



A better way to obtain small cap exposure

Rob Brown, PhD, CFA

Julex Capital Advisory Board Member, Website www.robbrownonline.com



40 Grove Street, Suite 140, Wellesley, MA 02482

Phone 781-489-5398

Email info@julexcapital.com

Web www.julexcapital.com

- **Why now**

- Relative valuations, large cap vs small cap
- The problem with technology, it's a large cap problem
- Current small cap risk premium bear market is long in the tooth
- Historically, the small cap risk premium has been positive after a recession

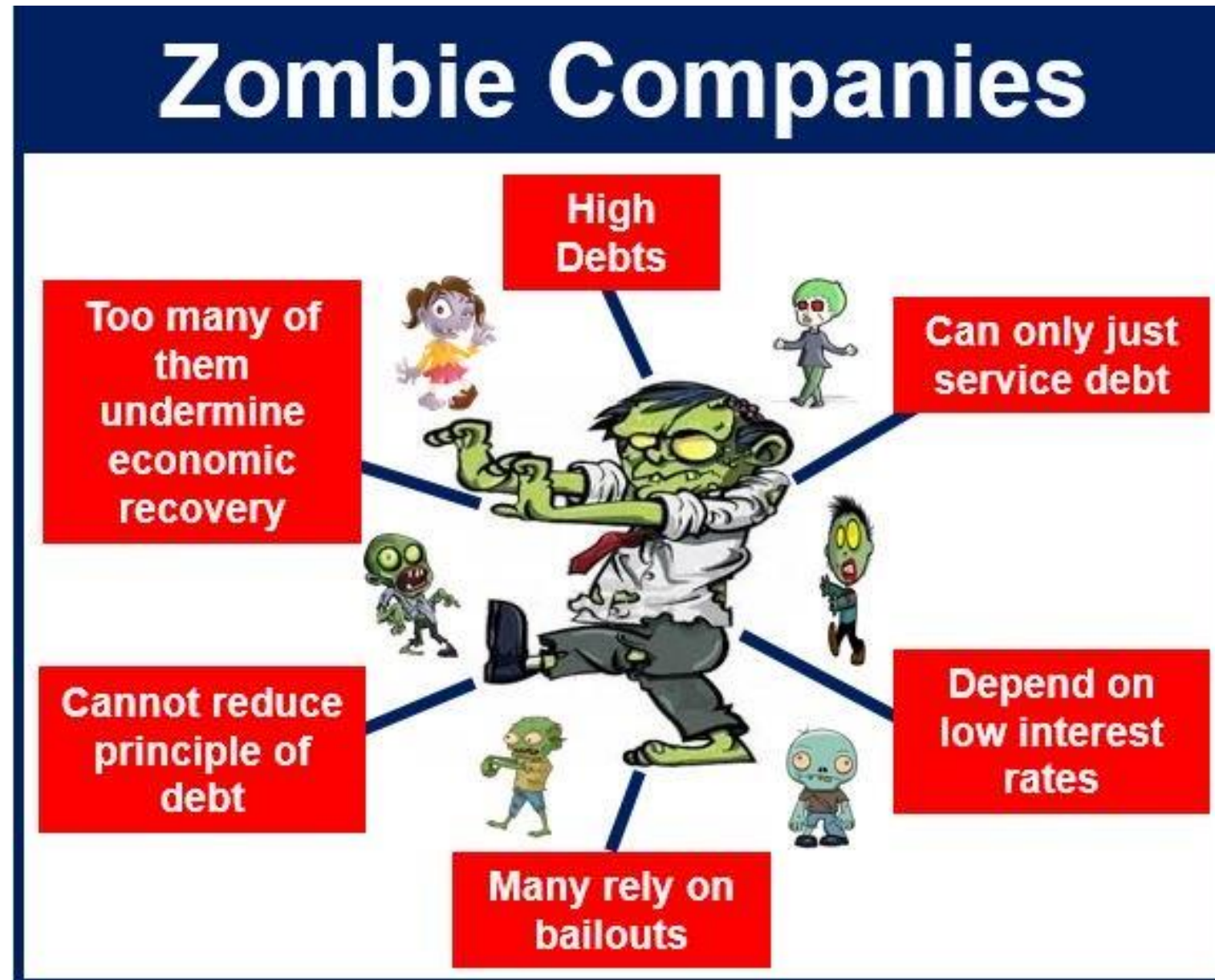
- **Is the juice worth the squeeze**

- Average small cap risk premium bull market delivers an extra +163%

Two challenges to overcome

- Two possible impediments to a successful implementation
- Zombies
- Multiple risk premia

- Successful forest management
- Consider the unqualified need for regular and periodic controlled forest fires
 - While it may sound counterproductive to the average person
 - Controlled burns are actually the safest way to manage overgrowth and promote new, healthy growth in wooded areas, wetlands, crop fields and prairies
 - Controlled burns get rid of dead timber and brush, which can easily catch fire and spread an uncontrolled wildfire more easily.





13% of the world's companies are 'zombies.' That's not healthy



By [Matt Egan](#) and [Julia Horowitz](#), CNN Business

Updated 7:55 AM ET, Sun March 31, 2019



New York (CNN Business) – 1. Easy money: The past decade of ultra-low interest rates has spawned the rise of "zombie" companies.

These debt-laden firms don't make enough to even cover their interest payments. That's never a good sign.

The number of zombie companies in advanced economies last year stood at 536, or 13% of the total, according to Bank of America Merrill Lynch.

ECONOMY

COVID-19 is Making the Zombie Company Problem Worse

Yet many governments continue to support, and in some cases, even bail out these companies. Unfortunately, government subsidies that prop dying businesses up only delay the inevitable, as evidenced by what's occurring in Europe...

Via The New York Times,

"About nine million European workers, up to a fifth of those currently enrolled in the short-work programs, are in what the German bank Allianz has called "zombie jobs" — positions in the auto and airline industries, restaurants, shops and hotels and other sectors ill equipped to confront shifting consumer behavior. Many of these jobs are still on the books almost solely because of government subsidies, the bank said."

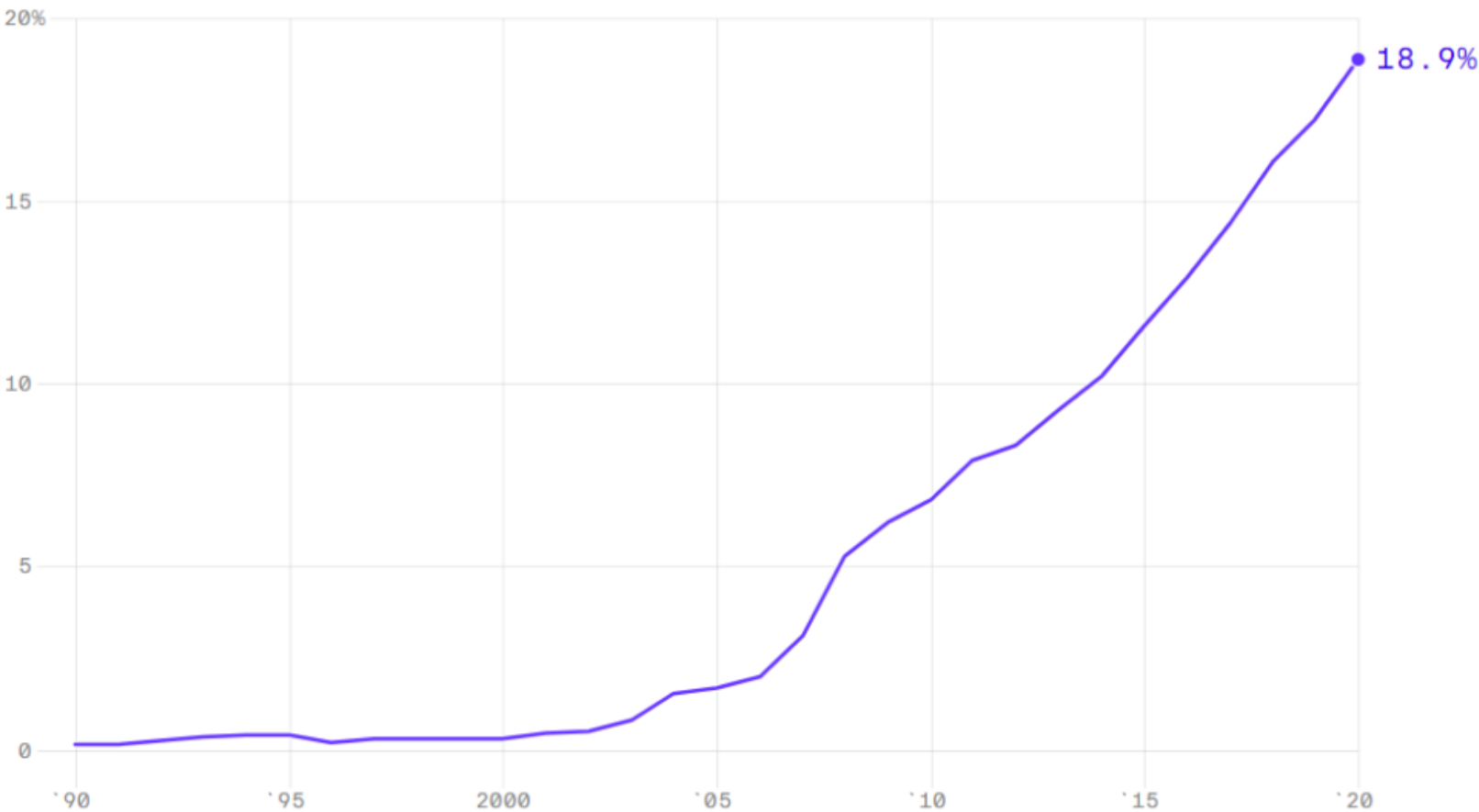
Deloitte sounded the horn on Canada's zombie companies two years ago to the day.

According to a Financial Post article published in September 2018,

"...a new report from Deloitte ... found that at least 16 per cent of [Canadian] publicly traded firms ... could be classified as "zombies" — defined as mature firms more than 10 years old that lack sufficient revenue to cover interest payments on their debt."

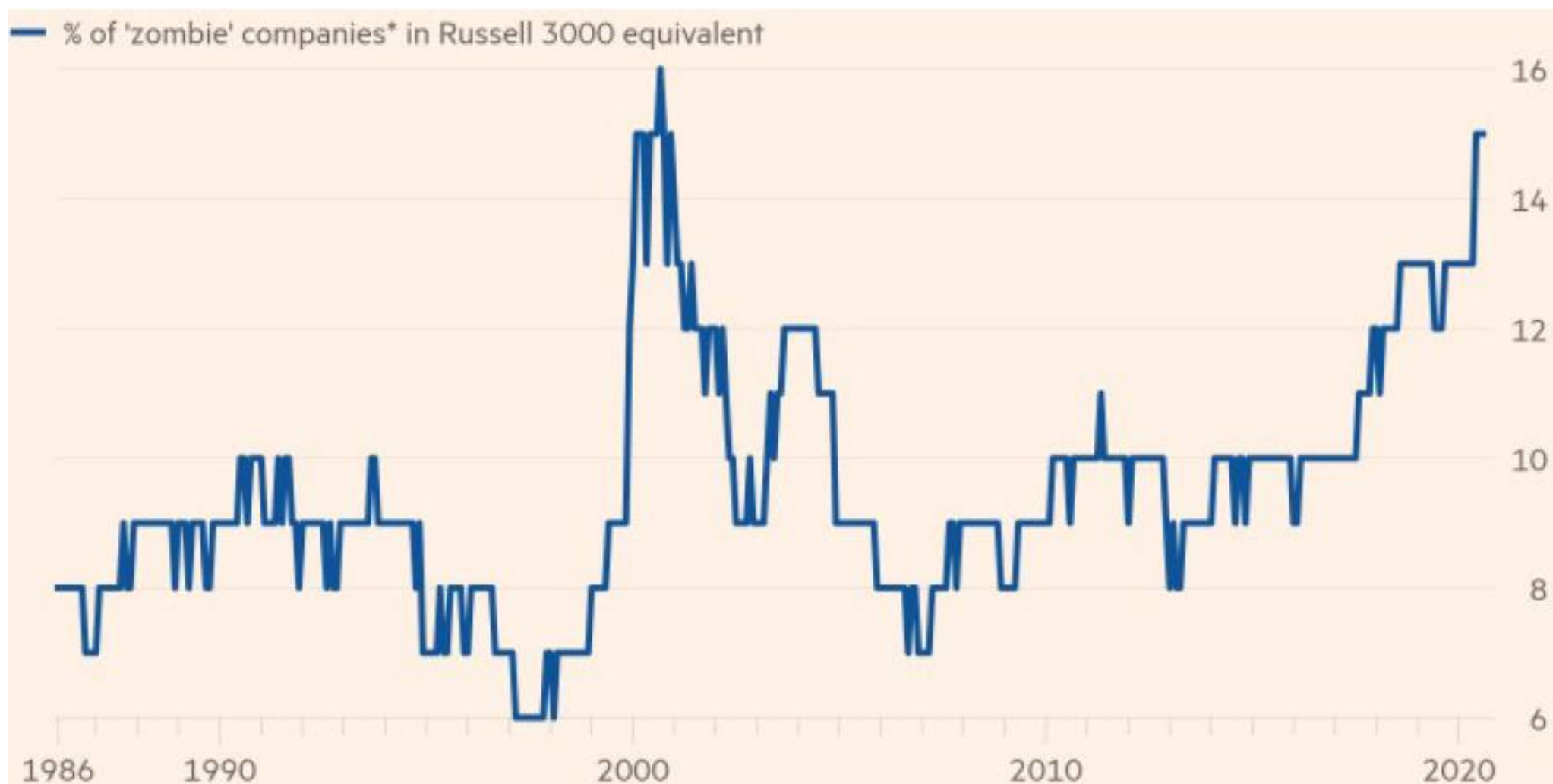
Percentage of U.S. 'zombie' firms

1990 to 2020



Data: Datastream, Worldscope, DB Global Research; Chart: Axios Visuals

Zombie prevalence, continued



*Companies where profits are less than the interest paid on their debts for at least 3 years / Data based on the Leuthold 3000 Universe (Russell 3000 equivalent)

Source: The Leuthold Group

How to maximize your exposure to zombies

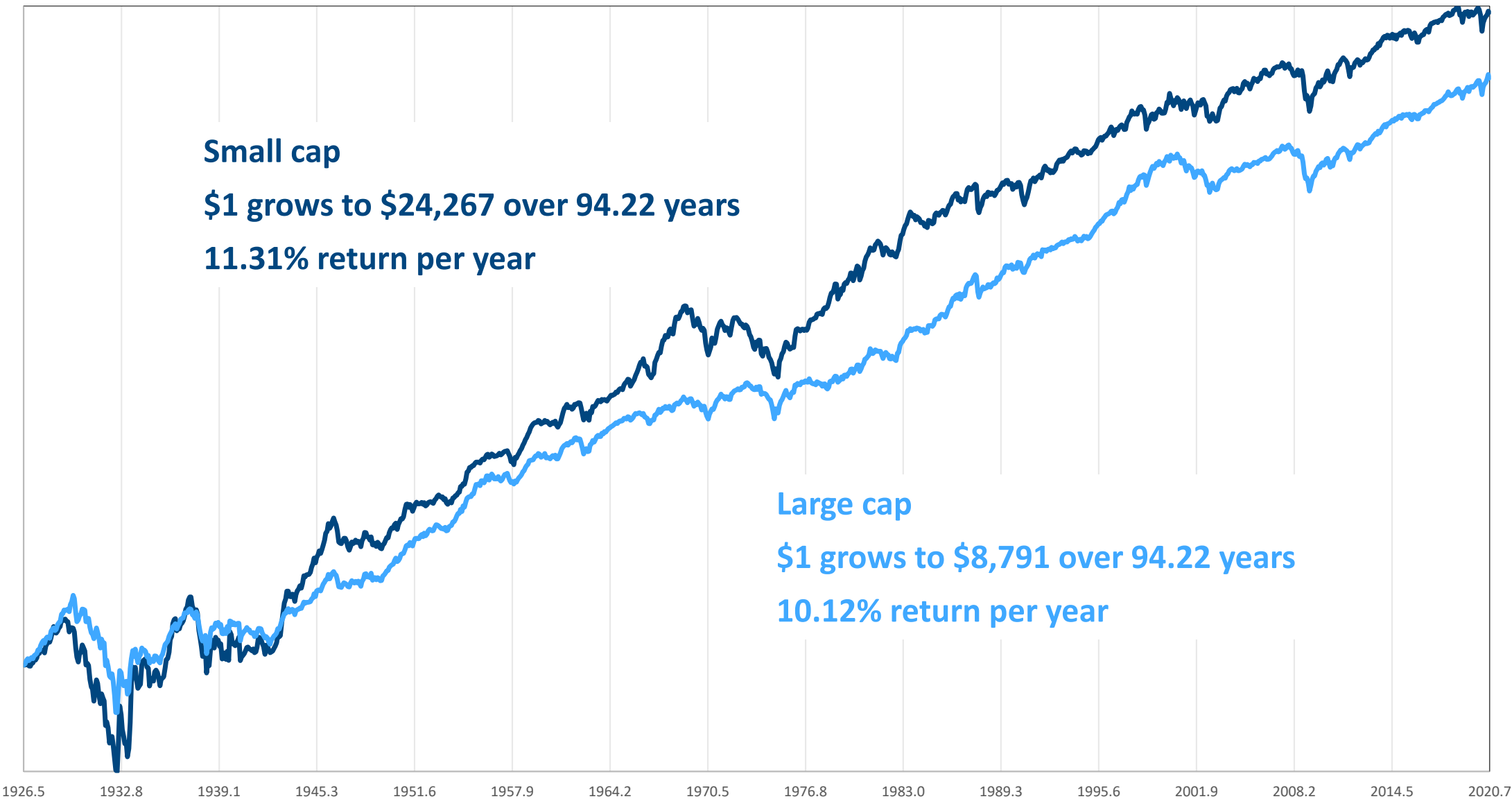


**iShares Russell 2000 Value ETF
(IWN)**

Multiple risk premia

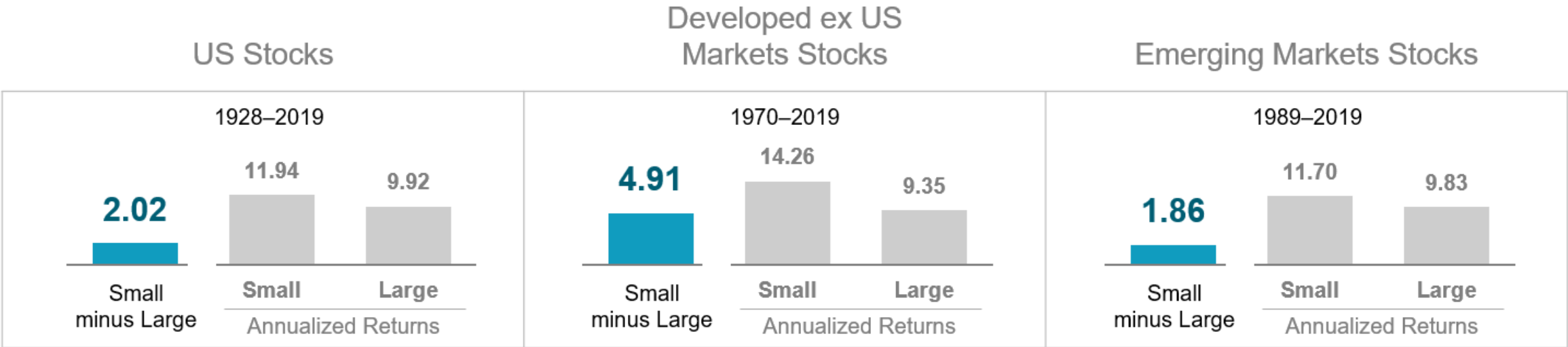
Are you looking at one or multiple risk premia, all packaged up together

Small cap premium of 1.19% per year over the last 94.22 years



Historical premiums and returns (annualized): US, Developed ex US, and Emerging Markets

Company Size
Relative performance of
small cap stocks vs.
large cap stocks (%)



Dimensional US Small Cap Index was created by Dimensional in March 2007 and is compiled by Dimensional. It represents a market-capitalization-weighted index of securities of the smallest US companies whose market capitalization falls in the lowest 8% of the total market capitalization of the Eligible Market. The Eligible Market is composed of securities of US companies traded on the NYSE, NYSE MKT (formerly AMEX), and Nasdaq Global Market. Exclusions: non-US companies, REITs, UITs, and investment companies. From January 1975 to the present, the index excludes companies with the lowest profitability and highest relative price within the small cap universe. The index also excludes those companies with the highest asset growth within the small cap universe. Profitability is measured as operating income before depreciation and amortization minus interest expense scaled by book. Source: CRSP and Compustat. The index monthly returns are computed as the simple average of the monthly returns of 12 subindices, each one reconstituted once a year at the end of a different month of the year. The calculation

Dimensions of Expected Returns

Historical premiums and returns (annualized): US, Developed ex US, and Emerging Markets

Company Size

Relative performance of small cap stocks vs. large cap stocks (%)

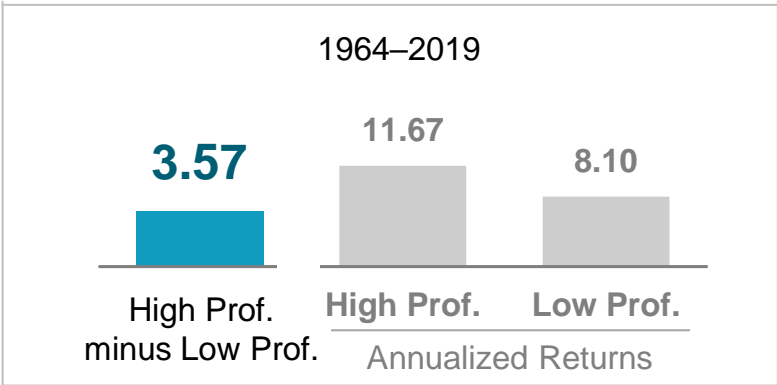


Zeroing in on the profitability risk factor

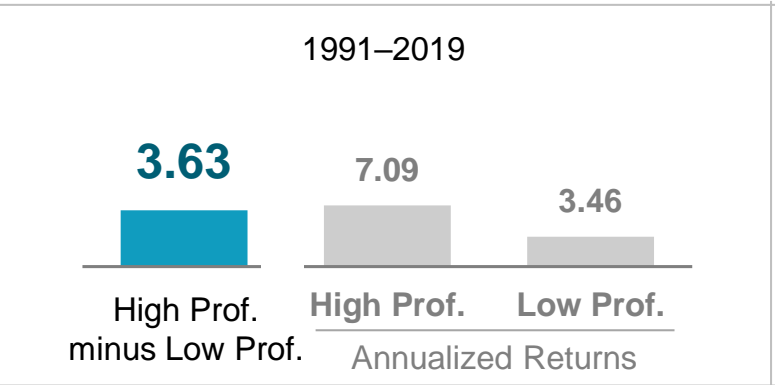
Profitability

Relative performance of high profitability stocks vs. low profitability stocks (%)

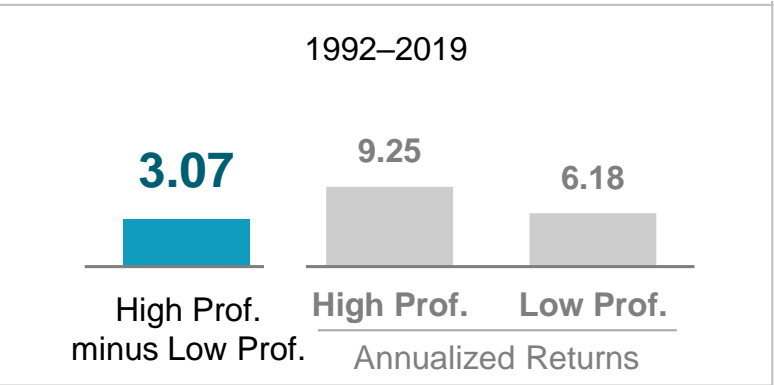
US Stocks



Developed ex US Markets Stocks



Emerging Markets Stocks



Styles investing (also known as factor investing or smart beta) refers to the application of systematic investment themes that have historically provided long-term positive returns with low correlation to each other.

The underlying AQR Funds in the Styles Model Portfolios use a combination of styles to access return sources – generally preferring cheap, improving, higher-yielding, higher-quality assets over peers:

	Equities	Fixed Income	Commodities	Alternatives
Market	✓	✓	✓	
Volatility				✓
Value	✓	✓	✓	✓
Momentum	✓	✓	✓	✓
Carry		✓	✓	✓
Defensive/Quality	✓	✓		✓
Trend	✓	✓	✓	✓



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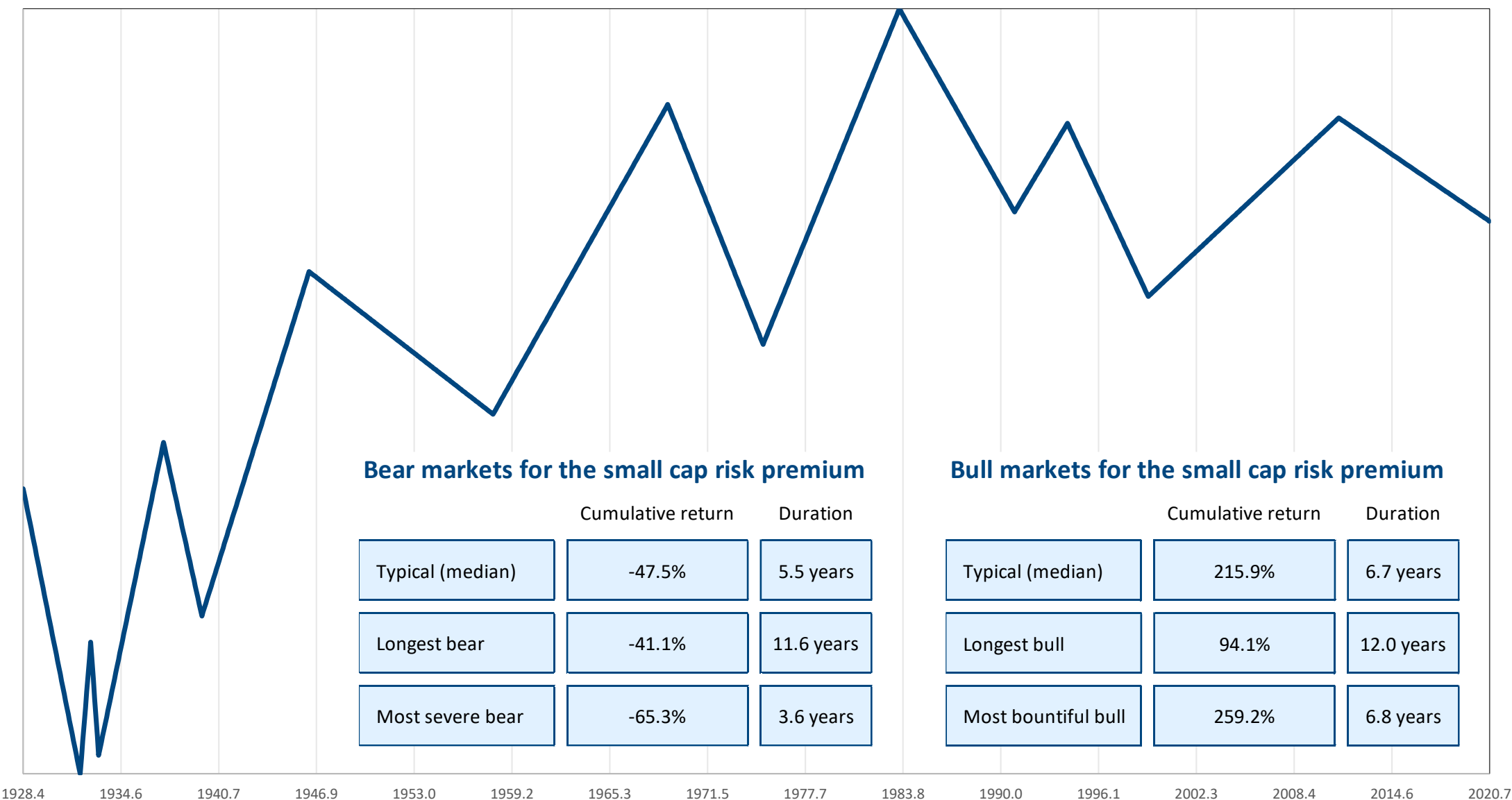
	Equities
Market	✓
Value	✓
Momentum	✓
Defensive/Quality	✓
Trend	✓



- The benefit is big, but episodic
- Now is the time
 - Relative valuations
 - Technology
 - Current small cap risk premium bear market is seriously long in the tooth
- **Zombies**
 - Are real
 - Big issue
 - Do not index your exposure
 - A “profitability” filter solves the problem
- **Simultaneous multi-factor exposure**
 - Tremendous synergy between the small cap risk premium and the “profitability” factor
 - Always combine them into one unified, inseparable whole

- AQR goes too far
- They've rejected the small cap risk premium due to its pronounced episodic nature
 - I get it . . .
 - But, they've thrown out the baby with the bath water
- The bear/bull cycles are there, and the payoffs are too large to ignore

History of bear & bull markets for the small cap risk premium since 1926

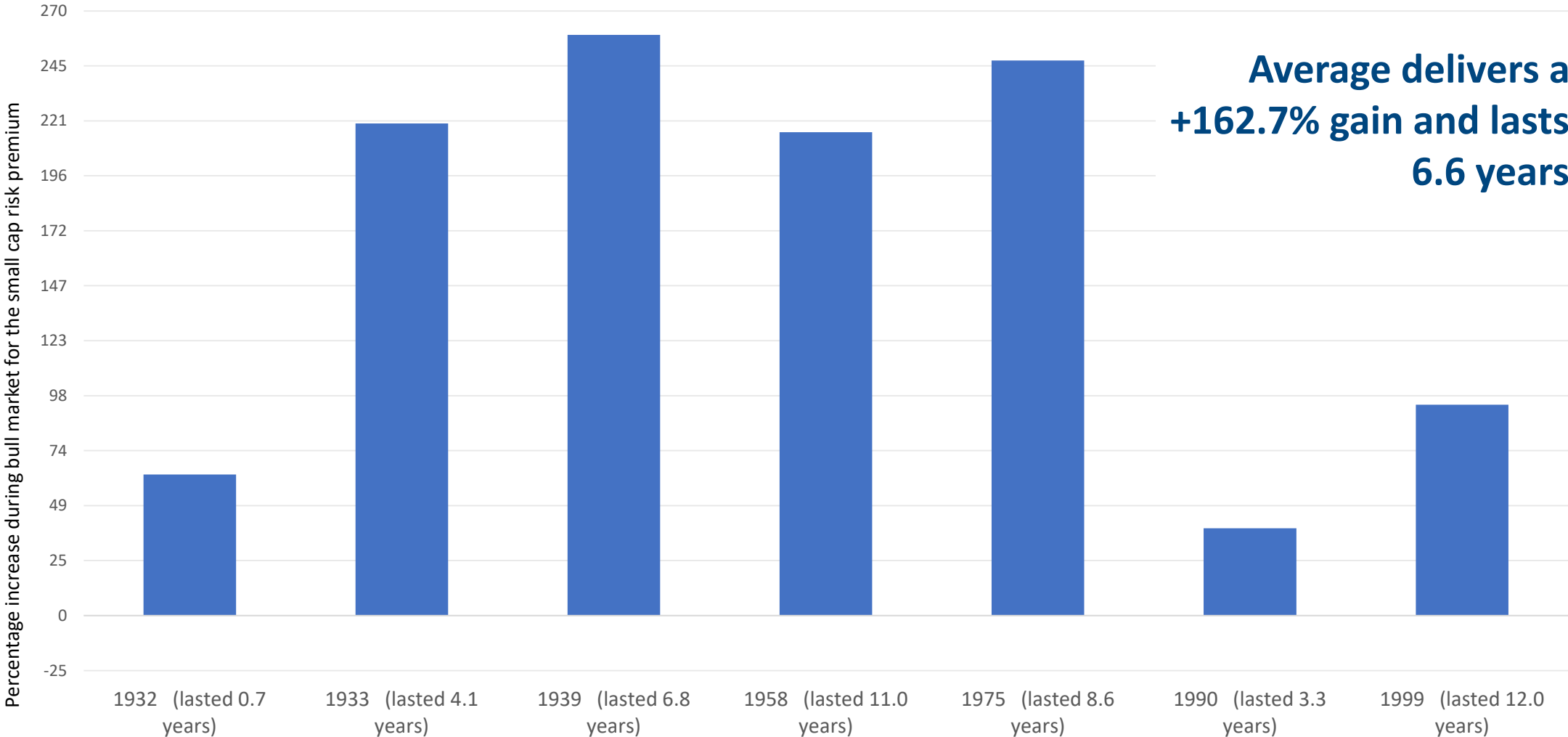


Bull markets for the small cap risk premium

	Cumulative return	Duration
Typical (median)	215.9%	6.7 years
Longest bull	94.1%	12.0 years
Most bountiful bull	259.2%	6.8 years

The reward is large during small cap risk premium bull markets

Average bull market delivers an extra +163% return over and above the return on stocks (large cap)



Rob's perspective on accessing the small cap risk premium

- Combine small cap with a synergistic quality/profitability overlay
- Value versus growth is a different issue
- Use a purely quantitative approach
- Why?
- Because its testable
- The testing allows you to understand how the strategy will behave in different environments

The Julex approach to small cap

A testable quantitative solution to accessing the small cap risk premium with a synergistic profitability/quality overlay

Firm Overview

- Employee-owned, established 2012
- Quantitative, rules-based investment process
- Strategy Focus:
 - Tactical strategies – limit loss
 - Quantitative equity strategies - generate alpha
- Experienced Team
 - Institutional investment experience
 - Portfolio management team includes 3 Ph.D.'s
- GIPS compliance verified by ACA Performance Services

Julex - the investment professional team

Team	Role	Experience	Education
Henry Ma Ph.D., CFA	President Chief Investment Officer	Geode Capital – Hedge Fund Manager Loomis Sayles – Director of Quantitative Research Fortis Investments - Director of Quantitative Research Sun Life Financial– Portfolio Manager	Ph.D. Economics – Boston University BA, MA – Peking University
George Xiang Ph.D., CFA	Portfolio Manager Research	State Street Global Advisors (SSGA) – Head of Quantitative Research Loomis Sayles – Senior Quantitative Analyst Conseco Capital – Quantitative Research Manager	Ph.D., Mathematics – Purdue University BA – Nankai University
Frank Zhuang Ph.D.	Portfolio Manager Research	Ericsson – Senior Engineer Nortel, Alcatel/Lucent - Senior Research Scientist	Ph.D. Electric Engineering – University of Maryland MS – West Virginia University
Jeffrey Megar CFA	Investment Committee Member	F-Squared Investments – Senior Vice President State Street Global Advisors – Senior Portfolio Manager Fortis Investments – Senior Portfolio Manager Cypress Tree Investment Management	MBA – Northeastern University BA – Framingham State University
Liam Flaherty	Research	MFS Investments - Independent Contractor MassMutual - Internship	BA – Babson College
Bo Wang	Research		Ph.D. Candidate, Economics – Boston College BA – Renmin University of China

Strategy Highlights

- Outperform Small Cap Index – Russell 2000 Value/Blend Index
- Hold 25-35 undervalued high-quality stocks
- High active share and tracking error with a potentially high alpha

Three-Factor Sequential Screening Model

- Stocks are screened sequentially by three factors
 1. Proprietary valuation
 2. Profitability
 3. Leverage
- No bias to size, value or momentum

Focused Portfolio

- 25-35 undervalued, highly profitable and highly stable stocks
- High Alpha with lower drawdown
- High active share and monthly tracking error

Market Cap Weighted Portfolio

- Maximum individual stock weight, 10%

Objective: 2-5% excess return with 6% tracking error

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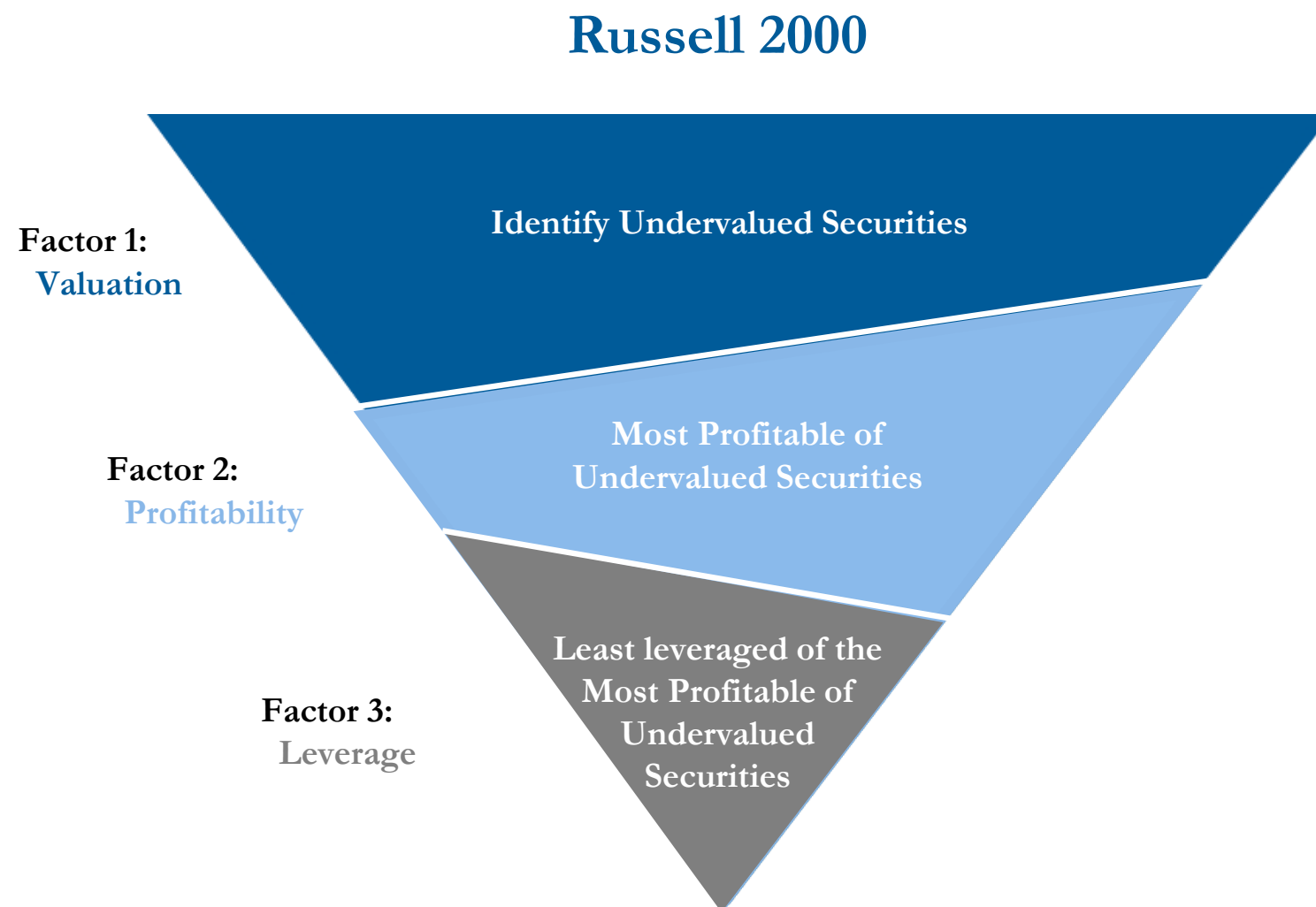
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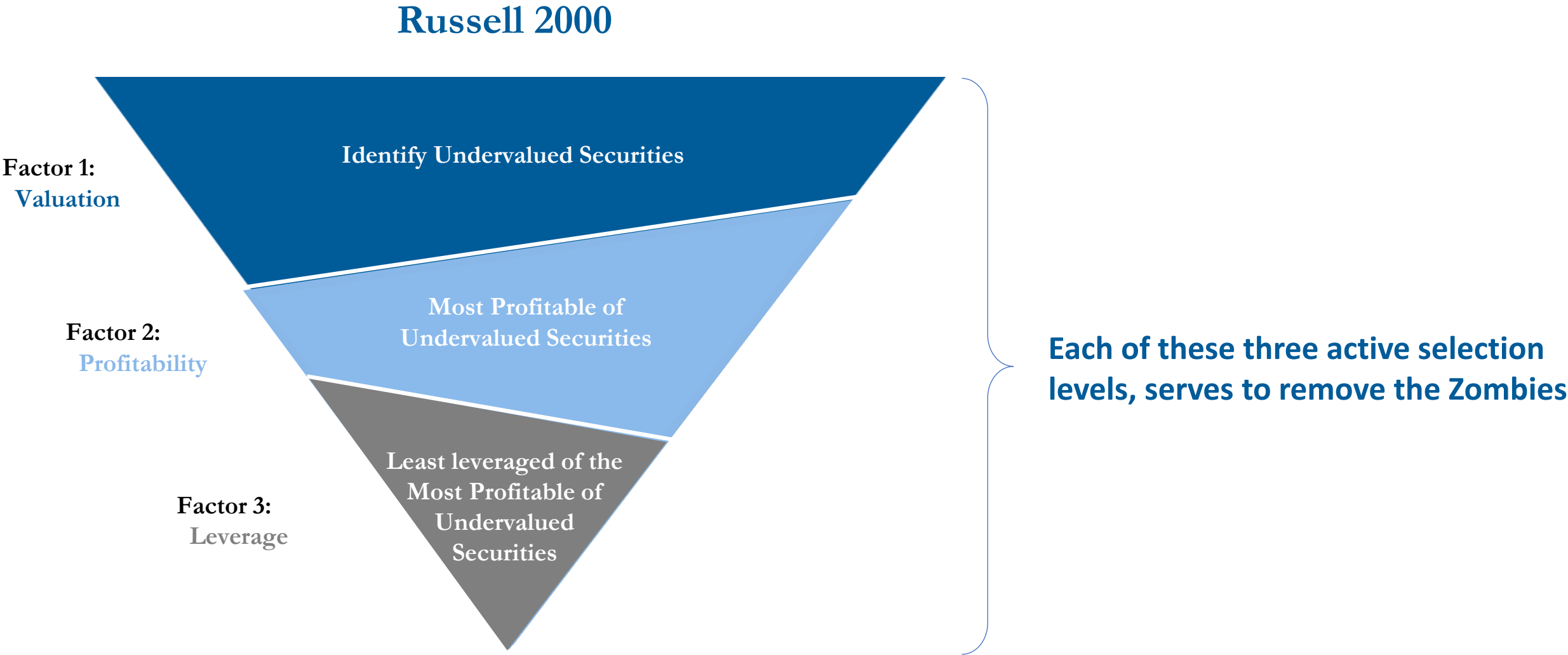
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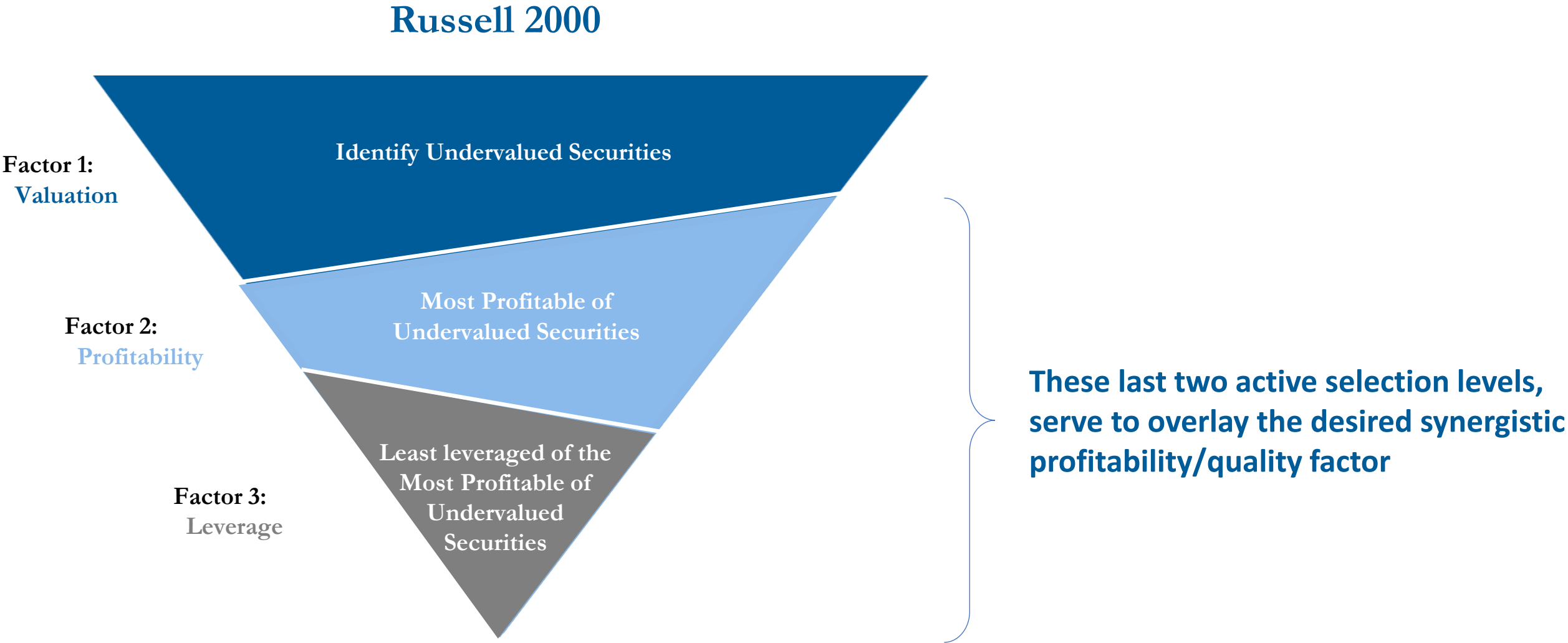
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Yields portfolio of 25-35 high quality undervalued securities



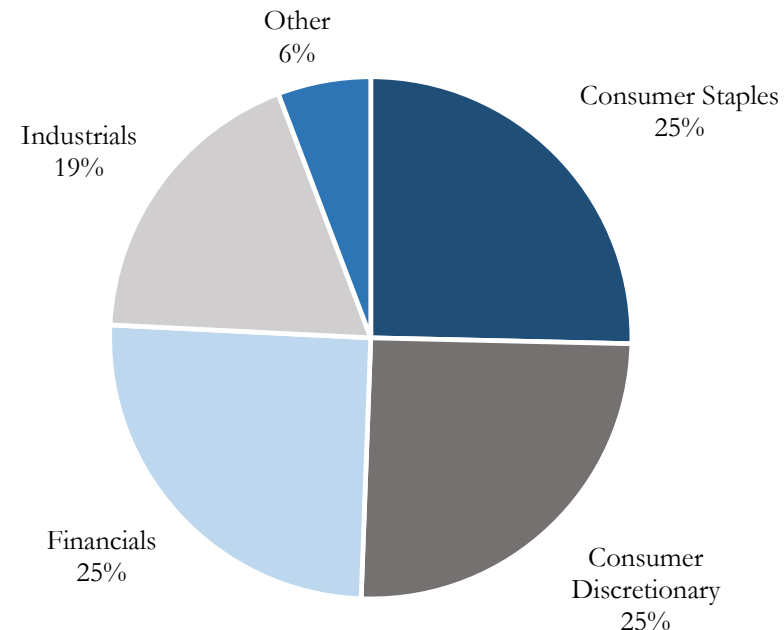
Yields portfolio of 25-35 high quality undervalued securities



Julex - the small cap strategy, continued

Top 10 Holdings (3/31/2020)

Stock	Portfolio Weights
Lithia Motors	8.1%
Cohen & Steers, Inc.	7.9%
SeaWorld	6.4%
National General Holdings Corp.	5.9%
National Beverage Corp.	5.9%
Crocs, Inc.	5.4%
Gray Television	5.3%
PriceSmart	5.1%
Artisan Partners Asset Management	4.4%
USANA Health Sciences, Inc.	4.3%



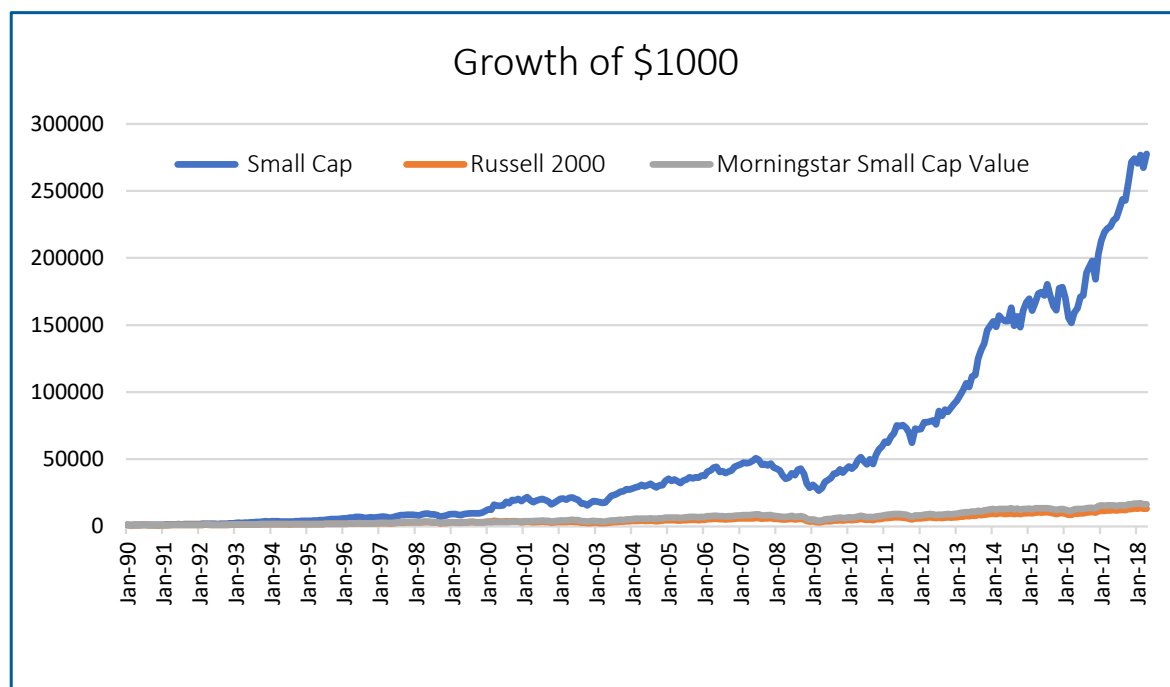
Portfolio Characteristics

March 31, 2020	Portfolio	iShares Russell 2000 Value ETF
# of Securities	25	1,393
Market Capitalization	1,305.6	1,634.1
Active Share	98.8	--
Dividend Yield	2.2	3.3
Price/Earnings	9.9	10.1
P/E using FY1 Est	9.5	10.7
P/E using FY2 Est	8.5	9.7
Est 3-5 Yr EPS Growth	20.0	9.0
Price/Cash Flow	5.2	4.7
Price/Sales	0.5	0.5
ROE	29.0	5.6
Operating Margin	12.67	14.22
Net Margin	6.94	10.31

A concentrated portfolio of high-quality stocks which are 'undervalued' relative to their fundamentals.

Julex - the small cap strategy, backtest hypothetical performance

Jan. 1990-March 2018	TrueAlpha TM Small Cap	Russell 2000 Index	Morningstar Small Cap Value
Annual Return	22.1%	9.6%	10.5%
Standard Deviation	20.3%	18.9%	15.9%
Sharpe Ratio	0.95	0.36	0.48
Maximum Drawdown	-47.6%	-52.9%	-54.6%
Information Ratio	1.29		



Note: The performance results of the TrueAlpha Small Cap strategy shown on this slide are HYPOTHETICAL based on modeled results and are gross before investment management fees. Data Source: FactSet, Thomson Reuters, Julex Capital Management.

Year	TrueAlpha TM Small Cap	Russell 2000 Index	Morningstar Small Cap Value
1990	16.1%	-20.4%	-14.0%
1991	54.9%	45.6%	37.4%
1992	40.0%	17.5%	20.2%
1993	50.8%	18.7%	17.3%
1994	9.4%	-1.9%	-0.6%
1995	43.0%	28.8%	22.2%
1996	19.0%	17.0%	22.1%
1997	17.9%	22.3%	28.9%
1998	9.4%	-0.3%	-6.4%
1999	38.5%	25.6%	6.0%
2000	61.8%	-9.6%	18.6%
2001	0.0%	1.7%	15.0%
2002	-9.4%	-20.5%	-10.8%
2003	52.0%	48.5%	42.2%
2004	25.8%	19.1%	20.9%
2005	6.4%	4.6%	6.6%
2006	22.5%	18.4%	16.5%
2007	-6.8%	-1.6%	-6.2%
2008	-28.2%	-33.8%	-32.5%
2009	44.3%	27.2%	29.9%
2010	41.8%	26.9%	25.7%
2011	15.0%	-4.2%	-4.3%
2012	28.9%	16.4%	16.0%
2013	63.3%	38.8%	36.2%
2014	11.0%	4.9%	3.3%
2015	0.5%	-4.4%	-7.0%
2016	24.7%	21.3%	25.7%
2017	27.1%	14.7%	9.1%
2018 Jan-Mar	2.6%	-0.1%	-2.8%

Julex Capital Management, LLC Daily Performance Distribution 9/28/2020

strategy returns are gross of management fees unless otherwise stated

Benchmark/Strategy Composite	Inception	DTD	MTD	QTD	YTD	Since Inc (Ann.)
<i>Benchmark: Russell 2000®</i>		2.41	-3.21	5.08	-8.56	0.88
<i>Benchmark: Russell 2000 Value®</i>		3.01	-4.09	3.16	-21.08	-5.65
TrueAlpha Small Cap	4/1/2018	1.66	-3.15	6.85	-4.87	6.65
<i>excess Russell 2000</i>		-0.75	0.06	1.78	3.69	5.77
<i>excess Russell 2000 Value</i>		-1.35	0.94	3.69	16.21	12.30

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<i>Benchmark: Russell 2000®</i>		2.41	-3.21	5.08	-8.56	0.88
<i>Benchmark: Russell 2000 Value®</i>		3.01	-4.09	3.16	-21.08	-5.65
TrueAlpha Small Cap	4/1/2018	1.66	-3.15	6.85	-4.87	6.65
<i>excess Russell 2000</i>		-0.75	0.06	1.78	3.69	5.77
<i>excess Russell 2000 Value</i>		-1.35	0.94	3.69	16.21	12.30

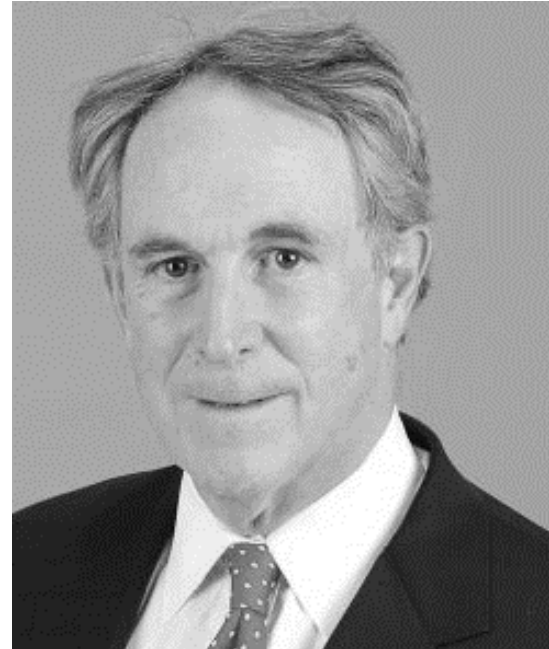
Friday, Oct 9th at 11am Eastern

The case for high current yield stocks

For more information contact



Jeff Megar, CFA
Email jeff.megar@julexcapital.com
Office 781-772-1378



Brian Phelan
Email brian.phelan@julexcapital.com
Cell 508-527-1431



Bob Peatman
Email bob.peatman@julexcapital.com
Cell 617-875-9316

Important Disclosures

All data and statistics provided by Global Financial Data, Inc. at www.globalfinancialdata.com Large cap stocks are represented by the S&P 500. Small cap stocks are represented by the Russell 2000 index and before its inception by the Fama French small cap index (market cap weighted) for the smallest 30% of the market. Technology is defined by ticker symbol XLK. Dimensional Fund Advisors, LLC provided the comparative historical returns across different geographies.

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One of the limitations of hypothetical performance results is that they are generally prepared with the benefit of hindsight. In addition, hypothetical trading does not involve financial risk, and no hypothetical trading record can completely account for the impact of financial risk in actual trading. For example, the ability to withstand losses or adhere to a particular trading program in spite of trading losses are material points which can also adversely affect actual trading results. There are numerous other factors related to the markets in general or to the implementation of any specific trading program which cannot be fully accounted for in the presentation of hypothetical performance results and all of which can adversely affect actual trading results.

The composition of a benchmark index may not reflect the manner in which a Julex portfolio is constructed in relation to expected or achieved returns, investment holdings, portfolio guidelines, restrictions, sectors, correlations, concentrations, volatility, or tracking error targets, all of which are subject to change over time.

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