BARROW FUNDS

Commentary

September 2017

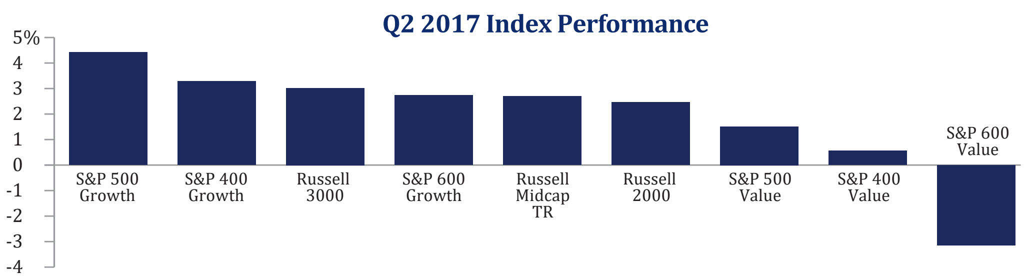
Quality and Value in a “Risk-on” Environment

Principals Nicholas Chermayeff, Robert Greenhill Jr. and David Bechtel provide their perspective on the markets and Barrow Funds.

1 Would you please comment on overall market performance in the second quarter of 2017?

Despite certain sectors with massive underperformance, overall market performance for the quarter was positive and “risk on” sentiment continues to be the consensus among investors. During the second quarter of 2017, large-capitalization companies outpaced mid- and small-caps while growth handily outperformed value. Small-cap value was the biggest loser, as the group was down more than 3% for the quarter.

Digging a little deeper, we can attribute the growth-over-value spread (across all market cap segments) to the underperformance of energy stocks, which heavily populate the value indices, and the outperformance of health care, whose companies mostly reside in the growth indices. The all-cap S&P 1500 Health Care Index rose 7% while the all-cap S&P 1500 Energy Index fell 7% following a 9% drop in West Texas Intermediate (WTI) spot prices for the quarter.



2 What do you expect regarding growth/value leadership for the remainder of 2017?

While most factors reveal investors are more than willing to take on risk, historically traditional value has posted its strongest returns during periods of strong economic growth early in the economic cycle. The value factor typically wanes later in the cycle as investors search for secular growth opportunities when economic growth slows down. Since we seem to be in the later stages of the economic cycle, we would expect investors to continue to favor momentum/non-earners. As the economy slows, investors may start rotating into higher quality names (high operating margins, high ROE, low financial leverage etc.) that we tend to favor and which have historically outperformed growth over the long run.

3 What are the ideal market conditions for the Barrow Value Opportunity Fund to outperform? In what conditions does the strategy generally underperform?

Current markets seem to be operating in a peculiar manner in that they are contradicting one of the main principles of finance: Investors demand higher returns when taking on higher risk. It appears that this axiom has completely broken down at the individual stock level and instead market participants are overpaying for higher risk stocks while underpricing lower risk stocks.

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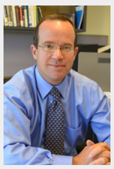
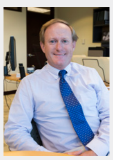
Barrow Street Advisors Leadership

Nicholas Chermayeff
Principal
- 26 years of industry experience
- BA Harvard College



Robert F. Greenhill, Jr.
Principal
- 27 years of industry experience
- BA Harvard College
- MBA Harvard Business School



David R. Bechtel
Principal
- 27 years of industry experience
- BA Yale University
- JD Stanford Law School

About Barrow Street

Barrow Street Advisors LLC is a registered investment advisor and is an affiliate of Barrow Street Capital LLC which is an investment management firm that manages value-oriented private and public equity strategies.

Headquartered in Stamford, CT the firm serves pension funds, sovereign funds, endowments, foundations, family offices and high net worth individuals. Since its inception, Barrow Street Advisors LLC and Barrow Street Capital LLC have invested approximately $550 million, cumulatively, of equity in private and public equity strategies.

For More Information

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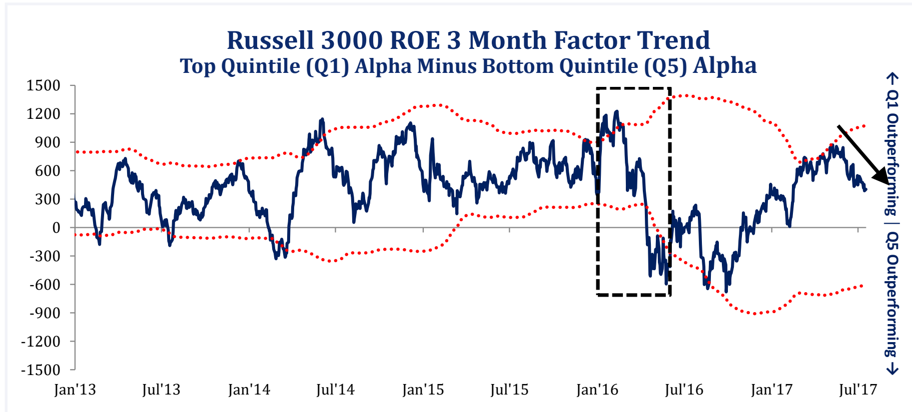
Currently, many inefficient (low return on equity and low operating margins), levered (high financial leverage firms), high beta, and profitless firms are in favor and outperforming. After years of quantitative easing, many investors may no longer be concerned with downside risks and are in search of high returns similar to what we've seen in companies like Amazon. In environments like these, disciplined, "Quality-meets-Value" strategies often lag.

Going forward we expect markets to return to normal conditions where Quality-meets-Value strategies should outperform.

4 What areas of the market appear more compelling from a valuation perspective?

We are finding compelling stocks across all market cap segments. However, from a strictly valuation perspective (EV/EBITDA), we are finding value in the small- and mid-cap consumer space. Over the past year, with the focus on large-cap technology stocks and their outperformance (e.g. FAANG), many smaller consumer companies have been overlooked by the market. While valuation is only one part of our stock selection process, we find these inexpensive areas of the market good places to start our hunt.



Source: Strategas Research Partners, 7/20/17

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Investors appear to be favoring low quality stocks, as companies with low operating margins have outperformed those with high operating margins. In addition, firms with high financial leverage have outperformed firms with low financial leverage. As shown in the chart above, low return on equity (ROE) firms in the Russell 3000 Index have outperformed high ROE firms, with stocks in the highest quintile underperforming those in the lowest quintile.

Despite this trend, at Barrow, we continue to seek companies with high returns on capital, ample cash flow, growth and low levels of leverage as we believe these stocks offer the potential for long-term outperformance. In our Consolidated Report, we analyze the underlying businesses to give us the conviction to hold onto our strategy which may be offering high quality companies trading at a substantial discount.

Important Information

Mutual fund investing involves risk. Principal loss is possible. The Fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The prospectus contains this and other important information about the Fund and may be obtained by calling 1-877-767-6633. Read it carefully before investing. Distributed by Ultimus Fund Distributors, LLC.

Performance data quoted represents past performance; past performance does not guarantee future results.

Investment in the Funds are subject to stock market risk, large-cap risk, mid-cap risk, small-cap risk, exchange traded funds risk, management style risk, value investing risk, and short sale risk (including more information about the risks listed above), please read the prospectus.

The **Russell 3000 Index** is a capitalization-weighted stock market index that seeks to be a benchmark of the entire U.S stock market. The **Russell Midcap Index** is a market capitalization weighted index representing the smallest 800 companies in the Russell 1000 Index. The **Russell 2000 Index** is a small-cap stock market index of the bottom 2,000 stocks in the Russell 3000 Index. The **S&P Composite 1500 Index** combines three leading indices, the S&P 500, the S&P MidCap 400, and the S&P SmallCap 600 to cover approximately 90% of the U.S. market capitalization. The **S&P 500 Index** is an unmanaged index of equity prices and is representative of a broader market and range of securities than is found in the Fund's portfolio. The **S&P 400 Index**, is a stock market index from S&P Dow Jones Indices. The index serves as a barometer for the U.S. mid-cap equities sector and is the most widely followed mid-cap index. The **S&P 600 Index** covers roughly the small-cap range of U.S. stocks, using a capitalization-weighted index. Investors cannot invest directly in an index. The **S&P 1500 Health Care Index** measures the performance of the healthcare sector of the U.S. equity market. The **S&P 1500 Energy Index** measures the performance of the energy sector of the U.S. equity market. It is not possible to invest directly in indexes which are unmanaged and do not incur fees and charges.

West Texas Intermediate is a grade of crude oil used as a benchmark in oil pricing. **Beta** is a measure of the volatility of a security or a portfolio in comparison to the market as a whole. **EV/EBITDA** is the enterprise value of a company divided by its earnings before interest, taxes, depreciation and amortization.