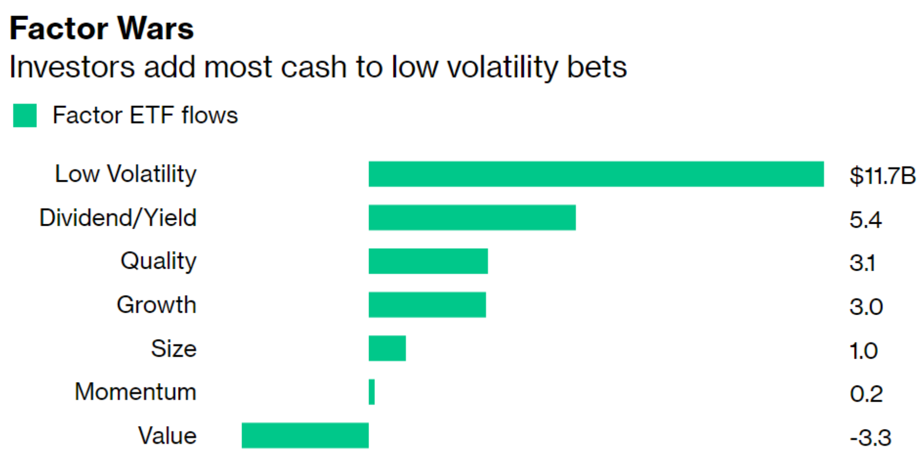
CORNERSTONE
INVESTMENT PARTNERS, LLC

***Quarterly Market Commentary: September 2019***

Welcome to Cornerstone's mid-quarter market commentary! In this series we aim to provide brief commentary around a topical event along with some summary stats and insights from our propriety Fair Value Model which we hope you find unique. We have organized our letter into three sections. The first section highlights an event, a trend, a market observation, or otherwise that we find interesting and worthy of further consideration or skepticism. The second gives an aggregate reading of the attractiveness of the 800 stocks in our Fair Value Model universe and can be thought of as another lens into overall market valuation levels. The third section looks at the valuation of either sectors or industries, again using our proprietary Fair Value Model, and highlights areas that may be opportunities (bottom-left) or areas of exuberance (top-right) in the market today. Please don't hesitate to reach out with questions, comments, or feedback.

**Market Observation**

Everyone seems enamored with low volatility these days. During the first half of the year alone low volatility ETFs took in $11.7B in flows! This was double that of any other factor[1].



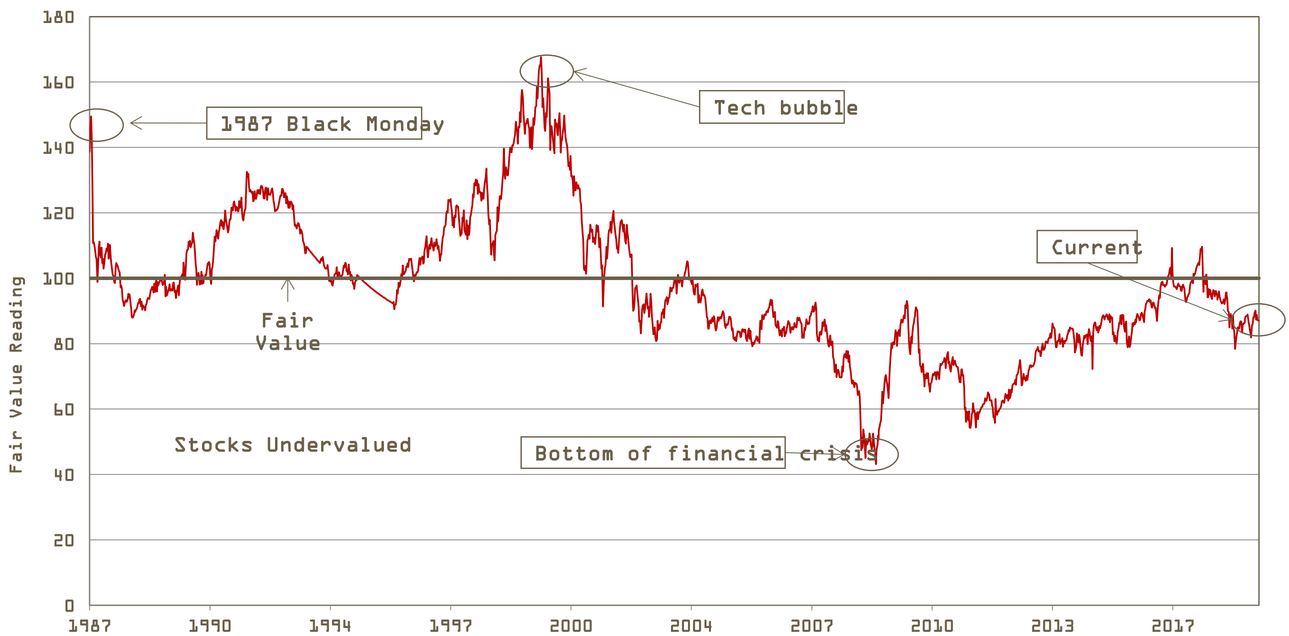

*Source: Bloomberg Intelligence, data as of 7/1/19*

The appeal isn't hard to understand: the promise of equity-like returns with a more stable and comfortable ride along the way. It also has the added draw of strong recent performance with the S&P 500 Low Volatility having outperformed the S&P 500 by over 10% over the trailing one year through the end of August. However, it is critical to know what you are buying, and we worry that many investors may not. Just because recently these stocks experienced low volatility does not mean that they will going forward (high rated Mortgage Backed Securities showed little volatility until the financial crisis hit, and then suffered huge losses and high volatility). As of the end of August the S&P 500 Low Volatility index was comprised of 27.5% Utilities and 19.4% Real Estate[2]. These two sectors make up only 3.5% and 3.3% of the S&P 500 index, meaning you are getting nearly 7x the exposure to these two sectors in the S&P 500 Low Volatility index versus the S&P 500 index! Historically, Utilities have not provided particularly "lower" volatility, either. Over the last 20 years, the standard deviation of monthly total returns has been 4.2% for the Utilities SPDR ETF, while the S&P's is…also 4.2%[3]. Equally concerning is what you are paying for this privilege of low recent volatility. The latest S&P factsheet notes a forward P/E of 21.0x for the S&P 500 Low Volatility index, which is over 3.5 multiple turns higher than for that of the full S&P 500 index[2]. As we highlight using our proprietary valuation work below, Utilities and Real Estate are two of the least attractive sectors in today's market (high valuations with low growth prospects), and if you are buying the S&P 500 Low Volatility index you are making a very large (and to us scary) bet on them.

## Fair Value Model Insight

Despite the move higher in the market this year, the market in aggregate remains attractively valued under Cornerstone's Fair Value Model framework, as earnings growth remains reasonably strong and interest rates are low. While the aggregate reading is supportive of an overweight to equities, we continue to see wide dispersion in terms of valuation across stocks, with many names looking deeply undervalued and pockets of the market requiring significant levels of growth to justify current prices.

**Aggregate Valuation Reading: 85.0% as of 9/2/19 (100% is Fair Value)**

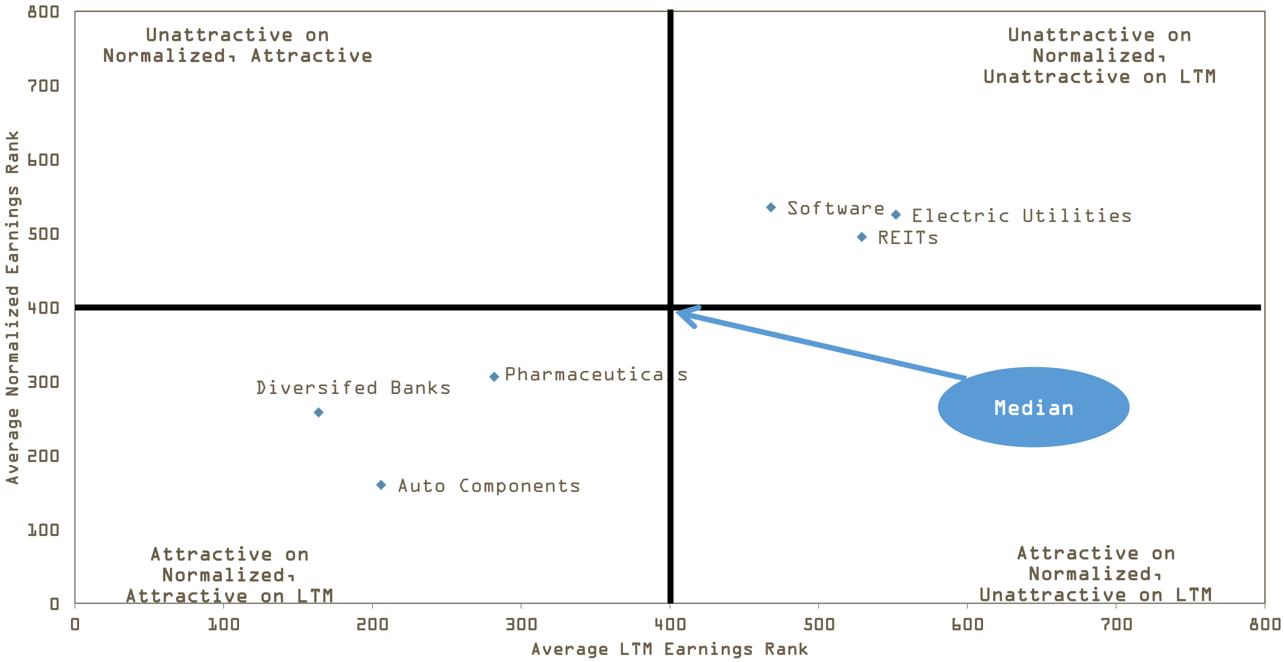



*Source: Cornerstone Investment Partners Fair Value Model universe of 800 stocks*

## Fair Value Model Industry Insight

A look at the industry level data further highlights the dispersion in the market today. Many investors have shifted to areas of perceived safety at any cost. These areas include Utilities, REITs, and even Software. Unfortunately paying too a high price for "safety" makes it unsafe. As noted above we worry that investors moving into things like "low volatility" ETFs will end up with an outcome significantly different than what they were hoping for.

**Fair Value Model: Industry Valuation as of 9/2/19**




*Source: Cornerstone Investment Partners Fair Value Model universe of 800 stocks*

*Footnote:*

*1) https://www.bloomberg.com/news/articles/2019-07-01/one-look-at-passive-flows-explains-the-story-of-markets-in-2019*

*2) https://us.spindices.com/indices/strategy/sp-500-low-volatility-index*

*3) Factset. Standard deviation of monthly total returns for XLU and SPY ETFs from 7/30/1999 – 7/30/2019*

*Past performance does not indicate future results. As with all investments, the possibility for profit is accompanied by the risk of loss.*
*Fair Value is a term relating to the Cornerstone Investment Partners' Fair Value Methodology. There is no guarantee these values will be achieved.*