# Quality Dividend Portfolio

**Portfolio Manager Commentary**

As of 3/31/2025

## Q1 2025 Review

As long-term investors, we understand that short-term performance can be driven more by "noise" rather than actual fundamentals. Often during times of market stress, interest can turn to investments that seek to provide capital preservation and stable cash flow—principles that remain at the core of the investment process for the **Quality Dividend Portfolio (QDIV)**. As such, the recent rotation in search of quality and defensive areas of the market were a benefit for QDIV during the first quarter, while the S&P 500 and NASDAQ Composite declined 4.27% and 10.26%, respectively.

On numerous occasions we have written about market noise and suggested ways investors might attempt to leverage it to their advantage. There is always noise in the markets that can create concern—and the current market noise can be deafening. A great deal of uncertainty is now being driven by trade tariffs, slowing earnings growth expectations, heightened recession concerns, stagflation, and valuations at the upper end of historic ranges—to name a few. Presently, the only ***certainty*** is ***uncertainty***. And this uncertainty is weighing on business and consumer confidence.

The U.S. Economic Policy Uncertainty Index, which dates back to 1985, is currently at its highest reading—other than the COVID-19 shock. Investor sentiment is turning more cautious, as represented by the University of Michigan Consumer Sentiment Expectations Index, in anticipation of rising inflation and real income growth expectations falling. These concerns are showing up in the recent American Association of Individual Investors (AAII) Sentiment Survey, which produced a significant spike in bearish sentiment to 61.9%—the third highest reading in survey history—only to be exceeded by 70.3% in March of 2009 (the bottom of the financial crisis) and 62.7% in October of 1990.

In the first three months of 2025, the U.S. equity market posted its worst quarter since the second and third quarters of 2022, as it continues to reprice risk. Large cap technology stocks came under significant selling pressure, with the Bloomberg Magnificent 7 Index down 15.98% in the quarter, and 20.71% since its December 2024 high.

## Portfolio Overview

In the first quarter, QDIV increased 3.73% (2.97% net of maximum potential fees) versus 4.97% for its benchmark, the S&P 500 Low Volatility High Dividend Index, and a decline of 0.61% for the S&P 500 Equal Weight Index. QDIV performed well despite a tough environment for large cap technology-driven indices, as investors turned their attention to dividend-paying stocks in search of perceived safety and lower volatility. Over the past 12 months, QDIV provided a total return of 10.16% (6.91% net).

### Objective

Focused stock portfolio that seeks to provide the highest possible dividend yield within the constraints of quality, capital preservation, and diversification

### Portfolio Management Team

Thomas P. Mulroy
*Senior Portfolio Manager*

Michael S. Scherer
*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 $5.2 billion as of March 31, 2025.*

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-year | 3-year | 5-year | 10-year | Incp. | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
| Gross % | 3.73 | 0.25 | 3.73 | 10.16 | 4.45 | 13.23 | 8.03 | 7.19 | 0.47 | 13.35 | 16.68 | -5.23 | 23.22 | -2.24 | 22.70 | -1.80 | 0.39 | 13.56 |
| Benchmark % | 4.97 | 1.16 | 4.97 | 17.44 | 6.58 | 15.90 | 8.97 | 10.49 | 5.56 | 22.70 | 12.33 | -5.87 | 20.76 | -9.67 | 25.26 | 0.93 | 1.70 | 18.35 |
| Net % | 2.97 | -1.23 | 2.97 | 6.91 | 1.39 | 9.92 | 4.87 | 4.04 | -2.44 | 9.97 | 13.23 | -8.03 | 19.64 | -5.08 | 19.11 | -4.64 | -2.57 | 10.18 |

As of 3/31/2025; Inception—January 1, 2006; Benchmark = S&P 500 Low Volatility High Dividend Index; Please note the above returns reflect representative portfolio performance. See important disclosures at the end of this presentation.

Net returns reflect the deduction of the potential maximum managed account fee of 3.00% which includes the wrap sponsor fee and EquityCompass investment management fees. Actual fees may vary.

QDIV ended the quarter with a weighted average dividend yield of 3.8% versus the 10-year U.S. Treasury yield of 4.15%, and the S&P 500 yield of 1.35%—a historically low level not seen since February 2001.

In the first quarter, among QDIV's 31 holdings, 12 have increased their dividends by an average of 3.8%, with expectations for further increases in the coming year.

**The following portfolio changes were instituted during the first quarter of 2025.**

| Added to Portfolio: |
|---|
| State Street Corp. (STT) |

| Added to Existing Position: |
|---|
| Genuine Parts Co. (GPC) |
| The Hershey Co. (HSY) |
| Hormel Foods Corp. (HRL) |
| PepsiCo, Inc. (PEP) |
| Target Corp. (TGT) |
| United Parcel Service, Inc. (UPS) |
| U.S. Bancorp (USB) |

| Reduced Existing Position: |
|---|
| AbbVie, Inc. (ABBV) |
| Cisco Systems, Inc. (CSCO) |
| Gilead Sciences, Inc. (GILD) |
| International Business Machines Corp. (IBM) |
| JPMorgan Chase & Co. (JPM) |
| Philip Morris International, Inc. (PM) |

As a result of these adjustments, QDIV assumed a more defensive posture in the quarter by increasing exposure to the Consumer Staples sector and reducing exposure to Information Technology stocks (CSCO and IBM), which have performed well. We also reduced exposure to Health Care (ABBV and GILD) to take advantage of recent price appreciation. Consumer Staples is now the largest sector in the portfolio (19.2%), followed by Financials (17.9%), and Health Care (17.4%). Consumer Staples and Health Care—now 36.5% of the portfolio—are considered more defensive in nature and traditionally have helped provide ballast during times of market uncertainty. The balance of the portfolio weighting consists of Energy (10.9%), Information Technology (8.9%), Consumer Discretionary (8.7%), Utilities (8.4%), Industrials (6.4%), and Real Estate (2.4%).

QDIV implements a disciplined portfolio management approach but remains flexible to adjust as the facts and circumstances of the market change and opportunities may arise. Our investment process has been consistent—a focused stock portfolio that seeks to provide the highest possible dividend yield within the constraints of quality, capital preservation, and diversification. We strive to keep it simple and straightforward, ignore the noise in the market, and focus on the long-term prospects of our portfolio companies.

## Outlook

At the beginning of the year, Wall Street market strategists were overwhelmingly optimistic. The recent market correction has forced many strategists to completely rethink their outlook. JPMorgan economists have raised their estimates for a global recession to 60%. It is amazing how sentiment can shift so quickly.

*"Never bet on the end of the world, because it only happens once."*
—**Art Cashin**, veteran New York Stock Exchange floor trader

The above quote by the late Art Cashin, during a 2009 CNBC interview, attempts to highlight that, throughout history, markets have faced various degrees of turmoil and uncertainty. By maintaining a disciplined investment approach and focusing on the long term, investors may be better prepared to weather any storm. Emotions and investing are not a good combination. Turbulent times require investors to think rationally. Market corrections can be healthy, and the disruptions they create have the potential to provide opportunities to purchase quality companies at reasonable valuations.

Safety and preservation of capital is our number one management priority. The portfolio has fared well despite the market rotation away from technology stocks, which had been driving performance the past two years. QDIV seeks to provide consistent income and income growth with long-term capital appreciation. We attempt to accomplish this by creating a diversified portfolio of quality companies with strong balance sheets, good free cash flow generation, and prudent capital allocation in the form of dividend payments to shareholders.

## QUALITY DIVIDEND PORTFOLIO WRAP COMPOSITE (05/01/2016 – 12/31/2023)

| Year-End | Gross-of-Fees Return* | Net-of-Fees Return** | Benchmark Return | Composite 3 Yr. Ex Post Std. Deviation | Benchmark 3 Yr. Ex Post Std. Deviation | Composite Number of Portfolios | Internal Dispersion | Portfolios With Bundled Fees | Composite Assets (USD Mil.) | Strategy Assets (USD Mil.)† | Firm & Advisory Assets (USD Mil.) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 2016 § | 8.6% | 6.7% | 8.6% | N/A | N/A | 7 | N/A | 100% | $3 | $920 | $2,714 |
| 2017 | 16.7% | 13.3% | 12.3% | N/A | N/A | 12 | 0.0% | 100% | $8 | $1,067 | $3,785 |
| 2018 | -4.9% | -7.7% | -5.9% | N/A | N/A | 11 | 0.1% | 100% | $6 | $995 | $3,831 |
| 2019 | 23.2% | 19.6% | 20.8% | 10.8% | 12.0% | 7 | 0.2% | 100% | $9 | $1,204 | $4,294 |
| 2020 | -1.7% | -4.6% | -9.7% | 18.0% | 19.9% | 9 | 0.1% | 100% | $8 | $993 | $4,012 |
| 2021 | 23.0% | 19.4% | 25.3% | 17.4% | 19.3% | 9 | 0.2% | 100% | $7 | $1,134 | $5,038 |
| 2022 | -1.6% | -4.4% | 0.9% | 20.0% | 21.1% | 8 | N/A | 100% | $3 | $1,178 | $4,469 |
| 2023 | 1.3% | -1.7% | 1.7% | 16.2% | 16.4% | <6 | N/A | 100% | $2 | $1,154 | $4,707 |

** Supplemental information. Please see Fees section for details. ** Net returns are calculated by subtracting the highest applicable wrap fee (3.00% on an annual basis) from the gross composite return. † Supplemental Information. § Returns are for the period 05/01/2016 through 12/31/2016.*

**EquityCompass Investment Management, LLC ("EquityCompass") claims compliance with the Global Investment Performance Standards ("GIPS®") and has prepared and presented this report in compliance with the GIPS standards. EquityCompass has been independently verified for the periods 06/01/2014-12/31/2023. The verification report is available upon request. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report.**

**Definition of the Firm**

EquityCompass is registered as an investment adviser with the Securities and Exchange Commission. The firm provides portfolio broad range of investment strategies to individuals, financial intermediaries, and institutions in the United States. EquityCompass, a wholly owned subsidiary of Stifel Financial Corp., was organized as an entity in 2007, and has been registered with the SEC since May 5, 2008. SEC Registration does not imply a certain level of skill or training. Please refer to the firm's ADV Part 2 for additional disclosures regarding the firm and its practices. To obtain a GIPS Report or a list of our composite descriptions and/or policies for valuing investments, calculating performance, and preparing GIPS reports, please call (443) 224-1231 or send an e-mail to info@equitycompass.com.

**Composite Description**

The performance results displayed herein represent the investment performance record for the Quality Dividend Portfolio Wrap Composite. The composite includes wrap and non-wrap accounts that are invested in the composite strategy and managed on a discretionary basis by EquityCompass. Quality Dividend Portfolio strategy is a large-cap value equity strategy that seeks to provide asset preservation, generate current income and develop growth in current income and intended to provide income-seeking investors with a superior alternative to investing in bonds. It is available in wrap fee programs through third-party intermediaries (each, a "Sponsor") that have engaged EquityCompass to manage client accounts on a discretionary basis or to provide non-discretionary investment recommendations in the form of model portfolios. The Composite was created in January 2017 and the inception date is May 1, 2015.

**Benchmark Description**

The benchmark is the S&P 500 Low Volatility High Dividend Index. As of 10/1/2022, the benchmark was retroactively changed for all presented periods to the S&P 500 Low Volatility High Dividend Index. Due to the current income focus of the strategy, it was determined that the S&P 500 Low Volatility High Dividend Index is a more meaningful benchmark because of comparable dividend yields (current and historical) of both the strategy and the new benchmark. The **S&P 500 Low Volatility High Dividend Index** measures the performance of the 50 least-volatile high dividend-yielding stocks in the S&P 500. The index is designed to serve as a benchmark for income-seeking investors in the U.S. equity market. All benchmark returns are shown on a total return basis and assume that all cash distributions, such as dividends, are reinvested. 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.

**Fees**

Gross-of-fees returns, are gross of portfolio management and custody fees and net of all actual transaction costs in the case of non-wrap accounts and those wrap accounts traded by EquityCompass. If the wrap account trades are executed by the Sponsor, transaction costs are bundled with the wrap fee and therefore not deducted from gross-of-fee return calculation. Net returns are calculated by subtracting the highest applicable wrap fee (3.00% on an annual basis, or 0.75% quarterly) from the gross composite return. The EquityCompass management fee schedule per annum is 0.35% on up to 1,000,000, 0.32% on 1,000,000–2,500,000 million, 0.28% on 2,500,000–5,000,000, 0.25% on 5,000,000–10,000,000, and negotiable over 10,000,000. Clients are typically charged a wrap fee which includes, in addition to the manager fee, trading expenses, as well as custody and administrative fees. The wrap fee schedule varies by Sponsor and is available upon request.

**Reporting Currency**

Valuations are computed and performance reported in U.S. dollars (USD).

**Annualized Standard Deviation**

The three-year annualized ex post standard deviation measures the variability of the monthly returns of the composite (gross-of-fee) and the benchmark over the preceding 36-month period; it is not presented for periods of less than three years.

**Internal Dispersion**

Internal dispersion is calculated using the asset-weighted standard deviation of annual gross returns of all accounts that were in the composite for the entire year; it is not presented for periods less than one year or when there were fewer than five accounts in the composite for the entire year.

**Assets**

Strategy Assets include all discretionary and non-discretionary accounts invested in the Quality Dividend Portfolio strategy. Accounts that are excluded from the composite because of significant cash flows or for other reasons are also included in Strategy Assets. This is presented as supplemental information.

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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. The information contained in this report is based on sources believed to be reliable, but is not guaranteed and not necessarily complete. All investments involve risk, including loss of principal, and there is no guarantee that investment objectives will be met. It is important to review your investment objectives, risk tolerance, and liquidity needs before choosing an investment style or manager. Equity investments are subject generally to market, market sector, market liquidity, issuer, and investment style risks, among other factors to varying degrees. Fixed Income investments are subject to market, market liquidity, issuer, investment style, interest rate, credit quality, and call risks, among other factors to varying degrees.

It is important to review your investment objectives, risk tolerance, and liquidity needs before choosing an investment style or manager. 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. Diversification does not ensure a profit or protect against loss.

The **S&P 500® Index** is a capitalization-weighted index that is generally considered representative of the U.S. large capitalization market. The **S&P 500 Equal Weight Index** is based on the S&P 500. All index constituents are members of the S&P 500 and follow the eligibility criteria for that index. The S&P EWI is maintained in accordance with the index methodology of the S&P 500, which measures 500 leading companies in leading U.S. industries. The S&P EWI measures the performance of the same 500 companies, in equal weights. As such, sector exposures in the S&P EWI will differ. The **S&P 500 Low Volatility High Dividend Index** measures the performance of the 50 least-volatile high dividend-yielding stocks in the S&P 500. The index is designed to serve as a benchmark for income-seeking investors in the U.S. equity market. The **NASDAQ Composite Index**, comprised mostly of technology and growth companies, is a market value-weighted index of all common stocks listed on NASDAQ. The **Bloomberg Magnificent 7 Index** is an equal-dollar weighted equity benchmark consisting of a fixed basket of 7 companies classified in the United States and representing the Communications, Consumer Discretionary and Technology sectors as defined by the Bloomberg Industry Classification System (BICS). The indices are calculated in Price, Total and Net Return variants. The **U.S. Economic Policy Uncertainty index** is a measure of how much uncertainty there is about future government policies. It's based on news coverage of economic policy uncertainty in newspapers. The **American Association of Individual Investors (AAII) Sentiment Survey** offers insight into the opinions of individual investors by asking them their thoughts on where the market is heading in the next six months and has been doing so since 1987. Tracking sentiment gives investors a forward-looking perspective of the market instead of relying on historical data, which tends to result in hindsight bias. The **University of Michigan Consumer Sentiment Index** is a consumer confidence index published monthly by the University of Michigan. Each month at least 500 telephone interviews are conducted of a contiguous United States sample. Fifty core questions are asked to assess near-time consumer attitudes on the business climate, personal finance, and spending. All index returns are shown on a total return basis and assume that all cash distributions, such as dividends, are reinvested. All index returns are shown on a total return basis and assume that all cash distributions, such as dividends, are reinvested. 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.

**Representative Portfolio Performance:** Returns reflect the performance of three representative portfolios that have been strung together for the life of the strategy. To the extent possible, the oldest account in the strategy with a continuous track record that also did not have large cash flows or mandate changes are used as representatives portfolio. Portfolio 1 reflects monthly returns for the period 1/1/2006 – 3/31/2006, Portfolio 2 reflects monthly returns for the period 4/1/2006 - 12/31/2023 and Portfolio 3 reflects monthly returns starting 1/1/2024. 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.

* Total assets combines both Assets Under Management and Assets Under Advisement as of March 31, 2025. 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.**