

Quality Dividend Portfolio

Portfolio Manager Commentary

As of 6/30/2021



Q2 2021 Overview

As the U.S. equity markets hover near their all-time high, what do we do now?

The end of June marked another solid quarter for equity investors and the fifth in a row in which the S&P 500 gained 5% or more. The only other time this has happened was the fourth quarter of 1953 through the end of 1954. In addition, the first half of 2021 was the second best six-month start to a year since 1998.

These numbers are impressive, and the challenge now facing equity investors is how best to position portfolios going forward. The markets appear to be at a crossroads between competing views on the sustainability of the economic rebound—whether the inflation spike we are experiencing is transitory—and how quickly the Federal Reserve will pull away the punch bowl to begin tapering its quantitative easing policies and eventually raise interest rates.

The current consensus view is that the water temperature is perfect—not too hot and not too cold—and equity markets should continue on their upward trajectory. However, investors should expect increased market volatility as the economy, inflation, and interest rates sort themselves out over the coming quarters. For this reason, a moderation in economic growth and equity returns should not be unexpected.

The tug of war between growth and value investors continues. However, we at EquityCompass don't view the world as binary between these two camps. We don't define ourselves as one or the other. Our approach is to find the intersection of both investment styles (growth and value) to locate the sweet spot from which to begin building our respective portfolios.

As it pertains to the Quality Dividend Portfolio, we look for companies with sustainable earnings growth, a strong balance sheet, solid cash flow, a high return on invested capital, and a good dividend yield also trading at a multiple that offers a favorable risk/reward ratio. In other words, we search for attractive income and growth at a reasonable price.

Through the end of the second quarter, the **Quality Dividend Portfolio (QDIV)** gained 6.46% (6.37% net) compared to its Russell 1000 Value Index benchmark, which gained 5.21% and the S&P 500 Low Volatility High Dividend Total Return Index gain of 3.86%. This follows QDIV's first quarter gain of 10.35% (10.25% net). Year to date, QDIV has increased 17.48% (17.27% net) versus the Russell 1000 Value increase of 17.05% and the S&P 500 Low Volatility High Dividend Total Return Index increase of 19.68%.

Objective

Focused portfolio of high-quality, high-yielding stocks 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 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	5-yr	10-yr	Incp.	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Gross %	6.46	17.48	17.48	39.79	11.08	10.39	11.18	7.66	13.45	10.78	22.16	14.09	0.47	13.35	16.68	-5.23	23.22	-2.24
Net %	6.37	17.27	17.27	39.31	10.70	9.94	10.68	7.16	12.89	10.23	21.58	13.52	-0.02	12.78	16.10	-5.63	22.80	-2.58
Benchmark %	5.21	17.05	17.05	43.68	12.42	11.87	11.61	8.19	0.39	17.51	32.53	13.45	-3.83	17.34	13.66	-8.27	26.54	2.80
SP5LVHDT %	3.86	19.68	19.68	40.51	7.52	7.65	11.49	11.10	15.96	6.68	21.21	20.25	5.56	22.70	12.33	-5.87	20.76	-9.67

Inception – January 1, 2006; Benchmark = Russell 1000 Value Total Return Index; SP5LVHDT = S&P 500 Low Volatility High Dividend Index
Please note the above returns reflect representative portfolio performance. Please see important disclosures at the end of this presentation. 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.

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The Quality Dividend Portfolio ended the quarter with a 3.7% weighted average dividend yield and trades at a price-to-earnings (P/E) multiple of 13.9x forward 12-month consensus earnings estimates. The portfolio's dividend yield remains significantly higher than the 10-year U.S. Treasury bond yield of 1.44% and the S&P 500 yield of 1.35%. Historically, the dividend yield on the portfolio has been more than twice that of the S&P 500.

Among QDIV's 27 holdings, year to date through the second quarter, 14 have raised their dividend by an average of 4.64%, and we anticipate additional dividend increases throughout the balance of the year. We are encouraged by the number of our portfolio companies that, despite keeping their dividends flat in 2020 out of concerns around the COVID-19 pandemic, have since announced dividend increases in 2021. As a reminder, among S&P 500 companies, 40 suspended their dividend in 2020 while Quality Dividend Portfolio companies experienced no dividend cuts or suspensions during the year.

We are very comfortable with the current portfolio and believe it is well positioned to take advantage of the continued economic expansion. For this reason, there were only two slight changes to the portfolio during the quarter—a reduction in position weighting for NetApp Inc. (NTAP) from 5.8% to 3.0% and the addition of Kimberly-Clark Corp. (KMB).

Despite significant performance the past 12 months as a result of improving fundamentals, we felt it was prudent to scale back our position in NTAP based on its valuation of 17x 2022 consensus earnings estimates and a 2.5% dividend yield. The proceeds were allocated to KMB, which has considerably lagged the overall market the past 12 months. KMB provides a solid dividend yield of 3.4%, above average dividend growth, good returns on invested capital, a strong balance sheet, and excellent free cash flow generation at an attractive valuation.

Over the coming quarters, we believe markets will be faced with the challenge of decelerating growth and possible multiple contraction. However, we are comfortable that a diversified portfolio of low Beta, dividend-paying stocks should continue to do well in this environment.

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. 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.

†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.

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. The specific securities identified and described herein do not represent all of the securities purchased, sold, or recommended to advisory clients, and the reader should not assume that investments in the securities identified and discussed were or will be profitable. A complete list of all recommendations made by the firm is available upon request. Any projections, targets, or estimates in this report are forward looking statements and are based on EquityCompass 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. Beta is a measure of the volatility, or systematic risk, of a security or a portfolio relative to the market as a whole. A beta of one is considered as risky as the benchmark and is therefore likely to provide expected returns approximate to those of the benchmark during both up and down periods. A portfolio with a beta of two would move approximately twice as much as the benchmark.

Representative Portfolio Performance: Returns reflect the performance of two representative portfolios that have been strung together for the life of the strategy. One portfolio was selected because it is the oldest account in the strategy with a continuous track record that also did not have large cash flows or mandate changes. The other portfolio was selected to capture returns from the strategy's inception up to the open date of the oldest continuous account referenced above. 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. Portfolio 1 reflects returns from 1/1/06 – 3/31/06 and Portfolio 2 reflects returns starting 4/1/06. 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.

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 research, analysis, and assumptions made by the Adviser.

The Russell 1000 Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 Index companies with lower price-to-book ratios and lower expected growth values. 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 and is generally considered representative of the U.S. large capitalization market. 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 TR (Total Return) version of the index assumes 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.

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.

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