Core Equity Portfolio

Portfolio Manager Commentary

As of 6/30/2019

EquityCompass

Q2 2019 Overview

After a strong first quarter, U.S. equities, as measured by the S&P 500 Total Return Index, continued to march higher by 4.30% for the quarter and 18.54% for the first six months of the year marking the strongest first-half yearly return since 1997. Concerns over growing trade tensions and possible hesitation from the Federal Reserve (Fed) in lowering its targeted Fed Funds rate were the main drivers of market volatility intra-quarter.

At the end of the first quarter, the Fed funds futures implied just a 28% chance of a cut in the targeted rate. However, by the end of June, futures were near certain of a reduction, implying a 97% chance. As a result of this changing sentiment on interest rates, the yield on the U.S. 10-year Treasury Bond fell to 2.01% at the end of the second quarter, down from 2.42% the previous quarter. Shorter-term Treasury yields fell by a greater margin in the quarter, resulting in a steepening of the yield curve that helped propel Financials as the best performing sector for the quarter, rising 7.82%. Materials (+6.13%) and the Information Technology (+5.94%) sectors were also among the top performers.

The price of oil ended the quarter fairly unchanged at $54.44 a barrel, but concerns over earnings from the prolonged impact of lower oil prices—down nearly 24% from their highs in October 2018—helped drag the Energy sector lower. Expectations for earnings over the next 12 months for Energy stocks in the S&P 500 fell more than 6% in June alone. The sector led losses for the quarter falling 3.10%. Real Estate (+2.20%) and Health Care (+1.25%) had relatively marginal gains in the quarter.

Small cap stocks, as measured by the S&P Small Cap 600, continued to lag their larger cap brethren in the S&P 500 by 2.43%. Growth advanced over value for the quarter as the S&P 500/Citigroup Growth Index advanced 4.16% edging out the 3.36% gain for S&P 500/Citigroup Value Index. The performance gap between growth and value, while marginal for the quarter, is far more striking when viewed through a five-year lens. Growth has outperformed value stocks by a staggering 6.1% per year for the trailing five-year period ending June 30, 2019. Bonds, as measured by the Bloomberg Barclays U.S. Aggregate Bond Index advanced 3.08% and global stocks gained 3.79% as measured by the MSCI World ex-U.S.A. Net Total Return Index.

The **Core Equity Portfolio (CEP)** increased by 3.37% (3.29% net) in the second quarter slightly higher than its hybrid benchmark of 3.30%. Equity exposure for the portfolio was maintained throughout the quarter at 60% as the Equity Risk Management Strategy (ERMS) allocation was fully invested in equities versus a defensive position the previous quarter. The Equity Risk

Objective

Risk-managed core equity strategy that seeks to exceed the broad equity market returns while minimizing volatility

Portfolio Management Team

Tim McCann
Senior Portfolio Manager

About EquityCompass

EquityCompass is a Baltimore-based SEC registered investment adviser offering a broad range of portfolio strategies and custom plans for individuals, financial intermediaries, and institutional clients in the U.S. and Europe. Formally organized in 2008, EquityCompass provides portfolio strategies with respect to total assets of approximately $4.2 billion as of June 30, 2019.*

The EquityCompass team of professionals represents deep industry experience in security analysis, capital markets, and portfolio management. We are committed to a consistent investment process that relies on enduring principles, sound empirical reasoning, and the recognition of a dynamic investment environment with a global reach.

	Total Returns			Annualized Returns				Calendar-Year Returns						
	3-Mos	6-Mos	YTD	1-yr	3-yr	5-yr	Incp.	2012	2013	2014	2015	2016	2017	2018
Gross %	3.37	9.16	9.16	-1.14	8.69	5.11	7.46	15.50	30.13	7.80	-1.75	6.90	20.95	-7.87
Net %	3.29	8.98	8.98	-1.48	8.20	4.62	6.95	14.94	29.51	7.26	-2.23	6.37	20.36	-8.26
Benchmark %	3.30	15.10	15.10	5.22	11.03	6.93	8.00	13.44	25.33	6.68	-0.38	9.03	18.90	-6.96

Inception – May 2011; Benchmark = 54% Russell 3000 Index / 13% MSCI World ex-USA Index / 33% HFRI Equity Hedge Index
The information provided herein is supplemental to the GIPS performance presentation. To obtain a compliant presentation or a list of our composite descriptions and/or policies for valuing portfolios, calculating performance, and preparing compliant presentations, please call (443) 224-1231 or send an e-mail to info@equitycompass.com.

Management Strategy component had a positive contribution to relative returns for the quarter. Negative contributions came from exposure to international equities due to a relative overweight in emerging market equities—which barely eked out a positive gain for the quarter. Additionally, owning disproportionate allocation to underperforming small cap and value stocks created significant headwinds over the last five years that have weighed on relative performance over the same time. We look forward to small cap and value to return to favorability—characteristics which tend to perform well over longer periods.

Outlook

We entered 2019 on a cautionary note by reducing our equity exposure to the most defensive position possible for January and February. However, expectations for earnings rebounded sharply after markets rallied on a reversal of the Federal Reserve's position on short-term interest rates. This rebound diverted markets away from a near bear market correction of 20% to within an ear shot of new all-time highs for the S&P 500 and Dow Jones Industrial Average by the end of the second quarter.

While equity markets currently show favorable trends for earnings estimates and price movements, we enter the second half of the year cautiously optimistic. The second half of the year is less likely to be as robust as the first, in our view. Valuations are somewhat elevated with the S&P 500 now trading at 17.0x our forward estimate for earnings, up from 14.7x as of the end of last year. Additionally, earnings expectations have undergone some recent deceleration resulting in a marginal contraction of our forward 12-month estimates in June. A second monthly reduction in estimates in July would indicate an unfavorable earnings trend and thus a reduction in the portfolio's equity exposure.

Lastly, excessively strong equity returns, such as the one in the previous six months, are sometimes followed by below-average returns as the catalysts cited in the first advance diminish in their impact to fuel an encore. Looking at the performance of the S&P 500 for the first six months of each calendar year going back to 1928, there have been nine occurrences where the index's advance was greater than it has been in 2019. During those years, the market declined in the second half of the year six times, and advanced three times, with an average return of +0.27% exclusive of dividends.

DISCLOSURES

On September 21, 2018, the name of the Tactical Core Equity Portfolio was changed to Core Equity Portfolio. The information contained herein has been prepared from sources believed to be reliable but is not guaranteed and is not a complete summary or statement of all available data nor is it considered an offer to buy or sell any securities referred to herein. There is no assurance that any securities discussed herein will remain in any account's portfolio at the time you receive this report or that securities sold have not been repurchased. Data represented in this report have been provided by EquityCompass and Bloomberg. EquityCompass Investment Management, LLC ("EquityCompass") is a wholly owned subsidiary and affiliated SEC registered investment adviser of Stifel Financial Corp. For more information about Stifel's investment advisory programs, including applicable fee schedules, please contact your Financial Advisor to request a copy of the Stifel ADV Part 2A or equivalent disclosure brochure. Affiliates of EquityCompass may, at times, release written or oral commentary, technical analysis, or trading strategies that differ from the opinions expressed within. Opinions expressed are subject to change without notice and do not take into account the particular investment objectives, financial situation, or needs of individual investors. All investments involve risks, including the risk of a possible loss of principal. Rebalancing may have tax consequences, which should be discussed with your tax advisor. Foreign investments are subject to risks not ordinarily associated with domestic investments, such as currency, economic and political risks, and different accounting standards. There are special considerations associated with international investing, including the risk of currency fluctuations and political and economic events. Investing in emerging markets may involve greater risk and volatility than investing in more developed countries. Small company stocks are typically more volatile and carry additional risks, since smaller companies generally are not as well established as larger companies. The market risk associated with small-cap and mid-cap stocks is generally greater than that associated with large-cap stocks because small-cap and mid-cap stocks tend to experience sharper price fluctuations than large-cap stocks, particularly during bear markets. Due to their narrow focus, sector-based investments typically exhibit greater volatility and are generally associated with a high degree of risk.

Representative Portfolio Performance: Returns reflect the performance of a representative portfolio from inception on 5/1/11. The portfolio was selected because it is the oldest continuous account in the strategy with no cash flows or mandate changes. EquityCompass believes the representative performance is useful in terms of presenting the objectives and character of the strategy, however, returns are calculated separately for each portfolio, and therefore, performance may differ from one portfolio to another. There is no assurance that EquityCompass will make any investments with the same characteristics as the representative account presented. Gross-of-fees returns are not reduced by any fees, expenses, or transaction costs (i.e. Pure Gross). Net-of-fees returns are presented after the deduction of the manager fee of 0.50% until 6/30/18 and 0.35% starting 7/1/18. There will be additional wrap sponsor fees, including trading expenses and management fees, which will vary by wrap sponsor. These additional fees will lower overall net performance. Please consult the wrap sponsor ADV Part 2A for additional fee information.

Exchange Traded Funds (ETFs) represent a share of all stocks in a respective index. ETFs trade like stocks and are subject to market risk, including the potential for loss of principal, and may trade for less than their net asset value. The value of ETFs will fluctuate with the value of the underlying securities. Inverse ETFs are considered risky and are not suitable for all investors. Typically, these products have one-day investment objectives, and investors should monitor such funds on a daily basis. Inverse ETFs are constructed by using various derivatives for the purpose of profiting from a decline in the value of an underlying benchmark. Investing in inverse ETFs is similar to holding various short positions, or using a combination of advanced investment strategies to profit from falling prices. Investors should review the prospectus and consider the ETF's investment objectives, risks, charges, and expenses carefully before investing. Prospectuses are available through your Financial Advisor and include this and other important information.

The S&P 500® Index is a broad market index that tracks the performance of 500 stocks from major industries of the U.S. economy. This index is generally considered representative of the U.S. large capitalization market. The S&P 500 Total Return Index tracks both the capital gains of the stocks in the S&P 500 Index over time, and assumes that any cash distributions, such as dividends, are reinvested back into the index. Looking at an index's total return displays a more accurate representation of the index's performance. By assuming dividends are reinvested, you effectively have accounted for stocks in an index that do not issue dividends and instead, reinvest their earnings within the underlying company. The S&P SmallCap 600 covers approximately 3% of the U.S. equities market. Measuring the small cap segment of the market that is typically renowned for poor trading liquidity and financial instability, the index is designed to be an efficient portfolio of companies that meet specific inclusion criteria to ensure that they are investable and financially viable. The S&P 500/Citigroup Growth Index (formerly S&P 500 Barra Growth Index) is an index of stocks representing approximately half of the market capitalization of the stocks in the S&P 500 index that, on a growth-value spectrum, have been identified as falling either wholly or partially within the growth half of the spectrum based on a number of factors. Until December 16, 2005, when Standard & Poor's changed both the name of the index and its calculation methodology, the index was called the S&P 500/BARRA Growth Index. The S&P 500/Citigroup Value Index (formerly the S&P 500 Barra Value Index) is an index of stocks representing approximately half of the market capitalization of the stocks in the S&P 500 Index that, on a growth-value spectrum, have been identified as falling either wholly or partially within the value half of the spectrum based on a number of factors. Until December 16, 2005, when Standard & Poor's changed both the name of the index and its calculation methodology, the index was called the S&P 500/BARRA Value Index. Bloomberg Barclays U.S. Aggregate Bond Index covers the USD-denominated, investment grade, fixed-rate, taxable bond market of SEC-registered securities. The index includes bonds from the Treasury, Government-Related, Corporate, MBS (agency fixed-rate and hybrid ARM passthroughs), ABS, and CMBS sectors. The Russell 3000 Index measures the performance of the largest 3000 U.S. companies representing approximately 98% of the investable U.S. equity market. HFRI Equity Hedge (Total) Index (HFRIEHI) is a fund-weighted index of strategies that maintain positions both long and short in primarily equity and equity derivative securities. A wide variety of investment processes can be employed to arrive at an investment decision, including both quantitative and fundamental techniques, strategies can be broadly diversified or narrowly focused on specific sectors and can range broadly in terms of levels of net exposure, leverage employed, holding period, concentrations of market capitalizations and valuation ranges of typical portfolios. The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the Nasdaq. The MSCI World ex-USA Net Total Return Index is a free-float weighted equity index. The MSCI World ex USA All Cap Index captures large, mid, small and micro cap representation across 22 of 23 Developed Markets countries (excluding the United States). With 8,138 constituents, the index covers approximately 99% of the free float-adjusted market capitalization in each country. Indices are unmanaged, do not reflect fees and expenses, and it is not possible to invest directly in an index. The volatility of the indices identified in this report may be materially different from the volatility of the model portfolios presented by EquityCompass.

*Total assets combines both Assets Under Management and Assets Under Advisement as of June 30, 2019. Assets Under Management represents the aggregate fair value of all discretionary and non-discretionary assets, including fee paying and non-fee paying portfolios. Assets Under Advisement represent advisory-only assets where the firm provides a model portfolio and does not have trading authority over the assets. **Past performance does not guarantee future performance or investment results.**