CORNERSTONE
INVESTMENT PARTNERS, LLC

April 2022

> *"Day-to-day fluctuations in the profits of existing investments, which are obviously of an ephemeral and non-significant character, tend to have an altogether excessive, and even an absurd, influence on the market."*
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> John Maynard Keynes, "The General Theory of Employment, Interest and Money"

There are two ways to respond to market volatility. One, driven by behavioral biases, is to look at it as a risk. You shrink your timeframe, react to short-term changes in sentiment, and make decisions driven by noise rather than signals. The second is to look at that volatility as an opportunity, and a chance for stock prices to diverge from intrinsic values. We at Cornerstone have as our north star a simple philosophy that forces us to the latter situation rather than the former: "Stock prices are more volatile than the fundamentals which determine value."

Markets move in cycles, and the driver of an inflection between those cycles is not always known in advance. We have been on a reasonably uninterrupted positive run, supported by loose monetary policy, low inflation, and increased globalization. Of course, there have been corrections (on average, the market experiences a drawdown of more than 10% a year), but they have generally been short-term in nature. After a huge run during 2021, 2022 started with a double whammy which consisted of geopolitical worries as Russia invaded Ukraine, along with the anticipation of higher rates as the Fed tries to battle inflation. Both impact the economy as Ukraine produces a significant amount of grain, among other commodities, a high level of interest rates likely changes risk appetites and curtails discretionary spending, and sanctions often have lasting and inflationary effects. In addition, the ugly and tragic headlines impact consumer confidence which has additional ripple effects throughout the economy. That said, while tragic and attention-grabbing, past geopolitical events have generally been digested by investors more quickly than expected. After a modest drawdown, the market has historically moved forward.

While the market has moved lower, the economy thus far has continued to recover from the COVID-induced pullback. We see this trend in corporate earnings, unemployment rates, TSA checkpoint travel numbers, and restaurant dining data. Higher interest rates and higher commodity prices will undoubtedly have an impact. Our broad view is that most recent cost pressure headwinds are temporary rather than permanent, and after a period of adjustment, a new run rate will be achieved.

With this divergence between uncertain investors concerned by factors outside of their control and an economy that, for today at least, is healthier than perceived, it has never been more critical than it is today to focus on stock selection using a time-tested and consistent approach. We continue to have a positive long-term view on the market, but what you own matters now more than it has for a long time, and we expect an environment like this one to remain advantageous to our philosophy and process.

Value stocks outperformed growth stocks during the quarter. But that doesn't tell the whole story. We saw risk appetites continue the violent shift we saw at the end of Q4 as higher volatility, the prospect of higher rates, and stretched valuations drove investors to move out of more speculative pockets of the market. As a result, COVID beneficiaries, de-SPACs, and Twitter darlings have fallen rapidly, some down more than 2/3 below their 52-week highs. The ETF ARKK, perhaps the best-loved modern indicator of disruptive company (and arguably valuation-agnostic) investing, fell as much as 45% during the quarter.

S&P 500 and Russell 1000 Value indices are both down for the quarter, but earnings are up, suggesting that the valuation of the market has fallen. Yet we expect that additional air could come out of speculative securities. At their core, speculative growth stocks have most of their value derived from unknown forward periods. Rising interest rates significantly impact the risk those periods do not live up to the hopes and dreams today's stock price reflects. Of the 25 names in the NASDAQ 100 that have fallen the most versus their 52-week highs, over half still trade above 30x NTM EPS. Many smaller names are even more expensive. It has also pulled down some good names with them, and we are seeing some new opportunities arise in stocks that may be experiencing unjust selling pressure. The opportunity to evaluate high-caliber companies that are now trading at attractive valuations is extremely exciting!

We continually examine our portfolio and our convictions to ensure that we hold stocks trading at material discounts to our conservative assessments of their intrinsic value. Our portfolio remains composed of high-caliber companies at discounts to the market, and we have been excited to uncover new opportunities this quarter that have been shaken loose by the recent market volatility.

Cornerstone's Fair Value Model, a proprietary valuation tool we use to identify, analyze, and review stocks in our 800-stock investible universe, turned thirty-five years old this quarter. Over that period, the cheapest two quintiles (320 companies), where we focus our research efforts, have significantly outperformed both the most expensive two quintiles and the S&P500. It has been used throughout many different market regimes and crises, including Black Monday, the tech bubble, the global financial crisis, and the COVID pandemic. While no model works perfectly for each and every stock, the Fair Value Model has enabled our investment team to apply our philosophy effectively, consistently, and methodically. We are excited to see what it has in store for the next thirty-five years!

Sincerely,

The Cornerstone Investment Team

Disclaimer: Past performance does not indicate future results. As with all investments, the possibility for profit is accompanied by the risk of loss. The Fair Value Model was incepted on January 1, 1987, by Wetzel Investment Consulting, Inc. and was purchased by Cornerstone Investment Partners, LLC along with its historical data in 2001. Cornerstone has maintained the Fair Value model since that time. The returns shown are calculated using a CAGR (Compound Annual Growth Rate) methodology. Performance results are not an actual managed account or composite and should not be considered indicative of Cornerstone's investment performance.