American Century Investments®

WHY QUALITY STOCKS NOW?

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We think holding quality equities is always in style, but current conditions appear particularly favorable.

KEY TAKEAWAYS

- We believe high-quality companies are particularly attractive now.
- High-quality stocks have historically outperformed the broad market over the long term.
- High-quality companies are trading at a discount to the broad market.

WHAT IS THE DEFINITION OF QUALITY?

In our view, quality companies have the following characteristics.

Productive Assets

- High, stable and sustainable return on capital.
- Attractive free cash flow generation.

Low Financial Leverage

- Low balance sheet risk.
- Low levels of debt.

Franchise Sustainability

- Sustainable competitive advantage.
- High barriers to entry.

Return on capital

Net income divided by assets. This measurement shows how well the company uses its assets to generate profits.

Free cash flow

Money remaining after a business pays its operating costs and any capital expenditures.

Source: American Century Investments.

LONG-TERM PERFORMANCE

We compared the long-term performance of high-quality companies to the broad U.S. stock market from 2002 to 2022.

How did high-quality companies stack up?

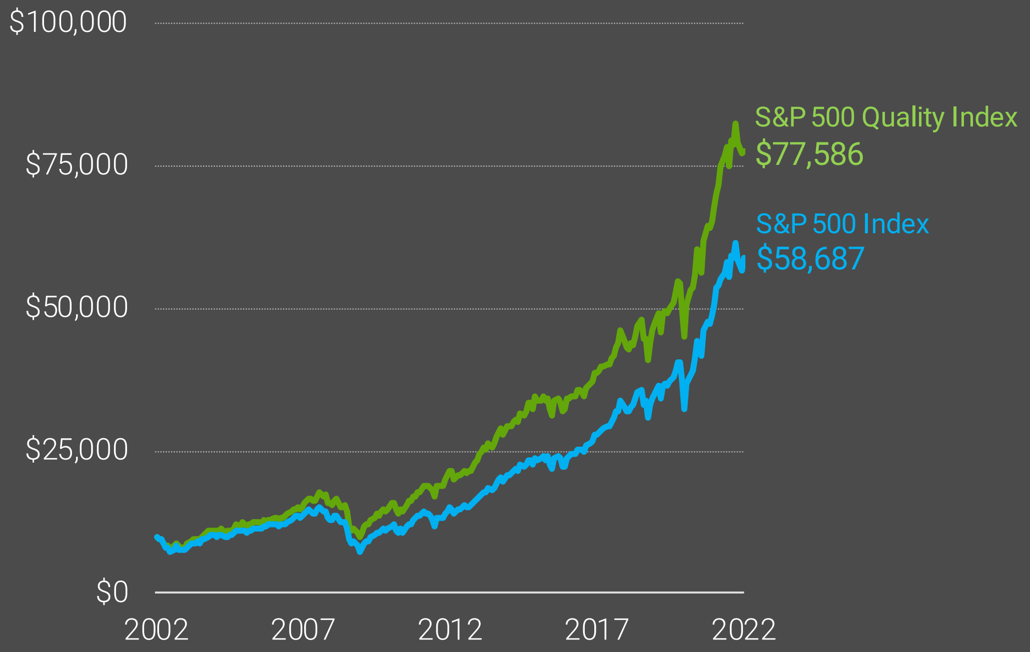
A $10,000 investment in the S&P 500® Quality Index would have grown to

$77,586

The same investment in the S&P 500 Index would have grown to

$58,687

Growth of $10,000 over the Last 20 Years



Data from 3/31/2002-3/31/2022. Source: Morningstar. **Past performance is no guarantee of future results.**

LOWER VALUATIONS

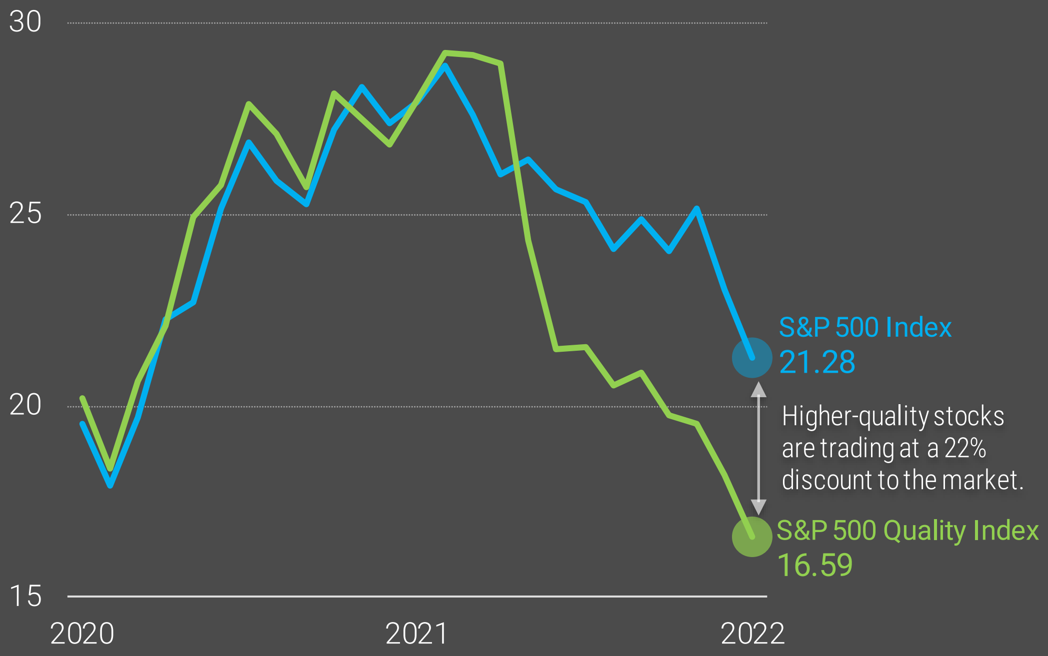
High-quality stocks are cheaper than the broad market.

Quality stocks have underperformed since the COVID-19 vaccine announcements in November 2020, sending their valuations lower.

As a result, the S&P 500 Quality Index is trading at a 22% discount to the broader index.

In the future, we think investors will begin assessing risk more prudently as government stimulus fades, economic growth moderates and interest rates rise.

Price-to-Earnings Ratio (P/E)



Data from 3/31/2020-2/28/2022. Source: Morningstar. Price-to-earnings ratio (P/E) is the price of a stock divided by its annual earnings per share. A P/E ratio allows analysts to compare stocks based on how much an investor is paying (price) for a dollar of recent or expected earnings. **Past performance is no guarantee of future results.**

SUMMARY

	S&P 500 Quality Index	S&P 500 Index
Outperformance 20 years ended 3/2022	✓	
Lower valuations As of 2/2022	✓	

S&P 500® Index. Composed of 500 selected common stocks most of which are listed on the New York Stock Exchange.

S&P 500 Quality Index. An index designed to track high-quality stocks in the S&P 500 by quality score, which is calculated based on return on equity, accruals ratio and financial leverage ratio. **Return on equity.** A company's trailing 12-month earnings per share divided by its latest book value per share. Book value is the difference between a company's total assets and total liabilities.

Accruals ratio. The change in a company's net operating assets over the last year divided by the company's average net operating assets over the last two years. Net operating assets are those assets directly related to a company's operations.

Financial leverage. A company's latest total debt divided by its book value.