GOTHAM ASSET MANAGEMENT

April 27, 2020

Quarterly Letter—First Quarter 2020

We hope that you and your families are safe and well during this challenging period. While we are grateful for the health and safety of our team members, our thoughts are with those most affected by the pandemic and with the extraordinarily brave healthcare workers on the frontline. The firm has been working remotely and we've been fully operational throughout the crisis. We are proud of how our team members have come together and how seamlessly they have made this transition.

The S&P 500 and Russell 1000 lost approximately 20% in the first quarter. The Russell 2000, a small cap market weighted index, lost just over 30%. Despite market declines since the beginning of the year and taking into account the partial rebound so far in April (just over 9% month-to-date for the S&P 500 and 6% for the Russell 2000 at this writing), both market-cap weighted indexes remain expensive relative to our research history for the last 30 years.

In fact, the Russell 2000 at current levels remains in the 2nd percentile towards expensive over the last 30 years implying a cumulative positive return of only 2-4% over the next two years based on similar valuation levels in the past. The market cap weighted S&P 500 is priced somewhat more attractively and now stands in the 16th percentile towards expensive over the last 30 years. From similar levels in the past, returns have averaged 4-6% over the next year and 10-12% cumulatively over the next two years. In other words, valuations suggest modest but positive returns for the S&P from these levels.

But buried within these market-cap weighted indexes is opportunity. In comparison, the Russell 1000 equally weighted index now sits in the 36th percentile towards expensive with forward returns based on past history averaging 26-28% cumulatively over the next two years. This disparity between market-cap weighted and equally weighted indexes among large cap stocks should present stock pickers a particularly attractive universe to choose from over the next several years relative to standard indexes.

However, the real opportunity can be seen by taking a look at the pricing disparity of the cheapest stocks within each universe. We also have a 30-year valuation history for the cheapest stocks in the Russell 1000 comprising our 1000 US Value composite. This composite chooses the cheapest stocks within the Russell 1000 according to our valuation methodology and puts more weight on those considered cheapest. The composite holds over 700 stocks with a diversity similar to an equally weighted portfolio of approximately 300 stocks. This composite of the cheapest stocks within the Russell 1000 now sits in the 86th percentile towards cheap over our 30-year research history corresponding with a two-year forward expected return of over 50% based on similar valuation levels in the past.

Our 2000 US Value composite constructed from the cheapest stocks within the Russell 2000 illustrates a similarly attractive opportunity. This composite is currently priced in the 96th percentile towards cheap over the last 30 years. Also consisting of over 700 stocks with a diversity similar to an equally weighted portfolio of over 300 stocks, from similar levels in the past this composite suggests an opportunity over the next two years of over 60% returns based on our research history.

Of course, though widely diversified, these are extreme portfolios--not risk balanced for concentration in sectors or industry groups--but they do illustrate the attractive opportunity set for our long only and long/short strategies to choose from as well as the potential and opportunity for valuation based strategies to significantly outperform over the next several years. Notably, the magnitude of this disparity in valuation between the market cap weighted Russell 1000 and our 1000 U.S. Value composite has occurred less than 1% of the time during our 30-year research history.

While the severity and duration of the current crisis are unknown, we believe that most of its headwinds will subside and that company earnings and business prospects will rebound substantially over the next few years. This is important as valuations based on normalized earnings and growth rates looking two to three years out typically drive stock returns over the long term. In the meantime, favoring cash flow generating companies with good returns on capital and strong balance sheets (and shorting the opposite) should provide a particularly attractive opportunity for outperformance.

Thank you for your continued trust and partnership. Please stay safe and well.

Sincerely,

Joel Greenblatt and Robert Goldstein

Managing Principals and Co-Chief Investment Officers

Important Information

This document contains forward-looking statements regarding future events, forecasts and expectations regarding equity markets and certain of Gotham's strategies. Forward-looking statements may be identified terminology such terms as "may," "expect," "will," "hope," "believe" and/or comparable terminology. No assurance, representation, or warranty is made that any of Gotham's expectations, views and/or objectives will be achieved and actual results may be significantly different than reflected herein. Market valuations and our research are no guarantee or projection of fund performance. Index valuations are based on Gotham's valuation methodology and are as of January 29, 2020.

Broad-based securities indexes mentioned herein are unmanaged and are not subject to fees and expenses typically associated with investment funds. Investments cannot be made directly in an index. The performance and volatility of Gotham's strategies will be different than those of the indices.

The S&P 500 Index and Russell 1000 Index are commonly followed equity indices and are generally considered barometers of the U.S. equity market. The Russell 2000 Index is a commonly followed equity index and is generally considered a barometer of the U.S. small to mid-capitalization markets. Returns for the indices include the reinvestment of income.

The Russell 1000 Equal Weight Index equally weights each sector within the Russell 1000 and then equally weights the companies within each sector.

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