

Convergence Unbiased Equity Commentary

Q1-2021

The Convergence Unbiased Equity strategy posted a strong 15.46% return in the first quarter of 2021. The Convergence Unbiased Equity strategy seeks to provide investors with a portfolio that is weighted towards tangible fundamentals as opposed to a simple cap weighting schema. Academic research and empirical analysis have shown that such a weighting approach may provide meaningful alpha over the course of the market cycle. The Convergence Unbiased Equity strategy is built on a disciplined process that weights companies based on historical generation of revenues, cash flows, and earnings. The result is a portfolio that can minimize exposure to bubbles and generate more consistent returns with less volatility, thereby improving the risk-reward tradeoff for investors. Over the past decade, the Convergence Unbiased Equity strategy has outperformed the Russell 1000 Value index by 299 basis points annualized, net of fees.

We believe the US economy will be able to “thread the needle” in 2021. The data suggest we will have positive growth, but not so much as to fuel excessive inflation. The S&P 500 Index is up over 75% from the COVID bottom on March 23. The rebound has been strong and powerful, but not widespread. In the first months of the rebound, growth was driven by technology, “work from home” names and speculation. The last few months were fueled by technology, “reopening theme” companies, and more pure speculation. Given the low interest rates, perhaps this speculation is appropriate. Investors are looking further into the future for earnings growth and pushing up stock prices. Additionally, if the oft-cited “pent up demand” proves significant, the coming quarters could be very profitable and justify the current valuations. Furthermore, we believe few influencers really want this party to end, not the executive branch, not the legislative branch, not the Federal Reserve. Given this backdrop we see a few more quarters of exciting growth, improving earnings, economic expansion and higher stock prices.

Performance Summary

The Convergence Unbiased Equity strategy delivered a 15.46% return, net of fees in the first quarter of 2021. The Russell 1000 Value Index was up 11.26% in the same three months. For the first quarter, Unbiased Equity benefited from both the stock selection and industry group allocation. The majority of outperformance can be attributed to stock selection, with a small benefit from the group weights. In terms of stock selection, the strategy witnessed a plethora of industry groups that were additive the relative returns, including Retail, Media and Software. Only four industry groups had negative contribution in the quarter, they were Tech Hardware, Pharma, Semiconductors and Food Beverage. The following table summarizes attribution effects of the Unbiased Equity strategy versus the Russell 1000 Value Index.

Convergence Unbiased Equity: 3 Month Attribution as of 3/31/2021 (vs Russell 1000 Value)

Convergence Unbiased Equity: 3 Month Attribution as of 03/31/2021 (vs Russell 1000 Value)			
	Stock Selection (%)	Allocation (%)	Total Variance (%)
Automobiles & Components	0.063	0.205	0.268
Banks	0.082	-0.162	-0.080
Capital Goods	0.154	-0.092	0.062
Consumer Durables & Appl	0.124	0.020	0.145
Comm & Prof Services	0.081	-0.003	0.078
Diversified Financials	0.266	-0.047	0.218
Energy	0.086	-0.078	0.009
Food Beverage & Tobacco	-0.027	0.075	0.048
Food & Staples Retailing	0.128	-0.293	-0.165
Health Care Eqpt & Srvc	0.425	-0.032	0.393
Household & Prsnl Prods	0.024	0.088	0.112
Consumer Services	0.138	0.041	0.180
Tech Hardware & Equipment	-0.696	0.133	-0.562
Insurance	0.167	0.000	0.167
Materials	0.192	0.007	0.198
Media & Entertainment	0.453	-0.068	0.385
Pharmaceuticals & Biotech	-0.010	0.175	0.165
Real Estate	0.088	0.061	0.150
Retailing	1.680	0.337	2.017
Software & Services	0.452	-0.347	0.106
Semiconductors & Semi Eq	-0.077	-0.031	-0.107
Telecomm Services	0.066	0.046	0.112
Transportation	0.134	-0.009	0.124
Utilities	0.006	0.340	0.346

Source: Wilshire Analytics

Convergence has been successfully managing the Unbiased Equity strategy for over fifteen years and the strategy’s lead manager has been managing equity portfolios for over two decades. The firm’s philosophy of managing strategies based on corporate fundamentals supported by compelling empirical results remains steadfast. The experience of Convergence spans decades of investing based on fundamental stock picking combined with advanced technology. Given current economic conditions, we believe that the Convergence Unbiased Equity offers an attractive core equity position for investors. Finding companies with robust revenues, cash flows and earnings is the guiding mission of our Unbiased Equity strategy. With history as our guide, a portfolio weighted to favor companies that are able to deliver solid results should help to deliver strong long-term risk-adjusted returns.

Data as of March 31, 2021

Past performance is not indicative of future results. Dividends represent past performance. There is no assurance they will continue to be paid in the future. Holdings are subject to change and should not be considered a recommendation to buy or sell any security.

The results portrayed relate to the adviser's clients invested in the portfolio that meet the criteria for inclusion in composite performance. Strategy returns are presented after actual standard management fees and all trading expenses. The inception date is 3/2006 and period ended 06/30/2020. Returns have been compared to the Russell 1000® Value Index. The Russell 1000® Value Index measures the performance of the large cap value segment of the U.S. equity universe with lower price-to-book ratios and lower expected growth values. You cannot invest directly in an index. Comparison is for illustrative purposes only and the volatility of the benchmarks may be materially different from the volatility of the Composite due to varying degrees of diversification and / or other factors. This communication is limited to the dissemination of general information pertaining to Convergence Investment Partners, LLC's (Convergence) services and general economic market conditions. The information contained herein is not intended to be personal legal or investment advice or a solicitation to buy or sell any security or engage in a particular investment strategy.

Source of market data: Wilshire Analytics and Bloomberg LLC