Core Retirement Portfolio

Portfolio Manager Commentary

As of 6/30/2021

EquityCompass

Q2 2021 Overview

For the second quarter of 2021, the **Core Retirement Portfolio (CRP)** gained 7.26% (7.17% net) compared to the blended benchmark, which was up 4.71%. Year-to-date, CRP is up 12.29% (12.09% net) compared to the benchmark, which gained 10.19%. Our long-term performance results can be found in the table below.

Thus far in 2021, the economy and the stock market have rebounded as we expected. We were among those who argued that with the advent of the COVID-19 vaccination rollout that began in November of last year, U.S. economic growth should soon return. 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. Even so, we reiterated our belief at the end of last year that the most mispriced segment of the stock market was the high-quality, high dividend-paying stocks within the value camp. With dividend payments between 4%–6%, the yields among these stocks were at record levels compared to the sub 1% yield offered by the 10-year U.S. Treasury bond.

Year-to-date, value stocks have indeed outperformed growth, and we take special note that the best performing segment of the market has been high dividend-paying stocks. CRP's equity strategy allocates 25% to global growth stocks and 25% to dividend-paying value stocks. Whereas CRP's growth stocks carried the performance banner in 2020, dividend-paying stocks have been leading the charge in 2021. Even so, CRP's growth strategy has generated double-digit returns, performed well during this value/growth rotation, and outperformed the benchmark. In fact, the second quarter saw growth stocks enjoy strong relative returns, more than doubling the increase of dividend-paying value stocks. We believe maintaining exposure to both growth and value-oriented dividend payers helps provide balance and smooth out short-term returns during shifts in investor preferences.

Supplementing CRP's growth and dividend 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

Objective

A multi-strategy approach designed to fund retirement withdrawals by addressing four essential needs: income, capital appreciation, stability, and risk mitigation.

Portfolio Management Team

Robert G. Hagstrom, CFA
Chief Investment Officer
Senior Portfolio Manager

Timothy M. McCann
Senior Portfolio Manager

James J. DeMasi, CFA
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. Formally organized in 2008, EquityCompass provides portfolio strategies with respect to total assets of approximately $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	5-yr	Inception	2016	2017	2018	2019	2020
Gross %	7.26	12.29	12.29	32.19	11.88	11.27	10.33	8.14	16.95	-5.08	19.05	10.53
Net %	7.17	12.09	12.09	31.73	11.50	10.89	9.95	7.76	16.55	-5.41	18.64	10.15
Benchmark %	4.71	10.19	10.19	29.14	11.05	10.17	9.15	8.17	13.09	-5.87	18.28	11.14

As of 6/30/2021; Inception – November 2015; Net of fee calculated net of 35 basis points manager fee only; *Benchmark = 25% Russell 1000 Value TR / 25% MSCI All Country World Index / 25% HFRI Equity Hedge Index / 25% Bloomberg Barclays U.S. Intermediate Aggregate Bond Index, Rebalanced monthly.

EquityCompass claims compliance with the Global Investment Performance Standards ("GIPS®"). The information provided herein is supplemental to the GIPS performance presentation. To obtain a GIPS 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.

asset allocation strategy can shift 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 normal ranges. 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 income equity allocations, along with the tactical equity, have worked in tandem to generate benchmark-beating returns for CRP year-to-date. Even so, our attention is keenly focused on the bond market and CRP allocates one-quarter of the portfolio to fixed income securities. In our first quarter commentary, we noted the Bloomberg Barclays U.S. Aggregate Bond Total Return Index (AGG) declined 3.37%—the worst quarterly loss since 1981, and the poorest trailing six-month performance since 1994. What has caused the decline in bond prices? Specifically, with the economy recovering and expected to generate above-average growth in the year ahead, interest rates have been rising. When interest rates rise, bond prices fall.

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. Specifically, we reduced duration—the length of our maturities—by nearly 40%, virtually eliminating the exposure of our bond portfolio to the long-end of the Treasury yield curve. In addition, we upgraded credit quality. As a result of these active management decisions, the drop in the market value of our bond portfolio has been rather modest compared to the much larger drawdowns evident across the broader bond market. Indeed, although our fixed income portfolio return is modestly negative year-to-date, we are substantially outperforming the AGG.

Portfolio Outlook

We believe 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 view, is unprecedented and also unsustainable. Once businesses renormalize their supply chains, employees return to work, and consumer appetites have been satisfied, 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, the scarce resource is where to find growth and income. As such, we believe CRP's barbell approach to equity portfolio management is well positioned by investing in secularly advantaged global growth stocks combined with high-quality, bond surrogates that seek to provide higher income than is available in the bond market, alongside the opportunity to achieve growth of income and underlying capital appreciation.

In such an environment, in our opinion, it is imperative that investors overweight equity 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—instead of a leading—role within an investment portfolio. CRP's target allocation of 75% equity 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 efficient 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 CRP. In our opinion, the market environment for investors remains positive.

Core Retirement Portfolio

Portfolio Manager Commentary

As of 6/30/2021

Portfolio Growth While in the Decumulation Phase

The **Core Retirement Portfolio (CRP)** seeks to address three important financial goals for investors: (1) the ability to fund annual income needs, (2) protection against inflation, and (3) longevity. Healthy individuals retiring in their 60s often live into their 80s and 90s. The goal of longevity means a portfolio strategy is necessary to meet a retiree's financial objectives for two—possibly three—decades.

CRP is a goals-based investment approach designed to meet the paramount objectives needed to address income withdrawals over the long term. The portfolio seeks to satisfy the essential needs of investors who are in their retirement years by employing three distinct objectives: (1) growth provided by secularly advantaged global businesses to fund future withdrawals, (2) income from dividend-paying stocks to fund current withdrawals, and (3) stability by the implementation of fixed income securities and a tactical allocation to supplement income and help counteract volatility. In order to achieve an estimated 4% withdrawal rate* that seeks to last for 30 years, we believe growth and capital appreciation are essential strategies needed to attain this financial goal.

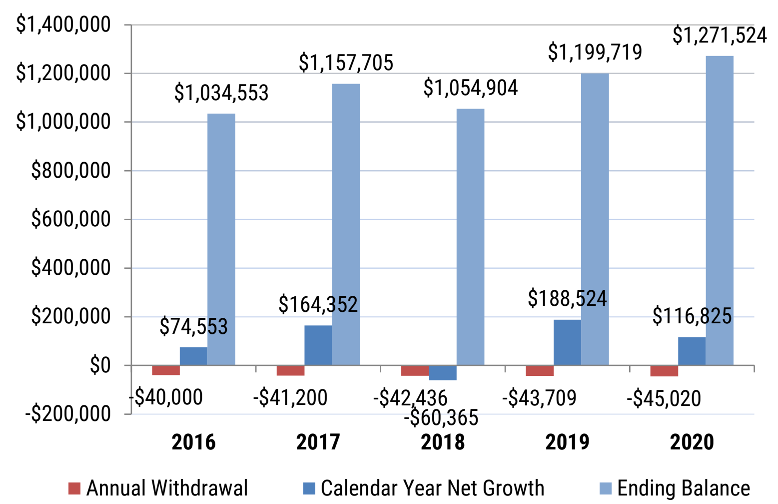
For illustrative purposes, we begin with a $1 million portfolio, the objective of which is to sustain a 4% withdrawal rate that increases annually at a 3% rate to help offset inflation that, in turn, is needed to last for 30 years. It is important to note, this portfolio will need to generate $1.9 million in total return throughout annual distributions to the retiree. In the first year, the retiree receives $40,000; the second year, $41,200 (a 3% payout increase); the third year, $42,436; and in year 30, a distribution of $98,000. This example highlights the necessity stocks must play in funding future retirement years.

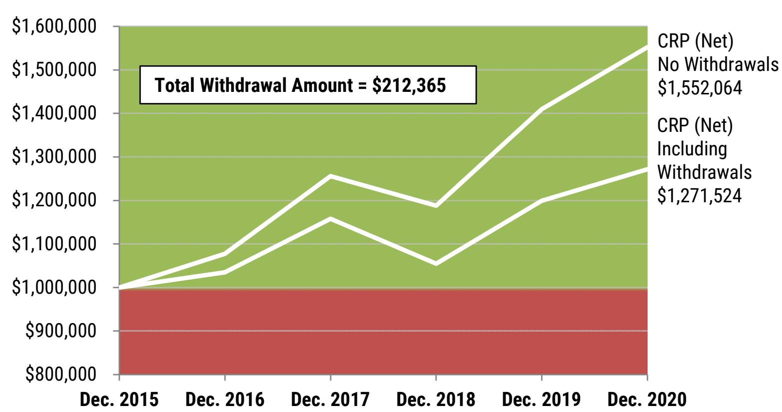
When interest rates on bonds were above 4%, investors could allocate a substantial portion of their portfolio to fixed income and still be able to achieve their long-term financial goals. Today, it is a different story. With the yield on the U.S. 10-year Treasury note at 0.92% at 2020 year-end, we believe bonds simply do not have the income-paying ability to fund a substantial part of a retiree's portfolio. It is for these reasons that we believe common stocks must play a larger role in a retiree's portfolio to help generate the withdrawal payments relied upon to last for up to 30 years.

The psychology of investing one's retirement portfolio in stocks can be challenging. Because stocks have a higher variance (their prices fluctuate more) than bonds, the emotional strain of owning a portfolio with a higher stock allocation can be stressful for investors. We understand the behavioral concept, called Prospect Theory, which has shown individuals have the tendency to experience more pain from a stock price loss than the pleasure that comes from a stock price gain. No one likes to lose money, even in the short term.

However, it is important to remember there is a major difference between short-term quotational loss and permanent capital loss. Investors, as a rule, can be overly distressed by quotational loss without given much thought that quotational loss rarely turns into a permanent capital loss. One way to offset the angst associated with short-term quotational loss is to keep an eye on the accumulated capital appreciation of one's portfolio—the part of the portfolio that has appreciated in excess of the original investment—what we call, the income accumulated account. The adjacent charts help illustrate how to think about future income needs.

Core Retirement Portfolio (CRP) Calendar-Year Growth





The calendar-year growth chart presented above is for illustrative purposes only. Based on a $1,000,000 initial investment at 1/1/2016 and assuming a withdrawal of 4% at the beginning of each calendar year and increasing the initial withdrawal by 3% per year going forward. Growth shown net of 0.35% manager fee. Time Period: 1/1/2016—12/31/2020. Any results shown above may not represent the actual experience of individual investors. Individual account performance may differ due to, e.g., account size, cash flows, investment restrictions, economic factors and fees. Source: EquityCompass

*Note: The 4% withdrawal rate is used for illustrative purposes and is not mandated by the strategy.

Portfolio Growth While in the Decumulation Phase (continued...)

At the end of 2020, five years since the initial $1 million investment in CRP, an investor would have received five annual distributions ($40,000, $41,200, $42,436, $43,709, and $45,020). At the end of 2020, the initial $1 million (after management fees) would be worth $1,271,524. The $271,524 in excess of the original $1 million investment in CRP is money that has accrued to the income accumulation account—available for future annual distributions.

The next five years of annual distributions (years 6–10) based on the original $1 million investment in CRP equals $246,190. Based on the capital appreciation of the Core Retirement Portfolio thus far, the income accumulation account is now in position to pay the next five years of distributions without having to reach into the principal investment.

No doubt, the CRP's price performance in the future will have a mix of good and bad months, good and bad quarters, and good and bad years—just as it has experienced over the past five years. With this said, we believe focusing on the income accumulated account separate from the inevitable price fluctuations of CRP is a thoughtful way in which to think about one's financial performance—the goal being to provide a sustainable withdrawal rate that seeks to last for 30 years.

Based on our research, we believe the Core Retirement Portfolio is well-positioned to help address the income needs of clients throughout the decumulation phase of their investment life.

DISCLOSURES

EquityCompass Investment Management, LLC ("EquityCompass") is a wholly owned subsidiary and affiliated SEC registered investment adviser of Stifel Financial Corp. Registration does not imply a certain level of skill or training. 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. 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. This commentary often expresses opinions about the direction of market, investment sector, and other trends. The opinions should not be considered predictions of future results.

†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.

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. Due to their narrow focus, sector-based investments typically exhibit greater volatility and are generally associated with a high degree of risk. Changes in market conditions or a company's financial condition may impact the company's ability to continue to pay dividends. Companies may also choose to discontinue dividend payments. High-dividend paying stocks may carry elevated risks and companies may lower or discontinue dividends at any time. Diversification and/or asset allocation does not ensure a profit or protect against loss. Any investment involves risks, including a possible loss of principal. Rebalancing may have tax consequences, which should be discussed with your tax advisor. When investing in bonds, it is important to note that as interest rates rise, bond prices will fall. In addition, duration risk measures a debt security's price sensitivity to interest rate changes. Bonds with higher duration carry more risks and have higher price volatility than bonds with lower duration. Therefore, if interest rates are very low at the time of purchase of the bonds, when interest rates eventually do rise, the price of such lower interest rate bonds will decrease and anyone needing to sell such bonds at that time, rather than holding them to maturity, could realize a loss. ***Exchange Traded Funds (ETFs) are subject to market risk, including the possible loss of principal, and may trade for less than their net asset value. ETFs trade like a stock, and there will be brokerage commissions associated with buying and selling exchange traded funds unless trading occurs in a fee-based account. Investors should consider an ETF's investment objective, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other important information, is available from your Financial Advisor and should be read carefully before investing.***

MSCI All Country World Index captures large and mid cap representation across 23 Developed Markets and 21 Emerging Market 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 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 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 Russell 1000 Value Index measures the performance of those Russell 1000 index companies with lower price-to-book ratios and lower forecasted growth values. 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 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. It is not possible to invest directly in an index.

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. All performance results presented are done solely for educational and illustrative purposes and are not intended for trading, or to be considered investment advice. No representation is made that any Strategy, model, or model mix will achieve results similar to those shown in these materials. It should not be assumed that any holdings included in these materials were or will prove to be profitable, or that recommendations or decisions that the firm makes in the future will be profitable or will equal the investment performance of the securities discussed herein.

Past performance does not guarantee future performance or investment results.