

Select Quality Growth & Income Portfolio

Portfolio Manager Commentary

As of 09/30/2018



3Q 2018 Commentary

Select Quality Growth & Income (SQLT) portfolio gained 4.63% on a gross basis including dividends (4.28% net) in the third quarter of 2018 versus an increase of 7.71% for the S&P 500 Total Return Index. The objective of SQLT is to provide returns that are above the S&P 500 over time without taking undue risk. We are pleased that going back to inception in January 2006, the portfolio has outperformed in eight of 12 years—or 75% of the time. That also means there are four years in which Select Quality underperformed the S&P 500. While lagging the market in the short term can be frustrating, it is not unprecedented. This in no way changes our outlook for the portfolio, and its history of success supports our belief in the investment process.

Performance trends in the market have reflected strong biases that have been unfavorable for SQLT relative to the S&P 500. Our investment process tries to be similar to the S&P 500 in areas where we don't think we can have a consistent advantage, and different where it can provide a performance benefit. Trying to pick the favored sector at any given moment is difficult to do on a consistent basis, in our view. As a result, we manage the portfolio to look similar to the S&P 500 in terms of sector exposure and seek to be different from the S&P 500 where we think it provides an exploitable advantage over time. These areas include market capitalization and our focus on identifying stocks we believe have become mispriced. We believe there are dynamic growth opportunities in small- and mid-cap stocks outside the S&P 500, so we will purposely diverge from the benchmark by having exposure to these stocks. For example, in the third quarter of 2018, SQLT had approximately 40% exposure to mid-caps.

Our discipline for identifying mispriced stocks favors lower multiple value stocks over higher multiple growth stocks, which differs from the growth-dominated S&P 500. Only about 20% of stocks in SQLT are characterized as growth. The third quarter saw strong relative performance for larger stocks and continued investor preference for growth stocks over value stocks. The S&P 100 LargeCap Index was up 8.91% versus a gain of only 3.86% for the S&P MidCap 400 Index. The S&P 500 Citigroup Growth Index gained 9.28% compared to a gain of only 5.86% for the S&P 500 Citigroup Value Index. Returns for the portfolio were in line with value and mid-cap performance.

There were six changes to SQLT in the third quarter. Evercore Inc. (EVR), Hanesbrands Inc. (HBI), ITT Corp. (ITT), Allergan Plc (AGN), Convergys Corp. (CVG), and Snap-On Inc. (SNA) were removed. They were replaced with TD Ameritrade Inc. (AMTD), Royal Caribbean Cruises Ltd. (RCL), AbbVie Inc. (ABBV), Northrop Grumman Corp. (NOC), Fortune Brands Home & Security Inc. (FBHS), and Gaming & Leisure Properties Inc. (GLPI). The addition of GLPI re-establishes exposure to the Real Estate sector to provide the portfolio with exposure to all 11 S&P major economic sectors.

Objective

Seeks to provide capital appreciation and income through a diversified portfolio of high-quality stocks.

Portfolio Management Team



Michael S. Scherer
Senior Portfolio Manager



Timothy M. 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 over \$4.2 billion as of September 30, 2018.*

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	10-yr	Incp.	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Gross %	4.63	9.11	6.43	12.53	17.04	13.50	12.96	10.96	-38.89	44.87	16.86	4.49	15.89	31.41	14.62	-0.23	14.84	25.66
Net %	4.28	8.35	5.31	10.93	15.34	11.82	11.26	9.32	-39.86	42.53	15.17	2.90	14.08	29.42	12.84	-1.70	13.14	23.81
Benchmark %	7.71	11.41	10.56	17.91	17.31	13.95	11.97	9.15	-37.00	26.46	15.06	2.11	16.00	32.39	13.69	1.38	11.96	21.83

Inception – January 2006; Benchmark = S&P 500 Total Return Index

The performance returns presented have been calculated based on the performance of separately managed accounts invested in the strategy in the Stifel Opportunity Program. The returns were calculated by Stifel, in accordance with their calculation procedures. In this instance, EquityCompass is a model provider only and does not have discretion over implementing portfolio decisions.

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Stocks that were added to the portfolio had an average projected 5-year earnings growth of 20.9% versus an average of 8.0% for stocks that were removed. The average projected earnings growth of stocks in the portfolio increased to 15.8% as of quarter end (9/30/2018) versus 15.4% at the end of the second quarter of 2018. The average dividend yield also increased from 1.94% to 2.14%, which is higher than the 1.85% yield of the S&P 500. The average 3-year estimated dividend growth of stocks remaining in the portfolio is now 9.1%. Of the 30 holdings in the portfolio, 27 have raised their dividend from 2017 levels, with an average increase of 17.5%. From a valuation perspective, SQLT remains at a discount to the S&P 500 based on price to forward 12-month earnings (P/E), with an average P/E of 14.7x compared to 16.9x for the S&P 500.

While short-term returns have been below those of the S&P 500, we believe our discipline of focusing on quality stocks trading at attractive prices will be rewarded over time. With a higher average dividend yield and lower P/E than the S&P 500, we like how the portfolio is positioned from a valuation standpoint. Perhaps more importantly, we feel good about the increased earnings growth estimates for the holdings as a whole. We will continue to strive to identify quality stocks that create value for shareholders at attractive prices.

DISCLOSURES

This material is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon as such.

Securities discussed in this material were selected because they had dividend increases or decreases in the most recent period and not based on any measurement of performance of the underlying security. Any projections, targets, or estimates in this report are forward looking statements and are based on EquityCompass Strategies' research, analysis, and assumptions made by the Adviser. Changes in market conditions or a company's financial condition may impact a company's ability to continue to pay dividends. Companies may also choose to discontinue dividend payments. Due to their narrow focus, sector-based investments typically exhibit greater volatility and are generally associated with a high degree of risk. Rebalancing may have tax consequences, which should be discussed with your tax advisor.

Actual performance for a client may differ due to such factors as timing, economic and market conditions, cash flows, and client constraints. Performance information has been provided by Morningstar Direct.

*Total assets combines both Assets Under Management and Assets Under Advisement as of September 30, 2018. 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.

The performance and statistics shown in this profile are calculated based on composite performance beginning January 1, 2006 and ending with the date shown on this profile. Performance is based upon the asset-weighted performance of all client accounts invested in this strategy (accounts having investment restrictions may be removed from the composite for performance calculation purposes) and is shown on a gross and net of fee basis. Gross of fees means that the figures do not reflect any deductions for investment management fees, trading costs, taxes, or any other costs associated with a managed account. Net of fees means that the figures reflect deductions for investment management fees and trading costs, but do not reflect taxes. As depicted in the benchmark index performance herein, market returns were generally consistent with strategy returns, although some disparities exist from time to time. Significant disruptions in market or economic conditions may impact the results portrayed. Any projections, targets, or estimates in this report are forward looking statements and are based on EquityCompass Strategies' research, analysis, and assumptions made by the Adviser.

The Standard & Poor's 500 Index is an unmanaged, capitalization-weighted index that includes the reinvestment of dividends but does not include adjustments for brokerage, custodian, and advisory fees. This index is generally considered representative of the U.S. large capitalization market. Indices are unmanaged, do not reflect fees and expenses and are not available for direct investment. The S&P 500 Total Return Index seeks to replicate the economic performance of a total return on the S&P 500. The S&P 100 Index measures the performance of large cap companies in the United States. The index is comprised of 100 major, blue chip companies across multiple industry groups. The S&P MidCap 400[®] provides investors with a benchmark for mid-sized companies. The index covers over 7% of the U.S. equity market, and seeks to remain an accurate measure of mid-sized companies, reflecting the risk and return characteristics of the broader mid-cap universe on an on-going basis. The S&P 500/Citigroup 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. The S&P 500/Citigroup 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.

This portfolio, a part of the Stifel Opportunity Program, is a proprietary product developed by EquityCompass Strategies, which is a research and investment advisory unit of Choice Financial Partners, a wholly owned subsidiary and affiliated SEC Registered Investment Adviser of Stifel Financial Corp. Please note that the decisions to purchase, hold, and sell securities in these strategies are based on a combination of fundamental, technical, and/or quantitative analysis and may differ from the fundamental analysis used by a Stifel research analyst. Due to the potential for extreme levels of volatility, the Score strategy mentioned herein may only be appropriate for investors with a high tolerance for risk. An investment in this strategy is subject to market risk, including possible loss of the principal amount invested. The Select Quality Growth & Income Portfolio requires a \$35,000 minimum investment.

More information on the Opportunity Program is included in the Stifel Consulting Services Disclosure Brochure and Part 2A of the Manager's Form ADV, which may be obtained from your Financial Advisor and which further outlines the fees, services, exclusions, and disclosures associated with this program. The information contained herein is believed to be reliable and representative of the portfolios available through Stifel; however, the accuracy of this information cannot be guaranteed. Investors should consider all terms and conditions before deciding whether the Opportunity Program is appropriate for their needs. **Past performance does not guarantee future performance or investment results.**

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