STRATIFIED LARGECAP Q1 2024 REVIEW

Index Insights

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Executive Summary

- The Stratified LargeCap Index (SYLC) returned 8.2% in Q1 vs. 10.6% for the S&P 500. Nearly half of the S&P 500's growth (47%) was tied to four stocks: NVIDIA, Microsoft, Meta Platforms and Amazon.[1]
- The Integrated Circuits sub-sector, and specifically NVIDIA, which returned 83% for the quarter, helped the S&P 500 outperform SYLC during the quarter.
- 2023 highflyers Tesla and Apple were down 29.3% and 10.9%, respectively. SYLC's underweight to these securities helped SYLC outperform the S&P 500 in the Consumer Transportation and IT Hardware subsectors.
- SYLC returned 19.7% vs. 29.9% for the S&P 500 over the past twelve months as growth and momentum stocks continued to lead the market higher. Over the trailing 2-to-10-year periods, SYLC underperformed the S&P 500 by 1.3 to 2.4 percentage points annually. Since the start of the backtest in 1991, SYLC has outperformed the S&P 500 by 2.6 percentage points annually.
- The results for SLYC continue to be in line with expectations: as a diversification strategy, it performs well during market reversals, but typically trails in momentum driven markets like those seen over the past year.

Domestic Equity Market Performance Summary

Large and mid-cap stocks followed up their strong Q4 23 performance with another quarter of double-digit returns, as shown in Exhibit 1. For Q1 24, large cap stocks (+10.6%) and mid-cap stocks (+10.0%), as measured by the S&P 500 and S&P 400 respectively, exhibited strong performance, distancing themselves from the S&P 600 small cap index which returned +2.5%. Within large cap stocks, growth (+12.8%) outperformed value (+8.1%). The trailing returns highlighted in Exhibit 1 show the S&P 500 outperformed the Stratified LargeCap Index by roughly 10 percentage points over the past year ending 3.31.24. The trailing three- and five-year results show annualized underperformance of roughly 200 basis points relative to the S&P 500.

Exhibit 1: Domestic Equity Market Performance Summary (%)

Index	1Q24	4Q23	3Q23	2Q23	1 Year	3 Year	5 Year
Syntax Stratified LargeCap	8.2	10.9	-4.0	3.9	19.7	9.4	13.0
S&P 500	10.6	11.7	-3.3	8.7	29.9	11.5	15.0
50/50 Blend*	9.4	11.3	-3.6	6.3	24.8	10.5	14.0
S&P 500 Growth	12.8	10.1	-2.6	10.6	33.7	10.2	15.8
S&P 500 Value	8.1	13.6	-4.1	6.6	25.6	12.2	13.3
S&P MidCap 400	10.0	11.7	-4.2	4.9	23.3	7.0	11.7
S&P SmallCap 600	2.5	15.1	-4.9	3.4	15.9	2.3	9.1

*Blend of 50% Stratified LargeCap Index and 50% S&P 500 Index.
Total Return as of 3/31/2024. Performance does not reflect fees or implementation costs as an investor cannot directly invest in an index. Source: Syntax, S&P Dow Jones

[1] https://www.spglobal.com/spdji/en/documents/commentary/market-attributes-us-equities-202403.pdf

The U.S. stock market continues to perform well even in the face of geopolitical headwinds, higher oil prices, and the prospect of prolonged higher interest rates given the strength of the economy. For the S&P 500, Q1 performance continued last year's trend of strong performance from a narrow set of the largest stocks. While the results in 2023 were led by the Magnificent Seven (Apple, Alphabet, Amazon, Meta Platforms, Microsoft, NVIDIA, Tesla), Q1 2024 saw an even narrower market: just four of the Magnificent Seven (NVIDIA, Microsoft, Meta Platforms and Amazon) accounted for 47% of the return of the index for the quarter. This quarter saw two of the Magnificent Seven down meaningfully; Tesla declined 29.3% and Apple was down 10.6%.

The results for the last 10 calendar years are shown in Exhibit 2 below. These results are consistent with expectations as returns for the past ten years have been predominantly driven by growth-oriented tech stocks, with the S&P 500 generating double digit returns in 7 of the 10 years. Stratified LargeCap's strongest outperformance came in 2022 when it outperformed by 930 basis points as momentum and growth stocks fell out of favor.

The goal of the Stratified LargeCap index is to deliver an unbiased return that is representative of all the business opportunities in the market, not just the largest ones. The index holds the exact same stocks as the S&P 500; the only difference is the weighting scheme is designed to reduce concentration risk to both individual stocks and sectors. Over the life of the index since its 1991 backtest inception, the results show an annual outperformance relative to the S&P 500 of 2.6 percentage points per year.

Exhibit 2: Stratified LargeCap Calendar Year Performance Relative to S&P 500

Index	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Stratified LargeCap	14.1	-8.8	29.2	12.4	29.3	-6.4	20.1	13.7	-0.7	15.5
S&P 500	26.3	-18.1	28.7	18.4	31.5	-4.4	21.8	12.0	1.4	13.7
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Difference	-12.2	9.3	0.5	-6.0	-2.2	-2.0	-1.7	1.7	-2.0	1.8

Performance does not reflect fees or implementation costs as an investor cannot directly invest in an index. Please see important disclaimers regarding back-tested data prior to inception. Source: Syntax

Each of the eight primary Syntax FIS sectors is assigned an equal target weight of 12.5% of the index to support the diversification of business risk. As you can see in Exhibit 3, the SYLC primary sectors (shaded in grey) have similar weights, with the differences from the 12.5% target weight being tied to market movement between the latest quarterly rebalance on 3.15.24 and quarter end. This principle of equally weighting sectors is extended to sub-sectors, which are also shown in Exhibit 3, and extends further to industry groups, sub-industries, and business activities to further enhance diversification.

Exhibit 3: Stratified LargeCap (SYLC) and S&P 500 Asset Allocation

Sector (Subsector)	SYLC	S&P 500	Difference
Information	12.2%	20.5%	-8.3%
Internet Services and Websites	4.1%	11.2%	-7.1%
Commercial Information Services	4.0%	7.1%	-3.1%
Media and Telecommunications	4.1%	2.2%	1.9%
Information Tools	12.7%	27.3%	-14.6%
Integrated Circuits	4.8%	8.5%	-3.7%
IT Hardware	3.6%	8.2%	-4.6%
Software	4.3%	10.6%	-6.3%
Healthcare	12.7%	12.9%	-0.1%
Pharmaceuticals	4.3%	5.8%	-1.5%
Healthcare Industry	5.0%	4.8%	0.2%
Consumer Healthcare	3.4%	2.3%	1.2%
Industrials	12.8%	10.7%	2.1%
Equipment	3.2%	4.1%	-0.9%
Services	3.0%	2.3%	0.8%
Materials	3.2%	2.5%	0.7%
Components	3.4%	1.9%	1.5%
Financials	12.6%	10.2%	2.5%
Banking	4.4%	4.4%	-0.1%
Real Estate	4.3%	2.7%	1.6%
Insurance	4.0%	3.1%	0.9%
Consumer Products and Services	12.5%	6.7%	5.8%
Transportation	3.2%	2.6%	0.6%
Equipment and Services	3.0%	1.8%	1.2%
Household, Personal Care	3.3%	1.4%	1.8%
Apparel and Accessories	3.1%	0.9%	2.2%
Energy	12.2%	6.2%	6.0%
Oil and Gas	6.2%	3.9%	2.3%
Utilities	6.0%	2.3%	3.7%
Food	12.2%	5.5%	6.7%
Production	6.1%	2.9%	3.1%
Sales	6.2%	2.6%	3.6%

Sector and sub-sector weight in the Stratified LargeCap Index and S&P 500 Index as of 3.31.2024. Source: Syntax, S& Dow Jones Indices.

<u>Comments: SYLC vs. S&P 500</u>

- SLYC has 25% of the index in the technology-heavy Information and Information Tools sectors.
- The S&P 500 has just shy of half (47.8%) of its holdings in this these sectors.
- Two years ago, the S&P 500 weight to Integrated Circuits was 6.2%; it is now 8.5% tied to growth in NVIDIA which has gone from 1.8% of the index to 5.1%.
- The S&P 500 primary sector weights vary from 5.5% to 27.3%, highlighting large sector imbalances.
- Healthcare, Industrials and Financials have relatively similar weights in both indices.
- SYLC has meaningful overweights to the Consumer, Energy and Food sectors.

Exhibit 4 looks at the performance of Stratified LargeCap relative to the S&P 500 by primary sector, with the results sorted from highest to lowest based on the SYLC results. All eight of the primary sectors produced positive results; within the S&P 500 only the Consumer Products and Service sector posted negative results driven by the nearly 30% decline in Tesla. SYLC's diversification within this sector generated favorable results (+8.2%) relative to the S&P 500 (-0.8%). The Information sector returned 3.7% for SYLC but the index lagged the S&P 500's 12.6% return which was driven by the performance of Meta Platforms (+38%) and Amazon (+19%) and their large positions in the index.

Exhibit 4: Stratified LargeCap (SYLC) and S&P 500 Q1 2024 Performance by Primary Sector

Sector	SYLC	S&P 500	Difference
Energy	12.1%	10.6%	1.5%
Industrials	10.8%	10.0%	0.7%
Financials	10.2%	12.1%	-1.9%
Information Tools	9.1%	13.0%	-3.9%
Consumer Products and Services	8.2%	-0.8%	9.1%
Food	7.6%	5.4%	2.2%
Healthcare	5.6%	8.5%	-2.9%
Information	3.7%	12.6%	-8.9%

Total Return by sector, 12.31.2023 - 3.31.2024, Syntax Stratified LargeCap Index and S&P 500 Index. Source: Syntax, S&P Dow Jones Indices.

To get a more granular view of the market's performance, Exhibit 5 displays primary sector performance results and its constituent sub-sector components. Even though SLYC holds the same securities as the S&P 500, its alternative weighting scheme produces a different return pattern, particularly when large positions in the S&P 500 outperform or underperform. This can be particularly helpful to SYLC's relative performance during periods when large individual stocks within the S&P 500 struggle.

Exhibit 5: Stratified LargeCap And S&P 500 Performance By Sub-Sector

Sub-Sector	Sector	SYLC	S&P 500	Difference
Insurance	Financials	16.3%	18.1%	-1.7%
Oil and Gas	Energy	16.0%	13.6%	2.4%
Industrial Services	Industrial	13.7%	9.3%	4.4%
Integrated Circuits	**Information Tools**	**12.3%**	**40.0%**	**-27.7%**
Food Sales	Food	12.0%	8.4%	3.6%
Industrial Equipment	Industrial	10.2%	9.0%	1.2%
Industrial Components	Industrial	9.6%	15.2%	-5.5%
Industrial Materials	Industrial	9.5%	8.8%	0.8%
Household and Personal Care Products	Consumer	9.5%	10.3%	-0.8%
Banking	Financials	9.2%	13.4%	-4.2%
Apparel and Accessories	Consumer	9.0%	-0.7%	9.6%
Consumer Equipment and Services	Consumer	8.9%	11.9%	-3.1%
IT Hardware	**Information Tools**	**8.7%**	**-8.3%**	**17.0%**
Internet Services and Websites	Information	8.4%	16.9%	-8.5%
Utilities	Energy	7.9%	4.6%	3.4%
Healthcare Industry	Healthcare	7.8%	9.9%	-2.1%
Pharmaceuticals	Healthcare	6.9%	11.3%	-4.4%
Software	Information Tools	6.1%	9.8%	-3.7%
Consumer Transportation	**Consumer**	**5.7%**	**-14.8%**	**20.4%**
Commercial Information Services	Information	4.7%	7.4%	-2.7%
Real Estate	Financials	4.5%	1.8%	2.7%
Food Production	Food	3.3%	2.9%	0.3%
Consumer Healthcare	Healthcare	0.9%	-1.7%	2.6%
Media and Telecommunications	Information	-2.2%	7.5%	-9.7%

Total Return by sub-sector, 12.31.2023 - 3.31.2024, Syntax Stratified LargeCap Index and S&P 500 Index. Boldface indicates sub-sectors of particular note. Source: Syntax, S&P Dow Jones Indices.

Integrated Circuits returned 12.3% within SYLC, making it the fourth highest returning sub-sector behind Insurance (+16.3%), Oil & Gas (+16.0%) and Industrial Services (+13.7%). Within the S&P 500, Integrated Circuits returned 40%, led by the 83% return of NVIDIA, which continued to benefit from its market leading position with microprocessors that support AI applications. On the other hand, SYLC significantly outperformed the S&P 500 in two sub-sectors. Within IT Hardware, SYLC returned 8.7% vs. -8.3% for the S&P 500, with the results in the S&P 500 being driven by the large position in Apple stock which declined 10.6%. Consumer Transportation within SYLC returned 5.7%, outperforming the -14.8% return in the S&P 500 which was driven by the near 30% decrease in Tesla.

Conclusion

Q1 2024 continued the high-growth trend seen in Q4 2023, with the S& 500 Index posting double digit returns in both quarters. However, the most recent quarterly results were led by a smaller band of four mega cap stocks (Amazon, Meta, NVIDIA, Microsoft), which accounted for about half of the market's return. On an absolute basis, SYLC performed well, returning 8.2% for the quarter. On a relative basis, SYLC underperformed the S&P 500's 10.6% return by 240 basis points. SYLC provided some protection on the downside associated with the declines in Tesla and Apple, but the strong performance of a few stocks, most notably NVIDIA, were difficult for a diversified strategy that avoids concentrated positions in individual stocks to keep up with.

As we look forward to the rest of 2024, it will be interesting to see if the market can continue to be led by a handful of stocks, or whether the market becomes broader based. Historically, such narrow markets have proven to be unsustainable, sometimes collapsing dramatically as with the DotCom bubble burst. At Syntax, we do not predict market returns. Rather, the thesis for SYLC and our family of Stratified Weight indices is to diversify business risk. If you are concerned about the concentrated business risk embedded in the S&P 500, consider the Stratified LargeCap Index as a complement to help provide more balance.

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