



APTUS CAPITAL ADVISORS

Opus Small Cap Value ETF

Q3 2024

Firm Overview



APTUS CAPITAL ADVISORS

- Founded in Fairhope, Alabama in 2013.
- As of September 30th, 2024, Aptus manages over \$3.7B in ETF assets under management.
- We believe that we maintain distinct and differentiated investment strategies, exploiting inefficient asset classes.

Distinct Fund Lineup

We believe that each of our funds offer clients a specific and desired exposure. Each strategy is rooted in our experience in fundamental research and seeks above benchmark returns while mitigating risk in down markets.

Strategies	Ticker	Benchmark	Inception Date	Assets (\$M)	Gross Expense Ratio
Aptus Defined Risk ETF	DRSK	Bloom berg Agg.	8/8/2018	\$884.1	0.78%
Aptus Drawdown-Managed Equity ETF	ADME	S&P 500	6/9/2016	\$222.4	0.79%
Aptus Collared Investment Opportunity ETF	ACIO	S&P 500	7/9/2019	\$1378.0	0.79%
Aptus International Enhanced Yield ETF	IDUB	ACWI Ex. U.S.	7/23/2021	\$205.2	0.43%
Aptus Large Cap Enhanced Yield ETF	DUBS	S&P 500	6/13/2023	\$198.0	0.39%
Aptus Enhanced Yield ETF	JUCY	ICE U.S. Treasury 1-3 YR Bond Index	11/1/2022	\$349.5	0.59%
Opus Small Cap Value ETF	OSCV	S&P 600 Value	7/18/2018	\$395.5	0.79%

Data as of 09/30/2024

The gross expense ratio is the annual cost of investing in an ETF, or the portion of the assets earmarked for the cost of operating the fund. This represents the fees you may pay if you buy, hold, and sell shares of the Fund ("Shares"). The total operating expenses as stated and can be found in the fee table to the ADME, ACIO, DRSK, IDUB & OSCV respective prospectus dated August 31, 2022 or JUCY respective prospectus dated October 14, 2022.



Your Investment Department

Team-Based Approach Provides Unique Perspectives

Portfolio Managers

JD Gardner, CFA & CMT
John Luke Tyner, CFA
David Wagner, CFA
Brad Rapking, CFA
Beckham Wyrick, CFA

Research & Trading

Mark Callahan
Joseph Sykora, CFA
Brett Bennett, CFA
Brian Jacobs, CFA
John Archbold, CFA
Marcus Jordan

Operations

John Goldsberry
Will Gardner
Brett Wickmann
Joe King
Clay Calhoun
Katlyn Sesera
Jaela Robbins, CPA

Client Relationships

Derek Hernquist
James Yahoudy, CFP
Matt McGowan, CAIA
Will Graham
Michael Sefscik

Creative

Alicia Griffin

Engineering

David Nguyen
Jeremy Cole
Santosh Monoharan
Winston Feng



OSCV Fund Overview

A portfolio management team with a long-term commitment and a process developed and honed over the last decade +, ensuring a consistent and sustainable investment process.

Portfolio Managers

David Wagner, CFA



Brad Rapping, CFA



- As of September 30th, 2024, the Opus Small Cap Value ETF had total net assets of approximately \$396 million and the Firm had roughly \$3.7billion of ETF assets under management.
- Invests in businesses that, in our view, can compound shareholder capital at above-average rates of return. We buy what we believe to be high- quality companies with higher returns on equity that pay a dividend.
- Aptus Capital Advisors and individual members of the firm are investors in the Fund.

Ticker: OSCV

Fund Name: Opus Small Cap Value ETF

Inception Date: 7/18/2018

Holdings: 70

Expense Ratio: 0.79%

Primary Exchange: CBOE

CUSIP: 26922A446

ISIN: US26922A4461

Distributor: Quasar Distributors

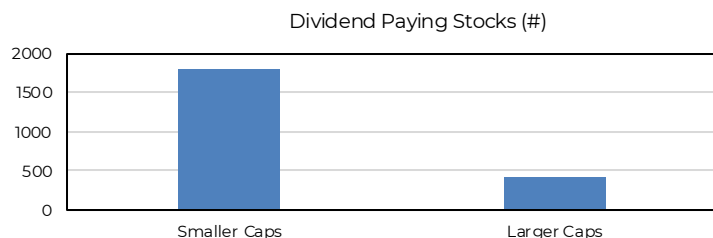
Advisor: Aptus Capital Advisors



The Case for Small Cap Dividend Payers

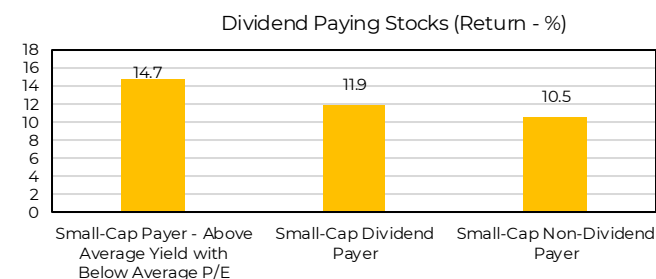
Current Landscape

- A large universe of small companies paying dividends
- Access to a broad array of sectors and exposures



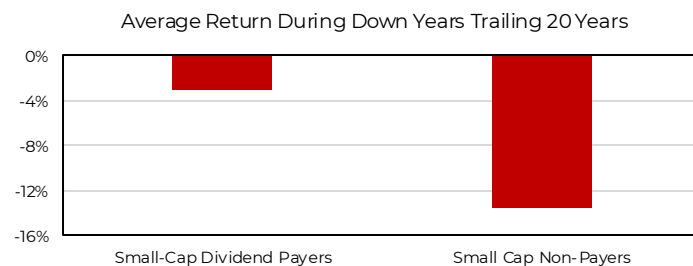
Performance From Historical Case Study

- Small-cap Dividend Stocks have Done Well
- High Dividend Yields Monetize Low Valuations



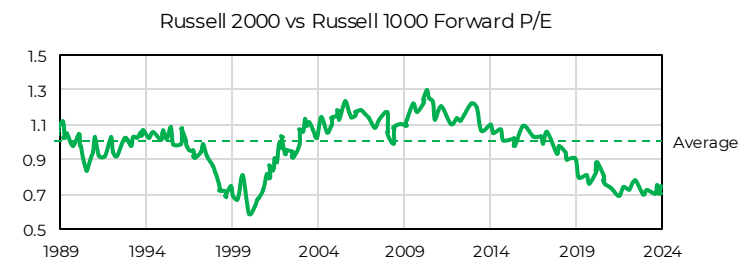
Performance in Down Years

Small-cap dividend-paying stocks have outperformed non-payers during challenging market environments



Relative Valuation Opportunity Set vs. Large

Relative valuations are at 30-year lows - levels seen only during the Tech Bubble, which led to a great decade for small caps



Source: Bloomberg, Factset, Wall Street Journal, Zack's Dividend Study. June 30, 1993 – June 30, 2013, "Dividends: Our Ongoing Love Affair". 2 Index: US-traded stocks that pay a yield below \$7.5B market cap as of 3/31/2024. 3 Index: Stocks that pay a dividend in the S&P 500 Index. 4 Yield above the Russell 2000 & P/E below wtd. Avg. R. 2000 P/E. 5 Defined as US-traded companies that do not pay a dividend below \$7.5B market cap as of 12/31/2023. 6 Data as of 3/31/2024. 7 Avg. Return in down years for Small Cap Dividend Player and Small Cap Non-players since 1994. **Past performance is not a guarantee of future results. Index performance is not representative of fund performance. It is not possible to invest directly in an index.**



OSCV Fund Objective



Invest in great businesses that have demonstrated:

- High returns on invested capital
- High levels of free cash flow
- With significant barriers to entry and pricing power
- Superior reinvestment histories and opportunities
- Excellent management teams with a history of treating shareholders as partners

The Compound Machine

BUSINESS GROWTH	VALUATION	QUALITY	MOMENTUM
Sales Growth	Price-to-Earnings	Predictable, Sustainable High ROE and FCF	Trading Above 50-Day Moving Average
Margin Expansion	Dividend Yield	Identifiable Competitive Advantages	Close to 52-Week Highs
EBIT Growth	EV / EBITDA	Strong Balance Sheets	6- and 12- Month Relative Performance
Earnings Growth	Price-to-Book	Strong ROIC	
Dividend Growth		Down Market Outperformance	
Extensive Reinvestment Opportunities			

Getting investors to embrace simplicity is challenging because people often think challenging issues require elaborate solutions. There's a common desire to find a sophisticated investment strategy to solve all problems.



Investment Edge and Process Overview

We align our information, analytical, and time-horizon edge with a focus on researching a select number of extraordinary businesses. These companies meet standards related to the business, the people who manage it, and the discipline demonstrated to capital allocation.

Information Advantage

Small Caps are underfollowed, as companies often have no analyst coverage

Analytical Advantage

We believe deep roots in fundamental research allows us to build an analytical advantage by taking a different perspective from market consensus

Time-Horizon Advantage

We take a business owners' perspective, thinking about the next three to five years, not the next three to five months

Idea Generation	Fundamental Review	Portfolio Construction	Sell Discipline
<p>Investable Universe</p> <ul style="list-style-type: none"> - Purchase range within the bottom 15% of domestic equity market caps - Ample Liquidity - Company Must Pay a Dividend <p>Qualitative Sources</p> <ul style="list-style-type: none"> - Prior Research - Management Meetings - Industry Events 	<p>Through diligent research, we identify companies that meet rigorous investment criteria:</p> <ol style="list-style-type: none"> 1. Dividend Yield 2. Higher Growth 3. Higher Quality 4. Reasonable Valuations 	<p>Diversified, small cap, all sector, all industry portfolio.</p> <p>OSCV: 60 - 80 holdings</p> <p>Expected turnover ~ 30% to 50%</p> <p>Investment Weightings and Limitations</p> <ol style="list-style-type: none"> 1. ≤ 35% in One Sector 2. ≤ 15% in One Industry 3. ≤ 3% in One Security 	<p>Fundamental</p> <p>A long as the holding exhibits a strong dividend + growth, strong fundamentals, and a competitive moat, the fund can hold portfolio companies indefinitely.</p> <p>Momentum</p> <p>It's not the batting average that is important, it's the slugging percentage. We try to cut our losers quickly, while letting our winners run, creating a positive asymmetry.</p>



Fundamental Review and Construction

Our approach to portfolio construction seeks to balance maximizing return with minimizing risk, with a yield above the S&P 600, and turnover typically between 30-50% annually.

The Fundamentals: Yield + Growth Framework

The Known: Dividend Yield

+

The Unknown: Growth Rate

=

Total Return

Paying dividends instills financial discipline by emphasizing tangible (real) cash flow. Dividends directed to shareholders reduce the capital waste that might otherwise be allocated to low-return projects or mismanaged by leadership teams.

Deep fundamental research focuses on:

1. Ability of a company to sustainably generate sales, EBITDA, earnings, cash flow, and dividend growth.
2. Sustainability of business model and potential risks.

To be considered for our portfolio, we target a double-digit yield + growth return threshold.

Building a Bucketed Approach to Stock Selection

QUALITY COMPOUNDER

50-75% Weight

1. Seeks to Generate Above Average Return on Shareholder Equity
2. Identifies Chances to Reinvest Funds for Above Average Gains
3. Management Has the Skill and Judgement to Sustain the Process of Compounding over Long Periods in the Face of Competition

VALUE

20-35% Weight

1. ROE, ROIC, and Earnings Growth > 10%
2. Companies With the Ability to Produce Free Cash Flow that are Experiencing a Valuation Disconnect with Underlying Fundamentals

A value stock is one that is priced inexpensively compared to its fundamental metrics or corporate performance.

DEEP VALUE

5-15% Weight

1. A forward-thinking approach to identify deeply undervalued securities with long-term value.
2. Our investment strategy focuses on accumulating a diversified portfolio of these underpriced, often overlooked, securities poised for future appreciation.
3. We capitalize on market inefficiencies to acquire these select investment opportunities at significant discounts, positioning for eventual realization of their intrinsic value.

Disclosure: Targets do not represent actual holdings, may not be achieved, and are subject to change.



Equity Basket: Risk Management

High-Quality Companies with Strong Fundamentals, Management Focused on Capital Allocation, with Strong Technicals

Research Area	Focus
Competitive Landscape	What industry dynamics affect the company?
Operational Performance	Does management have a history of effective execution?
Management Philosophy	Does management have a history of successful capital allocation?
Return on Equity	Does the company earn enough to return capital to shareholders and reinvest in the business?
Leverage	Will a heavy debt load impair the business in a downturn?
Price Momentum and Short Interest	Is the market telling us something about the company's prospects?
Earnings Surprise and Revision	What is the near-term outlook?

Harvest Gains and Mitigate Losses through Fundamental and Technically Driven Sales

Fundamental Sale

While the power of compounding remains a guiding principle, there may be times when we believe it is both appropriate and necessary to sell.

- Deterioration in fundamentals or business model
- Loss of competitive advantage
- Adverse change to management
- Valuation above intrinsic value
- Significant underperformance
- Better replacement candidate
- Maximum weight

Momentum Sale

We aim to create upside asymmetry by selling losers quickly and letting winners run.

This strategy enables swift adaption to new information that invalidates our fundamental thesis; we sell the stock and reinvest the proceeds in stocks we view as being more fundamentally attractive.

Conversely, winning stocks are given room to run until their valuations significantly surpass their intrinsic values. We prioritize letting our successful investments extend their gains far more than limiting the decline of our underperforming ones.



Key Differentiators

Consistency to an Inconsistent Asset Class OSCV brings a large-cap risk profile to the small-cap asset class by focusing on high-quality dividend-paying stocks. This approach is focused on generating alpha with reduced risk, offering better navigation through market volatility.

Capital Preservation In a sector known for high volatility, OSCV aims to protect capital during downturns while capturing growth during market rallies. The ideal result is superior performance across business cycles through positive asymmetry between downside and upside environments.

Innovative Sell Discipline The strategy's unique sell discipline allows OSCV to let winners grow and cut losses quickly, improving portfolio performance. We evaluate the strategy's success through:

Batting Average: Assess binary sale decisions against the small cap value benchmark.

Slugging Percentage: Measure performance magnitude post-sale relative to the benchmark.

Flexible Capacity

AUM: Due to our size we are able to maneuver in the inefficient small cap space without the constraints faced by jumbo sized strategies who are often faced with larger holding sizes and therefore less desired positions.

Tenure: An experienced, yet youthful, portfolio management team has a long-term commitment, ensuring a consistent and sustainable investment process.

Proven Track Record OSCV was the first publicly traded active ETF focused on small cap dividend payors, with inception in July 2018. The strategy has a longer-term track record dating back to a separate account in July 2013 and has maintained a consistent investment philosophy throughout.



Consistency is Rooted in the Process

We Believe that a Repeatable Process Leads to Consistent Outcomes

Outstanding Upside / Downside Capture:

OSCV believes that investors don't have to sacrifice upside to protect on the downside:

- *Historical Upside Capture: 83.82%*
- *Historical Downside Capture: 69.96%*

Lower Volatility Than Index:

Standard Deviation	OSCV (NAV)	S&P 600 Value	S&P 600
1 Year	15.82	23.62	20.64
3 Year	18.72	23.22	21.94
5 Year	20.37	25.79	23.69
Since Inception ¹	19.88	25.58	23.64

Data as of 9/30/2024
Source: Bloomberg

¹Since Inception Date: Month-End Following 7/18/2018

OSCV v. IWN			
	OSCV (MKT)	IWN	Capture
7/18/2018 - 12/24/2018	-16.91%	-23.09%	73.24%
12/24/2018 - 5/03/2019	23.85%	24.03%	99.25%
5/03/2019 - 8/23/2019	-2.66%	-11.12%	23.92%
8/23/2019 - 1/17/2020	13.17%	17.09%	77.06%
1/17/2020 - 3/23/2020	-42.41%	-44.38%	95.56%
3/23/2020 - 6/05/2020	48.26%	48.65%	99.20%
6/05/2020 - 6/26/2020	-9.42%	-12.60%	74.76%
6/26/2020 - 8/14/2020	14.55%	16.82%	86.50%
8/14/2020 - 9/24/2020	-7.34%	-10.67%	68.79%
9/24/2020 - 11/05/2021	61.15%	86.97%	70.31%
11/05/2021 - 6/17/2022	-20.45%	-22.61%	90.45%
6/17/2022 - 8/12/2022	15.68%	17.52%	89.50%
8/12/2022 - 9/30/2022	-12.76%	-18.07%	70.61%
9/30/2022 - 2/3/2023	18.53%	22.07%	83.96%
2/3/2023 - 5/04/2023	-10.52%	-17.10%	61.52%
5/4/2023 - 07/31/2023	11.00%	17.82%	61.73%
07/31/2023 - 10/27/2023	-11.68%	-16.51%	70.75%
10/27/2023 - 09/30/2024	30.81%	35.48%	86.84%
Since Inception (Cumulative)	63.75%	40.66%	

Upside Average 83.82%
Downside Average 69.96%

Data is derived from end of day Bloomberg data for the period from 7/18/2018 (fund inception) to 09/30/2024. Each segment period represents an inverse market movement of 10% or greater of the iShares Russell 2000 Value ETF (IWN). The diagram represents cumulative total returns during those market segments of 10% market movement of the IWN compared to OSCV. The capture ratio measures a strategy's performance in up or down markets relative to an index during each period. IWN — measures the performance of Russell 2000 Index companies with lower price-to-book ratios and lower forecasted growth values.

Past performance is not indicative of future results. This material is not financial advice or an offer to sell any product. The information contained herein should not be considered a recommendation to purchase or sell any particular security. Forward looking statements cannot be guaranteed.



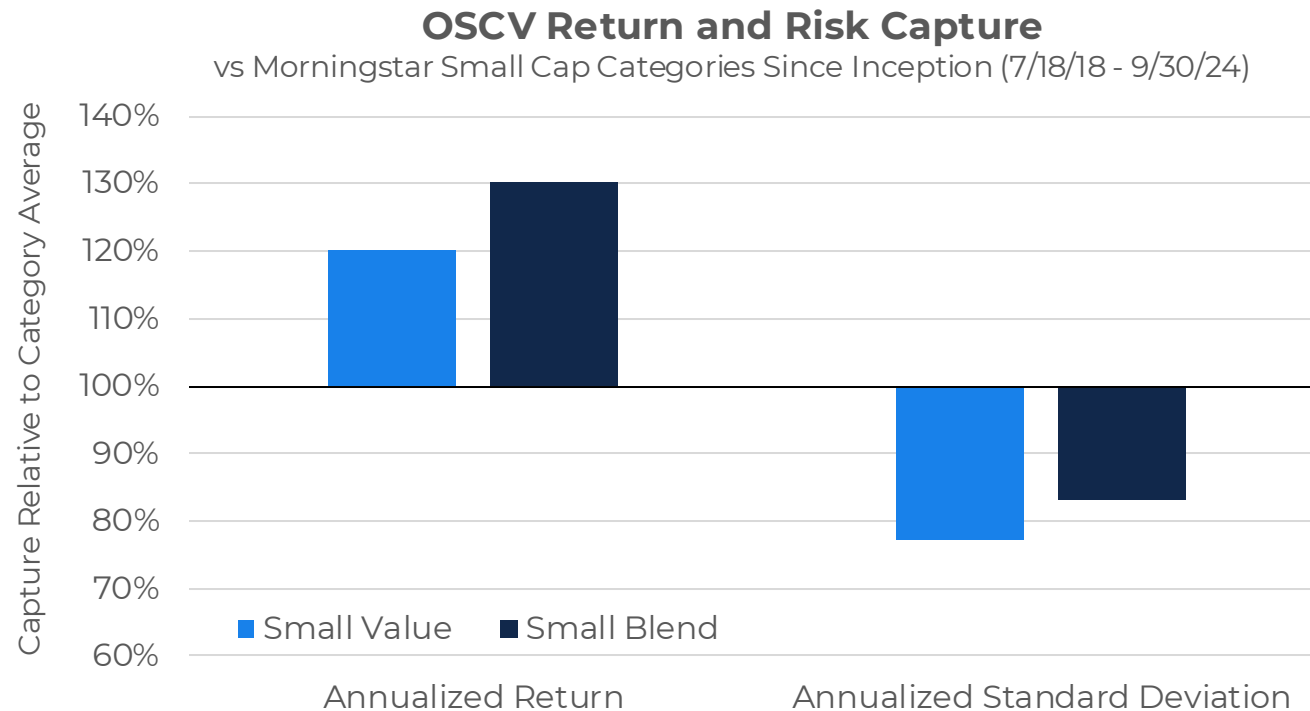
Historical Outperformance vs Peers with Bottom 5th Percentile Volatility

Since Inception OSCV has 2nd percentile volatility in the small blend and 4th percentile volatility in the small value categories despite higher than category returns.

**Small Value
Volatility Rank**
Since Inception

**6th
Percentile**

8th lowest of 138
funds in the small
value category



**Small Blend
Volatility Rank**
Since Inception

**2nd
Percentile**

6th lowest of 206
funds in the small
blend category

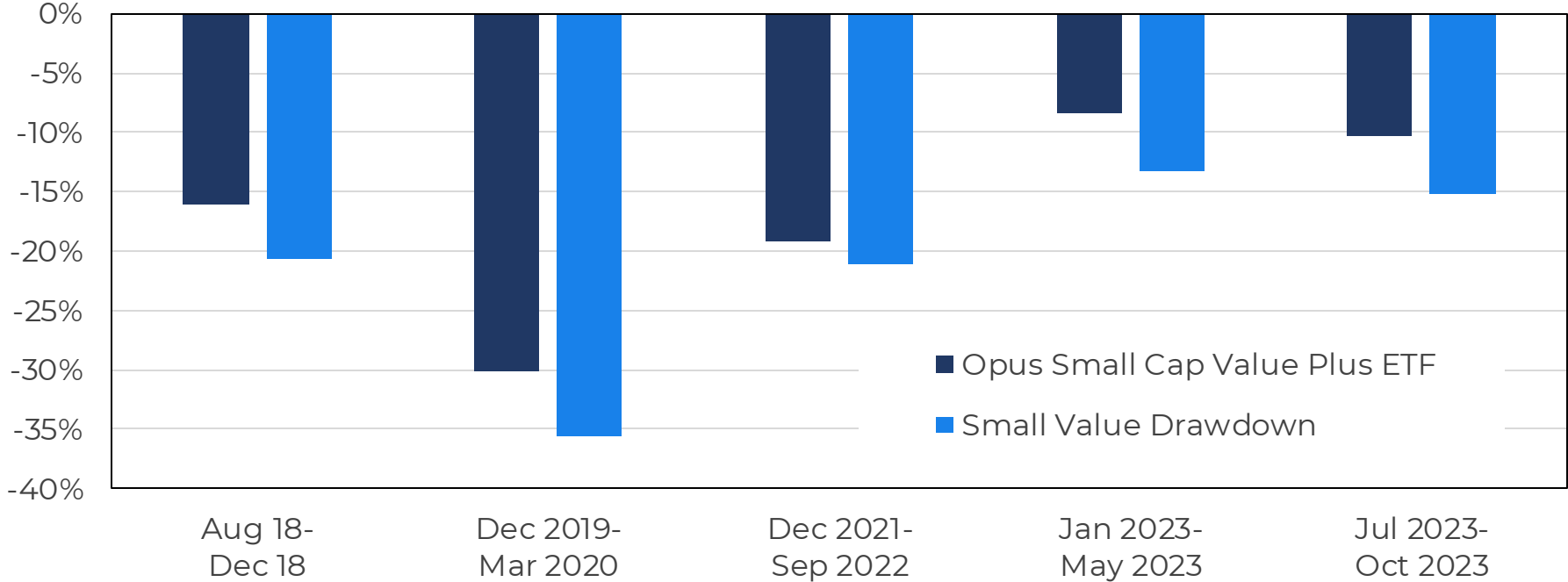
Source: Aptus, Bloomberg, Morningstar

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Addition by the Elimination of Subtraction

Performance Through 5 Largest Small Cap Value Drawdowns
 Since OSCV Inception (7/18/2018 – 6/30/2024)



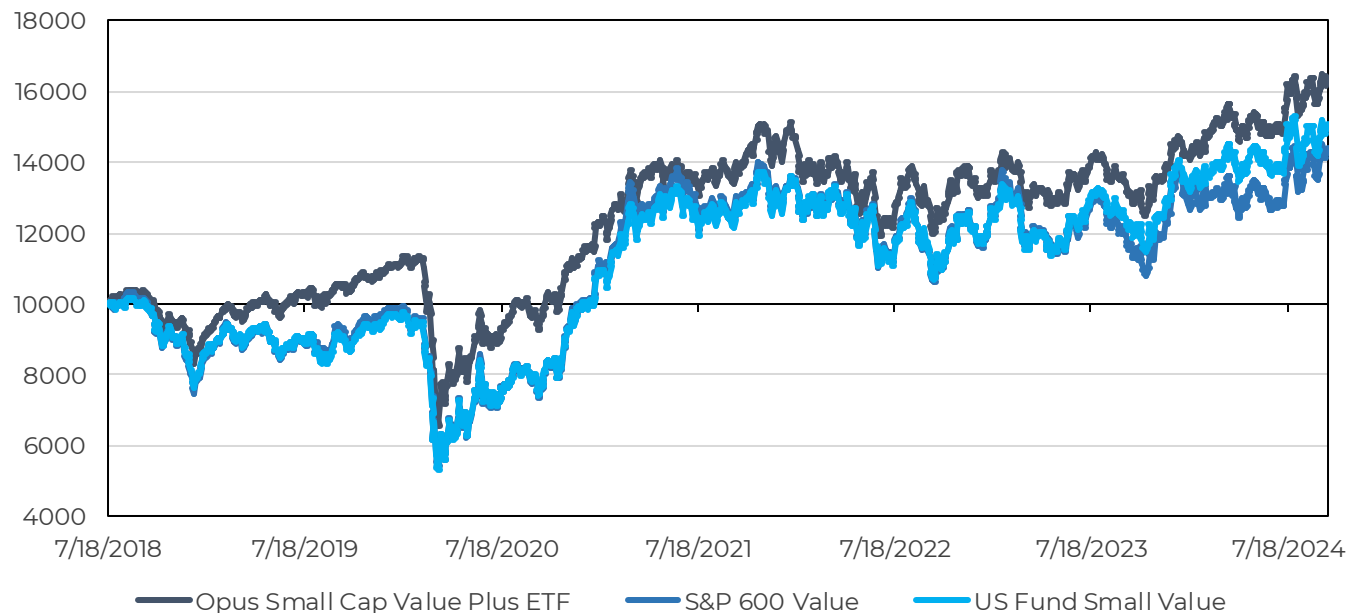
Down Capture	78%	85%	91%	63%	68%
Morningstar					
-Small Value Rank	8%	7%	44%	14%	22%
-Small Blend Rank	5%	28%	13%	32%	7%

Source: Aptus, Bloomberg, Morningstar



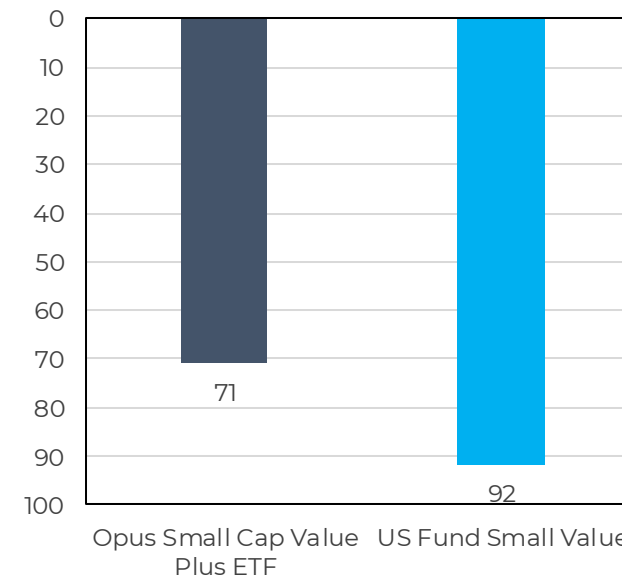
A Record of Performance and Risk Mitigation

Growth of \$10,000 Since Opus Small Cap Value Inception



Strategy Inception: 7/18/2018. Data as of 9/30/2024

Down Capture Relative to S&P SmallCap 600 Value Since Inception (8/1/18 - 9/30/24)



This chart illustrates the performance of a hypothetical \$10,000 investment made on July 17, 2018 and is not intended to imply any future performance. The returns shown do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares. The chart assumes reinvestment of capital gains and dividends. The total operating expenses as stated in the fee table to the Fund's prospectus dated August 31, 2023 is 0.79%. The performance data represents past performance & does not guarantee future results. Investment return & principal value of an investment will fluctuate so that an investor's shares may be worth more or less than their original cost when sold or redeemed. Current performance may be higher or lower than the performance quoted. Returns for periods greater than one year are annualized. Short term performance in particular is not a good indication of the fund's future performance and an investment should not be made based solely on returns. For performance data current to the most recent month end, please call (251) 517-7198, or visit aptusetfs.com. Shares of any ETF are bought and sold at Market Price (not NAV) and are not individually redeemed from the fund. Brokerage commissions will reduce returns. Market returns are based upon the midpoint of the bid/ask spread at 4:00pm Eastern Time (when NAV is normally determined for most ETFs), and do not represent the returns you would receive if you traded shares at other times.



Portfolio Performance

Performance Versus Benchmarks (%)

Time Period	OSCV (Market)	OSCV (NAV)	S&P 600 Value	S&P 600	WisdomTree Small Cap Dividend Fund (DES)
Q3 2024	8.90%	8.62%	11.30%	10.13%	11.18%
Year-to-Date 2024	12.63%	12.53%	6.05%	9.33%	9.21%
1 Year	25.26%	24.78%	22.85%	25.86%	25.71%
3 Year	6.16%	6.18%	4.23%	3.99%	6.88%
5 Year	9.21%	9.19%	9.42%	10.21%	7.74%

Performance Versus Benchmarks (%)

Time Period	OSCV (Market)	OSCV (NAV)	S&P 600 Value	S&P 600	WisdomTree Small Cap Dividend Fund (DES)
7/18/2018 – 12/31/2018	-12.52%	-12.66%	-20.60%	-19.15%	-16.31%
Calendar Year 2019	27.51%	27.45%	24.50%	22.74%	20.26%
Calendar Year 2020	4.93%	4.88%	2.48%	11.24%	-4.26%
Calendar Year 2021	27.70%	27.89%	30.85%	26.74%	26.49%
Calendar Year 2022	-11.38%	-11.36%	-11.09%	-16.15%	-10.98%
Calendar Year 2023	10.13%	10.13%	14.88%	15.94%	16.49%
Calendar Year 2024	12.63%	12.53%	6.05%	9.33%	9.21%
OSCV Inception (Annualized)	8.33%	8.30%	6.05%	6.66%	5.33%

Data as of 9/30/2024 Sources: Lipper, Morningstar, Bloomberg
Inception Date: 7/18/2018

Performance data quoted represents past performance. Past performance does not guarantee future results. The investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original cost. Current performance may be lower or higher than the performance data quoted. To obtain performance through the most recent month end, visit aptusetfs.com. To obtain performance and prospectus information regarding the WisdomTree Small Cap Dividend Fund (DES), please visit www.wisdomtree.com/etfs/equity/des. The reference to DES is intended to illustrate a fund with characteristics that may align with the strategies or investment criteria of our own fund, specifically its focus on small-cap companies that pay dividends. References to other mutual funds or products should not be interpreted as an offer of those securities. Morningstar's rankings are based on net of fee returns. Placement is subject to revision without notice; placement using net-of-fee returns may vary. The rankings shown may not be representative of any one client's experience and these rankings are not indicative of the adviser's future performance. Returns and rankings are based on the Modified Dietz reporting method. Aptus utilizes best efforts that content provided is compiled or derived from sources believed to be reliable, and accurate, but makes no representations thereof and accepts no liability whatsoever for any loss arising from use or reliance on these contents.



Portfolio Characteristics

Portfolio Goals

- Outperformance with less risk
- Gross yield targeted well above the S&P 600 Index
- Turnover between 30% and 50% annually
- No MLPs, preferred stocks, or convertibles

Company	Ticker	Weight
Casey's General Stores Inc	CASY	2.67%
Viper Energy Inc	VNOM	2.66%
Ensign Group Inc/The	ENSG	2.65%
Tetra Tech Inc	TTEK	2.55%
Texas Roadhouse Inc	TXRH	2.44%
KB Home	KBH	2.37%
Chemed Corp	CHE	2.34%
Comfort Systems USA Inc	FIX	2.08%
Kadant Inc	KAI	2.01%
Primerica Inc	PRI	1.97%

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Portfolio Characteristics	OSCV	S&P 600 Value	S&P 600
P/E Ratio (Ex. Negatives)	19.20	15.61	17.24
30-Day SEC Yield (%)	1.43	2.08	1.65
Return on Equity (%)	18.18	4.79	10.38
Debt to Capital (%)	35.44	42.02	36.79
Average Market Cap (\$M)	4,825	2,471	2,887

Sector Diversification (%)	OSCV	S&P 600 Value	S&P 600
Communication Services	0.00%	3.80%	3.49%
Consumer Discretionary	9.96%	12.22%	14.04%
Consumer Staples	2.73%	3.56%	3.15%
Energy	10.75%	2.10%	4.41%
Financials	22.57%	26.83%	18.91%
Health Care	7.59%	9.01%	11.42%
Industrials	24.56%	16.38%	17.70%
Information Technology	3.56%	9.39%	11.78%
Materials	6.55%	4.41%	5.52%
Real Estate	7.89%	9.85%	7.53%
Utilities	3.85%	2.47%	2.05%

Data as of 9/30/2024

Source: Bloomberg, Factset, Morningstar

Disclosure: Holdings and allocations are subject to change and should not be considered a recommendation to buy or sell any security.



Sample Stocks

Compounder Investment Thesis: CHEMED Corp. (CHE)

Overview: Chemed (CHE) operates in two distinct businesses - one of the largest hospice operators (Vitas) and the largest provider of plumbing and drain cleaning services in the U.S. (Roto-Rooter).

Thesis: We believe that CHE is a very strong operator with tailwinds on both sides of its business. On the Roto-Rooter segment, given its above peer margins, its asset-light model, the reduced exposure to economic cycles (due to its growing exposure to water restoration), and limited online competition, we believe that this line of business deserves an above-average premium relative to peers. Meanwhile, given the size of the VITAS platform (scarcity value), analyst's positive outlook for the hospice industry, and the positive near- and medium-term outlook for Medicare reimbursement rates, we believe that VITAS also deserves an above-average premium relative to peers. From our view, CHE has been a very strong operator, with minimal leverage at the corporate level, a growing dividend, and accretive share repurchases. With this, we believe that the company is very undervalued relative to peers and should be an all-weather holding in a portfolio given its downside protection along with its outperformance in normalized market scenarios.

Case For Ownership:

- Two Boring Cash Cows Make a Great Company** - VITAS constitutes roughly two-thirds of Chemed's total sales, with Roto-Rooter being the remaining one-third. We feel that management's bets have proven to be brilliant. Both subsidiaries, in our view, although appearing "boring", have strong business economics. In particular, we see them as having their leading market positions, scale advantages, strong cash flow, capital-light operations, and superior ROIC make their parent company an appealing candidate for stock investment.
- Roll-Up Strategy → Continue to Consolidate Plumbing Franchises** - Roto-Rooter continues to increase efficiency at the branch level, while we believe that they are looking to acquire franchisees in certain territories at reasonable valuations. They look to purchase at 6x-8x EBITDA range and given their stock price, these branch acquisitions are immediately accretive. Per management, there continues to be a long runway of opportunities to consolidate their Roto-Rooter franchise business.
- Inelasticity of the Two Businesses** - Since 2004, there has only been one year where the company experienced a YoY sales decrease (i.e., -1.2% in 2013), thanks to the recession- proof-ness of its two businesses.

Value Investment Thesis: KB Homes, Inc. (KBH)

Overview: KB Homes, Inc. is one of the largest homebuilders in the country. The company offers a broad variety of products targeted at first-time and first move-up homebuyers.

Thesis: We believe KBH remains firmly on track to deliver its most profitable year ever. Moreover, KBH's comments about recent demand strength and affirmed fiscal year guidance corroborated all of our own recent conversations with industry management teams. Thus far, we see no material evidence that buyer demand has been slowed by the recent surge in mortgage rates, even among entry-level buyers. Likewise, we believe the durability of housing demand amid a record inventory shortage and a financially strengthened consumer is deeply underestimated. As such, we see no reason to decrease our sentiment due to a hypothetical demand collapse that is far from evident at this point, despite the deeply bearish outlook priced into homebuilder share prices. The stock trades at a valuation of just 3.5x NTM EPS and 70% of book value - we cannot find or recall KBH ever trading this cheap. We are more even impressed with the recent announcement of a share buyback totaling 10% of their shares outstanding.

Case For Ownership:

- What's Cheaper than Cheap? - We believe fears around KBH's business model are currently overblown and are pressuring its multiple more than justified. The stock trades at 3.5x NTM earnings and 70% of book value. We cannot find other periods in which KBH has been cheaper.
- What Will Be the Catalyst to Increase Valuation?
 - Continued Demand Commentary from Management Teams** - The tailwind from millennial homebuyers is still in the early stages. The amount of 35-44 year-olds (historically a leading indicator of housing starts) is set to increase by 5mm over the next 8 years. Going forward, we see additional tailwinds from flexible work arrangements.
 - Putting Their Money Where Their Mouth is** - The company's recent buyback authorization effectively doubled the prior one (~11% of shares outstanding) and last time they initiated a repurchase plan, they executed 90%+ of it during the following quarter (at an avg. price of ~\$40/share).
 - Recognition of the Underbuilt Housing Environment** - We believe underbuilding over the last decade has absorbed the 2-3mm home glut from pre-financial crisis overbuilding and created a deficit of 4mm+ homes. Since the industry trough in 2009, housing starts have recovered gradually and lagged household formations by roughly 100k per year. We expect the current US housing starts pace of 1.6mm to edge higher in 2022 and 2023.



Disclosures

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The S&P 500® Low Volatility Index measures performance of the 100 least volatile stocks in the S&P 500. The index benchmarks low volatility or low variance strategies for the U.S. stock market. Constituents are weighted relative to the inverse of their corresponding volatility, with the least volatile stocks receiving the highest weights.

The S&P 500 Index is the Standard & Poor's Composite Index and is widely regarded as a single gauge of large cap U.S. equities. It is market cap weighted and includes 500 leading companies, capturing approximately 80% coverage of available market capitalization.

The S&P SmallCap 600 Value Index is a market capitalization weighted index. All the stocks in the underlying parent index are allocated into value or growth. Stocks that do not have pure value or pure growth characteristics have their market caps distributed between the value & growth indices. The Standard & Poor's Smallcap 600 Index is a capitalization-weighted index that measures the performance of selected U.S. stocks with a small market capitalization.

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Disclosures

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