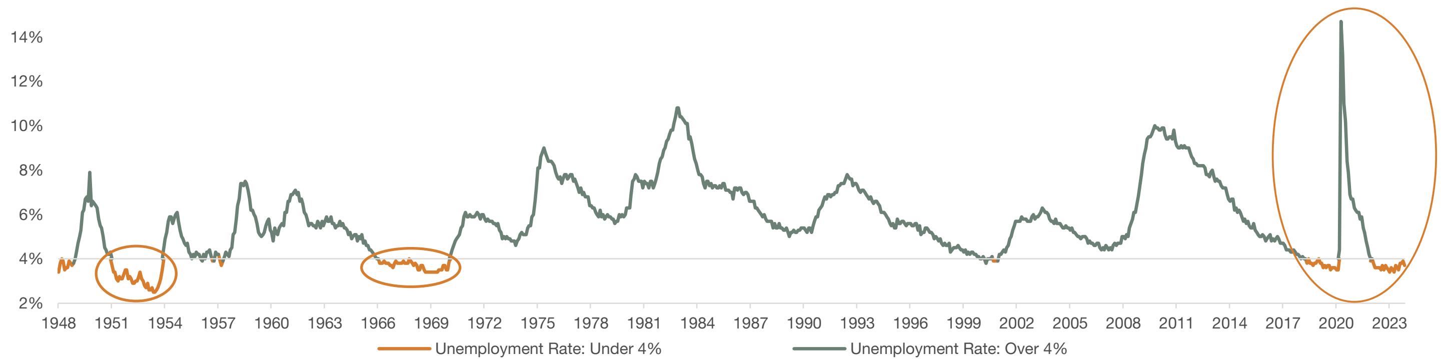
Illustration 3: Historical U.S. Unemployment Rate



Source: Federal Reserve Economic Data (FRED). As of November 30, 2023. Data compiled and analyzed by Sycamore Capital.

monetary and fiscal response was unprecedented. Trillions of dollars were injected into the system in the form of fiscal transfers, which are still filtering through the economy (Illustration 2). We believe that some of the distortions created over the past couple of years have made this business cycle "unique."

- **The labor market has surprised to the upside.** The labor market also experienced extreme swings during the pandemic. At the onset, the unemployment rate rapidly spiked, peaking at 14.7% in April 2020. However, as seen in Illustration 3, the unemployment rate quickly dropped and has remained under 4% for 22 consecutive months as of November. That's the third longest stretch since 1948. Unemployment claims have also remained historically low. That's partly why we believe the labor market has remained robust despite the most aggressive tightening campaign in decades. Companies faced significant employee shortages during the pandemic (especially in the Services segment of the economy), which resulted in "labor hoarding." While some sectors such as financial services and technology experienced layoffs, other sectors have not seen the typical attrition that would be expected to occur during a tightening campaign aimed at moderating economic growth. This is also likely why consumption has remained resilient. Due to the historically low unemployment rate, employees generally feel a sense of job security, which is favorable for consumer sentiment.

  It may be too soon to declare that the U.S. labor market has been structurally altered; however, the pandemic resulted in demand and supply shocks that have impacted the labor market. When asked at a press conference in December whether the economy has changed, Fed Chair Powell responded with the following:

  "…it may or may not be about 'different'—the U.S. economy being different. I think that this inflation was not the classic demand overload, pot-boiling-over kind of inflation that we [typically] think about. It was a combination of very strong demand, without question, and unusual supply-side restrictions, both on the goods side but also on the labor side, because we had a—we had a participation shock. So this is just very unusual."

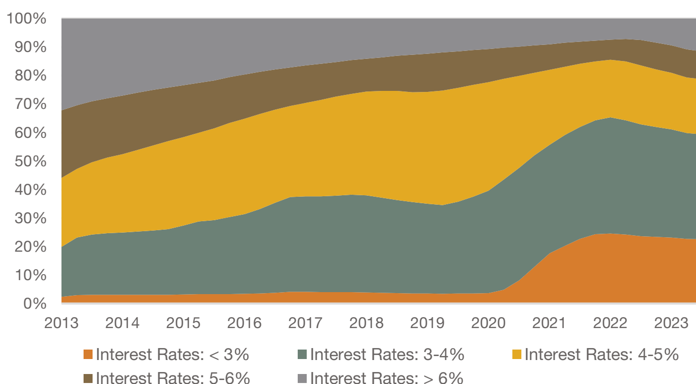
- **M2 is declining but is still meaningfully above trend.** Some market observers anticipated that the Fed's tightening regime would drain "excess" liquidity from the system and eventually lead to a drop in aggregate demand. While M2 has decreased on a year-over-year basis, liquidity in the system is still notably higher than long-term trends. The government continued to spend like a drunken sailor despite record low unemployment and an economy that is growing above trend. This has likely kept consumer spending more resilient than anticipated.

- **The consumer has been more resilient than expected.** Consumers were expected to succumb to the highest rates in decades. While there are signs that cracks are emerging within the consumer backdrop (ballooning credit debt and rising delinquencies), consumers have adopted a "buy now, pay later" mentality, as evidenced by better-than-expected holiday spending. Furthermore, we believe that consumer confidence has been bolstered by home ownership. As Illustration 4 shows, roughly 59% of mortgages in the U.S. are financed at a 4% rate or lower. Nearly 89% of mortgages are financed at 6% or lower. In theory, the biggest asset for some consumers is their mortgage liability. We believe low financing costs coupled with rising real estate prices over the past several years has been a potent force in bolstering consumer confidence.

- **FOMO is alive and well…** The equity market melt-up also surprised many observers. While market narrowness was a widely discussed topic during the year, investors still crowded into the Magnificent 7 ("MAG-7") stocks, despite lofty valuations. Fear of missing out ("FOMO") has transformed into a "normal" phenomenon in the equity market, which often results in capital flowing into expensive and momentum-driven pockets of the market. The euphoria surrounding AI was a tailwind for the MAG-7, which in turn buoyed the broader S&P 500® Index higher. Human psychology makes it hard to watch from the sidelines, especially in an era of 24-hour news cycles and a barrage of news feeds to digital devices.

- **China's anticipated recovery never materialized.** China's economy was expected to recover rapidly once the draconian lockdowns were lifted. Many market participants expected the U.S. to hand over the

Illustration 4: Percent of Outstanding Residential Loans by Mortgage Rate Since 2013



Source: Federal Housing Finance Agency (FHFA). As of September 30, 2023. Data compiled and analyzed by Sycamore Capital.

Illustration 5: Cumulative Performance of the S&P 500® Index and the China Security Index 300 (CSI 300 Index) Since 2018

Source: Federal Reserve Economic Data (FRED). As of December 31, 2023. Data compiled and analyzed by Sycamore Capital. Index level: price return. Cumulative performance is indexed to 100 on January 1, 2018.

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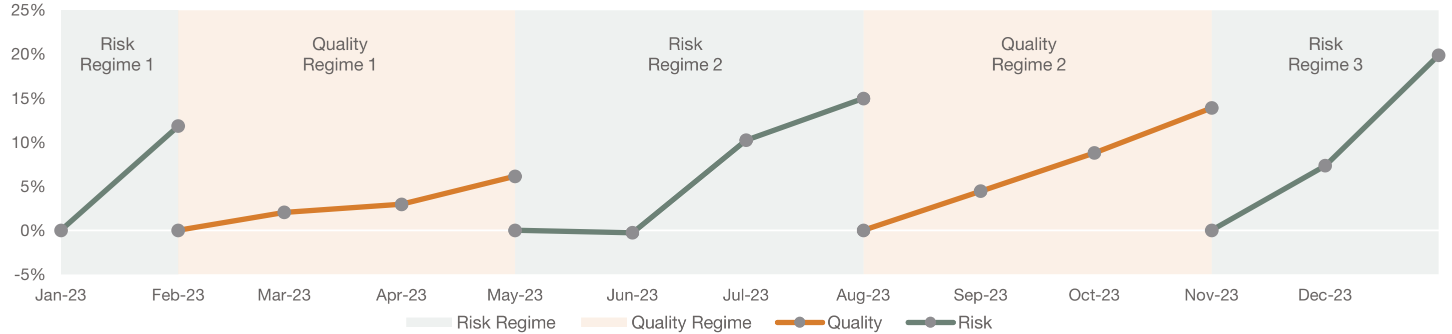
Illustration 6: Cumulative Factor Spread Performance by 2023 Market Regime for the Russell Midcap® Value Index



Source: FactSet. As of December 31, 2023. Data compiled and analyzed by Sycamore Capital. For this analysis, ROIC and Beta are used as representative quality and risk factors, respectively.

Illustration 7: 2023 Macro and Mid Cap Value Factor Cheat Sheet Matrix

		Macro Drivers	Market Sentiment	Relative Performance
Risk Regime	JAN	• Optimism about increasing disinflationary trends in economic data, improving supply chain, potential for peak Fed and China's reopening. • Collectively, these factors provided support for the soft-landing narrative.	Risk-on	Underperformed
Quality Regime	FEB	• The market repriced Fed expectations for a Fed pivot in 2023, with some policymakers hinting at a 50-bps hike. • January inflation readings were stronger than expected, which led to the "higher-for-longer" theme.	Risk-off	Outperformed
Quality Regime	MAR	• Early in the month, stronger-than-expected economic data nourished an emerging "no landing" narrative. • Chairman Powell hinted at accelerating the pace of hikes if necessary; however, that was shelved due to developing bank sector turmoil. • While some expected the Fed to hold due to stress in the banking sector, they eventually hiked 25 bps. However, language surrounding future hikes was softened given developments in the banking sector.	Risk-off	Outperformed
Quality Regime	APR	• Despite several high-profile bank failures, bank earnings results were better than feared. • Resilient consumer spending, moderating of the labor market and ongoing disinflationary trends bolstered the soft-landing narrative. • At the same time, hard-landing fears persisted given tightening financial conditions, market narrowness and potential CRE issues.	Muted	Modestly Underperformed
Risk Regime	MAY	• Debt-ceiling negotiations were top of mind. • The Fed hiked by 25 bps; however, there was a change in tone from the Fed. The market interpreted the Fed's message as indicating that the central bank was nearing the end of its tightening cycle. • The soft-landing narrative gained traction given hopes of peak rates, consumer resiliency, a robust labor market, dissipating fears of a widespread banking crisis, ongoing disinflationary trends, and less concern about a hard landing.	Combo	Underperformed
Risk Regime	JUN	• All major indices advanced, with small-cap equities up for the first time since January. • Treasuries sold off, particularly at the front end of curve, with the 2s/10s curve inverting to around -100 bps. • Data continued to bolster the soft-landing narrative, with May CPI data registering softer than expected. • The June FOMC meeting ended with no change to policy rate; however, expectations were that the Fed would hike in July.	Risk-on	Underperformed
Risk Regime	JUL	• U.S. equities rallied, with the S&P 500® Index logging its fifth consecutive monthly gain. Small-cap equities also advanced and outperformed the S&P 500® Index and NASDAQ Composite. • Economic data continued to support the soft-landing narrative, with June core and headline CPI registering softer than expected. Core PCE was also the lowest since September 2021. • The Fed hiked rates by 25 bps as widely anticipated; however, expectations were that the Fed hiking campaign was coming to an end.	Risk-on	Underperformed
Quality Regime	AUG	• U.S. equities finished lower in August. The S&P 500® Index and NASDAQ Composite posted their first monthly decline since February. • A backup in rates was a key headwind for equities. Multiple factors contributed to the backup in bond yields and risk-off sentiment including: Fed pivot expectations were repriced given a better-than-feared economic outlook; Fitch downgrade due to deficit; looming UAW strikes; spike in gas prices; cooling housing market due to highest mortgage rates since 2001; dwindling consumer savings amassed during pandemic; and soft Chinese economic data.	Risk-off	Outperformed
Quality Regime	SEP	• U.S. equities sold off again, with the S&P 500® Index posting its worst monthly decline since December 2022. • Upward pressure from rates remained a key headwind for risk assets as investors grappled with the potential for a higher-for-longer rate backdrop, spike in energy prices and deficit concerns.	Risk-off	Outperformed
Quality Regime	OCT	• U.S. equities sold off for the third consecutive month. The rise in yields remained a headwind for risk assets. U.S. Treasuries were weaker with the curve steepening. • The higher-for-longer narrative due to the better-than-expected economic backdrop continued to weigh on risk assets. • Heightened geopolitical risks following the terrorist attacks in Israel also injected a level of uncertainty into the market.	Risk-off	Outperformed
Risk Regime	NOV	• U.S. equities reversed a three-month slump and rallied meaningfully. The rally in rates was a key tailwind for risk assets (the 2-year Treasury fell by ~35 bps, while the 10-year Treasury fell by ~55 bps). • Peak Fed and the continuation of the soft-landing narrative helped fuel the risk-on sentiment. There was also a shift in policy expectations, with the market pricing several rate cuts in 2024. • A rally in small-cap equities, which posted their best monthly return since January, helped broaden market breadth.	Risk-on	Underperformed
Risk Regime	DEC	• U.S. equities extended the November rally in December. Treasuries rallied across the curve, with the 2-year down 45 bps and the 10-year down 50 bps. • The Fed delivered the "pivot" the market had been waiting for, which buoyed the risk-on sentiment on expectations for several cuts in 2024. • Market breadth continued to broaden, with the Russell 2000® Index (+12.2%) posting its best return since November 2020 (+18.4%).	Risk-on	Underperformed

Source: FactSet. As of December 31, 2023. Data compiled and analyzed by Sycamore Capital. Relative performance shown is relative performance of the Sycamore Mid Cap Value Equity strategy vs. the Russell Midcap® Value Index.

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baton to the world's second largest economy in 2023; however, that never materialized. Factors related to internal policies as well as heightened geopolitical risks likely deterred capital from flowing into China. Consequently, the U.S. remained the preferred destination for capital (Illustration 5).

- **Fed pivot came earlier than anticipated.** As inflation spiked in 2021, the Fed lost credibility with its "transitory" messaging. To gain some of its credibility back, the Fed embarked on an aggressive tightening campaign to quell stubborn inflation. Like others, we assumed that the Fed would try not to repeat the mistakes of the "stop-go" policies from the 1970s as well as learn from the consequences of prematurely abandoning a tightening regime as was the case in the early 1980s when Paul Volcker was the Fed chief. Therefore, when the Fed's tone turned dovish at the October FOMC meeting, markets were surprised given inflation was not firmly anchored to the Fed's intended target of 2% and the labor market remained decidedly healthy—opening up the possibility of inflation reaccelerating, and putting the Fed in a predicament they were desperately trying to avoid.

A YEAR DEFINED BY MINI-REGIMES AND MARKET NARROWNESS

Mini-Regimes

The U.S. equity market was mostly dominated by macro factors in 2023—particularly expectations around rates. The result was a series of mini risk-on/risk-off regimes that correlated with various macroeconomic developments throughout the year, which are highlighted in Illustrations 6 & 7.

As observed in Illustration 6 (see previous page), the general sentiment of the market—which shifted with the repricing of Fed policy expectations surrounding rate cuts—resulted in mini-factor regimes. The green lines represent risk-driven (risk-on) regimes. Conversely, the orange lines reflect quality-driven (risk-off) regimes. These are closely linked to key macro developments highlighted in the table in Illustration 7 (see previous page).

The rotation between the different regimes resulted in persistent headwinds and tailwinds for the portfolio. Generally, in risk-induced market melt-up, the portfolio faced performance headwinds. By contrast, when the market shifted to a quality posture, the portfolio benefited.

The constant shift between risk-on/risk-off regimes during the year was starkly different from the mostly quality-led one in 2022. Illustration 8 shows the outperformance of quality—especially after the Fed embarked on its tightening campaign in March 2022. Given quality's dominance in 2022, the portfolio meaningfully outperformed its benchmark.

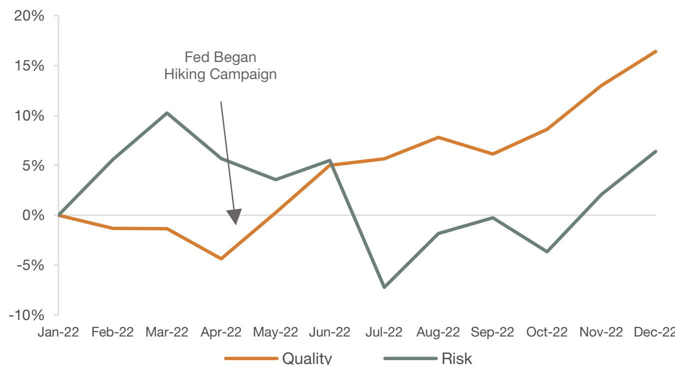
Shifting to Market Narrowness During the Year...

While we do not manage a large-cap portfolio, understanding the market dynamics in 2023 may give us some insight into the opportunity down the market cap spectrum. Market narrowness was a dominant theme during the year (especially during the first half). As observed in Illustration 9, the MAG-7 stocks explained approximately 62% to the S&P 500® Index's total return during the year.

Furthermore, the percent of S&P 500® Index constituents that outperformed the index during the year was the lowest since the Tech Bubble (Illustration 10).

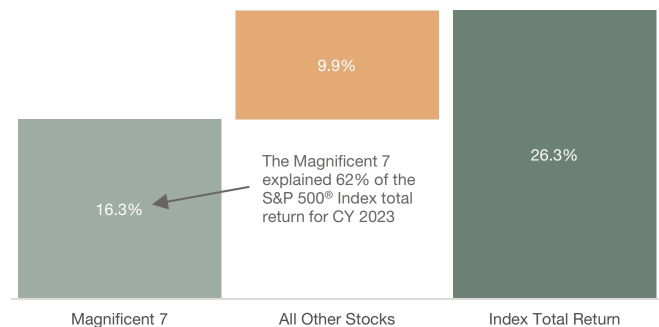
The massive outperformance of these stocks has also resulted in a meaningful valuation discrepancy versus their large-cap brethren and their mid-cap and small-cap cousins (Illustration 11). Consequently, the combined market cap of the MAG-7 stocks ended the year at roughly 4.6x that of the entire small-cap universe as measured by the Russell 2000® Index (Illustration 12).

Illustration 8: 2022 Cumulative Factor Spread Performance of Quality vs. Risk in the Russell Midcap® Value Index



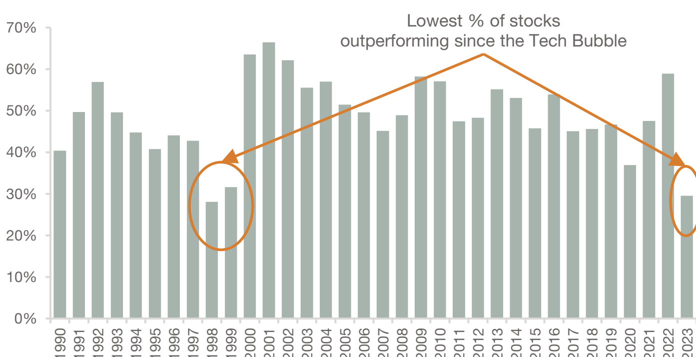
Source: FactSet. As of December 31, 2023. Data compiled and analyzed by Sycamore Capital. For this analysis, ROIC and Beta are used as representative quality and risk factors, respectively.

Illustration 9: Performance Breakdown of the S&P 500® Index in 2023 – Magnificent 7 vs. All Other Stocks



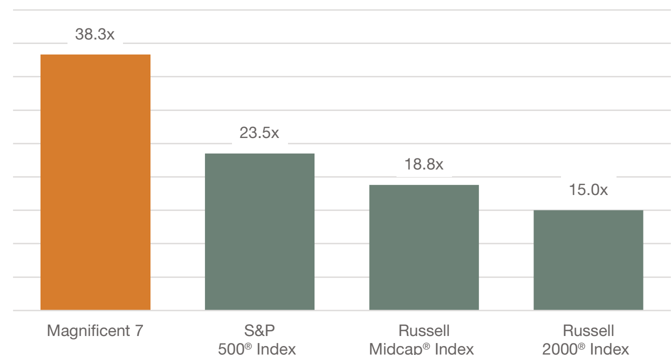
Source: FactSet. As of December 31, 2023. Data compiled and analyzed by Sycamore Capital. For this analysis, the Magnificent 7 includes the following tickers: AAPL, AMZN, GOOG, GOOGL, META, MSFT, NVDA, TSLA.

Illustration 10: Percent of Stocks Outperforming the Broader S&P 500® Index Annually



Source: FactSet. As of December 31, 2023. Data compiled and analyzed by Sycamore Capital.

Illustration 11: Valuation of the Magnificent 7 vs. Major Indices (P/E ex. Negative Earners)



Source: FactSet. As of December 31, 2023. Data compiled and analyzed by Sycamore Capital. Valuation is determined using the weighted harmonic mean of P/E (ex. negative earners). For this analysis, the Magnificent 7 includes the following tickers: AAPL, AMZN, GOOG, GOOGL, META, MSFT, NVDA, TSLA.

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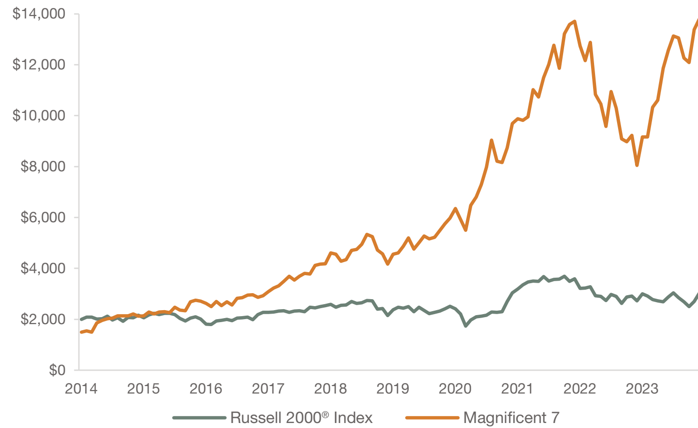
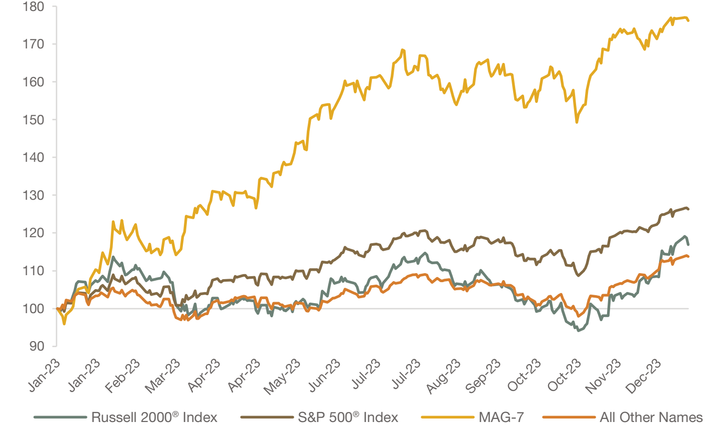
Illustration 12: Market Cap of the Magnificent 7 vs. the Entire Russell 2000® Index ($ Billions)



Source: FactSet. As of December 31, 2023. Data compiled and analyzed by Sycamore Capital. For this analysis, the Magnificent 7 includes the following tickers: AAPL, AMZN, GOOG, GOOGL, META, MSFT, NVDA, TSLA.

Illustration 13: Performance of the S&P 500® Index (Total Index, Magnificent 7 & All Other Names) vs. the Russell 2000® Index in 2023



Source: FactSet. As of December 31, 2023. Data compiled and analyzed by Sycamore Capital. Index level: total return. For this analysis, the Magnificent 7 includes the following tickers: AAPL, AMZN, GOOG, GOOGL, META, MSFT, NVDA, TSLA.

Another interesting observation from the year is the performance of the S&P 500® Index ex. MAG-7. Illustration 13 not only shows the outsized impact the MAG-7 stocks had on the S&P 500® Index's performance, but also depicts that the S&P 500® Index ex. MAG-7 underperformed small-cap equities for the year, returning 13.8% versus the 16.9% return for the Russell 2000® Index.

LOOKING AHEAD...

Given the dynamics discussed above, we believe that there are embedded catch-up opportunities for equities down the market cap spectrum. Understandably, there are multiple factors that could influence equity performance across the different size segments, including what is likely going to be an ugly political season in the U.S. Regardless, an "everything rally" has unfolded given the prospect for Fed cuts, falling rates, and an economy that is still humming along.

Looking back, results for equities following the Fed's first rate cut are mixed, with 1995 and 1998 as the only examples that produced favorable results across size segments (Illustration 14).

On the other hand, as observed in Illustration 15, results for equities in a presidential election year are more compelling. Furthermore, the year-after performance—at least over the past several decades—has been favorable for equities across the size segments.

Additionally, we are constructive on the opportunity down the market cap spectrum given the historical relationship between credit spreads and relative performance of small-cap equities. As observed in Illustration 16, small-cap equities generally outperform large-caps when credit spreads compress. That likely explains the surge in small-cap equities late in the fourth quarter as spreads compressed to their lowest level since 2018.

Another observation that leads us to be constructive about the opportunities down the cap spectrum is shown in Illustration 17. The last time that large-cap outperformed small-cap equities in consecutive years (mid-to-late 1990s), small-cap assumed leadership and ended up outperforming for several consecutive years. Currently, the streak for large-cap outperformance is seven years.

The recent multiple expansion in large-cap equities also leads us to believe that the tide could turn. As observed in Illustration 18, when multiples historically have exceeded 20x, it generally is short-lived. With the valuation discrepancy between large-cap (especially mega-cap) and other size segments, we would not be surprised if a reversion trade that benefits smaller equity size segments occurs.

Lastly, we can only speculate that given the melt-up in mega-cap equities over the year and the massive inflows into money markets in 2023 (over $1

Illustration 14: 12-Month Performance Before and After the First Rate Cut in Past Easing Cycles

	12-Months Leading Up to First Rate Cut			12-Months Following First Rate Cut		
	SP500	R.MID	R.2000	SP500	R.MID	R.2000
Jun-89	21.4%	n/a	19.5%	12.6%	n/a	-1.2%
Jul-95	24.2%	n/a	19.1%	18.7%	15.9%	18.5%
Sep-98	10.0%	-5.3%	-19.1%	20.9%	14.5%	15.2%
Jan-01	-7.4%	7.1%	-2.7%	-13.5%	-5.7%	2.3%
Sep-07	15.0%	16.0%	10.7%	-20.6%	-17.8%	-10.3%
Aug-19	5.0%	4.0%	-7.1%	10.8%	1.5%	-4.5%
Dec-23	**23.9%**	**14.7%**	**14.8%**	**??**	**??**	**??**

Source: FactSet. As of December 31, 2023. Data compiled and analyzed by Sycamore Capital. Index level: price return. Daily returns for the Russell Midcap® Index did not begin until June 1, 1995.

Illustration 15: Performance of the S&P 500® Index Surrounding Past Presidential Elections

	Election Year Total Return	Year After Election Total Return
1936	27.9%	-38.6%
1940	-15.3%	-17.9%
1944	13.8%	30.7%
1948	-0.7%	10.3%
1952	11.8%	-6.6%
1956	2.6%	-14.3%
1960	-3.0%	23.1%
1964	13.0%	9.1%
1968	7.7%	-11.4%
1972	15.6%	-17.4%
1976	19.1%	-11.5%
1980	25.8%	-9.7%
1984	1.4%	26.3%
1988	12.4%	27.3%
1992	4.5%	7.1%
1996	20.3%	31.0%
2000	-10.1%	-13.0%
2004	9.0%	3.0%
2008	-38.5%	23.5%
2012	13.4%	29.6%
2016	9.5%	19.4%
2020	16.3%	26.9%
Average	*7.1%*	*5.8%*
Median	*10.7%*	*8.1%*

Source: Morningstar Direct. As of December 31, 2021. Data compiled and analyzed by Sycamore Capital. Index level: total return.

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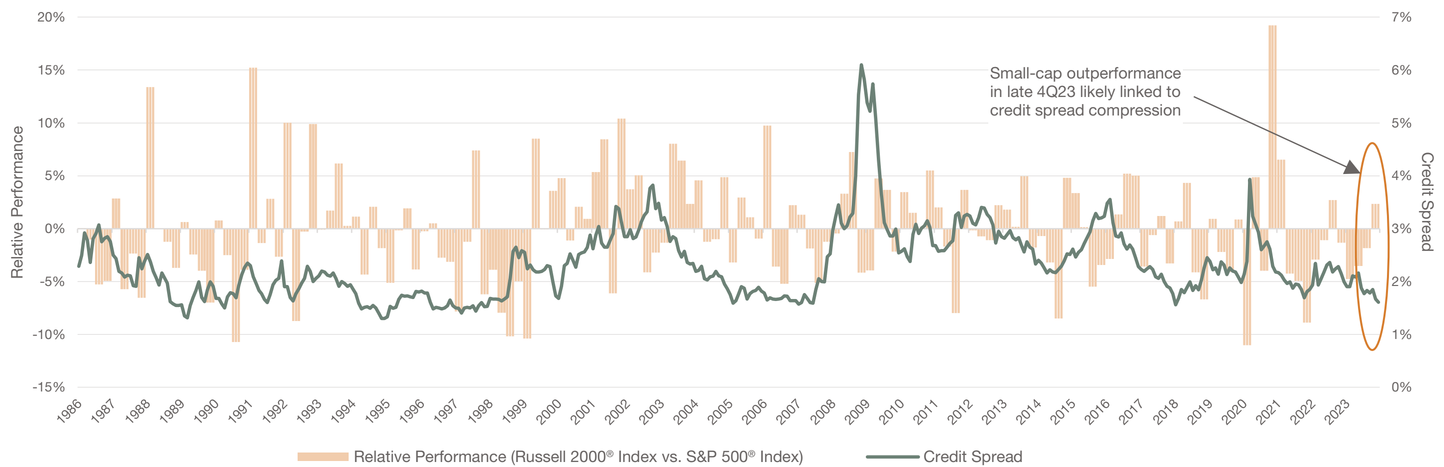
Illustration 16: Credit Spread and Relative Performance of the Russell 2000® Index vs. S&P 500® Index



Source: Federal Reserve Economic Data (FRED) & Morningstar Direct. As of December 31, 2023. Data compiled and analyzed by Sycamore Capital. Index level: total return.

trillion), there could likely be some capital reallocated to other segments within the equity market. It does not take much money moving out of large-caps and money markets to make an impact on small-cap equities. Having said that, it is vital to acknowledge that small-cap outperformance can be a double-edged sword. If small-cap equities outperform, that is likely going to be associated with companies exhibiting lower quality attributes participating in the upside. In instances when lower quality stocks play a meaningful role in a rally, quality-oriented managers such as us generally face some performance headwinds.

CONCLUDING REMARKS

2023 Was Full of Surprises

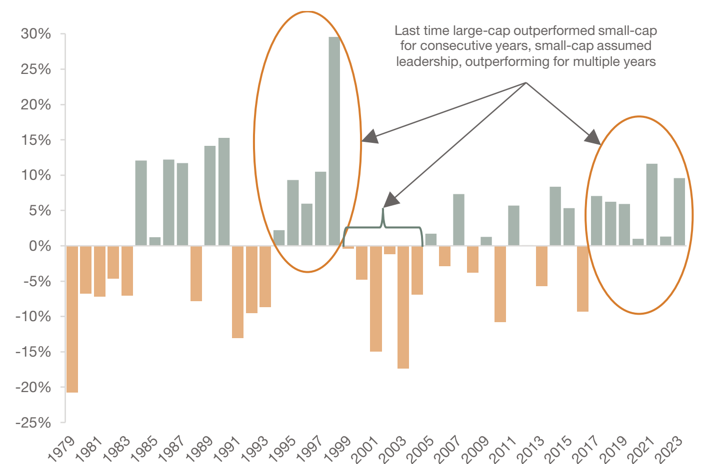
If there is one thing to glean from the year: be prepared for more surprises. The market has a stellar track record of confounding (and humbling) investors. Few investors would have anticipated the following developments or the response from the equity market over the past couple of years. As a refresher, we'll highlight some of these below:

- **2015:** Chinese devaluation shock (S&P 500® Index +1.38%)
- **2016:** Trump election surprise resulted in unexpected market rally (S&P 500® Index +11.96%)
- **2017:** Concerns over Trump presidency (S&P 500® Index +21.83%)
- **2018:** Trade friction with China and Fed rate hikes (S&P 500® Index -4.38%)
- **2019:** Overabundance of concerns heading into year overblown (S&P 500® Index +31.49%)
- **2020:** Global pandemic shock (S&P 500® Index +18.40%)
- **2021:** Unprecedented fiscal responses to pandemic injected massive liquidity into economy (S&P 500® Index +28.71%)
- **2022:** Russian invasion of Ukraine; Fed recognized inflation problem and embarked on tightening campaign (S&P 500® Index -18.11%)
- **2023:** Stress in banking sector, AI blitz, and heightened geopolitical risks (S&P 500® Index +26.29%)
- **2024: PREPARE TO BE SURPRISED!**

Trying to Time the Market Is a Losing Proposition

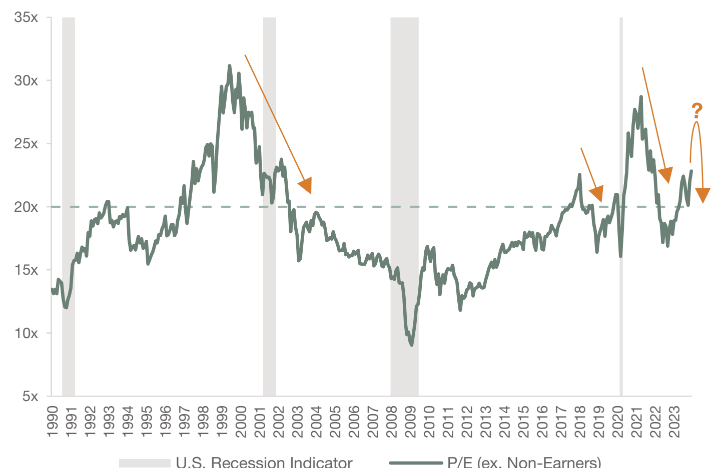
Heading into the year, many investors were on the sidelines in anticipation of a recession. Others fled to money market instruments yielding an attractive ~5%. That's understandable given that there is not one single solution for each individual investor. For our own curiosity, we wanted to assess the impact of sitting on the sidelines in 2023. As observed in Illustration 19, being out of the market on the 10 best-performing days for the S&P 500® Index and the Russell Midcap® Index would have had a

Illustration 17: Calendar Year Relative Performance of the Russell 1000® Index vs. the Russell 2000® Index



Source: Morningstar Direct. As of December 31, 2023. Data compiled and analyzed by Sycamore Capital. Index level: total return.

Illustration 18: Trailing 12-Month Valuation of the S&P 500® Index Since 1990 (P/E ex. Negative Earners)



Source: FactSet & NBER. As of December 31, 2023. Data compiled and analyzed by Sycamore Capital.

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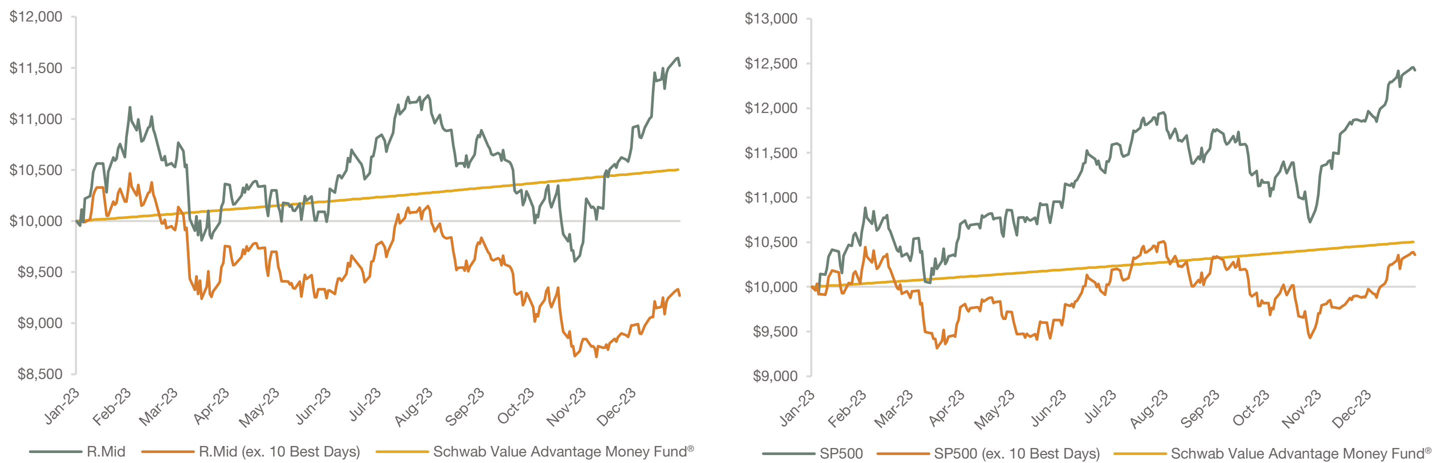
Illustration 19: Growth of $10k Investments in 2023 Excluding 10 Best Days of Performance – Russell Midcap® Index and S&P 500® Index



Source: FactSet. As of December 31, 2023. Data compiled and analyzed by Sycamore Capital. Index level: price return.

meaningful impact on the return of $10,000 invested. Again, attempting to time the market is often fraught with speculation.

The Consensus Is Lopsided…

The consensus in the market has shifted from overwhelmingly "bearish" this time last year to one that currently is predominantly "bullish." As 2023 proved, when consensus is meaningfully tilted in one direction, the opposite often occurs.

2023 was a year that left many of us in the business licking our wounds. This was not the first time and certainly will likely not be the last time the market confounds investors. As bottom-up investors, the year was especially unwelcoming because fundamentals did not seem to matter, and price action was mostly driven by things that are out of our control. Despite the challenging (and frustrating) backdrop, we remain committed to our disciplined fundamental approach of identifying undervalued companies that we believe possess compelling risk/reward attributes.

Given the notoriously puzzling year, it is befitting to end on a quote from legendary investor Peter Lynch, who once said the following about the efficacy of prognosticating the market:

"Thousands of experts study overbought indicators, head-and-shoulder patterns, put-call ratios, the Fed's policy on money supply…and they can't predict markets with any useful consistency, any more than the gizzard squeezers could tell the Roman emperors when the Huns would attack."

On behalf of the Sycamore Capital team, we wish you and your families a happy, prosperous and safe 2024.
We appreciate the continued trust that you have placed in us.

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Top Contributors (%)	
Lamar Advertising Co.	0.5
Ross Stores, Inc.	0.4
Alexandria Real Estate Equities, Inc.	0.4
NNN REIT, Inc.	0.4
Dick's Sporting Goods, Inc.	0.4

Top Detractors (%)	
Franco-Nevada Corp.	-0.3
BorgWarner, Inc.	-0.2
Aptiv PLC	-0.2
Hess Corp.	-0.1
Coterra Energy, Inc.	-0.1

Source: FactSet. The percent displayed is the contribution to return.

				ANNUALIZED RETURNS				
Investment Performance (%)	**QTR**	**YTD**	**1-YR**	**3-YR**	**5-YR**	**7-YR**	**10-YR**	**Since Inception***
Sycamore Mid Cap Value Equity (gross of fees)	10.73	10.91	10.91	13.01	15.26	11.57	11.67	13.10
Sycamore Mid Cap Value Equity (net of fees)	10.52	10.08	10.08	12.16	14.40	10.73	10.84	12.46
Russell Midcap® Value Index	12.11	12.71	12.71	8.36	11.16	7.76	8.26	—

Source: Zephyr. Returns greater than one year are annualized and reflect the reinvestment of dividends and other earnings.
**Since inception start date: 09/01/1983.*

Past performance does not guarantee of future results.

Composite and benchmark returns are presented net of non-reclaimable withholding taxes, if any. Gross-of-fees returns are presented before management and custodial fees but after all trading expenses. Net-of-fees returns are calculated by deducting 1/12 of the highest tier of the standard fee schedule in effect for the period noted (the model feel). The composite model fee for each period is either the highest tier of the current fee schedule or a higher value, whichever is required to ensure the model composite net-of-fee return is lower than or equity to the composite net-of-fee return calculated using actual fees. Actual fees may vary depending on, among other things, the applicable fee schedule and portfolio size. The firm's fees are available on request and may be found on Part 2A of its Form ADV.

The Sycamore Mid Cap Value Equity Composite includes all accounts, except wrap fee paying accounts, that are primarily invested in middle-cap companies that meet the team's investment criteria. Mid Cap securities are defined as those that fall within the market capitalization range of the broad universe. Product generally has a minimum equity commitment of 90% and the composite inception date is September 1983. The composite creation date is 3Q04.

All investments carry a certain degree of risk including the possible loss of principal, and an investment should be made with an understanding of the risks involved with owning a particular security or asset class.

The benchmark of this composite is the Russell Midcap® Value Index. The Russell Midcap® Value Index measures the performance of those Russell Midcap companies with lower price/book ratios and lower forecasted growth values. The stocks are also members of the Russell 1000® Value Index. The Russell Midcap® Index measures the performance of the 800 smallest companies in the Russell 1000® Index, which represent approximately 25% of the total market capitalization of the Russell 1000® Index.

Index returns are provided to represent the investment environment during the periods shown. Index performance does not reflect management fees, transaction costs or expenses that would be incurred with an investment. One cannot invest directly in an index.

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Contributors and Detractors Source: FactSet. The top contributors and detractors are presented to illustrate examples of the portfolio's investments and may not be representative of the portfolio's current or future investments. The percent displayed is contribution to return. Holdings are as of quarter end and may change at any time.

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