

MarketGrader's Growth Compounders and a Smart Beta Approach to Growth, Value & Income in U.S. Equities

July 2022



MarketGrader Growth Compounders Index (MGGC)

The objective of the MarketGrader Growth Compounders Index is to select and hold the companies that have attained the best MarketGrader scores over time, compounding shareholder growth over years.

These companies capture the best attributes of MarketGrader's GARP methodology based on our 24-indicator analysis across Growth, Value, Profitability, and Cash Flow.

MGGC holds a steady and relatively small number of companies, is reviewed annually, and turns over its constituents infrequently. Since its constituents are selected based on the consistency of their GARP scores, the Index is truly differentiated from the benchmark.

How do we define growth compounders?

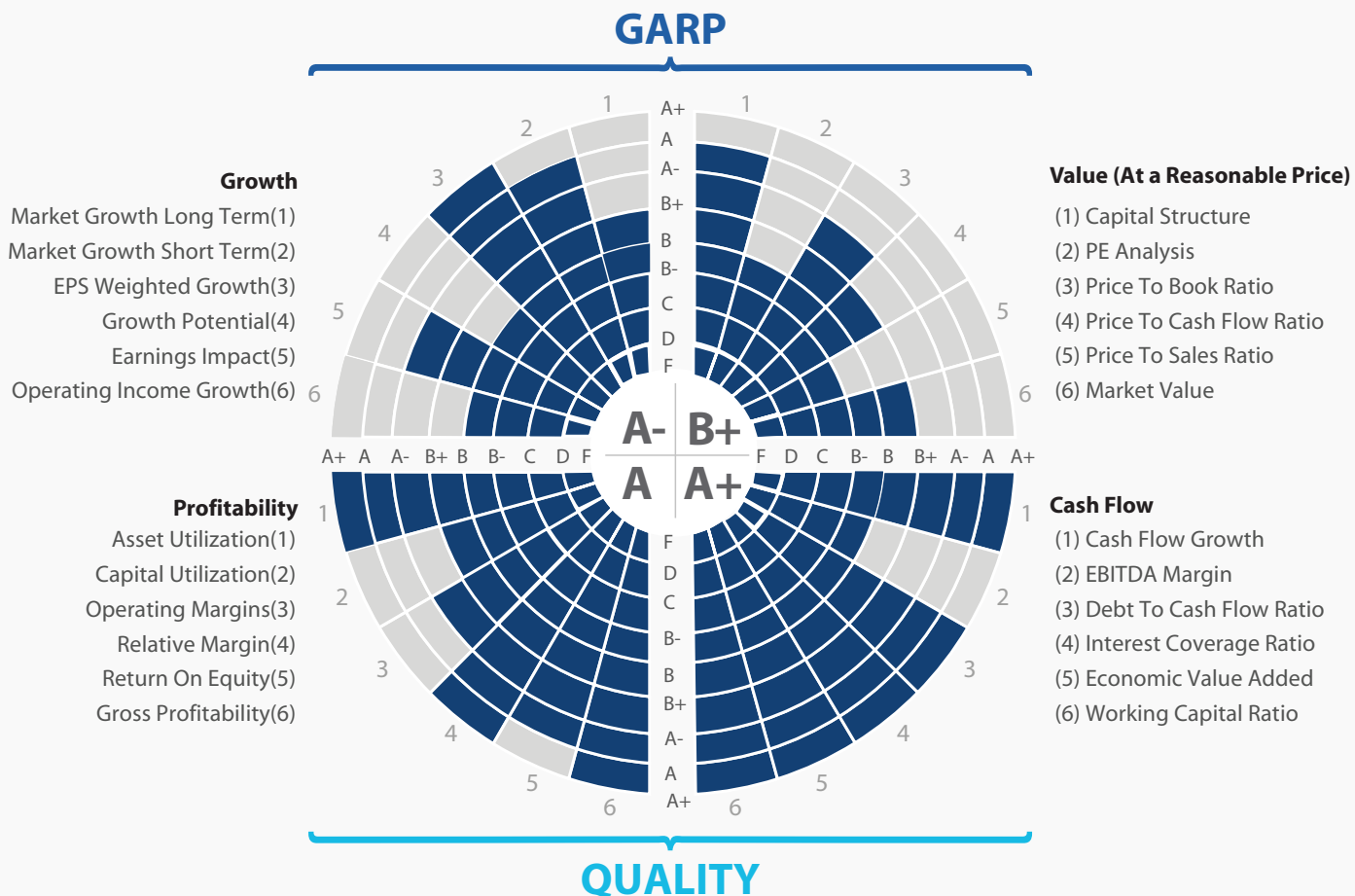
MarketGrader's methodology rewards companies with the following characteristics:

- Consistent top to bottom line growth—not just explosive short-term growth—with sustainable margins and high cash flow generation.
- A sound capital structure that doesn't impair operating growth, combined with high returns on invested capital and low capital intensity.
- Reasonable valuations relative to sustainable growth rates, and not based just on absolute, out of context, valuation multiples.

(TSM)
Taiwan Semiconductor Manufacturing Co.

Taiwan, Province Of China (1979)
Technology (821)
Semiconductors (187)

BUY 81.9
Upgraded from Sell on 11/29/2019



MarketGrader Growth Compounders Index (MGGC) - Methodology

Start date: March 2012

While MarketGrader has been rating US listed stocks since 2003, it takes time to evaluate true growth compounders. Therefore, this Index has a shorter history than most other MarketGrader Indexes.

Constituent count: variable

The Index's count is variable, but it has a "target" count of 60 companies. It started with 67 companies in March 2012. Since inception, its maximum count has been 73 and its minimum count has been 62. Current count is 66.

Constraints:

Minimum market cap at selection is \$1 billion and minimum 3-month average daily trading volume is \$2 million. The Index has no additional size or sector constraints. The underlying universe is the U.S. equity market, including all companies from developed markets listed as ADRs.

MarketGrader Growth Compounders Index (MGGC) - Methodology

How do we select MGGC's constituents?

1. Since MarketGrader rates every company under coverage daily, over time we have built a “historical ratings ratio,” which measures the number of days every company has received a positive rating (score greater than 50) vs. the days it has received a negative rating (score below 50).
2. Every year in March we build a list of companies whose historical ratings ratio is greater than 80% (where in at least 80% of all days covered by MarketGrader the company has received a positive rating).
3. From this annual list, we select the top 50%, which becomes that year's “Growth Compounders Universe.” We then assign a score (GC Score) to all companies on the list, and a bonus score to all companies that remained from the prior year.
4. We use the GC Score to build the MarketGrader Growth Compounders Index. In March 2012 we selected the top 60 ranked companies by GC Score as the founding members of MGGC (actually 67 members since companies ranked 60th to 67th shared the same score).

MarketGrader Growth Compounders Index (MGGC) - Methodology

How do the annual reviews work?

1. We complete a portfolio review and index rebalance for MGGC annually, on the third week of March.
2. We keep all remaining Index members if they made the year's Growth Compounders Universe again.
3. We keep existing members that did not make the year's universe, provided they don't fall below the 72nd rank in the list (the 20% buffer).
4. We add new constituents whose score has risen enough to rank in the top 60 of that year's GC universe.

MarketGrader Growth Compounders Index (MGGC) - Methodology

How is the Index weighted?

1. The Index started in March 2012 with an equal weight across all 67 founding members (1.49% each).
2. At each annual review, we allow the weights of the remaining constituents to grow (or fall) without any adjustments. Thus, we allow them to compound growth in the long run.
3. We redeploy the weights of the companies that are removed at each annual review across all new companies first, and then across the existing constituents on a pro-rated basis according to their weight.
4. When new companies are added at each annual review, they are assigned a weight no smaller than 0.75% and no greater than 1.5% of the Index.

MarketGrader Growth Compounders Index (MGGC) – Historical Evolution of Portfolio

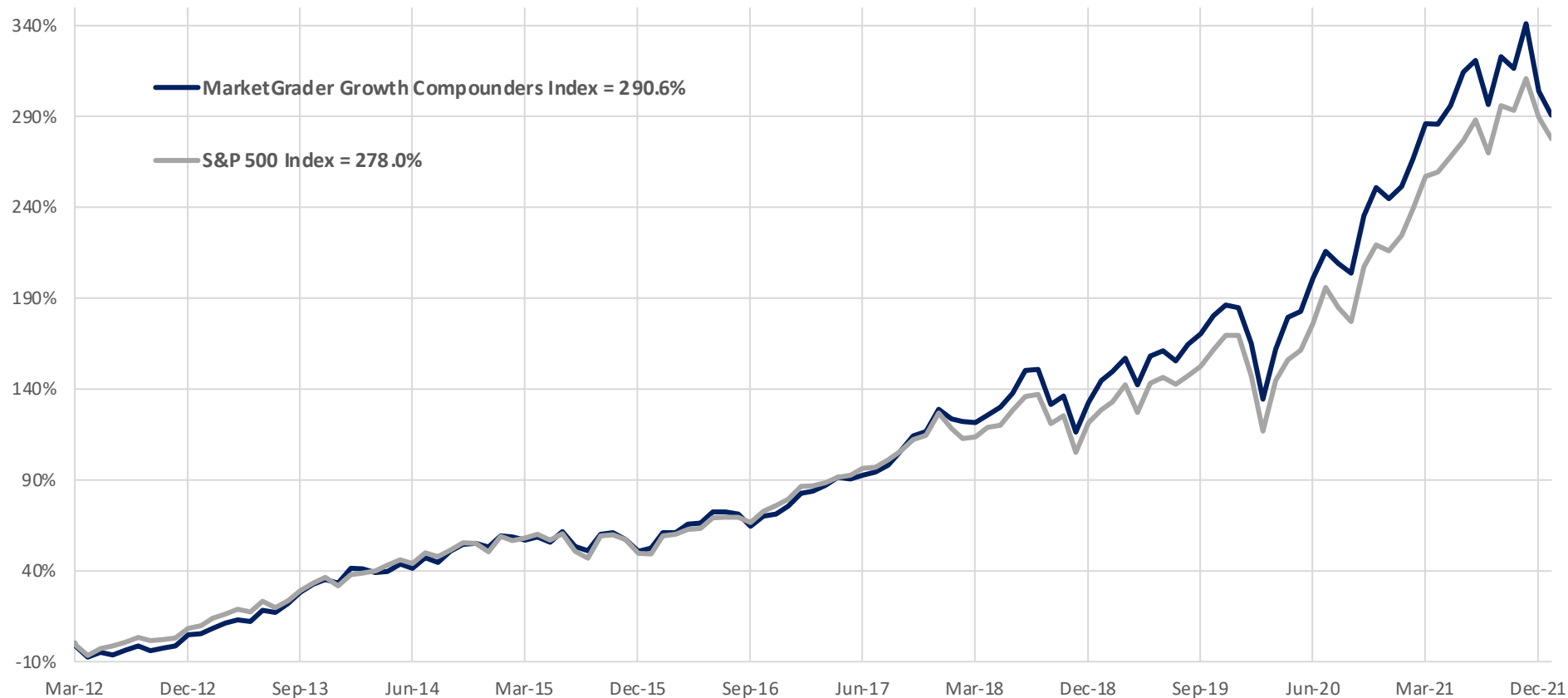
Evolution of Growth Compounders Index Since Inception

Year	Count	Remain	Add	Remove	Sell Turnover	Buy & Sell Turnover
2012	67	-	67	-	-	-
2013	68	66	2	1	1.5%	4.5%
2014	69	62	7	6	8.8%	19%
2015	65	65	0	4	5.8%	5.8%
2016	73	60	13	5	7.7%	28%
2017	65	64	1	9	12%	14%
2018	72	56	16	9	14%	38%
2019	71	68	3	4	5.6%	9.7%
2020	62	62	0	9	13%	13%
2021	66	55	11	7	11%	29%
2022	66	58	8	8	12%	24%
Average	68	62	6	6	9%	18%

Source: MarketGrader

MarketGrader Growth Compounders Index (MGGC) – Performance

MarketGrader Growth Compounders Index, Total Cumulative Return March 2012 - March 2022



Sources: FactSet, MarketGrader

MarketGrader Growth Compounders Index (MGGC) – Performance

	MarketGrader Growth Compounders		S&P 500 Index	
	Price Return	Total Return	Price Return	Total Return
	April 2012 Through February 2022			
Cumulative Return	239.1%	290.6%	210.5%	278.0%
Annualized Return	13.1%	14.7%	12.1%	14.3%
Annualized Std Dev	13.3%	13.1%	13.3%	13.3%
Return / Std Dev	0.99	1.12	0.91	1.08
	5 Years Ending February 2022			
Cumulative Return	99.5%	114.0%	85.0%	102.7%
Annualized Return	14.8%	16.4%	13.1%	15.2%
Annualized Std Dev	15.9%	15.7%	15.7%	15.8%
Return / Std Dev	0.93	1.05	0.83	0.96
	3 Years Ending February 2022			
Cumulative Return	52.9%	59.7%	57.1%	65.3%
Annualized Return	15.2%	16.9%	16.2%	18.2%
Annualized Std Dev	17.8%	17.6%	17.7%	17.7%
Return / Std Dev	0.85	0.96	0.92	1.03

Sources: FactSet, MarketGrader

MarketGrader Growth Compounders Index (MGGC) – Top 20 Constituents

MGGC Top 20 Selections by Weight

Ticker	Company Name	Sector	Weight	First Selected	Times Selected	Total Return Since First Selection
MSFT	Microsoft Corporation	Technology	4.7%	3/19/12	11	924%
CPRT	Copart, Inc.	Industrials	4.2%	3/24/14	9	606%
TSM	Taiwan Semiconductor Manufacturing Co., Ltd. Sponsored ADR	Technology	3.6%	3/19/12	11	665%
SHW	Sherwin-Williams Company	Industrials	3.4%	3/19/12	11	640%
AAPL	Apple Inc.	Technology	2.7%	3/21/16	7	588%
JKHY	Jack Henry & Associates, Inc.	Technology	2.7%	3/19/12	11	518%
APH	Amphenol Corporation Class A	Technology	2.7%	3/19/12	11	458%
ACN	Accenture Plc Class A	Technology	2.7%	3/19/12	11	473%
MIDD	Middleby Corporation	Industrials	2.6%	3/19/12	11	388%
NKE	NIKE, Inc. Class B	Consumer Discretionary	2.4%	3/19/12	11	420%
FDS	FactSet Research Systems Inc.	Technology	2.3%	3/19/12	11	365%
NVO	Novo Nordisk A/S Sponsored ADR Class B	Health Care	2.2%	3/19/12	11	320%
PAYX	Paychex, Inc.	Technology	2.1%	3/19/12	11	390%
LULU	Lululemon Athletica Inc	Consumer Discretionary	2.1%	3/19/18	5	370%
MNST	Monster Beverage Corporation	Consumer Staples	2.1%	3/24/14	9	254%
WAT	Waters Corporation	Health Care	1.9%	3/19/12	11	247%
JCOM	Ziff Davis, Inc.	Technology	1.9%	3/19/12	11	309%
AMGN	Amgen Inc.	Health Care	1.7%	3/19/12	11	321%
TJX	TJX Companies Inc	Consumer Discretionary	1.7%	3/19/12	11	254%
ROST	Ross Stores, Inc.	Consumer Discretionary	1.7%	3/19/12	11	255%

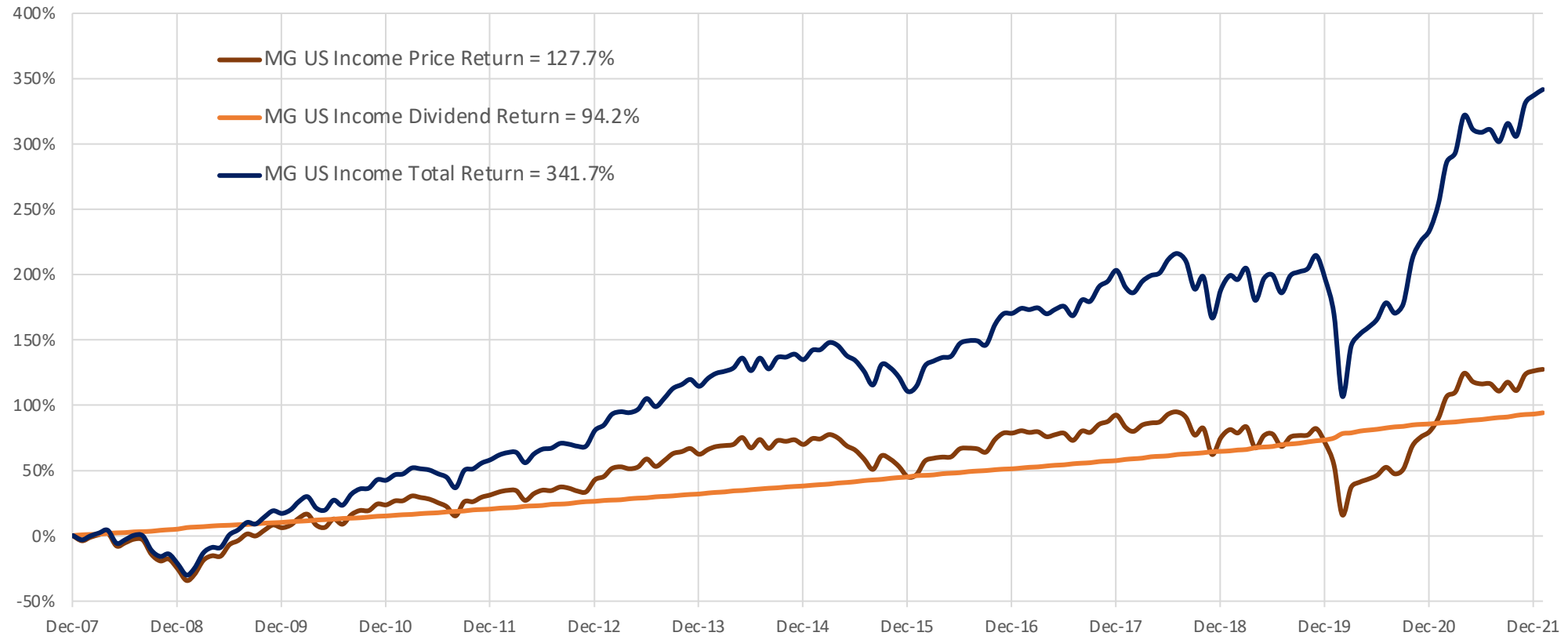
Source: MarketGrader

MarketGrader U.S. Income 100 Index – Methodology Overview

- U.S. equity universe ex REITS; inception date: 12/31/2007
- All companies rated “Buy” & “Hold” by MarketGrader
- Liquidity screen of at least \$2 million in average daily trading volume in past three months
- Annual dividend greater than \$0.10; must have paid a dividend in each of the last five years
- Avg. dividend paid in the last 18 months must be greater than the avg. dividend paid in the last 60 months
- 100 companies with the highest yield; no more than 25 companies from a given sector
- Companies are equal-weighted; rebalanced and reconstituted semi-annually

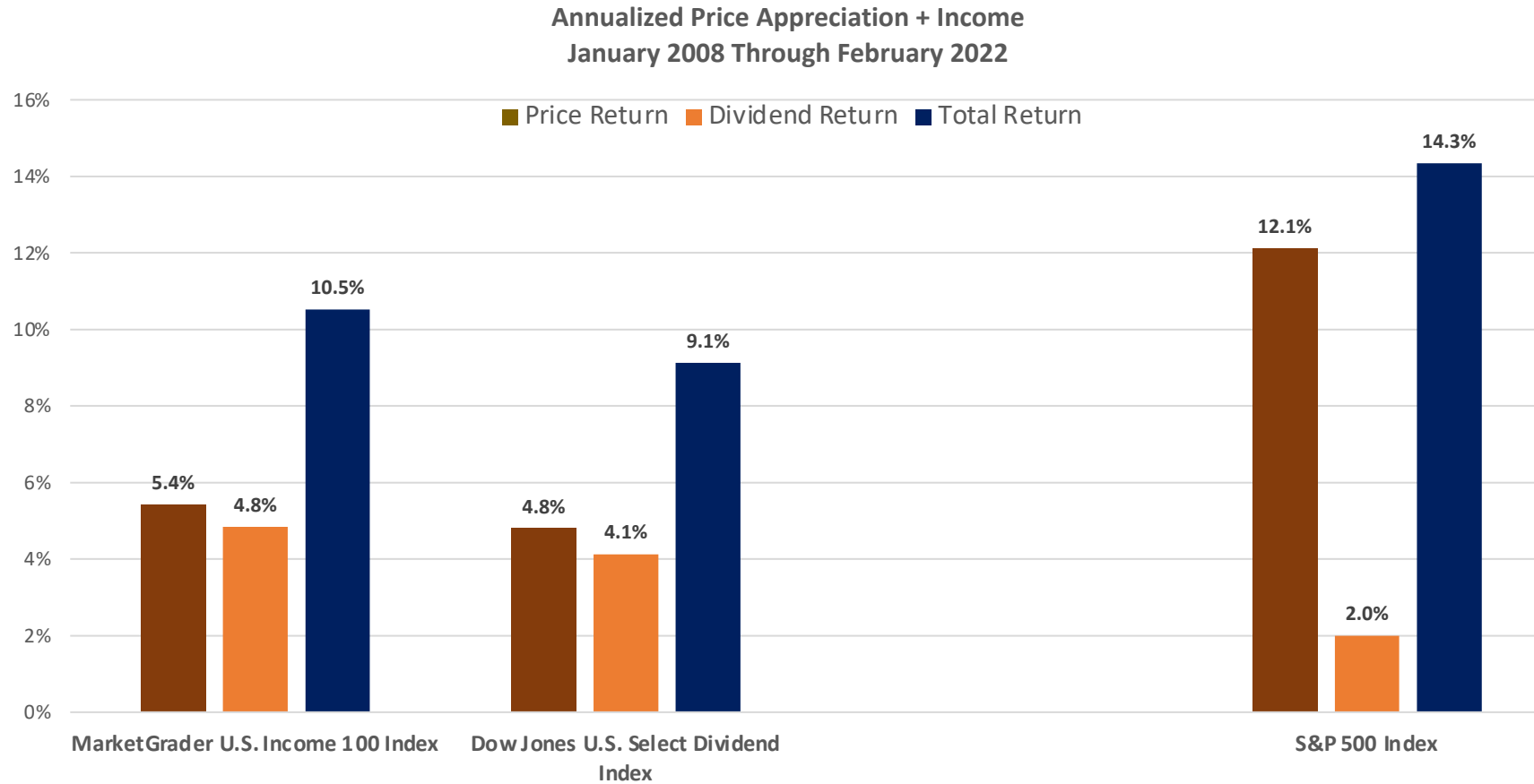
MarketGrader U.S. Income 100 Index – Performance

Total Cumulative Performance By Price + Dividend Returns
January 2008 Through February 2022



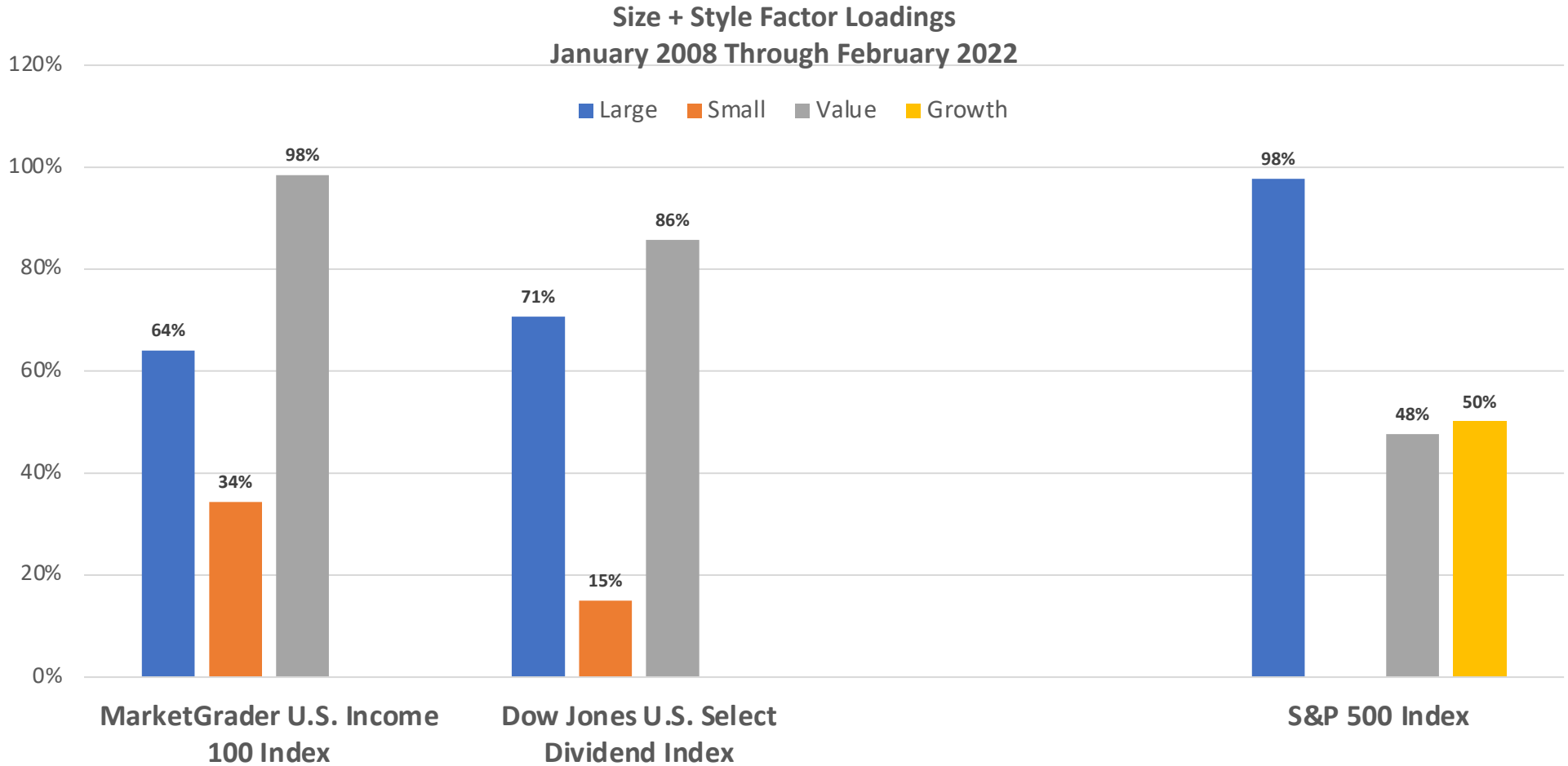
Source: MarketGrader

MarketGrader U.S. Income 100 Index – Performance



Sources: FactSet, MarketGrader

MarketGrader U.S. Income 100 Index – Size & Style Exposures



Source: MarketGrader Research. The factor loadings are the significant and positive betas from a multiple regression model that uses the Russell 1K Value, Russell 1K Growth, Russell 2K Value and Russell 2K Growth as the size and style proxies for Large Value, Large Growth, Small Value and Small Growth, respectively.

MarketGrader's Smart Beta Approach to U.S. Equities: Growth, Value & Income

MarketGrader's smart beta approach to portfolio construction leverages two of our core U.S. Indexes, MarketGrader Growth Compounders (MGGC) and MarketGrader U.S. Income 100 Index (MGUSI).

MGGC provides a differentiated exposure to U.S. equities focused on long-term capital appreciation, having gained 15% annually in the last 10 years while avoiding an excessive concentration in large cap growth stocks.

MGUSI provides a differentiated exposure to U.S. equities with sustainable and growing dividend payouts within a GARP framework. It also complements MGGC from a style perspective. The Index has gained 5.4% annually in price appreciation, and 4.9% annually in dividend return in the last 10 years.

Investors may combine MGGC and MGUSI to calibrate their growth, value, and income exposures to U.S. equities, always within the framework of MarketGrader's rigorous GARP methodology.

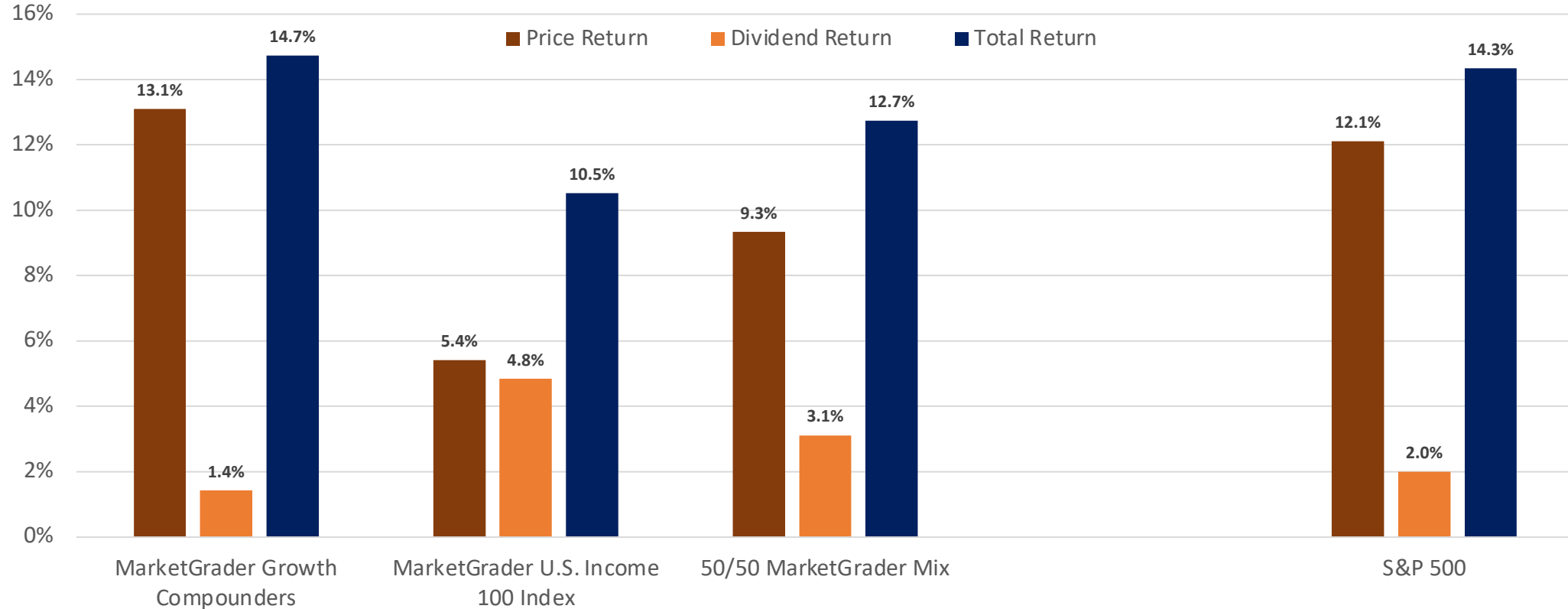
MarketGrader's Smart Beta Approach to U.S. Equities: Growth, Value & Income

The benefits of MarketGrader's Smart Beta Approach to Portfolio Construction

- MarketGrader Growth Compounders offers superior long-term capital appreciation than the benchmark with lower volatility and lower concentration risk in a low-turnover, differentiated portfolio.
- MarketGrader U.S. Income 100 Index offers superior dividend income than the benchmark, while giving up less capital appreciation than traditional equity income-oriented indexes.
- Given both Indexes' contrasting size and style tilts, asset allocators may combine them to achieve the desired growth vs. value and large vs. small cap combination, all within MarketGrader GARP framework. The entire exposure may be achieved with a 165-count portfolio.

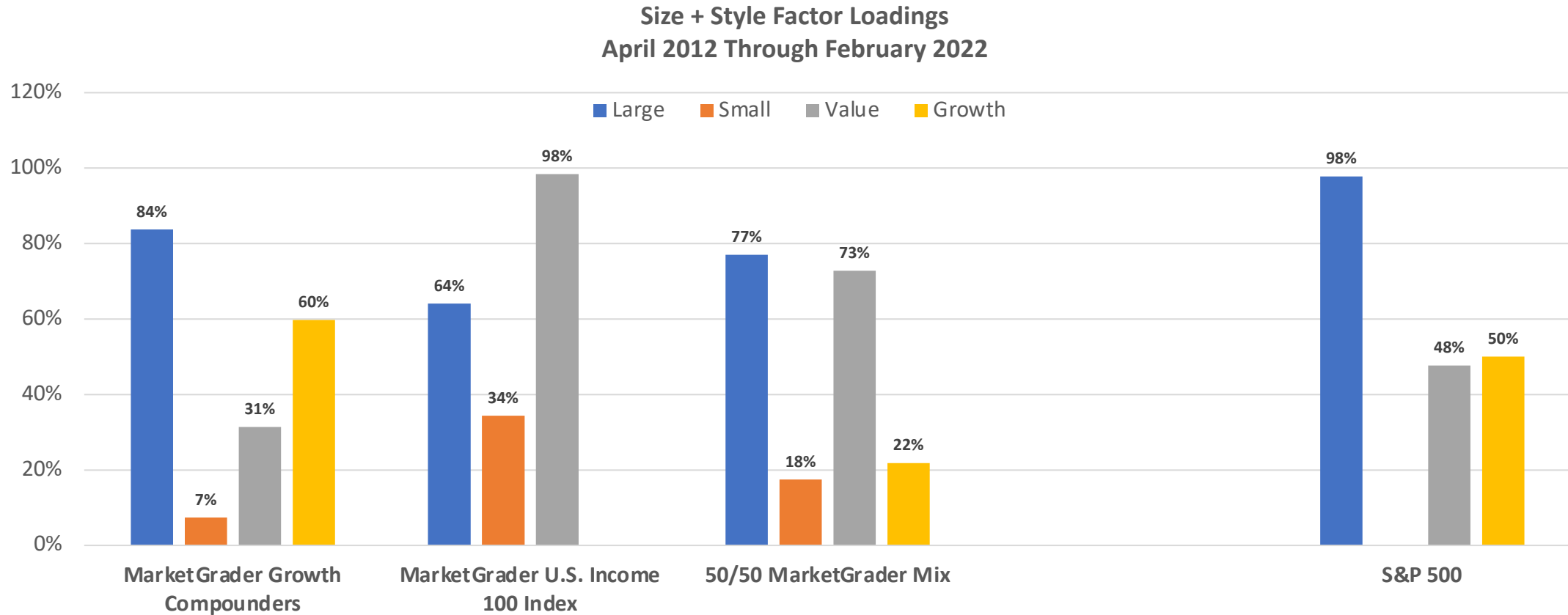
MarketGrader's Smart Beta Approach to U.S. Equities: Growth, Value & Income

Annualized Price Appreciation + Income
April 2012 Through February 2022



Sources: FactSet, MarketGrader

MarketGrader's Smart Beta Approach to U.S. Equities: Growth, Value & Income



Source: MarketGrader Research. The factor loadings are the significant and positive betas from a multiple regression model that uses the Russell 1K Value, Russell 1K Growth, Russell 2K Value and Russell 2K Growth as the size and style proxies for Large Value, Large Growth, Small Value and Small Growth, respectively.

MarketGrader Growth Compounders Index (MGGC) - Performance

	MarketGrader Growth Compounders			MarketGrader US Income Index			S&P 500 Index			MarketGrader 50/50 Mix		
	Price Return	Dividend Return	Total Return	Price Return	Dividend Return	Total Return	Price Return	Dividend Return	Total Return	Price Return	Dividend Return	Total Return
10 Years Ending February 2022*												
Cumulative Return	239.1%	15.2%	290.6%	68.7%	59.9%	169.8%	210.5%	21.7%	278.0%	142.4%	35.6%	228.7%
Annualized Return	13.1%	1.4%	14.7%	5.4%	4.8%	10.5%	12.1%	2.0%	14.3%	9.3%	3.1%	12.7%
Annualized Std Dev	13.3%	0.3%	13.1%	16.1%	0.7%	15.8%	13.3%	0.2%	13.3%	13.9%	0.5%	13.7%
Return / Std Dev	0.99	5.04	1.12	0.34	6.58	0.67	0.91	10.61	1.08	0.67	6.66	0.93
5 Years Ending February 2022												
Cumulative Return	99.5%	7.3%	114.0%	26.1%	27.8%	61.1%	85.0%	9.5%	102.7%	60.3%	17.0%	87.5%
Annualized Return	14.8%	1.4%	16.4%	4.7%	5.0%	10.0%	13.1%	1.8%	15.2%	9.9%	3.2%	13.4%
Annualized Std Dev	15.9%	0.3%	15.7%	20.2%	0.9%	19.9%	15.7%	0.2%	15.8%	17.1%	0.6%	16.9%
Return / Std Dev	0.93	4.59	1.05	0.23	5.59	0.50	0.83	11.12	0.96	0.58	5.66	0.79
3 Years Ending February 2022												
Cumulative Return	52.9%	4.4%	59.7%	25.5%	17.7%	47.6%	57.1%	5.3%	65.3%	39.8%	10.8%	54.8%
Annualized Return	15.2%	1.4%	16.9%	7.9%	5.6%	13.9%	16.2%	1.7%	18.2%	11.8%	3.5%	15.7%
Annualized Std Dev	17.8%	0.3%	17.6%	23.8%	1.1%	23.3%	17.7%	0.1%	17.7%	19.6%	0.7%	19.3%
Return / Std Dev	0.85	4.42	0.96	0.33	5.21	0.60	0.92	12.49	1.03	0.60	5.27	0.81

Sources: FactSet, MarketGrader. *10-year returns refer to nine years and eleven months, as measured from April 2012 through February 2022.

Thank You