

U.S. Small Cap Value

At A Glance

Inception: September 1998

Benchmark: Russell 2000 Value

Philosophy: The U.S. Small Cap Value strategy is built upon the belief that leading businesses selling at a discount to fair value have the potential to generate excess returns.

- We seek out high quality companies that are undervalued for transitory or cyclical reasons, or that have been simply overlooked by the market.
- We seek to manage risk by owning higher quality companies where the range of outcomes is narrower and through an intense focus on company and industry specific risks.
- We employ a holistic approach to defining quality that evaluates and measures the quality of the business, the financial quality of the business, and the quality of the business management team.

INVESTMENT PROCESS

Step 1 – Idea Generation

The team builds the portfolio using a bottom-up process. The initial universe of securities is comprised of U.S. listed companies with a market capitalization of approximately \$200 million to approximately \$5 billion.

The team sources ideas in many ways. We have developed approximately 25 proprietary screens that incorporate quality, valuation, and normalized earning power. For example, we will screen for companies based on a combination of free cash flow return on capital and free cash flow yield, while simultaneously controlling for leverage. The team also meets with over 200 public company management teams per year. Other means of sourcing ideas include maintaining proprietary watch and follow lists (e.g. the Best Business Watchlist), attending trade shows and conferences, and revisiting previously owned names.

Step 2 – Fundamental Research

Fundamental analysis is the most important part of the investment process. We generate the majority of our alpha from stock selection. The team assigns research coverage by specific industries, and the portfolio managers also cover sectors and industries. Because we are typically investing during times of stress and/or transition, we spend a significant amount of time understanding the issues facing the company/industry to determine if the issues are transitory/cyclical or permanent/structural. Next, we conduct extensive research on each company including reading SEC filings, reviewing conference call transcripts, analyzing the historical financial performance of the company, and conducting primary research (e.g. speaking to customers, competitors and/or suppliers) whenever possible. The outputs of this process are a detailed research

report, a financial model that includes four valuation scenarios, and a quantitative “Total Quality Score” based on a proprietary 20 question checklist.

Financial analysis emphasizes free cash flow, rather than GAAP earnings, as well as returns on capital (using standard and proprietary measures) and balance sheet strength. The primary valuation metrics employed are Free Cash Flow Yield and Enterprise Value-to-EBITDA (for non-Financial companies) and Price-to-Earnings and Price-to-(Tangible) Book (for Financial companies). Price targets are derived by applying a normalized multiple to estimated normalized free cash flow/earnings.

Step 3 – Portfolio Construction

When the research process is complete, the report, model, and quality scores are entered into a research database, which then sends an email to the team notifying them of a new report. Every member of the team is required to read the report and review the model, typically within three to five business days, and respond to the author with a list of questions. One team member is typically designated as a “Devil’s Advocate”, and is responsible for doing additional research and asking more detailed questions with an emphasis on downside risks. The author then performs additional research and analysis to answer the questions, which results in another written report that is entered into the database. Each team member then reads the Q&A report. The final step of the process is a team discussion (not a pitch) that typically focuses on three to five primary concerns. This discussion may involve running additional scenarios and analyzing the resulting impact on our estimates of fair value.

Position sizing is based on the overall quality of the business, the range of possible outcomes, and the overall risk/reward of the security. Position sizes are also used to manage risk. For example, the team will place limits on positions for companies with a wider range of outcomes, and thus more downside risk.

SELL DISCIPLINE

There are four primary reasons a security is sold:

- It reaches our estimate of fair value
- The investment thesis changes/deteriorates
- To allocate capital to a better risk/reward
- The market cap exceeds approximately \$5 billion

RISK MANAGEMENT

Risk is evaluated at the individual security level and at the sector level. A Barra overlay is used to monitor risk and to ensure the factors are within a range around the benchmark. Our risk parameters and guidelines provide a risk framework for the portfolio:

- Security allocation: +/- 3% relative to the benchmark
- Sector allocation: +/- 10% relative to the benchmark

The firm’s Investment Oversight Committee and discipline CIO regularly monitor the characteristics and performance of each portfolio compared to external and internal benchmarks. This compliance system is integrated with our portfolio management tools, with portfolio metrics available in real time to the portfolio team.

PERFORMANCE PATTERNS

Because of our quality bias, we expect the strategy to underperform in markets that are up sharply, particularly when low quality stocks are in favor. Conversely, we expect to outperform in down markets or in markets that favor higher-quality stocks.

COMPETITIVE ADVANTAGES

Our expertise lies in having a disciplined and repeatable investment process that combines systematic and fundamental analysis with a strict sell discipline. Our intent is to identify leading, financially strong companies selling at a discount to fair market value; to focus on stocks with a high probability of modest outperformance rather than a low probability of high outperformance; and to adhere to our disciplined, repeatable process to ensure style and performance consistency.

Central to our strategy is understanding why a company is undervalued. The strength and depth of the team’s fundamental research is one of the strategy’s competitive advantages. By bringing to bear a diverse set of backgrounds, experience and biases, we genuinely believe that “the whole is greater than the sum of its parts”. This combination of experience with a disciplined process leads to a portfolio that has consistently created attractive risk-adjusted returns when measured against the benchmark or peers.

We seek to exploit several inefficiencies that we believe exist in the market, and are likely to exist in the future. First, we believe that small cap stocks represent the least efficient corner of the market. Sell-side coverage of small cap stocks is more limited, as it is uneconomical for a broker to cover many small companies that also generate smaller trading volumes and ancillary revenue streams (e.g. banking). Similarly, we believe that it is also uneconomical for investment managers to cover a large number of small cap

stocks, as it is difficult to have a large enough level of assets under management to support a large team of analysts, while still generating excess returns. We seek to capitalize on this inefficiency by conducting extensive research on our investments, which usually includes speaking with management, thus enabling us to better understand the business and the issues it faces. Second, we believe that the market systematically, and repeatedly, exhibits recency bias, whereby it extrapolates recent company performance into the future. We believe this happens for many cyclical companies at both cyclical troughs and peaks in fundamentals, and results in the market under- and over-valuing businesses relative to normalized earning power. We aim to capitalize on the market's recency bias by purchasing shares of high quality companies that are under-earning for cyclical or transitory reasons, but that have the balance sheet, cash generation, and management skill to survive the issues and, in many cases, emerge as better companies. As a result, we can participate in the growth in earnings and cash flow from depressed levels, while also participating in multiple expansion as the market re-rates the value of the business on improved clarity and fundamentals. Finally, we believe that the market is overly focused on near-term events, and is often unwilling, or unable, to take a longer-term view on a business. Furthermore, we believe the market places a premium on "certainty" and assigns a discount to "uncertainty." Our focus on the earnings power of a company three to five years in the future, which is aided by our compensation systems which incents us on three and five-year performance, enables us to look past near-term headwinds (uncertainty) and take a longer-term approach (where we have a higher level of confidence) than many market participants. In this regard, we appraise businesses much like a private buyer would by intimately understanding the near- and longer-term risks, but also focusing on the intrinsic value of the business years in the future.

MANAGEMENT TEAM

Jeff John, CFA

Vice President

Senior Portfolio Manager

Jeff co-manages the U.S. Small Cap Value and U.S. Small Cap Value Income strategies. Before joining American Century Investments in 2008, he was an equity research analyst with Kornitzer Capital Management – Buffalo Funds Group in Shawnee Mission, Kansas. Previously, Jeff spent five years as a sell-side analyst covering Financial Technologies at SunTrust Robinson Humphrey in Atlanta, as well as analyst positions at Equitable Securities Corp and Lee, Robinson & Steine, Inc. He has worked in the investment industry since 1991. Jeff earned a bachelor's degree in business administration from the University of

Colorado in Boulder and a master's degree from Vanderbilt University, Owen Graduate School of Management. He is a CFA charterholder, a member of the CFA Institute, and a member of the Kansas City Society of Financial Analysts.

Ryan Cope, CFA

Portfolio Manager

Ryan co-manages and provides fundamental research and analysis for the U.S. Small Cap Value and U.S. Small Cap Value Income strategies. He has been a member of this team since 2012. Previously, Ryan was a portfolio research analyst. In this role, he provided analytical support for the investment teams and client portfolio managers within the Global Value Equity discipline. Ryan joined the company in 2009. Ryan holds a bachelor's degree in business administration from Truman State University and a master's degree in business administration from Kansas State University. He is a CFA charterholder and a member of the CFA Institute.

Bart Wyrick

Senior Investment Analyst

Bart provides fundamental equity research and analysis for the U.S. Small Cap Value and U.S. Small Cap Value Income strategies. Before joining American Century Investments in 2007, he was an analyst/counsel for Blackthorn Investment Group. Prior to that, Bart was a consultant for the Tiber Group in Chicago. Other professional experience includes nine years as an attorney for two Texas law firms. Bart earned a bachelor's degree in political science from Texas Christian University, a master's degree in business administration from the University of Chicago Graduate School of Business and a juris doctorate from Baylor University School of Law.

Joseph Hintz, CFA

Investment Analyst

Joe provides fundamental equity research and analysis for U.S. Small Cap Value and U.S. Small Cap Value Income. He has been a member of the team since joining American Century Investments in 2015. Previously, Joe was a concert violinist and performed with the New World Symphony in Miami Beach, Florida, and the Saginaw Bay Symphony Orchestra in Michigan, as well as several orchestra ensembles in San Diego, California. Joe holds a bachelor's degree in music from the Oberlin Conservatory of Music, a master's degree in music from the University of Michigan and a master's degree in business administration from the Johnson Graduate School of Management at Cornell University.

Raheel Hirji

Investment Analyst

Raheel provides fundamental research and analysis for the U.S. Small Cap Value and U.S. Small Cap Income strategies. He has been a member of the team managing these strategies since joining American Century in 2020. Previously, Raheel was a municipal finance investment banking assistant vice president with George K. Baum & Company and an institutional associate with Thornburg Investment Management, Inc. He has worked in the industry since 2014. Raheel holds a bachelor's degree in business administration from the University of New Mexico and master's degree of business administration from the SC Johnson College of Business at Cornell University.

Michael Rode

Vice President

Senior Client Portfolio Manager

Mike is a member of the Global Value Equity group and is responsible for communicating global value equity strategies and results to the firm's clients and consultants. Prior to joining American Century Investments in 2018, Mike was managing director, Institutional Equity Sales, at SunTrust Robinson Humphrey. Previously, Mike was managing director, Institutional Equity Sales, at Needham & Company LLC, and vice president, Institutional Equity Sales at C.E. Unterberg, Towbin. Mike has worked in the investment industry since 2003. Mike holds a bachelor's degree in finance with a minor in English from Marist College.

Matthew Oldroyd, CFA, CAIA

Vice President

Head of Client Portfolio Management

Matt is responsible for managing a team of individuals that represent portfolio management in communicating investment strategies and results to the firm's clients and investors. Matt is also a member of the Global Value Equity group and is responsible for communicating global value equity investment strategies and results to the firm's clients and consultants. Previously, he was vice president and senior relationship manager, responsible for developing and maintaining relationships with institutional clients. Prior to joining American Century Investments in 2000, Matt was a client advisor at JPMorgan Investment Management. He has worked in the investment industry since 1994. Matt earned a bachelor's degree in international studies and German from American University. He also spent a year on post-graduate scholarship at the University of Cologne in Germany. He is a CFA charterholder, holds the CAIA designation and is a member of the CFA Institute and the CAIA Association.

Peter Hardy, CFA

Vice President

Senior Client Portfolio Manager

Peter is a member of the Global Value Equity group and is responsible for communicating investment strategies and results to clients. Prior to joining American Century Investments in 2008, he was director of institutional client service and consultant relations at Morgan Asset Management, the investment management subsidiary of Regions Financial. Peter also was chief investment officer for Regions Financial Benefit Plans. Previously, he was vice president and equity portfolio manager at Trusco Capital Management and portfolio manager at STI Capital Management. Peter earned a bachelor's degree in business administration from Furman University. He is a CFA charterholder and a member of the CFA Institute.

Available Vehicles

Separate Account	Available in U.S. and certain non-U.S. countries
Subadvisory Account	Available in U.S. and certain non-U.S. countries
Collective Investment Trust	Available only in U.S.
Small Cap Value Fund	Available only in U.S.
I Share Class - ACVIX	
R6 Share Class - ASVDX	
R5 Share Class - ASVGX	
Investor Share Class - ASVIX	
A Share Class - ACSCX	
C Share Class - ASVNX	
R Share Class - ASVRX	
Y Share Class - ASVYX	

Risk management does not imply low risk.

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Portfolio construction guidelines document operational policies and not necessarily investment restrictions imposed on management of the strategy.

To receive a complete list of composite descriptions and/or a GIPS® compliant presentation, contact:

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