Quarterly Commentary
Q4 2020

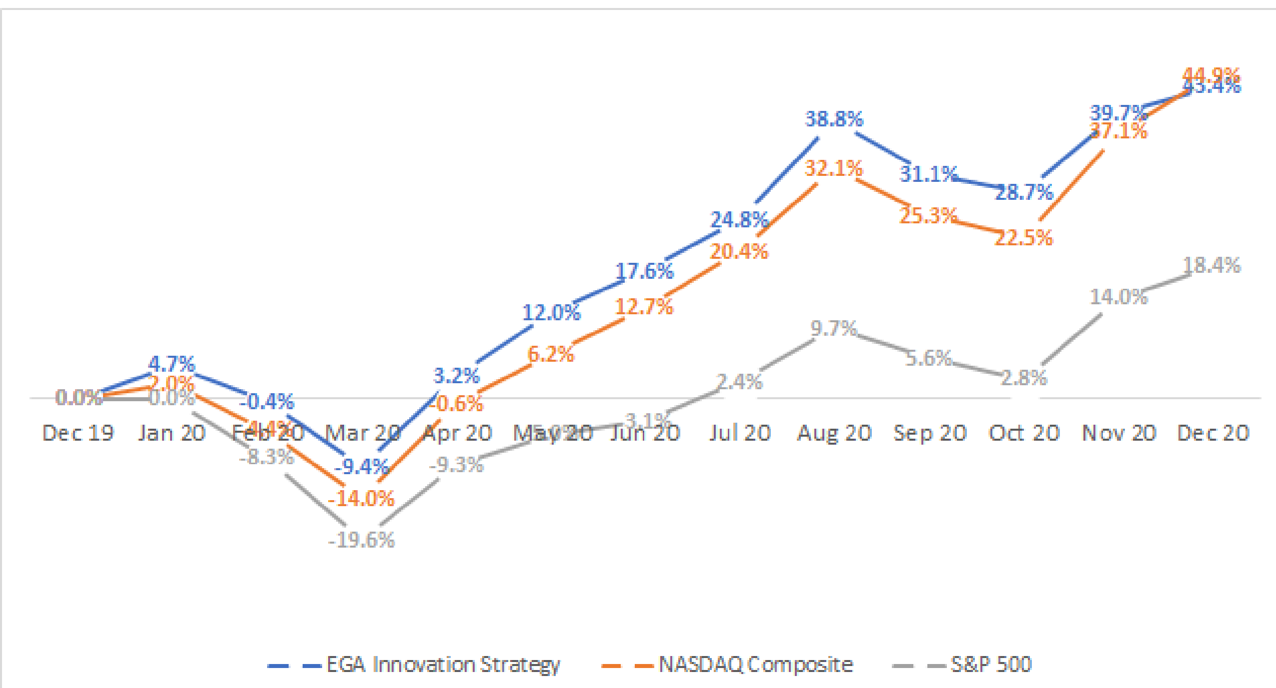
# EGA Innovation Strategy

From the EGA Portfolio Management Team

## Performance Recap and Portfolio Positioning

The Innovation Strategy returned 9.4%/9.3% (gross/net, est.) during Q4 and 43.4%/42.6% (gross/net, est.) year-to-date*. Individual portfolio returns may differ due to cash flows, tax management and other factors. Comparable period returns for the benchmark (NASDAQ Composite) were 15.6% and 44.9%, respectively.

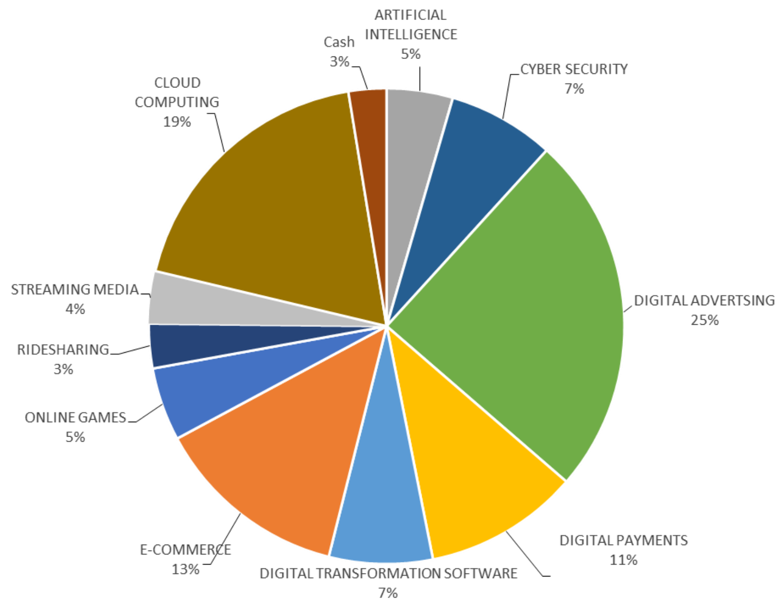
When the idea of the Innovation Strategy dawned on us, it was premised on the philosophy that companies with sustainable competitive advantages (i.e. moat) would outperform their peers over the medium to long-term and particularly during challenging economic environments. 2020 was a year that demonstrated just that. When markets plunged (down -14%) in March on news of Covid-19 lockdowns, our portfolio companies in aggregate performed much better (down -9.4%) than the broader markets. When the markets recovered sharply over the next 9 months, the portfolio companies in aggregate kept pace with those full year gains. Smaller downside and similar upside characteristics, without excessive turnover or attempts to time the market, speak to the superior operating models of the businesses we invest.




Source: Eagle Global Advisors, NASDAQ, S&P 500

*See performance disclosures on p. 4 of this document.

Quarterly returns were led by investments in cybersecurity, cloud computing and ridesharing companies. Our current portfolio themes include the following:




In our Q3 2020 commentary, we referred to a growing disconnect between stock price appreciation and the underlying earnings growth expectation. In Q4 2020, we started to see the gap narrow for our portfolio. As of December 31, 2020, the EGA Innovation Strategy was trading at a weighted median (forward 12 months) price-to-earnings ratio of 31 with underlying 5-year EPS growth rate expectation of 20%. That compares favorably against the benchmark, which was trading at a weighted median price to earnings ratio of 33 with an underlying 5-year EPS growth rate of 13%. In other words, we hold a portfolio of companies which are cheaper and expected to grow faster compared to the holdings of the benchmark. When we layer on top of these statistics the fact that companies in the EGA Innovation Strategy benefit from stronger competitive moats, which should lend them a premium valuation relative to the benchmark as opposed to a valuation discount currently, we are optimistic about the prospects of future relative performance.

## Unusually Warm Weather Offered A Multi-Bagger Investment Opportunity

Back in 2018, we researched a European ecommerce company focused on apparel with an active customer base of 24 million users, best-in-class customer service, a broad product assortment and a logistics network seen by many as even better than Amazon for its fashion vertical. What many analysts viewed as another online fashion retailer looked to us more like a technology company. It had built a technology stack with thousands of engineers including a large data science team that helped make better apparel recommendations and win more ad auctions to drive traffic to its website. When it comes to performance marketing, ecommerce platforms win over standalone brands because of their more diverse assortment, which results in a better conversion rate for the same keyword purchased in ad auctions. Additionally, the ecommerce platform offered the convenience of a pre-built logistics network, which resulted in a faster and cheaper delivery, with more convenient returns than most brands could achieve on their own. To us, it had become clear that barring a few large brands with the wherewithal to build a technology stack, broad product assortment and logistics network, most standalone apparel brands would be better off joining this ecommerce platform than building it on their own because the latter route would be prohibitively expensive.

We loved this story, but the ecommerce platform was trading at an expensive valuation. Then came the summer of 2018 with unusually warm weather in Europe, which resulted in Q2 2018 revenue growth of 21%, below consensus estimate of 24% and a Q3 2018 forecast of significantly below trend growth as extremely hot weather weighed on consumer apparel demand. As a result, the ecommerce platform reduced its full year guidance from 20-25% to near 22%. The stock fell sharply over the next few days. In a little over 30 days, the company made another reduction to its full year guidance as continued high temperatures across Europe reduced consumer demand for the season and resulted in a higher leftover inventory and promotion. The company also experienced a delayed start to the financially critical Fall/Winter season, which sells higher margin, full price merchandise. The net effect was the company now expected its 2018 sales growth to be 20% (versus original guidance of 20-25%). While they would eventually achieve this guidance in the next 6 months, investors who lacked the depth (or had forgotten) about the company's technology stack and the strength of its distribution network, started viewing this ecommerce platform using the lens of an online retailer, pushing the stock price down by over 60%. We believed this was an extreme reaction for a differentiated company forced to reduce its forecast only slightly for reasons outside of their control (i.e. warm weather), which gave us the opportunity to invest in this ecommerce platform. From our date of purchase in 2018 to the end of last year, this investment has returned 163% compared to a 65% return in the NASDAQ Composite. We look back and feel we were rewarded because when the market was pushing the stock down, we didn't lose sight of the company's competitive advantage. We continue to hold this investment today and now with even greater conviction. Its active customer base has grown to 35 million. More and more brands have joined the platform to tap into huge customer traffic and to take advantage of its cross-border, scaled, multi-brand and lower cost logistics network. Access to more brands has increased the product assortment on the ecommerce platform, which has made customers happier and willing to visit the platform more frequently for their apparel needs. That, in turn, has attracted even more brands to the platform, resulting in a virtuous cycle of growth. The platform's vision of becoming the "starting point of fashion" is coming to fruition. Brands now pay the platform to appear on top of search results and take advantage of the platform's deep knowledge of customer behavior and buying patterns. The platform's innovation engine hasn't stopped. It launched a loyalty program, which, for an annual subscription, offers consumers free expedited delivery, early access to sale stock and personal styling advice. Furthermore, it used data science to improve return rate, which can be as high as 50% in apparel. Lately, their focus has expanded to providing the core technology stack to brick and mortar stores, by linking instore inventories to the ecommerce platform. They connected 200 stores in 2019 and are expected to connect 2000 stores in 2020 with the goal of increasing the footprint to 6000 stores in 2021. Plentiful inventory and convenient local pickup keep customers happy and returning to the platform, which makes the platform more desirable for brands to expand their product assortment.

Nothing excites us more than finding such investment opportunities for our clients because we are on a mission to compound your capital with moat-worthy businesses. We believe we are only scratching the surface of the world of potential innovative investment opportunities. The EGA Innovation Strategy travels this world of innovation for you to invest ahead of the curve and to capitalize on the economy of the future.

Thank you for entrusting us with the management of your assets.

- The EGA Innovation Strategy Team

# EGA Innovation Composite

July 1, 2018 through September 30, 2020

| | Q3 20 | Q2 20 | Q1 20 | 2019 | 2018 |
|---|---|---|---|---|---|
| **Total Return (%) Net** | **11.46** | **29.89** | **(9.44)** | **36.96** | **(14.69)** |
| **Nasdaq Composite Benchmark Total Return (%)*** | **11.24** | **30.95** | **(13.95)** | **36.69** | **(11.20)** |
| Composite 3 Year Std. Dev. | N/A | N/A | N/A | N/A | N/A |
| Benchmark 3 Year Std. Dev. | 19.99 | 18.81 | 16.39 | 14.52 | 13.81 |
| Number of Portfolios | 5 | 5 | 5 | 5 | 5 |
| Composite Dispersion (%) | 0.91 | 0.14 | 0.09 | 0.20 | 0.08 |
| Composite Assets at End of Period (US$ 000) | 1,001 | 798 | 614 | 678 | 434 |
| % Non Fee Paying Accounts in the Composite | 100% | 100% | 100% | 100% | 100% |
| Composite Assets as Percentage of Firm Assets | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 |
| Total Firm Assets (US$ 000) | 1,408,692 | 1,415,525 | 1,343,672 | 2,279,115 | 2,632,277 |

* Benchmark: Nasdaq Composite Benchmark Total Return

EGA Innovation Composite - The EGA Innovation composite consists of those portfolios invested in innovative growth companies.

- For GIPS purposes, Eagle Global Advisors, LLC is an independent investment advisor, registered with the SEC, actively managing individual investment portfolios containing domestic equity, international equity, master limited partnerships, and domestic fixed income securities, (either directly or through a sub-advisory relationship), for mutual funds, high net worth individuals, retirement plans for corporations and unions, financial institutions, trusts, endowments and foundations. SEC registration does not imply a certain level of skill or training.
- Eagle Global Advisors, LLC claims compliance with Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with GIPS standards. Eagle Global Advisors, LLC has been independently verified for the periods 1/1/1997 to 12/31/2019. The verification reports are available upon request. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein. Only direct trading expenses are deducted when presenting gross of fee returns. In addition to management fees, actual client returns will be reduced by any other expenses related to the management of an account such as trustee fees or custodian fees. The reporting currency is the U.S. dollar. Returns are calculated net of non-reclaimable foreign withholding taxes on dividends, interest, and capital gains. Reclaimable withholding taxes are not accrued, but are cash basis as received. Eagle uses the asset-weighted standard deviation as the measure of composite dispersion of the individual component portfolio gross full period returns around the aggregate composite mean gross return. The 3 year annual standard deviation and internal dispersion are calculated using Gross of Fees returns. If the composite contains 5 portfolios or less (<=5) for the full period, a measure of dispersion is shown as not meaningful (N/A) and the number of portfolios is not reported. Past performance cannot guarantee comparable future results.. All investments involve risk including the loss of principal. This presentation is only intended for investors qualifying as prospective clients as defined by GIPS.
- The composite start date is January 1, 2018 and was created in March 2020. The composite consists of separate account portfolios where the firm has full investment discretion, the portfolio contains over $100,000 in innovative growth companies and the portfolio properly represented the intended strategy at the end of the calendar quarter. All performance returns assume the reinvestment of dividends, interest, and capital gains.
- The benchmark is NASDAQ Composite, a market capitalization-weighted index that includes all domestic and international based common type stocks listed on The NASDAQ Stock Market. The NASDAQ Composite Index is a broad based Index. Benchmark returns are calculated using ETF (ONEQ), which tracks the NASDAQ Composite Index
- The indices shown are for informational purposes only and are not reflective of any investment. As it is not possible to invest in the indices, the data shown does not reflect or compare features of an actual investment, such as its objectives, costs and expenses, liquidity, safety, guarantees or insurance, fluctuation of principal or return, or tax features. Indices do not include fees or operating expenses and are not available for actual investment. Indices presented are representative of various broad based asset classes. They are unmanaged and shown for illustrative purposes only. The volatility of the indices is likely materially different than the strategy depicted. Eagle Global's Innovation strategy includes buying and selling of various innovative growth companies. Such assets can and do include technology, communication services, consumer discretionary and stocks from other sectors of the market. Holdings will vary from period to period and due to the volatile nature of these companies can have a material impact on the performance.
- The Eagle list of composite descriptions is available upon request. Eagle policies for valuing portfolios, calculating performance and preparing compliant presentations are available upon request.

**EGA Innovation Composite (minimum investment: $100,000)**

| | |
|---|---|
| **Account Size** | All Assets |
| **Annual Fee** | .60% |

**Representative Example of Compounded Effect of Investment Advisory Fee**

| | Years | Cumulative Fee | Years | Cumulative Fee |
|---|---|---|---|---|
| A maximum 1.00% management fee deducted from a portfolio quarterly (0.25%/quarter) would result in the following cumulative compound reduction of the portfolio time-weighted rate of return. | 1 | 0.953% | 6 | 5.858% |
| | 2 | 1.916% | 7 | 6.868% |
| | 3 | 2.888% | 8 | 7.887% |
| | 4 | 3.868% | 9 | 8.915% |
| | 5 | 4.859% | 10 | 9.954% |