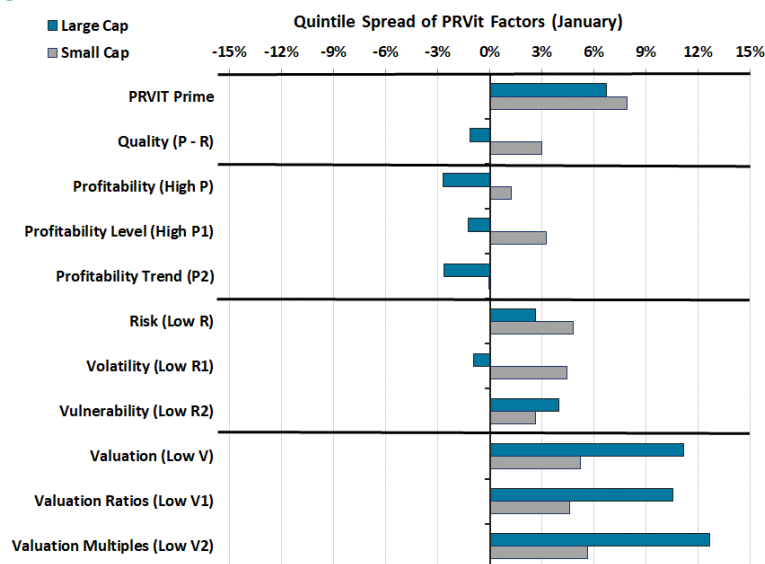


PRVit Report – U.S.

January Results

PRVit posted the 2nd largest spread in the last 10 years in both the Large Cap and Small Cap universes (**Figure 1**). As markets rolled over and rate hikes loomed, cheap-Value companies were highly favored over more expensive names (rate hikes drive up the cost of capital and hit companies with higher future expectations harder – see our recent [The “I” Word...Inflation Its Here](#) report). In Large Cap, the Value spread was +1118bps and was the highest spread seen in the last 10 years. In Small Cap, the Value spread was +520bps and the 10th highest spread in the last 10 years. Investors also favored low-Risk names over high-Risk names.

Figure 1: Factor Performance



Sector Attractiveness

Last week we published our [Sector Attractiveness: U.S. Analysis](#) which listed sectors from most favorable to least favorable for the Russell 3000 Index. In **Figure 2** below, we breakout the U.S. into Large Cap and Small Cap universes. Small Cap results exclude Pharma, Biotech, and Life Sciences. Over the last 20 years, the Annualized Average Return of the favorable sectors over the unfavorable sectors in Large Cap universe has been +211bps (for a 6-month holding period). In Small Cap, the average annualized spread has been +48bps. See the Sector Attractiveness report for more specifics on these calculations. Small Cap Industrials are more attractive than Large Cap Industrials. Large Cap Communication Services look more attractive than that sector in Small Cap. A PRRit score above the average is favorable.

Figure 2: Sector Attractiveness

U.S. Large Cap	PRVit	Quality	Value	U.S. Small Cap	PRVit	Quality	Value
Financials	66	67	49	Financials	71	67	49
Materials	56	61	53	Consumer Discretionary	60	60	63
Consumer Staples	51	59	58	Industrials	54	60	64
Consumer Discretionary	49	60	63	Materials	53	61	53
Communication Services	48	56	59	Consumer Staples	52	59	58
U.S. Large Cap	47	57	62	U.S. Small Cap	47	57	62
Utilities	46	44	45	Utilities	43	44	45
Health Care	46	60	66	Information Technology	43	56	74
Industrials	46	60	64	Communication Services	42	56	59
Information Technology	39	56	74	Health Care	34	60	66
Energy	34	26	38	Energy	33	26	38

Contents

Our monthly PRRit Reports summarize the performance of our PRRit stock selection model as well as its underlying factors: Profitability (P), Risk (R), and Value (V). We analyze the results by regions, by sectors, and by market cap size.

Key Takeaways:

- PRRit worked in both Large and Small Cap universes, driven by cheap Value.
- Investors preferred low-Risk names to high-Risk names.
- Our **Attractive Value** and **Best of the Best** zones had the best performance in both Large and Small names.

Methodology:

The top-bottom spread (“spread”) is the difference between the average return of the top 20% and the bottom 20% of stocks ranked by a factor. The information coefficient (“IC”) is the cross-sectional correlation between the factor ranks and future returns. In other words, does the top quintile tend to outperform the 2nd quintile, does the 2nd quintile outperform the 3rd quintile, etc. An IC around 5% indicates a very monotonic result.

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About ISS EVA

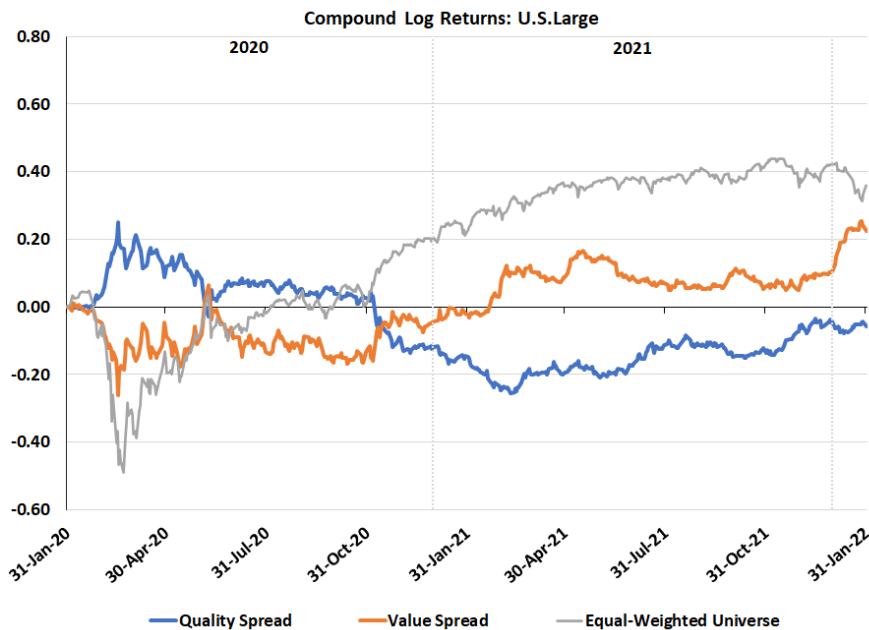
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Factor Rotation: Daily Performance Over Trailing 24 Months

The Large Cap and Small Cap daily factor performance over the last two years are included below. Note these graphs are based on daily re-balancing of factors (versus monthly re-balancing used in all other analysis). The 'equal-weighted universe' lines are included to show market direction. When the colored (Quality=blue, Value=orange) factor lines are moving up, they are generating alpha, and when they are over the '0' line of the y-axis, they have had positive cumulative alpha.

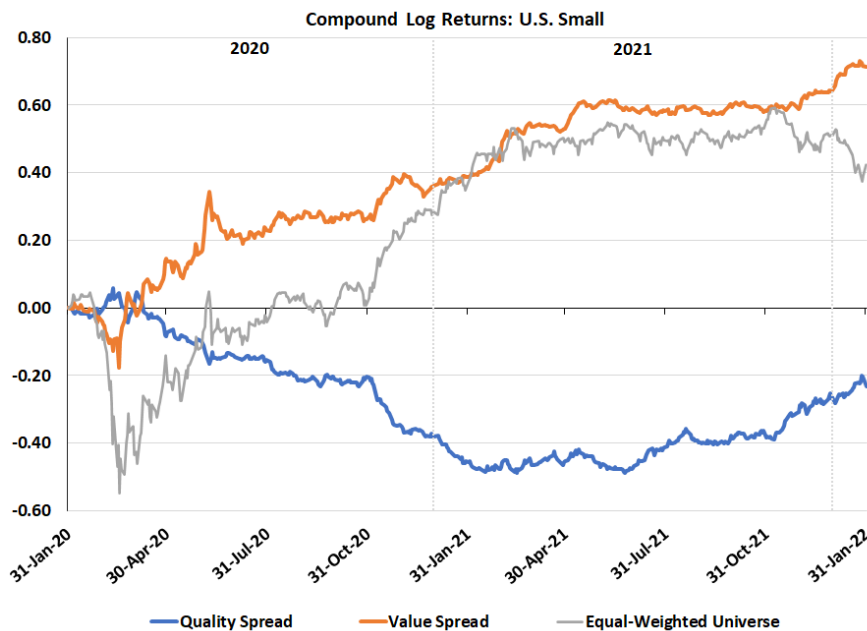
Figure 3: Large Cap



Large Cap

Quality ended 2021 moving up, rolled over in early January but recovered in the latter half of the month. Value had been moving up in December but shifted up dramatically in early January as markets fell off.

Figure 4: Small Cap



Small Cap

As the market declined, Quality and Value both worked well in January, a continuation of the strength we saw in December.

HEAT MAP: Examining the Zones

Our HEAT Map captures the key factors that comprise PRVit: the trade-off between Quality and Valuation. Our Quality score is plotted on the y-axis where the higher the value, the better the quality. Our Valuation factor is plotted on the x-axis where the cheaper values are to the right and the expensive values are to the left. The green areas are in the 'Favorable' region: the upper left one is our 'Expensive But Worth It' category where PRVit > 70, Quality > 60 and Valuation > 60 while the lower-right one is our 'Attractive Value' category where PRVit > 70, Quality < 40 and Valuation < 40. Our 'Best of Best' green box is PRVit > 70, Quality > 60 and Valuation < 40: these companies have the largest disconnect between their Quality and Valuation. The red areas are in the 'Unfavorable' region: the upper-left one is our 'Overly Expensive Quality' where PRVit < 30, Quality > 60 and Valuation > 60 while the lower-right one is our 'Value Traps' where PRVit < 30, Quality < 40 and Valuation < 40. And, of course, we highlight the 'Worst of Worst' in the red box where PRVit < 30, Quality < 40 and Valuation > 60: we sometimes refer to these as 'Story Stocks' because if you own these, you better have a good story (See Figure 3).

Figure 5: HEAT Map Zones



HEAT Map Primer

The beauty of the HEAT map is the visual trade-off between **Quality** and **Valuation**: companies in the favorable (blue) area offer higher quality and/or cheaper valuation than those in the unfavorable (red) area.

The y-axis is our measure of **Quality** where the higher the score, the higher the company's quality or Risk-Adjusted Profitability is. This is a composite score including Level and Trend of Profitability (P1 and P2) as well as Volatility and Vulnerability (R1 and R2).

The x-axis is our measure of **Valuation** which includes Wealth Ratios and Wealth Multiples (V1 and V2). This axis is plotted in reverse, so the most expensive stocks (highest V scores) are to the left and the cheapest V scores are plotted to the right.

The upper left area tends to contain growth names while the bottom right area tends to be the value plays.

Zones: Current Analysis

In Figure 6, we summarize the performance of these zones for the Large Cap and Small Cap universes across various time slices. **Attractive Value** and **Best of the Best** came in #1 and #2 (not same order) in both spaces in January ('1M' columns). Over the last year ('1Y'), the **Worst of the Worst** zone had the worst performance in both universes, and all of the other zones generated alpha. Over the long term, the **Best of the Best**, **Expensive But Worth It**, and **Attractive Value** zones outperform the universe and their unfavorable zone counterparts.

Figure 6: Zone Alpha

Avg Monthly Spread vs Benchmark Zones	1M		3M		1Y		3Y		5Y		10Y		Since May'98	
	Large	Small	Large	Small	Large	Small	Large	Small	Large	Small	Large	Small	Large	Small
Best of the Best	4.54%	2.43%	2.02%	2.41%	0.54%	1.39%	-0.09%	0.07%	-0.15%	0.10%	0.04%	0.22%	0.16%	0.54%
Expensive But Worth It	-2.47%	0.50%	0.47%	1.54%	0.31%	0.45%	0.11%	-0.54%	0.16%	-0.22%	0.15%	-0.07%	0.28%	0.18%
Overly Expensive Quality	-1.95%	0.05%	-0.50%	1.53%	0.24%	0.88%	-0.09%	0.02%	0.04%	0.08%	-0.20%	0.04%	-0.09%	-0.44%
Attractive Value	2.58%	4.06%	1.18%	2.63%	0.76%	1.14%	-0.42%	0.80%	-0.61%	0.29%	-0.10%	0.34%	0.20%	0.47%
Value Trap	2.52%	-1.14%	0.22%	-0.63%	0.37%	0.30%	0.81%	0.32%	0.41%	0.26%	0.17%	-0.02%	0.06%	-0.26%
Worst of the Worst	-4.34%	-5.49%	-3.40%	-4.69%	-1.49%	-2.44%	-0.16%	-0.39%	-0.11%	-0.18%	-0.11%	-0.42%	-0.28%	-0.65%

In Figures 7 & 8 (next page), we plot the long-term returns of these zones for Large and Small Cap.

Long-Term Zone Performance

The graphs below show compounded performance of our zones versus the equal-weighted average of each universe (**Best of the Best**, **Expensive But Worth It**, **Overly Expensive Quality**, **Attractive Value**, **Value Traps** and **Worst of the Worst**). See explanation of zones on previous page.

Figure 7: Long-Term Zone Performance – Large Cap

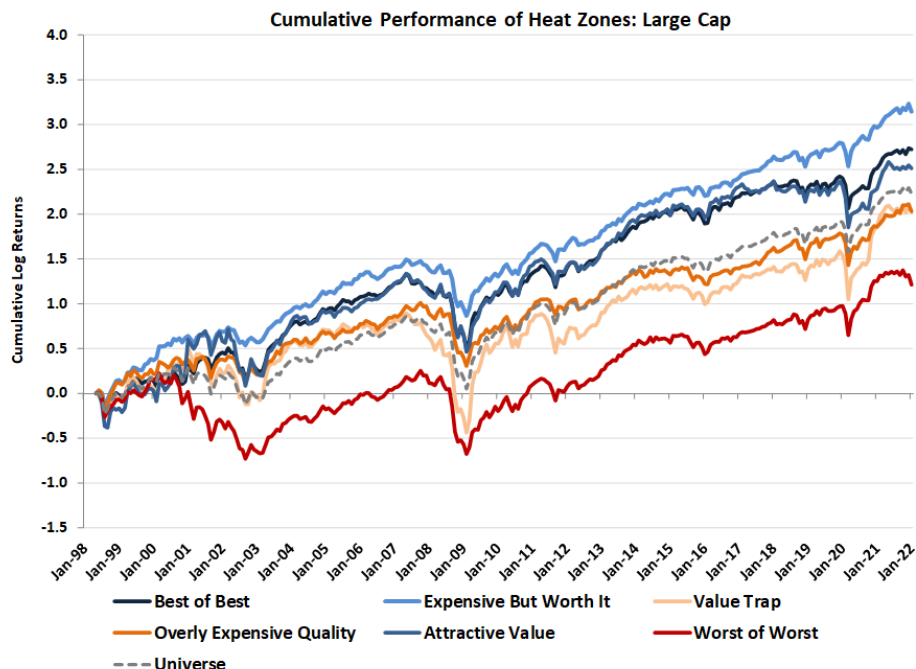
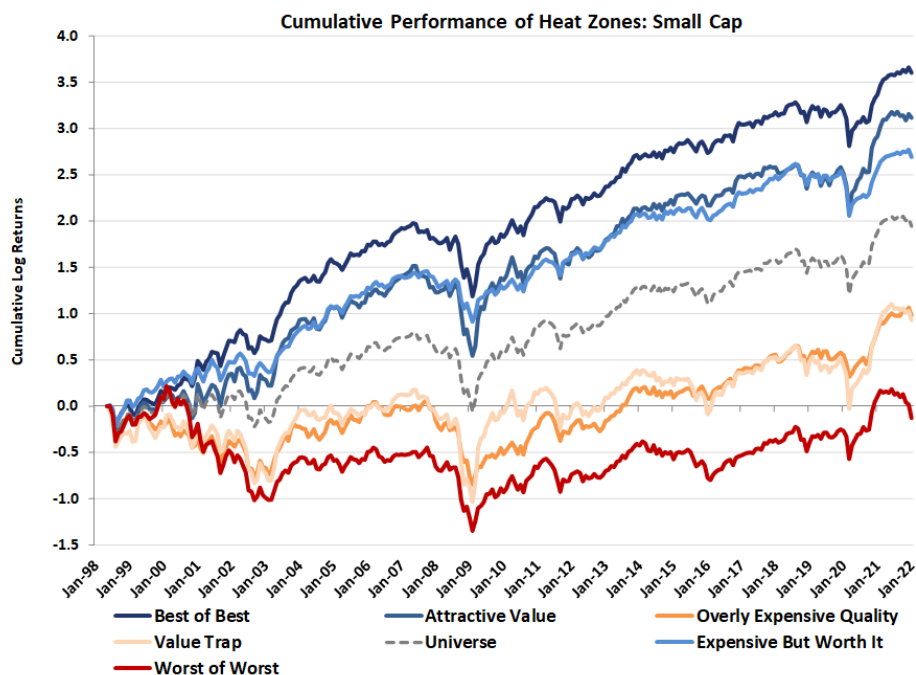


Figure 8: Long-Term Zone Performance – Small Cap



PRVit Performance and Factor Returns

Figures 9-11 show the performance of the PRVit model in different market cap ranges. The top-bottom spread (“spread”) is the difference between the average return of the top 20% and the bottom 20% of stocks ranked by a factor. The information coefficient (“IC”) is the cross-sectional correlation between the factor ranks and future returns. In other words, does the top quintile tend to outperform the 2nd quintile, does the 2nd quintile outperform the 3rd quintile, etc. An IC around 5% indicates a very monotonic result.

Figure 9: All Cap

U.S. All Cap	1M		3M		1Y		3Y		5Y		10Y		Since May'98	
Industry Scores	IC	Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread
Profitability (High P)	0.3%	0.71%	8.4%	2.81%	5.2%	1.28%	2.4%	-0.09%	2.7%	0.12%	2.6%	0.32%	2.7%	0.41%
Profitability Level (High P1)	3.3%	1.90%	9.9%	3.64%	6.0%	1.36%	2.9%	0.06%	3.1%	0.23%	2.6%	0.29%	2.7%	0.39%
Profitability Trend (High P2)	-5.0%	-0.36%	3.5%	1.56%	3.2%	0.84%	1.3%	-0.02%	1.5%	0.10%	1.9%	0.31%	2.1%	0.38%
Risk (Low R)	12.1%	4.20%	13.5%	4.16%	6.2%	1.32%	0.7%	-0.56%	1.3%	-0.23%	1.5%	0.12%	2.3%	0.42%
Volatility (Low R1)	7.5%	2.72%	12.7%	4.12%	6.2%	1.34%	1.5%	-0.63%	2.2%	-0.20%	2.3%	0.12%	2.6%	0.23%
Vulnerability (Low R2)	10.4%	3.18%	8.5%	2.50%	2.7%	0.59%	-0.6%	-0.38%	-0.3%	-0.21%	0.0%	0.01%	1.1%	0.38%
Quality (High P - R)	4.0%	2.20%	11.5%	3.79%	6.5%	1.50%	2.1%	-0.41%	2.6%	-0.01%	2.6%	0.30%	3.1%	0.49%
Valuation (Low V)	24.4%	6.60%	11.7%	3.48%	4.6%	1.88%	0.3%	0.64%	-1.0%	0.12%	-0.1%	0.25%	0.7%	0.66%
Valuation Ratios (Low V1)	21.9%	6.30%	10.0%	3.01%	3.7%	1.62%	0.1%	0.67%	-1.3%	0.15%	-0.3%	0.21%	0.2%	0.53%
Valuation Multiples (Low V2)	28.6%	7.75%	16.3%	4.77%	6.6%	2.16%	1.1%	0.22%	0.1%	0.02%	1.1%	0.30%	2.2%	0.81%
PRVit	21.8%	7.36%	17.5%	6.12%	7.9%	2.67%	1.7%	0.19%	1.4%	0.12%	2.3%	0.46%	3.5%	1.00%

Figure 10: Large Cap

U.S. Large Cap	1M		3M		1Y		3Y		5Y		10Y		Since May'98	
Industry Scores	IC	Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread
Profitability (High P)	-12.9%	-2.69%	1.4%	0.79%	2.7%	0.56%	2.1%	0.25%	2.8%	0.43%	1.5%	0.26%	1.7%	0.31%
Profitability Level (High P1)	-10.3%	-1.25%	3.7%	2.02%	3.1%	0.81%	2.1%	0.34%	2.9%	0.50%	1.1%	0.22%	1.3%	0.22%
Profitability Trend (High P2)	-15.1%	-2.67%	-2.5%	0.18%	1.8%	0.41%	1.4%	0.10%	1.9%	0.29%	1.4%	0.24%	1.7%	0.34%
Risk (Low R)	5.8%	2.66%	10.7%	3.41%	3.2%	0.57%	-1.0%	-0.53%	0.0%	-0.26%	0.2%	-0.02%	1.2%	0.26%
Volatility (Low R1)	-4.7%	-0.92%	8.7%	2.49%	3.1%	0.50%	-0.5%	-0.40%	0.7%	-0.16%	0.5%	-0.03%	1.3%	0.13%
Vulnerability (Low R2)	11.5%	3.96%	7.9%	2.37%	1.0%	0.52%	-1.5%	-0.29%	-1.1%	-0.23%	-0.4%	-0.05%	0.6%	0.25%
Quality (High P - R)	-8.2%	-1.14%	6.1%	2.17%	3.5%	0.63%	1.5%	0.04%	2.5%	0.28%	1.4%	0.25%	1.9%	0.34%
Valuation (Low V)	42.1%	11.18%	18.1%	5.42%	5.7%	1.88%	-0.3%	0.01%	-1.9%	-0.32%	-0.2%	0.03%	0.3%	0.31%
Valuation Ratios (Low V1)	38.7%	10.57%	16.4%	4.98%	5.5%	1.91%	-0.1%	0.14%	-1.8%	-0.25%	-0.1%	0.07%	0.1%	0.26%
Valuation Multiples (Low V2)	47.5%	12.67%	20.1%	5.64%	6.7%	1.92%	-0.1%	-0.15%	-1.2%	-0.32%	0.2%	0.03%	0.8%	0.29%
PRVit	21.8%	6.72%	15.5%	4.56%	6.5%	1.56%	0.9%	0.03%	0.8%	0.05%	1.3%	0.24%	2.1%	0.52%

Figure 11: Small Cap

U.S. Small Cap	1M		3M		1Y		3Y		5Y		10Y		Since May'98	
Industry Scores	IC	Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread
Profitability (High P)	4.0%	1.24%	9.3%	2.95%	5.4%	1.41%	1.7%	-0.21%	1.8%	-0.01%	2.5%	0.34%	2.8%	0.48%
Profitability Level (High P1)	6.9%	3.27%	10.4%	3.86%	6.1%	1.53%	2.3%	-0.06%	2.4%	0.16%	2.6%	0.38%	2.8%	0.50%
Profitability Trend (High P2)	-0.7%	-0.08%	5.8%	2.10%	3.6%	1.11%	0.9%	-0.19%	1.0%	-0.06%	1.8%	0.29%	2.0%	0.42%
Risk (Low R)	15.2%	4.82%	14.8%	4.56%	7.5%	1.69%	1.4%	-0.57%	1.8%	-0.18%	2.0%	0.22%	2.8%	0.52%
Volatility (Low R1)	13.8%	4.42%	14.8%	4.98%	7.6%	1.81%	2.5%	-0.60%	2.8%	-0.17%	3.2%	0.25%	3.3%	0.32%
Vulnerability (Low R2)	10.0%	2.63%	9.0%	2.47%	3.7%	0.67%	-0.2%	-0.43%	0.0%	-0.18%	0.1%	0.03%	1.2%	0.45%
Quality (High P - R)	8.1%	3.01%	12.6%	4.40%	7.1%	1.87%	1.7%	-0.62%	2.0%	-0.19%	2.7%	0.32%	3.3%	0.59%
Valuation (Low V)	19.9%	5.20%	11.9%	3.41%	5.8%	2.30%	1.4%	1.04%	0.0%	0.44%	0.4%	0.37%	1.2%	0.85%
Valuation Ratios (Low V1)	18.2%	4.62%	10.3%	2.87%	4.7%	2.00%	1.2%	1.09%	-0.2%	0.43%	0.1%	0.36%	0.6%	0.69%
Valuation Multiples (Low V2)	20.8%	5.61%	16.1%	4.84%	7.7%	2.46%	2.1%	0.44%	1.0%	0.19%	1.6%	0.44%	3.0%	1.06%
PRVit	22.5%	7.88%	18.9%	7.01%	9.0%	3.17%	2.0%	0.27%	1.4%	0.10%	2.5%	0.55%	4.0%	1.16%

Sector Results on Next Page

PRVit Performance by Sector

In Figures 12, 13, and 14, we show the Information Coefficients and Average Monthly Spreads for our PRVit, Quality, and Value factors by sector.

PRVit had a positive spread in all sectors in January ('1M' columns), in the last quarter ('3M' columns), and the last year ('1Y' columns). Quality had made a resurgence at the end of 2021 (3M values are all positive). The strong results in January pushed Value's averages positive everywhere over the last 1, 3, and 12 months.

Figure 12: PRVit Performance by Sector

PRVit Spreads	1M		3M		1Y		3Y		5Y		10Y		Since May'98	
Sector, U.S. All-Cap	IC	Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread
ENERGY	16.4%	6.35%	13.5%	4.52%	7.1%	1.41%	2.5%	1.03%	1.1%	0.71%	1.3%	0.81%	2.5%	0.89%
MATERIALS	18.3%	4.35%	13.3%	4.02%	2.4%	0.60%	-3.2%	-1.49%	-1.4%	-0.89%	1.8%	0.13%	2.5%	0.51%
INDUSTRIALS	23.2%	5.66%	16.8%	5.68%	6.8%	2.71%	0.7%	0.10%	0.6%	-0.02%	2.8%	0.58%	3.9%	1.09%
CONS DISC	20.5%	5.86%	12.8%	5.25%	5.4%	2.28%	0.9%	-0.08%	0.9%	-0.04%	2.1%	0.42%	3.7%	0.99%
CONS STAP	25.1%	7.64%	26.8%	8.51%	12.2%	3.82%	3.3%	0.20%	2.3%	0.04%	3.7%	0.63%	4.5%	1.08%
HEALTH CARE	31.6%	12.29%	26.2%	9.86%	13.5%	5.04%	2.7%	0.13%	1.9%	0.01%	2.5%	0.25%	4.2%	1.09%
FINANCIALS	7.3%	1.98%	7.8%	1.62%	4.8%	1.00%	3.9%	0.52%	3.9%	0.55%	3.3%	0.53%	4.0%	0.80%
INFO TECH	35.2%	10.05%	27.5%	9.04%	11.9%	3.34%	2.2%	0.59%	1.3%	0.37%	2.0%	0.47%	3.2%	1.12%
COMM SVC	44.0%	16.02%	24.0%	8.42%	9.1%	2.47%	0.8%	0.06%	-1.8%	-1.01%	0.1%	-0.36%	2.1%	0.66%
UTILITIES	28.9%	6.14%	13.3%	3.41%	1.4%	0.89%	-3.5%	-0.27%	-2.1%	-0.15%	0.8%	0.26%	2.3%	0.45%
REAL ESTATE	13.6%	3.59%	5.4%	2.87%	2.3%	1.28%	-1.8%	-0.16%	-1.8%	-0.30%	-1.4%	-0.18%	-1.4%	-0.18%

Figure 13: Quality Performance by Sector

Quality Spreads	1M		3M		1Y		3Y		5Y		10Y		Since May'98	
Sector, U.S. All-Cap	IC	Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread
ENERGY	13.7%	1.58%	15.0%	3.28%	2.6%	-0.39%	2.3%	-0.32%	3.5%	0.26%	4.6%	0.90%	3.3%	0.61%
MATERIALS	-1.7%	-0.14%	14.5%	5.46%	0.2%	-0.82%	-2.8%	-1.57%	-1.0%	-1.07%	0.9%	-0.32%	1.4%	-0.02%
INDUSTRIALS	-1.7%	0.92%	10.9%	2.92%	7.2%	1.10%	1.8%	-0.39%	2.1%	-0.13%	3.1%	0.38%	3.2%	0.47%
CONS DISC	-6.7%	0.77%	3.9%	1.77%	4.6%	1.07%	2.9%	-0.73%	4.0%	0.09%	3.6%	0.43%	4.3%	0.74%
CONS STAP	12.9%	5.55%	19.4%	6.64%	8.3%	2.09%	4.1%	0.24%	5.4%	0.59%	3.3%	0.63%	3.2%	0.72%
HEALTH CARE	26.5%	7.36%	26.3%	8.54%	14.4%	4.73%	4.1%	-0.40%	4.1%	0.03%	3.7%	0.25%	3.9%	0.63%
FINANCIALS	-12.2%	-1.64%	-0.2%	0.11%	0.0%	0.13%	0.3%	-0.05%	0.9%	0.07%	0.8%	0.11%	1.6%	0.19%
INFO TECH	17.1%	4.64%	17.6%	5.48%	11.4%	2.31%	3.1%	-0.77%	3.4%	-0.05%	3.0%	0.19%	3.5%	0.47%
COMM SVC	1.6%	0.36%	1.3%	1.36%	2.3%	-0.50%	3.7%	-0.48%	2.6%	-1.19%	3.0%	-0.09%	3.5%	0.49%
UTILITIES	4.3%	2.06%	3.6%	2.23%	-1.9%	0.00%	-5.1%	-0.86%	-4.3%	-0.56%	-1.4%	0.01%	-0.3%	0.14%
REAL ESTATE	-21.2%	-1.62%	4.0%	1.92%	5.7%	0.97%	0.3%	-0.12%	-0.1%	0.03%	-0.3%	0.01%	-0.3%	0.01%

Figure 14: Value Performance by Sector

Value Spreads	1M		3M		1Y		3Y		5Y		10Y		Since May'98	
Sector, U.S. All-Cap	IC	Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread
ENERGY	7.8%	7.09%	5.9%	2.72%	6.0%	3.34%	-1.6%	1.20%	-3.2%	0.40%	-3.7%	-0.29%	-0.7%	0.27%
MATERIALS	24.7%	6.09%	3.5%	1.99%	5.4%	2.76%	1.6%	1.54%	0.9%	1.15%	1.9%	1.24%	2.0%	1.16%
INDUSTRIALS	28.0%	6.17%	10.1%	3.00%	2.4%	2.07%	-0.3%	0.71%	-1.2%	0.23%	-0.3%	0.26%	1.1%	0.78%
CONS DISC	26.4%	7.99%	8.5%	3.41%	3.8%	2.16%	-0.5%	0.71%	-2.6%	-0.04%	-1.6%	0.13%	-0.7%	0.46%
CONS STAP	13.3%	0.82%	13.8%	4.87%	9.3%	3.59%	0.5%	1.10%	-2.7%	0.19%	0.8%	0.63%	1.4%	0.77%
HEALTH CARE	17.8%	4.52%	8.9%	1.96%	3.8%	0.84%	-0.9%	0.31%	-2.5%	-0.36%	-1.1%	0.01%	0.7%	0.85%
FINANCIALS	23.0%	5.28%	10.7%	2.18%	8.3%	1.70%	5.6%	0.89%	4.5%	0.62%	3.9%	0.57%	3.1%	0.64%
INFO TECH	35.4%	9.29%	22.3%	6.62%	3.2%	1.59%	-1.4%	0.72%	-3.0%	-0.09%	-1.4%	0.13%	-0.2%	0.69%
COMM SVC	45.9%	13.71%	27.6%	7.46%	10.4%	3.50%	-1.5%	0.84%	-4.4%	-0.78%	-2.4%	-0.61%	-0.5%	-0.13%
UTILITIES	37.0%	8.11%	21.2%	4.94%	6.1%	1.46%	2.0%	0.52%	3.1%	0.57%	2.9%	0.43%	3.2%	0.50%
REAL ESTATE	38.9%	4.48%	4.5%	0.77%	-3.6%	0.16%	-2.6%	-0.76%	-1.7%	-0.66%	-0.7%	-0.35%	-0.7%	-0.35%

PRVit Performance by Quintiles and Long/Short

Figures 15 and 18 (next page) show the quintile performance over various time slices. Over the long term, PRRit performance tends to be monotonic (1st quintile beats the 2nd quintile, 2nd quintile beats the 3rd quintile, etc.). On the right (**Figures 16 and 19**), we isolate the performance of the top and bottom quintiles and show the alpha from buying the top quintile (long) or selling the bottom quintile (short).

Large Cap Commentary

In January, the top quintile outperformed the universe (+351bps) and was the strongest performing quintile. The bottom quintile underperformed (-321bps) and was the worst performing quintile. The total PRRit spread was +671bps for the month. All time slices look very monotonic. In **Figure 16**, short alpha (+31bps/month) contributes slightly more than long alpha (+22bps/month) over time.

Figure 15: Stock Returns by PRRit Quintiles

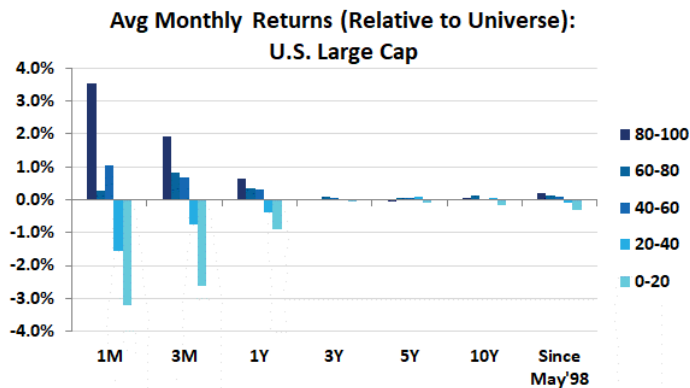
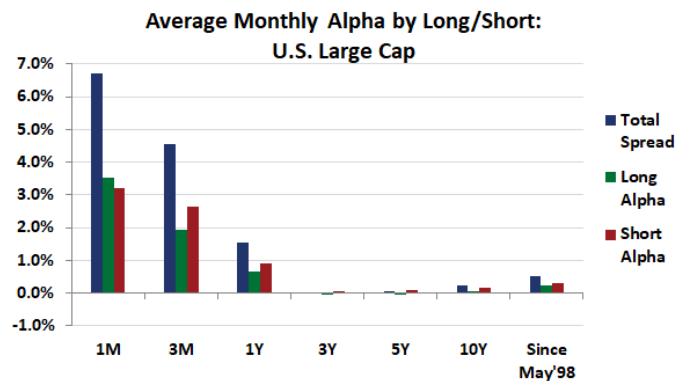


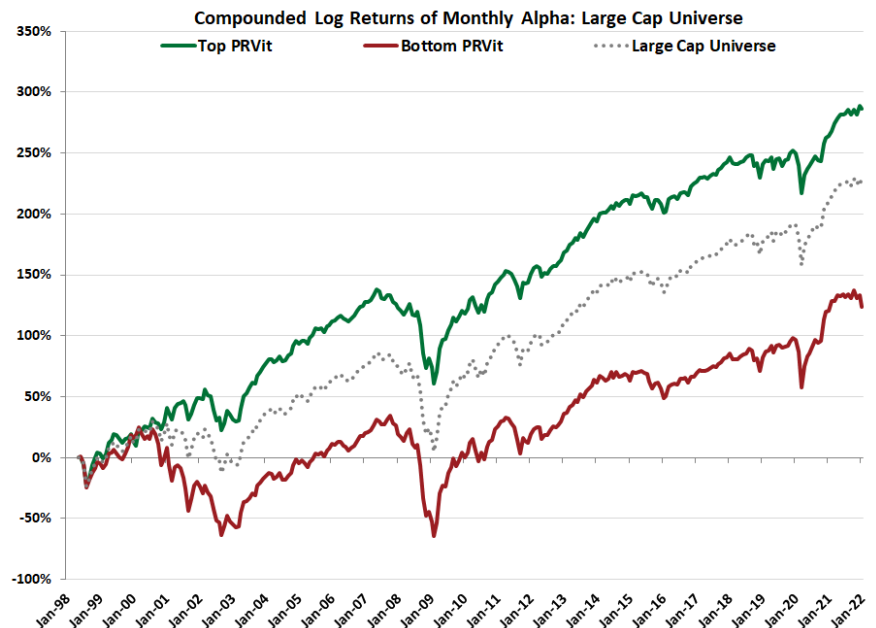
Figure 16: Long and Short Alpha



Compound Top and Bottom Quintiles

In **Figure 17**, we plot the return of the top (green line) and bottom (red line) quintiles of PRRit versus the equal-weighted benchmark returns. The top and bottom quintiles are re-balanced monthly and include all companies trading at the time. The difference between the green line and the dotted gray line is the **long alpha** while the difference between the red line and the dotted gray line is the **short alpha**. The difference between the green line and the red line is the total spread.

Figure 17: Compound Performance of Top and Bottom Quintiles



Small Cap Commentary

The Small Cap universe saw the top quintile outperform the universe (+284bps) in January and was the best performing quintile. The bottom quintile underperformed the universe (-505bps) and was the worst performing quintile. The total PRVit spread of 788bps was the best month we have seen in the Small Cap space in the last 10 years. Over the long term, alpha is relatively balanced between long (+52bps/month) and short (+64bps/month).

Figure 18: Stock Returns by PRVit Quintiles

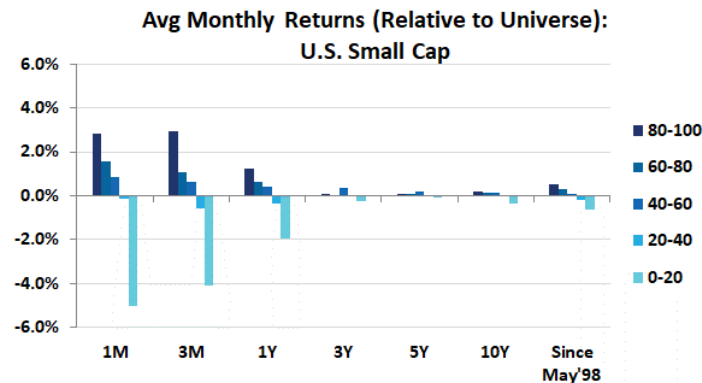
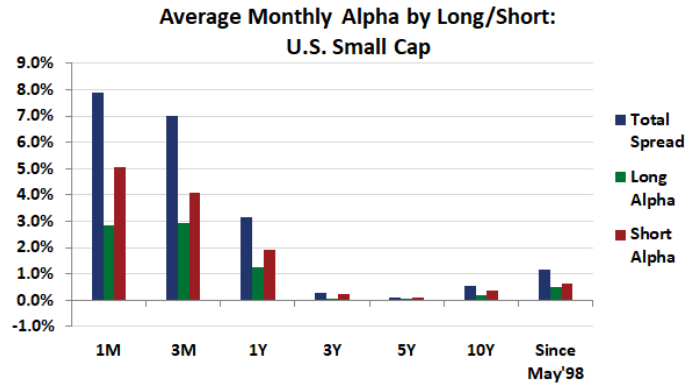


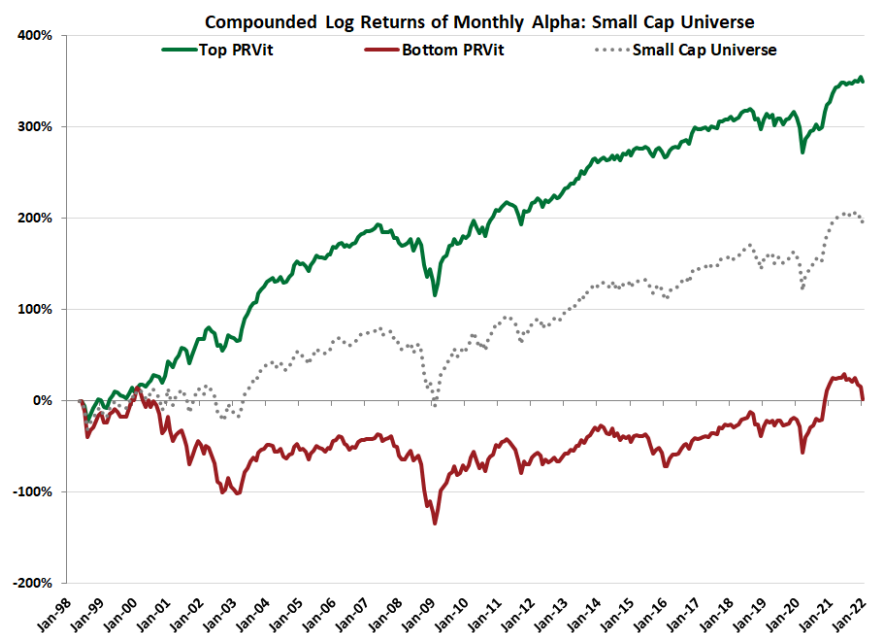
Figure 19: Long and Short Alpha



Compound Top and Bottom Quintiles

In **Figure 20**, we plot the return of the top (green line) and bottom (red line) quintiles of PRVit versus the equal-weighted benchmark returns. The top and bottom quintiles are re-balanced monthly and include all companies trading at the time. The difference between the green line and the dotted gray line is the **long alpha** while the difference between the red line and the dotted gray line is the **short alpha**. The difference green line and the red line is the total spread.

Figure 20: Compound Performance of Top and Bottom Quintiles



Long-Term Selected Factor Performance

The graphs below show compounded top/bottom spreads of our key factors: Profitability, Risk, and Value. The Equal Benchmark line is graphed on the secondary y-axis to show what factors work during certain market conditions. The factor performance is cumulative alpha: when the colored lines are above 0%, they have generated alpha.

Figures 21 and 22 both show the struggle seen in cheap Value (green line) for several years until the uptick in the latter half of 2020. The initial Value run lasted until May 2021 and then had been mostly down until the last couple of months (Dec and Jan) when it shot up as investors began to price in rate hikes. Profitability and Risk had been off dramatically for most of 2020 (post-pandemic trough) but then saw a strong recovery into the end of 2021. Risk worked in January, but Profitability was off.

Figure 21: Compounded Spreads – Large Cap

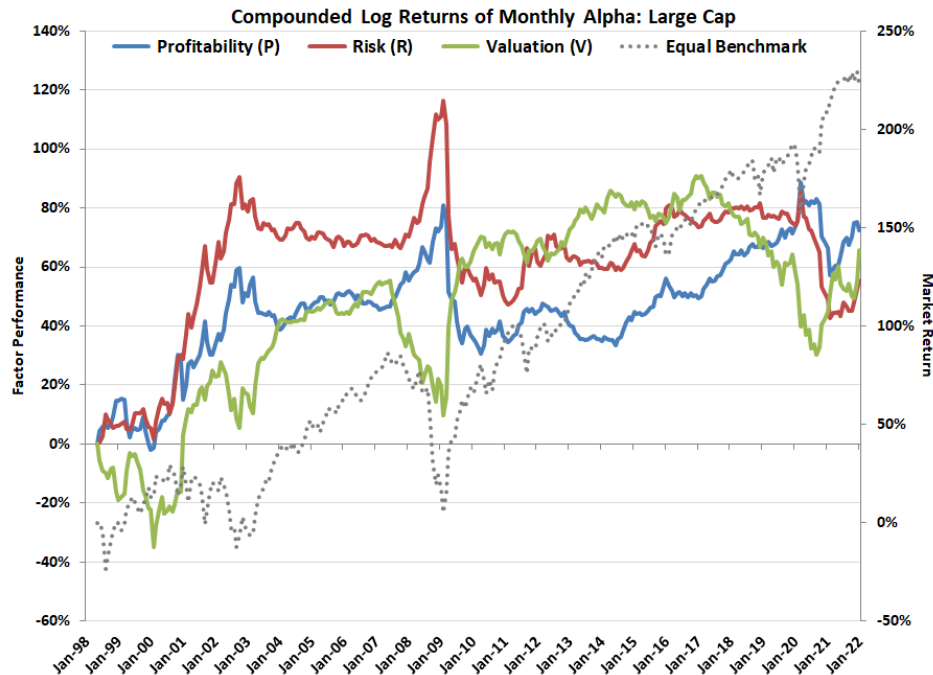
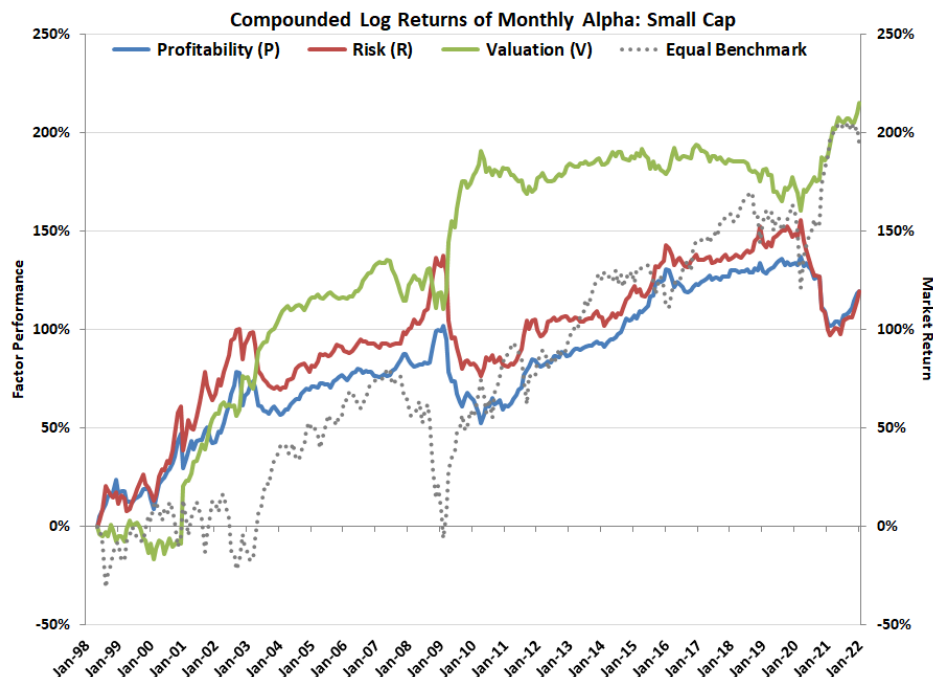


Figure 22: Compounded Spreads – Small Cap

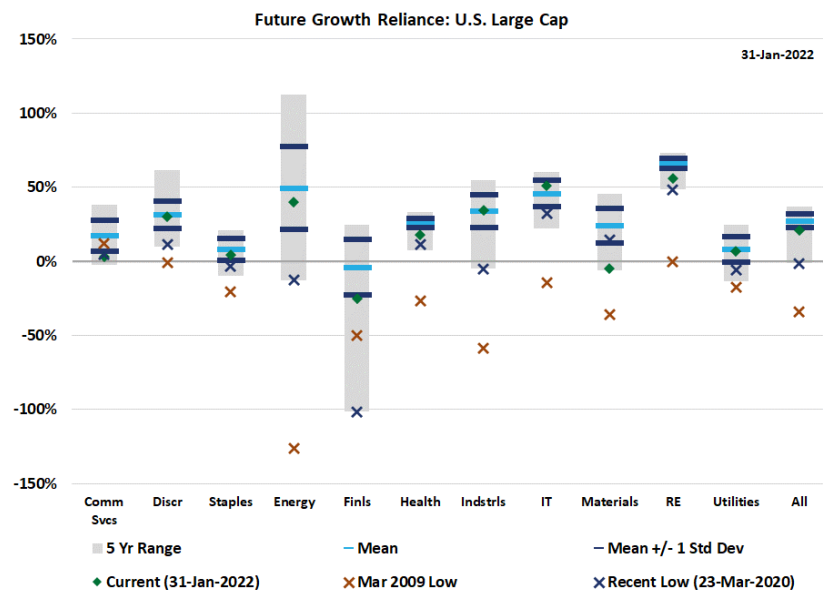


Expectations Analysis

A key driver of our Value scores are the imbedded expectations of the market. For this, we use the Future Growth Reliance (FGR) metric which computes the implied future EVA growth.

Figure 23 below plots FGR over the last 5 years – the gray area is the overall range (min to max), the light blue lines represent the mean, the dark blue lines show the mean plus/minus 1 standard deviation, the green diamonds represent the current value, the red 'Xs' indicate lows from March 2009, and the blue 'Xs' represent the lows of March 2020. **Figure 22** contains similar metrics for our MVA Spread which is our version of price-to-book (Market Value Added to Capital base). Small Cap versions can be found on next page.

Figure 23: Expectations – Large Cap by Sector



Formulas

$$\text{Future Growth Reliance (FGR)} = \frac{\text{FVA}}{\text{Market Cap}}$$

$$\text{Future Value Added (FVA)} = \text{Market Cap} - \text{Current Value Added (CVA)}$$

$$\text{Current Value Added (CVA)} = \frac{\text{EVA}}{\text{Cost of Capital (no-growth scenario)}}$$

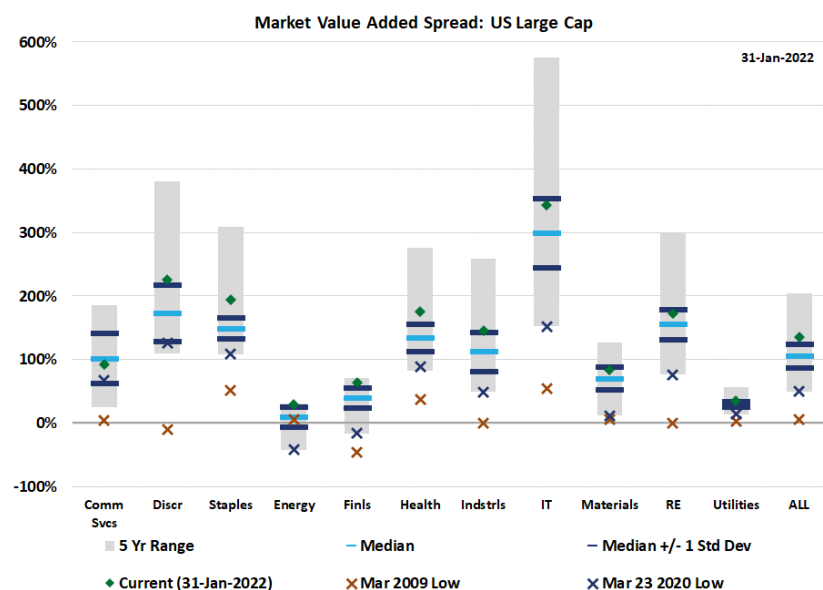
(x's below represents number of standard deviations current value is from mean)

Large Cap

Information Technology (+0.6x) and Industrials (+0.1x) have the highest expectations and are the only sectors above their 5-year mean.

Materials (-2.5x), Health Care (-2.6x), and Communication Services (-1.3x) have some of the lowest relative expectations.

Figure 24: Market Value Added Spread (Price-to-Book) Large Cap (New)

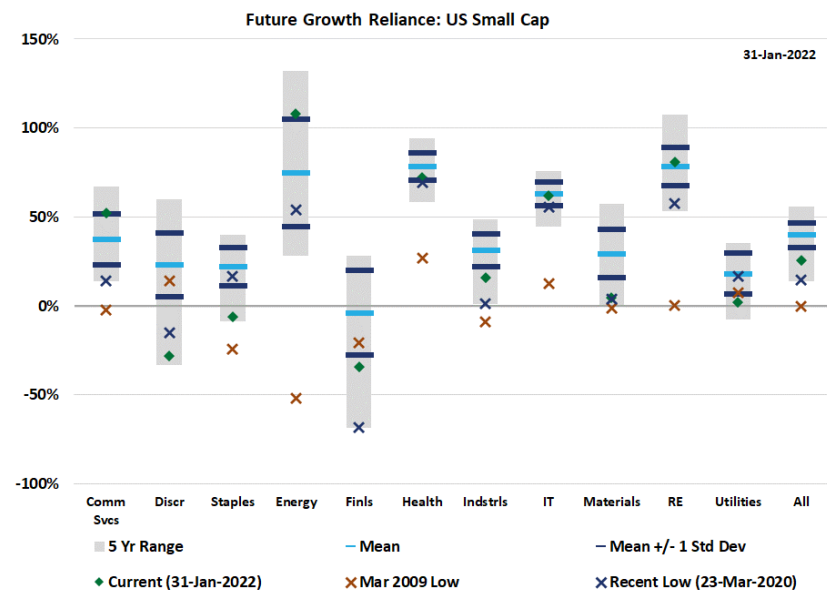


Large Cap

Staples (+2.8x), Health Care (+2.0x), and Financials (+1.6x) have MVA Spreads well above their historical levels. Communication Services (-0.2x) and Materials (+0.8x) have some of the lowest relative prices.

MVA Spread is the Market Value Added divided by Capital base. FGR looks at just the portion of MVA coming from future EVA creation while MVA Spread looks at the value coming from existing profitability (CVA) as well as future EVA (FVA). MVA Spread is our version of a price-to-book ratio using our EVA-adjusted Capital base.

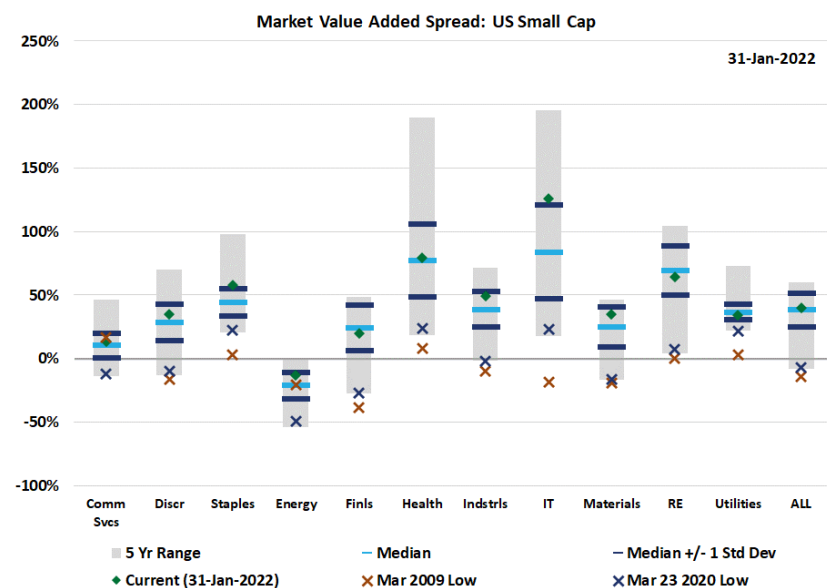
Figure 25: Expectations – Small Cap by Sector



Small Cap

Energy (+1.1x), Communication Services (+1.1x), and Info Tech (-0.2x) have some of the highest expectations. Discretionary (-2.9x), Staples (-2.6x), and Materials (-1.8x) have the lowest expectations.

Figure 26: Market Value Added Spread (Price-to-Book) Small Cap (New)



Small Cap

Staples (+1.3x), Information Technology (+1.2x), and Energy (+0.8x) have MVA Spreads well above their historical levels. Financials (-0.2x), Utilities (-0.4x), and Health Care (+0.1x) have some of the lowest relative prices.

[ISS ESG US EVA Leaders Index Results on Next Page](#)

EVA & ESG Index

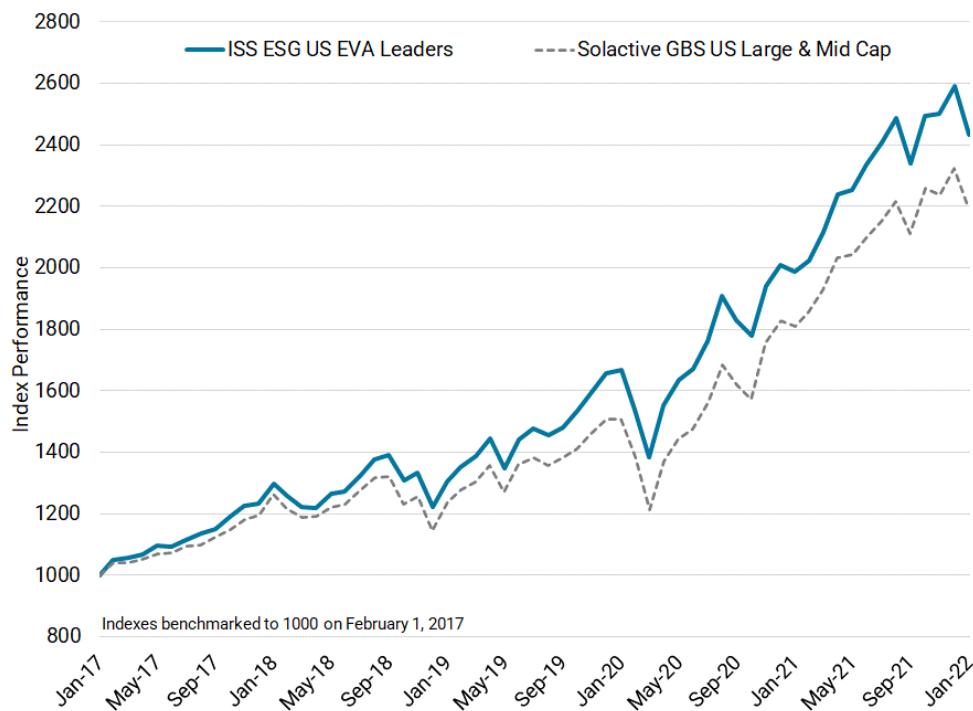
Creation of the index follows a four-step process and starts with screening of constituents of the Solactive Global Benchmark Series. From there, ISS ESG screens are applied to remove prospective constituents with Red Norm Based Research flags, Red Controversial Weapons flags, and those with an overall ISS ESG Corporate Rating of D-, D, and D+. Next, the EVA screen is applied to remove prospective constituents with a negative EVA margin and, lastly, qualifying constituents are added by sector, based on descending EVA margin until reaching a market cap threshold and targeting sector neutrality. Indexes are market cap weighted after the above steps and rebalanced quarterly.

Index methodologies are available on the ISS website and that of the Index Administrator, Solactive AG, an authorized benchmark administrator under European Benchmarks Regulation (BMR). We currently offer 3 indexes covering the U.S. (ISSEVAUT), Europe (ISSEVAET), and Developed Markets (ISSEVADT) – Bloomberg tickers in parenthesis.

To learn more about ISS ESG's index offerings, please click [here](#).

See PRVit Report – Global and Europe for similar graph for those regional indexes.

Figure 27: ISS ESG US EVA Leaders



About ISS EVA

We are an independent equity research provider offering investing insights through the use of our proprietary Economic Value Added (EVA) framework.

EVA converts accounting profits into economic profits and charges businesses for the use of Invested Capital. EVA is superior to traditional measures of profit because it is comparable across companies, industries, and countries, links to a consistent, transparent valuation framework, and provides a unique, unbiased view of Quality, Value, and Growth.

Our experienced team of analysts offers both fundamental and quantitative company analysis through written research, bespoke research, a stock selection model, an online analytical tool offering 22,000+ companies as viewed through the EVA framework, custom screening, and portfolio analysis.

Key EVA Concepts

The value of a firm = Capital + Present Value of EVA

If EVA is increasing then the intrinsic value of the firm is too, suggesting that market value should follow (and vice versa).

EVA = NOPAT - Capital Charge

EVA is profit after all costs, including the cost of giving shareholders a decent return.

EVA Margin = EVA / Sales

A true economic profit margin covering income and asset efficiency. Our EVA Income Statement examines EVA's line-item drivers and offers key insights into business profitability.

EVA Momentum = Δ EVA / Sales

An incremental EVA growth rate indicator and key valuation signal and screening measure. The more positive the Momentum, the greater the growth in EVA, and upward pressure on shareholder returns. Inflections in EVA Momentum are an early and more reliable indicator of stock price inflections.

EVA Shock = Δ EVA Momentum

Changes in EVA Momentum is a powerful signal within our framework, with significant relationship with stock price performance.

Market Implied Momentum (MIM)

The annual EVA improvement required for 10 years to justify the prevailing market enterprise value, expressed as a percent of sales; represents a market implied, long-range EVA margin improvement target.

Future Growth Reliance (FGR) = (Market implied value of future EVA growth) / Enterprise Value

Measures the % of a company's total enterprise value represented by expectations for future growth in EVA. FGR is key to understanding embedded expectations today and versus history. A low FGR versus history coupled with improving EVA trends indicates that the market is not pricing in the improving business model.

Additional Resources

evaExpress.com ([link](#)): Our online offering provides a comprehensive suite of fundamental and quantitative tools utilizing the EVA framework

EVA for Investors ([link](#)): A full introduction to the key EVA concepts and metrics

Best Practice EVA ([link](#)): A summary of Bennett Stewart's most recent book on EVA, available for purchase on [Amazon.com](#)

What Determines TSR ([link](#)): Insight into the relationship between EVA and stock prices

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