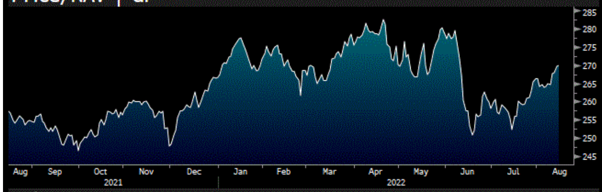
Comparison of the Lapis Global Top 50 DY Index against the US Market

The **Lapis Global Top 50 Dividend Yield Index** has shown robust resilience to market volatility during this challenging 2022.

LAPIS GLOBAL TOP 50 DY INDEX		Calculations Up-to-Date			FIGI BBG00KRW46L4
Owner		Inception Date	01/02/12	Recent Events	5
Pricing #	0	Inception Price	100.00	Last Date Computed	08/15/22
Asset Class	Equity	Source of Price/NAV	Holdings	Market Value	2,703,597.63
Currency	USD	Returns Model	PORT	Units	10,019.28
Region (Holdings)	Americas	Workflow Management	Automatic	# of Holdings	50
Benchmark	M2WD	Historical Analytics Enabled	Yes	Portfolio of Portfolios	No

Price/NAV | GP »



Characteristics (as of 08/15/22)			
Div Yld	3.84	BEst Div Yld	3.93
P/E	12.17	BEst P/E	12.78
P/CF	10.03	BEst P/CF	9.52
P/B	2.93	BEst P/B	2.66
P/S	1.72	EV/EBITDA	11.02
Current Ratio	1.00		

Prices		
Price/NAV	269.84	USD 08/15/22
52 Week High	282.50	USD 04/20/22
52 Week Low	246.52	USD 09/30/21

Performance (as of 08/15/22)

Total Return	Portfolio	Benchmark	Diff
1 Day	+0.02%	--	--
Month to Date	+1.27%	--	--
Year to Date	+1.16%	--	--
1 Year	+5.15%	--	--

Risk (as of 08/15/22)			
Total Risk	16.49	Trk Err (Ex-ante)	16.49
Factor Risk	16.37	VAR (Hist 1Y)	1.14
Non Factor Risk	2.03	Coverage	100.00

Return Statistics (as of 08/15/22)			
Standard Deviation	13.12	Sharpe Ratio	0.56
Information Ratio	--	Raw Beta	--
Tracking Error	--		

Source: Bloomberg

<u>Comparison vs S&P 500 Index</u> (1.1 – 15.8.2022)

	Lapis Index	S&P 500 Index
YTD	+ 1.16 %	- 8.98 %
P/E	12.17x	21.21x
Dividend Yield	**3.84 %**	**1.51 %**
CAGR 5 Yrs	7.22 %	6.17 %

We would like to highlight certain facts about **market valuations** in general and a few sector valuations in particular and specifically that represented by the above-mentioned Lapis Index. It is important to note that all the constituents of this index have a minimum market capitalisation of <u>USD 25 billion</u> with uninterrupted and continuously increasing dividend payments over the last 25 years. This index is ONLY comprised of very solid large cap companies all of which are quoted on major stock exchanges.

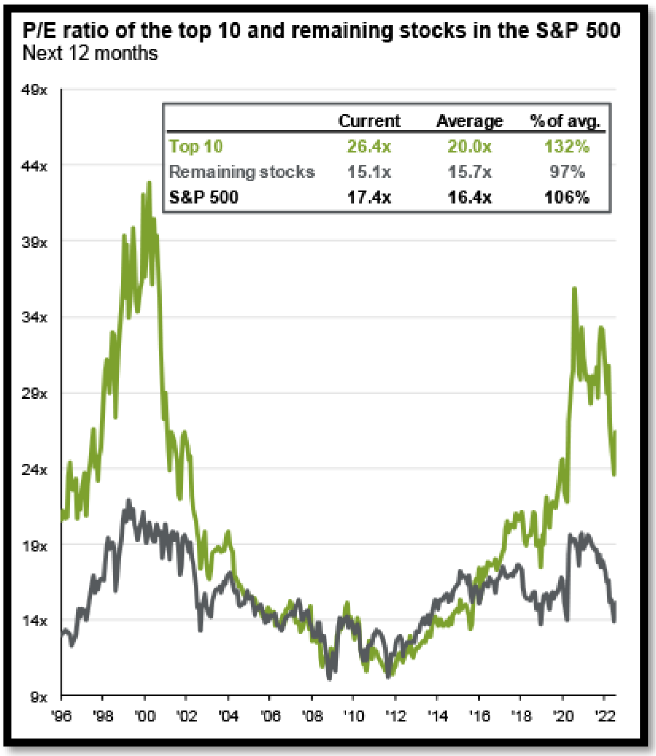
We outline below a few facts:

1) General Market Valuation

This year was the fourth largest drawdown on record for the S&P 500 Index. Stock prices generally discount future expectations, which was very evident in the first half of the year even though S&P 500 earnings were up by more than 7%. However, this was more than offset by approximately a 25% valuation contraction in the market's forward Price to Earnings ("P/E") multiple. While starting the year at a premium greater than 20x, the second quarter closed with the market P/E multiple back near its long-term average of 16x.

2) Sector dominance with their respective valuation

As the chart below highlights, the market remains bifurcated after the recent pullback. **The 10 largest companies by market caps in the S&P 500 evidenced a price to earnings multiple of 26.4x**, that remains at a premium to its historical average. It is important to note, however, that about 28% of the S&P 500 Index is concentrated in the 10 largest holdings which is still above the peak in early 2000. However, the remaining 490 companies P/E multiple is now near 14x (similar to 2018 & 2020 lows) and is below its long-term average. The broader market is now providing investors with an attractive >7% earnings yield.



Source: J.P. Morgan Equity Macro Research (31.07.22).

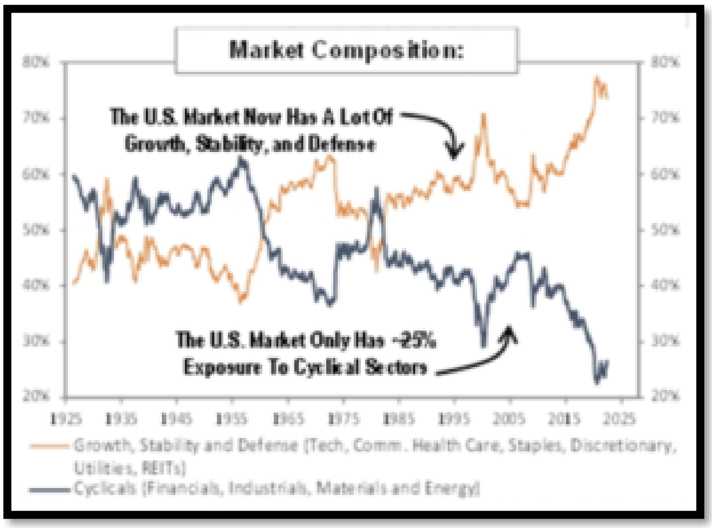
3) Divergence of sectors

Even though the energy sector has outperformed the general market since the beginning of this year, there is still a large discount versus historical levels to be considered. The **Lapis Global Top 50 Dividend Yield Index** exposure to this sector is 12%.

	Forward Price to Earnings	
Sector	6/30/2022	20-Year Avg
Energy	8.5x	13.9x
Financials	11.3x	12.4x
Materials	12.5x	14.7x
Technology	19.0x	18.1x
Utilities	19.6x	15.1x
Staples	20.1x	17.1x

Source: Thomson Reuters

As the chart below highlights, Financials, Industrials, Energy and Materials representation within the S&P 500 Index, collectively remains near 25%, down from 40% nearly 5 years ago! Historically the cyclical sector weighting troughs in 1974 and 2000 also coincided with wide valuation spreads (similar to today). However, those inflections were followed by a 1000bps+ increase in cyclical sector weightings over the following 5+ years. History has shown that the eventual reallocation from Growth, Stability, and Defence areas of the marketplace can be significant near its extremes.



Source: Piper Sandler

There are a couple potential drivers that may allow the cyclical sectors to remain on a recovery path. First, cyclical companies' operating leverage is generally positively influenced by inflation and rising interest rates. With a larger portion of their cost structure being fixed versus variable, there is greater profit leverage potential from a 1% rise in revenues. Energy, Financials, and Materials have historically had the highest operating leverage and could be beneficiaries if inflation stays above a 2% annual rate for an extended period of time.

Due to lower valuation multiples, Cyclical sector weights in the S&P 500 Index are currently less than their earnings contribution. As an example, the Energy sector has less than a 5% weighting, yet they are expected to have more than 9% contribution to S&P 500 Index earnings this year. Finally, Technology is the largest sector in the S&P 500 with nearly a 27% weighting. Considering the current environment eg cybersecurity, geopolitical, supply chains disruption, inflation etc, we see some potential headwinds that could dampen the sector's future growth.

As the above-mentioned valuation discrepancies between sectors show, a realignment towards historic means should continue for the foreseeable future. This will be further emphasized due to the current conflicts with its consequences of rising high inflation, energy crises etc. and general opinion shifts towards concerns such as war, energy, and food security versus more futuristic sectors like social media, etc.

In conclusion, with the Lapis Global Top 50 Dividend Yield Index's P/E multiple of around 12 x this year's earning is well positioned for the forthcoming future. In addition, due to our selection process of Dividend Yield, Market Cap and Growth of Dividend the index tends to have the major exposure to the low valuation companies.

If we were, however, to experience a severe recession, which can never be excluded, we are of the opinion that, given the information mentioned above, the solid Lapis Global Top 50 Dividend Yield portfolio has the potential to a certain extent to withstand market volatility much better than the general market thus providing investors the potential for future growth opportunities as well as the possibility of outperforming both the benchmark and general market.

Best regards,

Andreas Wueger, CEO

17.08.2022

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