Core Investment Portfolio

Portfolio Manager Commentary
As of 6/30/2021

Q2 2021 Overview

For the second quarter of 2021, the **Core Investment Portfolio (CIP)** gained 6.62% (6.53% net) compared to its blended benchmark, which was up 5.59%. Year-to-date, CIP is up 11.65% (11.45% net) compared to the benchmark, which gained 9.72%. Our long-term performance results can be found in the table below.

As expected the advent of the COVID-19 vaccination rollout that began in November of last year, has accelerated U.S. economic growth. After enduring a recession in 2020, U.S. real gross domestic product (GDP) growth advanced by 0.4% year-over-year in the first quarter of 2021—a small economic advance but definitely in the right direction. Now with the economy fully reopened, consensus GDP growth in the second quarter is expected to advance at 13.0% year-over-year—the fastest economic growth rate since World War II.

Last fall, we also suggested the most undervalued segment of the stock market was no longer growth stocks, which had gained substantially in price throughout 2020, but instead value stocks that had been largely dismissed by investors. Value stocks are the net beneficiaries of an expanding economy, and as a result of the recession from the second quarter of 2020 through year-end, many investors avoided these economically-sensitive stocks.

With the U.S. economy now strongly rebounding, value stocks had indeed outperformed growth at the beginning of the year. The combination of improving economic data, accelerated vaccinations and declining virus cases, and rising interest rates created an environment much more favorable for value stocks than growth in the first quarter. With growth stocks up modestly in the first quarter, value stocks enjoyed double-digit returns and carried portfolio performance.

The second quarter witnessed a shift in the market narrative and investor preference. Attention turned to the possibility of inflation and the Federal Reserve (Fed) stepping up its timeline for a reduction in easing and raising rates, as well as the potential threat of virus variants to reopening. Lower-than-expected job growth and commodity inflation highlighted logjams in the supply chain for materials and labor. Bond yields retreated, as the bond market viewed inflation as most likely transitory, and focused on the potential economic headwinds that could result from Fed tightening, tight supply chains, or virus resurgence. The 10-year U.S. Treasury yield dropped from as high as 1.8% in the first quarter to below 1.5% at the end

Objective

A multi-strategy wealth accumulation approach designed to provide long-term capital appreciation while helping to mitigate risk during bear market drawdowns

Portfolio Management Team

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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. Formally organized in 2008, EquityCompass provides portfolio strategies with respect to total assets over $4.6 billion as of June 30, 2021.†

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	Inception	2018	2019	2020
Gross %	6.62	11.65	11.65	31.78	9.55	8.10	-8.04	17.57	8.80
Net %	6.53	11.45	11.45	31.32	9.17	7.73	-8.36	17.17	8.43
Benchmark %	5.59	9.72	9.72	28.51	12.59	10.91	-4.89	19.45	15.25

Inception – January 1, 2018; Benchmark = 25% S&P 500 TR / 25% MSCI All Country World Index / 25% HFRI Equity Hedge Index / 25% Bloomberg Barclays Intermediate U.S. Government / Credit Index, Rebalanced monthly.

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of the second quarter. While value stocks enjoyed solid gains in the second quarter, this backdrop strongly favored growth stocks, which posted double-digit gains.

CIP's equity strategy allocates 25% to global growth stocks and 25% to value stocks. The purpose of this allocation is to create balance in the portfolio. Investment styles move in and out of favor over time, and in recent years these shifts can happen quickly and with great magnitude. Having exposure to both growth and value allows CIP to smooth out performance when these shifts occur. Since 2019, we've seen a dramatic advantage for growth through the third quarter of 2020 give way to strong relative performance for value in the next six months, and a reversal favoring growth again in the second quarter. The balance in CIP allows a portion of the portfolio to benefit as performance trends shift.

Supplementing CIP's growth and value equity investments, one-quarter of the portfolio is allocated to a tactical strategy that has the ability to invest in stocks, bonds, or cash based on market conditions. When technical and fundamental indicators are positive, the tactical allocation is fully invested in the stock market. If either or both indicators begin to signal a decline, the tactical asset allocation strategy can be shifted to bonds or cash. With future expectations for corporate earnings still on the rise, the fundamental indicator remains in a positive position. In our technical model, stock price volatility has remained within a normal range. In addition, we have seen no deterioration in one of our most important signals—credit spreads—thus, our technical indicator also remains in a positive position. As such, our tactical equity allocation has remained fully invested throughout the second quarter.

Our growth and value equity allocations, along with the tactical equity, have worked in tandem to generate benchmark-beating returns for CIP year-to-date. Even so, our attention is keenly focused on the bond market, and one-quarter of CIP is allocated to fixed income securities. In our first quarter report, we noted the Bloomberg Barclays U.S. Aggregate Bond Total Return Index (AGG) declined 3.37%. As noted in our first quarter commentary, in preparation for the eventual rise in Treasury yields associated with a recovering economy, we implemented numerous adjustments in an effort to better align the characteristics of our fixed income portfolio with a rising interest rate/curve-steepening environment. As a result of these active management decisions, the drop in the market value of our bond portfolio has been modest compared to the much larger drawdowns evident across the broader bond market.

The second quarter brought some welcome relief to the beleaguered bond market following its worst quarterly performance in nearly 40 years. After shedding 337 basis points in total return over the previous three months, the AGG posted a positive total return of 1.83% for the second quarter. Despite this reprieve, the total returns for the AGG and most major sectors of the fixed income market remain in negative territory on a year-to-date basis. While the 10-year U.S. Treasury yield fell by 27 basis points during the quarter as inflation fears receded, it has risen by 55 basis points since the beginning of the year and may resume its ascent if the Federal Reserve announces plans for tapering its monthly bond purchases.

CIP's fixed income allocation has outperformed the AGG by approximately 50 basis points year-to-date, due primarily to the portfolio's shorter average duration position relative to the benchmark. With long-term interest rates still well below their historical averages, bond investors are not being adequately compensated for extending duration and assuming greater price risk in the current environment. Given the likelihood of a further normalization in interest rates as the recovery progresses and the Federal Reserve gradually withdraws policy accommodation, we remain comfortable with our current average duration target of around four years.

Portfolio Outlook

In our view, the U.S. economy is in the midst of the strongest recovery since World War II. However, it is important to understand this flurry of activity is a direct result of the reopening of our economy after spending almost a year in lockdown due to the COVID-19 global pandemic. The unleashing of pent-up demand, by both consumers and businesses, in our opinion, is unprecedented and also unsustainable. Once businesses renormalize their supply chains, employees return to work, and consumer appetites have been satisfied, we believe the U.S. economy should reset to its long-term secular growth rate of 2%–3% real GDP. It is important to remember, the five-year average growth rate of U.S. real GDP prior to the global pandemic was 2.5%. Nothing about the pandemic has altered the long lasting impact of the structural factors (demographics, debt levels, and productivity) that ultimately drive long-term economic growth.

We have long argued aging demographics and rising debt levels, with productivity rates bound at the 2% level, would lead to a "lower for longer" economic landscape—lower growth, lower inflation, and, most likely, lower interest rates. Although rising prices—referred to as reflation—are normal during an economic recovery, we do not believe the systemic hyperinflation

of the 1970s is on the horizon. And although interest rates will likely rise from the 1.5% current level to a range of 2.0%–3.0% as the economy continues to recover, we believe interest rates should remain well below the averages of 20 years ago.

In the lower-for-longer environment, in our opinion, it is imperative that investors overweight equities relative to bonds in order to pursue their long-term objectives. When interest rates were much higher, allocating a substantial portion of one's portfolio seemed perfectly sensible. Today, with interest rates at historically low levels, we believe bonds must play a supportive—rather than a leading—role within an investment portfolio. CIP's target allocation of 75% equities and 25% bonds, with the flexibility to adjust the tactical portion between equities, bonds, and cash when market conditions signal, in our opinion, allows an optimal mix for investors in the lower for longer world in which we now live.

We believe economic growth and earnings growth should decelerate as the economy reverts back to its long-term sustainable trend line. Oftentimes the stock market has struggled with the directional change of growth. Even so, we maintain the absolute level of growth over the next few years should remain attractive. And although we expect interest rates to rise as the economy re-normalizes, we do not believe the probability of higher 2.0%–3.0% yields on the 10-year U.S. Treasury Note will jettison the current bull market in stocks that is currently underway. For example, we enjoyed a strong bull market in stocks in the 10 years leading up to the global pandemic with yields on the 10-year U.S. Treasury Note vacillating between 2.0%–3.0% during that time frame.

We continue to believe the current landscape of positive economic growth, improving employment, rising corporate earnings, and relatively low interest rates provides a favorable environment for CIP. In our opinion, the market environment remains positive for investors.

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*Total assets combines both Assets Under Management and Assets Under Advisement as of June 30, 2021. 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.

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 0.35%. 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.

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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 Bloomberg Barclays U.S. Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency). Indices are unmanaged, do not include fees and expenses, and it is not possible to invest directly in an index. The Bloomberg Barclays U.S. Intermediate Government/Credit Bond Index measures the performance of U.S. Dollar denominated U.S. Treasuries, government-related and investment grade U.S. corporate securities that have a remaining maturity of greater than one year and less than ten years. MSCI All Country World Index captures large and mid cap representation across 23 Developed Markets and 21 Emerging Markets countries. The index returns are presented on a total return basis, which assume reinvestment of all cash distributions (such as dividends). With 2,434 constituents, the index covers approximately 85% of the global investable equity opportunity set. The 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. The Bloomberg Barclays U.S. Intermediate Aggregate Bond Index measures the performance of the U.S. investment grade bond market while removing the longer maturity portions of the broad market benchmarks. The index invests in a wide spectrum of public, investment-grade, taxable, fixed income securities in the United States --- including government, corporate, and international dollar-denominated bonds, as well as mortgage-backed and asset-backed securities, all with maturities of more than 1 year. The volatility of the indices identified in this report may be materially different from the volatility of the model portfolios presented by EquityCompass. Indices are unmanaged, do not reflect fees and expenses, and are not available for direct investment.

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