HEADWATERS
CAPITAL

January 7, 2021

Dear Investors,

I am excited to share Headwaters Capital's first quarterly letter with both existing and prospective investors. The portfolio of 25 stocks went live on 1/4/2021, so there is no investment performance to discuss in this initial letter. Please bear with me on this first investment letter as it is unusually long and detailed in an effort to provide transparency into the investment rationale behind three of the holdings in the Headwaters Capital portfolio. Given the infancy of the firm, I believe it is important to provide a detailed discussion of a few existing holdings so that you can become more familiar with how Headwaters Capital approaches investing in the public equity market. Future letters will be much briefer, but will continue to provide insight into the investment process and existing investments. Other than a short overview of the most recent quarter's investment performance, I will spend little time pondering the future direction of the stock market. If you would like to learn about quality businesses and why they represent good investment opportunities, then this is your kind of newsletter. I will always provide a brief overview of the investment in 3-5 bullet points and then you are welcome to read a more fulsome discussion of the company and the investment opportunity if you choose. If you find the investment rationale for these businesses to align with your own investment objectives, please reach out to me directly to schedule a call. I would welcome the opportunity to discuss Headwaters Capital with you in more detail.

With that as background on the structure of future letters, let's dive into a few of companies that are owned in the HCM portfolio.

<u>Entegris, Inc ("ENTG"): Picks and Shovels for the Picks and Shovels of Technology Innovation</u>

Summary Thesis

1) Critical supplier to the semiconductor industry that enables continued advancement of semiconductor innovation and performance. Revenue growth that outpaces the overall semiconductor market due to increasing materials and process intensity.
2) Secular industry growth tailwinds combined with improved industry investment structure that moderates historical cyclicality.
3) Consumable revenue business model combined with attractive financial characteristics such as high return on invested capital, strong free cash flow conversion and low leverage.
4) History of disciplined capital allocation through accretive M&A provides inorganic growth tailwinds.

Company Overview

The pick and shovel analogy is an often cited metaphor in the investment community. It references the idea that enormous riches could be earned if a miner successfully found gold, but the more reliable way to achieve wealth was if you were instead a supplier of picks and shovels to the broader mining community. While it is an overused metaphor, I still believe it provides useful context for the types of investments HCM pursues.

Entegris, Inc ("ENTG") is a great example of one of these "pick and shovel" companies. ENTG supplies specialty chemicals, materials and filters to the semiconductor industry and supply chain. Entegris' products are critical to enabling semiconductor innovation and are used by all players in the industry to help enhance the performance of chips as well as improve manufacturing yields. ENTG is viewed as valuable partner by their customers as they work closely with the manufacturers to help develop new chemicals, materials and filtration systems that continue pushing the boundaries of semiconductor innovation. Furthermore, ENTG's products are often designed into their customers' products or manufacturing process, which creates high switching costs for the customers given the critical nature of these materials and filters compared to the relatively low cost of the products. Product lifecycles can extend for 20+ years, which also provides a long tail of future revenue for the company. Given ENTG's breadth of products and broad customer use, the company has little customer concentration, a rarity in the semiconductor world. Additionally, 70% of the company's revenues are generated from consumable products, which creates a very resilient revenue stream compared to equipment suppliers which are subject to the CAPEX cycles of their customers.

Semiconductor Industry Evolution
For the past 40 years the semiconductor market been governed by Moore's Law, which states that the number of transistors per chip will double every two years. This growing transistor count enables greater performance and also lowers the cost for computing power. Moore's Law has been the cornerstone of semiconductor innovation for decades, but there are signs that the industry has reached the physical limits of this Law. As a result, the industry is looking for new ways to improve chip performance. Given the miniature scale of leading-edge chips, product innovation and enhancement is increasingly occurring through more specialized materials/chemicals, greater purity of chemicals and more manufacturing steps to achieve better performance. While it's unclear to me exactly how chip designs will change in the future and which company(ies) will be the winners of this gold rush, it is clear to me that ENTG will become a more important supplier to the industry as it plays a critical role in whoever becomes the industry leader.

In terms of supply and demand for semiconductors, the industry has a much better structure today than in previous decades. Semiconductor usage is much broader today providing more stable demand for these chips. Historically, the industry was beholden to product cycles in the personal computer, cell phone or gaming markets and this often resulted in air pockets of demand whenever there was softness in the end market. Today, semiconductors are not only used in broader and more diverse applications, but they are also enabling some of the key technological innovations of our lifetime: autonomous vehicles, artificial intelligence, Internet of Things/connected devices in the medical and industrial markets, etc. More diversified end usage of semiconductors serves to create a more stable demand backdrop for this industry. On the supply side, production capacity has become much more concentrated, which has led to more disciplined capacity (although still subject to some degree of cyclicality). The secular growth opportunity for the semiconductor industry combined with better supply/demand structure has transformed the industry into what I believe to be a more attractive investment opportunity than in previous decades.

Revenue Growth and Profitability
Entegris has a very simple growth algorithm for such a complex industry: the semiconductor industry grows at 2x GDP and ENTG outgrows the semiconductor industry by 3-4% due to growing materials intensity and higher purification requirements associated with more advanced chips. Essentially, semiconductor manufacturing continues to push the boundaries of physics, which requires more manufacturing steps (more materials usage), higher quality materials (pricing power), and greater materials purity (more filters).

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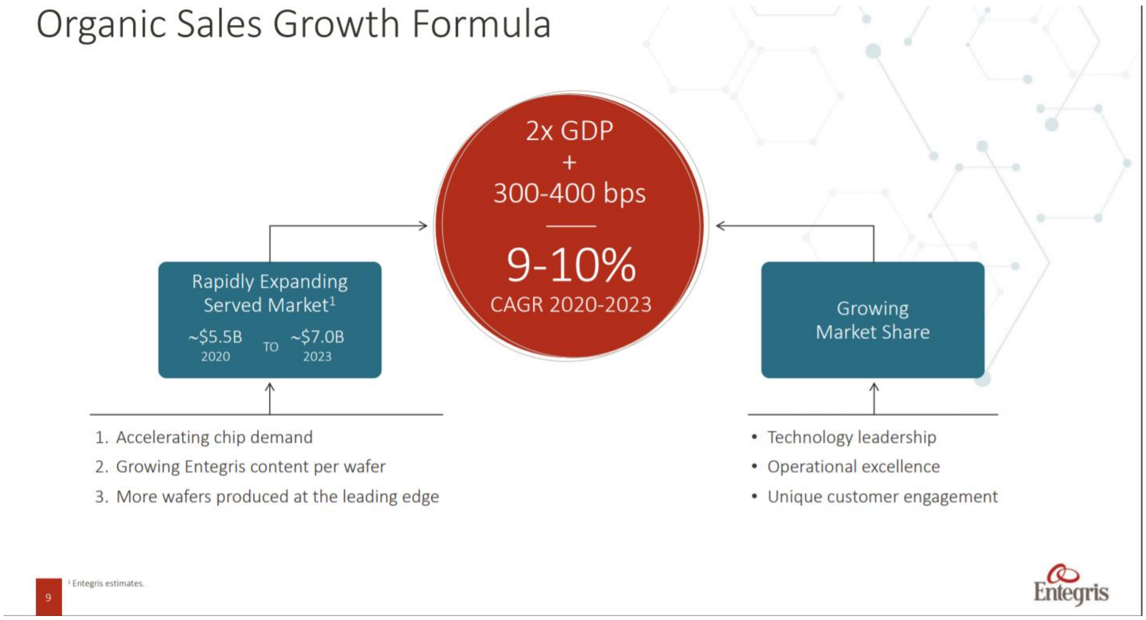
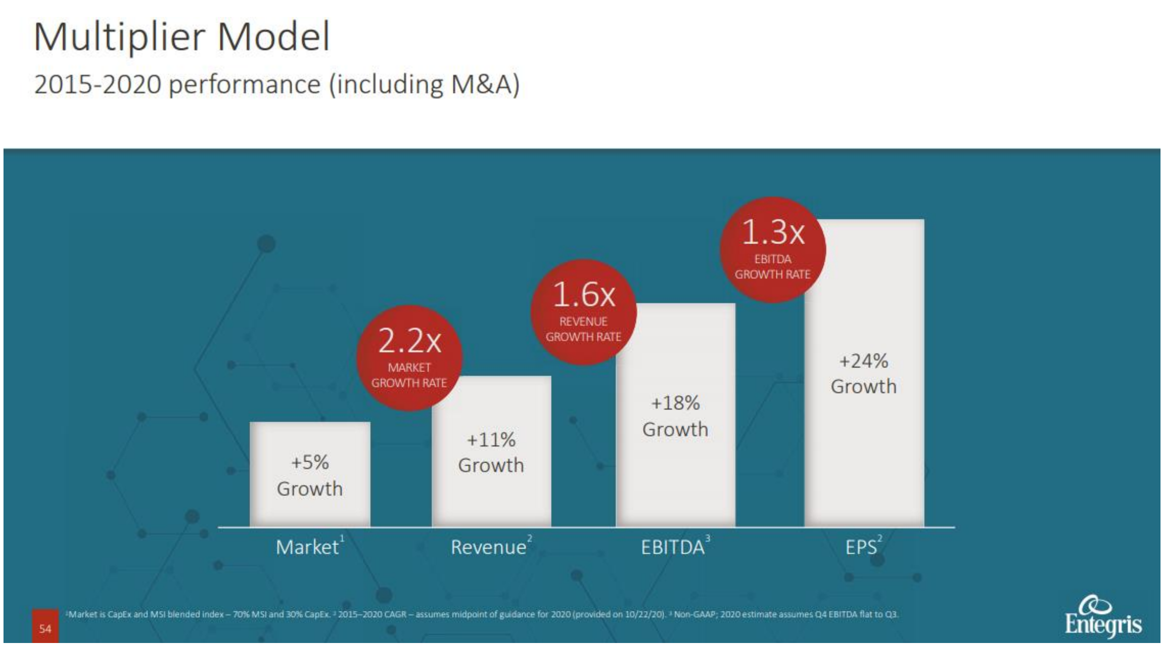


If one assumes 3% GDP growth, ENTG should grow revenue at +10% organically with the opportunity to add to this growth through accretive acquisitions. This level of organic revenue growth combined with a focus on continued margin expansion should produce EBITDA growth of ~15% annually and, again, will likely be supplemented with acquisitions. Entegris refers to their growth and margin goals as their "multiplier model" and their execution over the last five years has proven that the model is repeatable.



Revenue and earnings growth are only part of the investment story for ENTG. The financial profile of ENTG is very attractive as the company earns an ~18% return on invested capital and converts 100% of its net income into free cash flow. This strong free cash flow generation can be used to fund future M&A and can also be utilized to quickly pay down any debt incurred as part of a transaction. Given current gross leverage of <2.0x debt to EBITDA and management's willingness to take leverage to 3.75x, I expect M&A to be a part of the story over the next few years. In the absence of M&A opportunities, ENTG is likely to increase its dividend and/or repurchase shares.

Investment Summary
In summary, semiconductors are the picks and shovels for technology innovation and may represent one of the most attractive secular growth opportunities in the market today. Entegris provides the picks and shovels that enable the manufacturing of these advanced chips. Entegris generates high returns on capital and has a long runway for profitable reinvestment of these profits going forward. This consistent and profitable revenue growth outlook combined with a balance sheet with minimal leverage is exactly the type of business that I want to own for the long-term.

In terms of valuation, I believe ENTG should trade at a premium to the market given its resilient business model, above average revenue growth potential and high return on invested capital. As a general rule of thumb, the S&P 500 has traded at a long-term average free cash flow multiple of ~23x and the current market multiple is ~25x. ENTG has laid out a conservative forecast for $4 of EPS and free cash flow in 2023. Applying a premium multiple of 30x FCF yields a fair value of $120. This would result in an annualized return to shareholders of 13% with the opportunity for continued compounding of investor capital beyond 2023.

As a side note, I would generally expect the companies in this portfolio to trade at premium valuations to the market (business quality and growth rarely go on sale). However, I believe that the market tends to under-estimate the long-term earnings potential of these businesses and HCM's long-term investment approach is designed to capitalize on this opportunity.

Fair Isaac Corporation ("FICO"): Monopoly in Consumer Credit Scores

Summary Thesis
1) Monopoly position in consumer credit scores with an estimated 90% market share. De facto blessing from government regulatory bodies such as the FHFA and CFPB.
2) Newly found pricing power + consumer credit growth supports 15-20% annual revenue growth in its Scores business. Scores revenue carries 100% incremental margins.
3) Private market leveraged buyout being executed in the public markets: 100% of free cash flow is returned to shareholders in the form of share repurchases, so our ownership stake in the company steadily increases every year.
4) Free call option on their software business successfully converting to a more recurring and profitable SaaS (cloud) business model. The transition would not only support higher margins for FICO, but also lead to a higher valuation for its software business.

FICO Scores Business
Fair Isaac Corporation ("FICO") licenses credit scoring models to the credit bureaus (Equifax, Experian, Transunion) to calculate credit scores that are used by mortgage originators, auto and credit card lenders to make credit decisions. The FICO® score is a proprietary credit score that is calculated using historical credit data provided by the credit bureaus and provides a consistent and objective measure of an individual's credit risk. FICO has an estimated 90% market share in the consumer credit score industry and is well known by consumers and lenders alike.

In reality, the competitive advantage that FICO has in calculating a credit score is limited at best. In today's world of big data, any company can take data from the credit bureaus or alternative data providers to compute a score that will be reasonably predictive of future credit behavior. However, the government has effectively granted FICO a monopoly on the credit score in an effort to keep the consumer credit ecosystem running as smoothly as possible. From a regulatory perspective, it is imperative that the consumer credit industry has a consistent and unbiased score that can be utilized for credit decisions. The utilization of a single, independent and objective score allows the industry to function in an efficient and unbiased manner and ensures that credit continues flowing to support broader economic growth. As a tacit acknowledgement of the need for a single credit score, the Federal Housing and Finance Administration ("FHFA") requires a FICO score for any mortgage that is backed by one of the government agencies. As a result, the mortgage market relies on the FICO score for all of its credit decisions. Auto and credit card lenders also rely on the FICO score for credit decisions and the score has become an integral part of the credit decision process for both of these industries. The Consumer Financial Protection Bureau (“CFPB”) issued its own directive in 2012 stating that consumers should not rely on "educational scores," or scores that are not used by credit providers, when making credit decisions. This CFPB directive served to provide further validation of the FICO score as the only score that should be used in the consumer credit market.

As long as FICO continues to enhance its credit score in a way that provides credit decisioning to as many potential borrowers as possible, I don’t believe there is any incentive for the ecosystem to explore alternative credit scoring models. The cost of a FICO score averages $0.02-$0.03 (varies based on industry and type of score) and is a miniscule cost relative to both the total cost of a credit application and the benefit that is provided to all involved parties. Additionally, the FICO score has become an embedded part of the credit decisioning process that creates a high level of inertia that, when combined with the government blessing of the score, further discourages any lender from switching to an alternative score. FICO recognizes the need to continue improving its credit model as it is currently on its 10th version of the FICO scoring model. The company is also utilizing alternative data such as cell phone or rental payment history through its FICO XD score in an effort to score borrowers without credit history. Similarly, the UltraFICO score can utilize data from your checking or savings account to calculate a credit score. Beyond innovation and expansion of its scoring model, FICO has also sought to enhance the value of the FICO score through its Open Access program. Open Access allows credit providers to disclose FICO scores to consumers at no additional cost. For example, many credit card companies now disclose your FICO score as part of your monthly statement, which serves to improve consumer financial education and financial health. The Open Access program also serves as free marketing for FICO that helps to elevate its brand value. Increased consumer awareness of their FICO score has been instrumental in helping its consumer credit monitoring business grow rapidly over the last 5 years.

In most cases of a monopoly, a single entity dominates a market, which allows it to capture excess profits at the expense of consumers. In FICO's case, the company is indeed capturing the majority of the profits in the credit score market. However, given the relatively small cost for the score combined with its role as the lynchpin to a smoothly functioning consumer credit market, I do not believe the company is not capturing excess profits. Since consumers, lenders and the overall economy are benefitting from the use of the FICO score, I believe regulators and users of the FICO score are discouraged from challenging FICO's monopoly status. There is clearly risk that the FHFA or CFPB blesses an alternative credit score and this rumor seems to percolate every couple of years. For instance, the Vantage Score is a competing credit score that was created by all three of the credit bureaus and is likely very similar to

FICO's score given utilization of the same data. The FHFA has intermittently considered utilizing the Vantage score over the last few years, but has concerns about its independence given the ownership of Vantage by the credit bureaus. Additionally, given the FICO score's entrenchment in the consumer credit process, I doubt regulators want to overhaul the credit decisioning process in mortgages (or any other market) to concentrate more power in the hands of the credit bureaus (an oligopoly of its own). The Department of Justice's recent antitrust investigation into FICO concluded with a no enforcement action and provided more evidence that the government does not believe FICO is engaging in anticompetitive behavior.

FICO Software Businesses
FICO also has a number of other businesses that collectively account for ~30% of the company's operating income. These are primarily software solutions for financial institutions that assist with fraud, compliance, and other credit decisioning needs. These businesses have actually been a major drag on FICO's profitability over the past 3 years as the company has effectively diverted a portion of the increased profits from its Scores business and reinvested this into its software business. The reinvestment has centered around converting its legacy licensed software solutions to cloud-based software solutions. The transition to cloud-based software is a secular trend that has been occurring in the software space for almost a decade. Cloud-based solutions (also call Software as a Service, or SaaS) benefit customers as they don't have to pay large upfront license fees for the software, but instead pay a recurring monthly, quarterly or annual fee. Additionally, the cloud software is hosted by the provider, further reducing costs for the user. From a software provider perspective, the SaaS business model results in a more recurring revenue stream and can be more profitable once it reaches scale.

I have been skeptical of FICO's decision to divert its Scores profitability windfall to its software business as opposed to retaining the cash flow and returning the cash to shareholders via repurchases. One reason for my skepticism was a comment by the former CFO back in 2018 when he stated that share repurchases created the most value for shareholders as opposed to pursuing M&A in its software business. If it didn't make sense to acquire assets in the software space to accelerate the SaaS transition, then why did it make sense to invest internally? I was also concerned that FICO might not have the expertise to make the transition and the company provided little detail on timeline or financial metrics to measure the company's success in this conversion. However, the transition to a cloud-based offering appears to be gaining traction as evidenced by accelerating revenue growth in 2020. The company also stated that most of the development spend for its software solutions is complete and 2021 should be the year where the company can leverage these expenses and begin improving profitability. While the software piece of FICO's business is not core to the investment thesis, I do believe it provides nice optionality if FICO can successfully transform into a scale SaaS player in the fraud and compliance space.

Financial Summary
What do the financials look like for a monopoly business with a royalty business model? Unsurprisingly, FICO's scores business operates with an incredibly high operating margin of 86%! The cost to calculate the FICO score is a fixed cost so every additional score calculation carries an incremental profit margin of 100%. As a result, profitability for the company continues to improve as revenue grows. Prior to 2016, FICO had not increased the price for its score in over 25 years. In 2016, it tested annual pricing increases that were in-line with inflation and saw little pushback from customers. In 2018, FICO realized that the continued investments it had made over the past 25 years to improve the predictability of its scoring model had created enormous value for both lenders and consumers. As a result, FICO implemented a

special pricing increase for mortgage customers, that I estimate was an ~75% pricing increase from $0.06/score to $0.10/score. As you can imagine, the mortgage channel did not blink an eye at the pricing increase, which gave FICO confidence to roll out special pricing increases to its auto and some credit card customers over the following two years. The company has stated that intends to continue pushing through special pricing increases on an annual basis and the credit card market remains the largest remaining opportunity. In terms of revenue/profit growth, the Scores segment should post consistent +15% revenue growth on the back of low to mid-single digit volume growth combined with a 10% pricing tailwind.

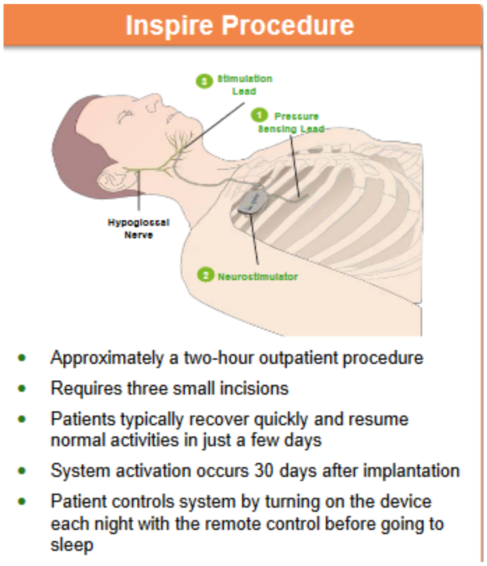
While the monopoly status, pricing power and profitability all support an investment in FICO on its own, its capital allocation priorities provide more support to the investment case. FICO made the decision a number of years ago to effectively return 100% of its free cash flow to shareholders in the form of share repurchases. Additionally, the company has utilized debt to accelerate share repurchases. The company is performing a multi-decade leveraged buyout of itself and we as shareholders can participate in the LBO for free. Over the past 10 years, the company's share count has decreased by ~30%. Going forward, our ownership percentage in the company will continue to increase as the company steadily reduces the number of shares outstanding.

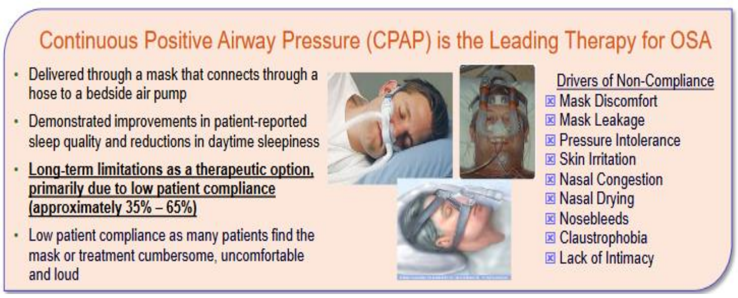
Investment Summary
FICO has a government blessed monopoly in consumer credit scores and the company continues to provide innovative new scores that continue to enhance the value of the score for both consumers and lenders. The company's monopoly status, recent pricing optimization actions taken in its Scores business and the steady use of cash flow to reduce share count make the company an ideal long-term holding for Headwaters Capital. I estimate that FICO can grow its free cash flow by 15-20% annually primarily on the back of continued Scores revenue growth, but also improved profitability from the software businesses. Combined with an ~3% annual reduction in share count, FICO should grow FCF/share by 20% going forward. What is the right multiple for monopoly business that is growing FCF/share by 20% annually? Once again, I believe at least a 30x FCF multiple is appropriate. Using a 30x FCF multiple on my 2025 FCF estimate yields a price target of $925, or 17% annual returns to shareholders.

<u>Inspire Medical Systems, Inc (“INSP”): Innovative Treatment of Sleep Apnea</u>
Summary Thesis
1) A 10-year technology lead over competitors will allow INSP to cement its position as the dominant second-line therapy for treating moderate to severe sleep apnea.
2) Recent insurance coverage decisions for the device and improved physician reimbursement leads to accelerating patient adoption beginning in 2021.
3) Large and underpenetrated market with nascent competition provides substantial runway for market share gains and long-term revenue growth.
4) Founder-led business with continued large ownership stake aligns management with shareholders.

Company Overview
Inspire Medical Systems, Inc. ("INSP") develops and sells the only FDA approved neurostimulation device to treat moderate to severe obstructive sleep apnea. The device is implanted via a minimally invasive outpatient procedure and has an 11-year useful life. Sleep apnea is a condition where breathing repeatedly stops and starts while sleeping. In addition to fatigue, sleep apnea also increases the risk of

high blood pressure, heart problems, strokes and diabetes. There are two types of sleep apnea: central sleep apnea and obstructive sleep apnea. Central sleep apnea is caused by your brain failing to send a signal to your breathing muscles. Obstructive sleep apnea ("OSA") is caused by your tongue relaxing into the back of your throat and obstructing your breathing passage. INSP's product treats obstructive sleep apnea by implanting a device that stimulates your hypoglossal nerve, causing a slight forward movement in your tongue that opens your airway and allows for regular breathing (illustration below).





INSP's device is similar to a CPAP machine (shown above), which blows air into your throat to keep the airway open. CPAP machines are considered the primary therapy for obstructive sleep apnea given that they do not require surgery and are relatively low cost. However, CPAP machines have low compliance rates (35%-65%) due to a number of factors including patient comfort, noise and ongoing maintenance requirements. By having the device implanted into a patient, INSP improves patient comfort and significantly increases compliance (80%) while maintaining similar efficacy as CPAP. INSP's device is considered a second line therapy and can only be implanted if a CPAP machine is deemed to be ineffective for OSA patients, which is a low hurdle to clear given the low compliance rates. Other second line therapies for OSA include in patient surgical procedures that can either remove tissue from your throat (UPPP) or alter the shape of your jaw (MMA), both of which have long and painful recoveries.

Commercialization and Insurance Coverage

Similar to other medical device technologies, adoption of INSP's product by both physicians and patients had been slow initially due to a cumbersome reimbursement process for both patients and physicians.

Additionally, billing codes for the procedure did not adequately compensate surgeons for the complexity of the procedure. However, insurance coverage has improved dramatically over the last two years with commercial lives covered more than doubling to 207 million lives and Medicare approving coverage of the device in May of 2020. Improved insurance coverage by itself should drive much faster adoption of the device and I believe we have seen initial evidence of this trend in 2020, although it has been masked by COVID-19 headwinds. I believe INSP's diligent work to improve surgeon reimbursement for the procedure will be equally as important in driving adoption of the product. Prior to 2020, surgeons were reimbursed for the INSP procedure through the use of a legacy billing code for a surgical procedure that was much less complex and, consequently, did not adequately compensate the surgeon for the complexity of the INSP procedure. In 2020, INSP received approval for a new add-on billing code that improved surgeon reimbursement by 50%. Additionally, INSP has also received approval for a new billing code that will go into effect in 2022 that will both simplify the billing and increase surgeon reimbursement. In addition to better reimbursement for the implantation procedure itself, INSP also received approval for a new billing code for the diagnostic sleep endoscopy that is performed prior to device implantation. Surgeon reimbursement for this short procedure had been limited prior to receiving this new billing code. The combination of better insurance coverage and improved surgeon reimbursement are positive catalysts for improved patient adoption of INSP's device.

Revenue Potential and Profitability
In terms of revenue potential, INSP believes that the company growth algorithm is a function of number of surgical centers it can cover combined with procedures/year at each center. INSP believes there are at least 2,000 centers that can perform 50 procedures/year (one procedure/week). INSP currently covers 400 centers that are performing on average 12 cases/year. Note that the current utilization/center figure is likely understated given the rapid growth in new centers over the last two years (+100%) and the lag time for new centers to reach mature utilization. INSP noted that its top surgical facility is currently performing >100 procedures annually and has also stated that a vintage analysis of centers shows positive utilization trends. With improved reimbursement for both patients and surgeons, INSP's growth should accelerate as the company continues to add new implant centers and utilization at each center increases. Another way to look at INSP's revenue potential is by looking high level at the company's total addressable market (TAM). INSP estimates that 2 million people are prescribed a CPAP device annually and 500,000 of these people could be treated by INSP's neurostimulation device. With an average price of $24,000, this represents an $11 billion annual market for INSP to serve compared to current annual revenue of $116 million. INSP's estimate of 2,000 centers performing 50 procedures/year equates to 100k procedures/year, or 20% market share, which seems reasonable given the technology lead described above.

The company should reach profitability in 2022 as the company enjoys gross margins of 85%, but is currently unprofitable as it is investing heavily in sales and marketing to onboard new surgical centers. Given their first mover advantage and the four-year window before competition enters the space, I think it is prudent for INSP to continue its aggressive marketing spend at the expense of current profitability. Once a surgeon is trained on how to implant INSP's product, it is highly unlikely they would switch to a competing product that provides minimal/no improved clinical outcomes for patients. Longer-term, INSP will be able to leverage this marketing and R&D spend and can likely achieve normalized EBITDA margins of 40%, which is supported by the extremely high gross margins noted above.

Company History and Competition
INSP was founded by CEO Tim Herbert in 2007 after he spun the technology out from Medtronic, a medical device company. Mr. Herbert had been involved with the Inspire product development inside Medtronic and also had a history working with other neurostimulation devices at the company. Mr. Herbert's continued involvement with Inspire is an asset as he not only has experience with similar neurostimulation technology, but has seen what is required to commercialize a med tech product. Furthermore, his 3% ownership stake (~$140mm) closely aligns his interests with shareholders.

INSP's company history is illustrative of the long and difficult process required to gain FDA approval for new devices, translate this approval into insurance coverage, and ultimately drive physician and patient adoption. INSP began its Phase III clinical trial in 2011, had its product approved by the FDA in 2014 and started achieving broad insurance coverage in 2019. This eight-year process from clinical trial to commercialization is important to understanding why INSP has a significant first mover advantage that should protect its technology for at least the next four years. Its two closest competitors, ImThera (a division of LivaNova) and Nyxoah have similar products that stimulate the hypoglossal nerve and are scheduled to begin their own clinical trials in 2020/2021. ImThera has a history of product development problems with its sleep apnea device that has consistently delayed the trial start date. ImThera currently believes 2024 is the earliest its product could receive FDA approval assuming they begin trials in 2021. Nyxoah is a Belgian company that has approval for its device in Europe. Nyxoah began its clinical trial in the US in November 2020 and could have FDA approval in 2023 at the earliest with commercialization to follow in 2024. However, as discussed above, I expect INSP's penetration with surgeons by this point to be an insurmountable obstacle for competitors to overcome given similar product design and likely limited improvement in patient outcomes.

Summary
I believe 2021 will be the inflection year for INSP given the recent positive coverage decisions by commercial insurance and Medicare combined with improved surgeon reimbursement. Based on the cadence of new surgical center additions, the company has a path to covering 1,500 surgical centers that can perform 36 procedures/year by 2030. Given the product dominance and continued opportunity for market share gains, the company should trade at a premium multiple. Resmed ("RMD") is the dominant CPAP company and currently trades a 30x EBITDA multiple. Assuming a similar multiple for INSP in 2030 and a 40% EBITDA margin would yield 12% annualized returns for shareholders today. Any ability for INSP to reach this mature state faster than 2030 would result in even greater returns for shareholders. While the stock is clearly expensive on any near-term revenue or profitability metric, if you believe in the long-term opportunity for INSP, there is still ample opportunity for outsized shareholder returns. While not expressly considered in my current valuation for the company, there could be upside to my revenue estimates from greater international adoption as well as monetization of the Inspire app (patient data could be very useful for physicians).

Predictions, opinions, and other information contained in this report are subject to change continually and without notice of any kind and may no longer be true after the date indicated. Any forward-looking statements speak only as of the date they are made, and the firm assumes no duty to and does not undertake to update forward-looking statements. Forward-looking statements are subject to numerous assumptions, risks and uncertainties, which change over time. Actual results could differ materially from those anticipated in forward-looking statements.

In particular, target returns are based on the firm's historical data regarding asset class and strategy. There is no guarantee that targeted returns will be realized or achieved or that an investment strategy will be successful. Investors should keep in mind that the securities markets are volatile and unpredictable. There are no guarantees that the historical performance of an investment, portfolio, or asset class will have a direct correlation with its future performance.

Investing in small- and mid-size companies can involve risks such as less publicly available information than larger companies, volatility, and less liquidity. Investing in a more limited number of issuers and sectors can be subject to greater market fluctuation. Portfolios that concentrate investments in a certain sector may be subject to greater risk than portfolios that invest more broadly, as companies in that sector may share common characteristics and may react similarly to market developments or other factors affecting their values.

Past performance does not guarantee future results.

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