

# QUARTERLY UPDATE: 1Q 2022

## EQUITY MARKET NEUTRAL

### COMMENTARY



Separately Managed Account



written by  
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#### Equity Market Neutral 10 Long Model Holdings<sup>1</sup>

Microsoft Corp.	1.4%
Cerner Corp.	1.3%
Gartner Group Inc.	1.3%
Aspen Technology Inc.	1.3%
Anthem Inc.	1.3%
Interpublic Group of Companies, Inc.	1.2%
Kroger Co.	1.2%
Weyerhaeuser Co.	1.2%
CSX Corp.	1.2%
Janus Henderson Group PLC	1.2%
<b>Total % of Portfolio</b>	<b>12.6%</b>

#### Equity Market Neutral 10 Short Model Holdings<sup>1</sup>

Teledyne Technologies, Inc.	-1.3%
Albemarle Corp.	-1.2%
TransDigm Group, Inc.	-1.2%
Wynn Resorts Ltd.	-1.1%
CenterPoint Energy, Inc.	-1.1%
Pioneer Natural Resources Co.	-1.1%
UWM Holdings Corp.	-1.1%
Stericycle, Inc.	-1.1%
Sabre Corp.	-1.1%
New Fortress Energy, Inc.	-1.1%
<b>Total % of Portfolio</b>	<b>-11.4%</b>

#### Markets and Performance

The Equity Market Neutral model portfolio returned -0.01% for the first quarter of 2022, slightly underperforming its benchmark, the ICE BofA 3-Month Treasury Bill Index, by 5 basis points (bps). We earned sensational returns in January, but unfortunately, February and March took these returns away. The positive January followed the strong results of the previous quarter, as high growth/higher P/E stocks underperformed significantly. February and March saw some reversal in that sector, as well as a positive performance from defensive stocks stemming from recession fears. We are net short those stocks.

#### Positive and Negative Contributors to Performance

During the quarter, positive returns were achieved more on the short side than on the long side. Healthcare, financials, communication services, and technology were the best short sectors. This was partially offset by negative performance on the long side from consumer discretionary and information technology. Our best longs were Kohl's (1.1% of total net assets), AmerisourceBergen (1.2% of total net assets), and MetLife (1.1% of total net assets), with our worst longs being Tempur Sealy (1.1% of total net assets), PVH (0.9% of total net assets), and Lowe's (1.1% of total net assets). Our best shorts were GoHealth (-0.4% of total net assets), Wayfair (-0.9% of total net assets), and Roku (-0.9% of total net assets), with our worst shorts being New Fortress Energy (-1.1% of total net assets), GameStop (-0.9% of total net assets), and Pioneer Natural Resources (-1.1% of total net assets).

#### Looking Ahead

The Strategy is positioned for slowing but positive economic growth and earnings. As such, we are long value and cyclical companies and short in the growth and defensive categories. The Strategy is modestly net long. Net long sectors currently include financials, technology, and consumer discretionary, with net short positions including industrials and utilities.

<sup>1</sup> Model Portfolios are based on a hypothetical account managed during the current quarter. Actual characteristics and income may differ materially from model. As of 3/31/2022.

### Looking Ahead (continued)

Sectors with relatively higher labor intensity and/or facing heightened competitive pressures will remain at greater risk of margin compression. However, significant erosion in aggregate net profit margins is unlikely if nominal economic growth remains moderately strong and keeps corporate revenues expanding at a healthy pace. The environment of rising interest rates and cyclical tailwinds has created significant stock selection opportunities. Our beta model remains modestly positive, although the decline in the growth rate of the money supply will likely cause the Strategy to become more cautious in the months to come.

### Our Firm

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**All investments are subject to risks, including the possible loss of principal. Past performance does not guarantee future results.** The Equity Market Neutral Strategy may not achieve its objective if the managers' expectations regarding particular securities or markets are not met. Equity investments generally involve two principal risks—market risk and selection risk. The value of equity securities will rise and fall in response to general market and/or economic conditions (equity market risk). The value of any individual equity security will rise and fall in response to the market's perception of the issuer's revenues, earnings, balance sheet, credit worthiness, business plan, and overall perception of the viability of the issuer's business (selection risk).

The Equity Market Neutral Strategy also exposes the investor to short sale risk. An investor's account will incur a loss as a result of a short sale if the price of the security sold short increases in value between the date of the short sale and the date on which the account purchases the security to replace the borrowed security. In addition, the securities sold short may have to be returned to the lender on short notice, which may result in the account having to buy the securities sold short at an unfavorable price to close out a short position. If this occurs, any anticipated gain to the account may be reduced or eliminated or the short sale may result in a loss.

The strategy's values-based screening policies which exclude certain securities issuers from the universe of otherwise available investments. As a result, the strategy may not achieve the same level of performance as it otherwise would have in the absence of the screening process. If the strategy has invested in a company that is later discovered to be in violation of one or more screening criteria and liquidation of an investment in that company is required, selling the securities at issue could result in a loss to the strategy. Further, the strategy's values-based screening policies may prevent the strategy from participating in an otherwise suitable investment opportunity. With respect to Equity Market Neutral, the values-based screening policies apply only to long positions.

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