Select Quality Growth & Income Portfolio

Portfolio Manager Commentary

As of 6/30/2021

Q2 2021 Commentary

The second quarter of 2021 continued a solid run for equity investors, as stocks rose for a fifth consecutive quarter for the first time since 2018. The S&P 500 rose more than 5% for a fifth consecutive quarter, only the second time that has occurred in history, and the quarter marked the best six-month start for stocks since 1998. For the three months ending June 30, the **Select Quality Growth & Income Portfolio (SQLT)** rose 6.77% (6.68% net) versus 8.55% for the S&P 500. Year-to-date, SQLT is up 19.44% (19.24% net) versus 15.25% for the S&P 500.

The march higher for stocks off the pandemic lows has overshadowed shifting currents in the market. In the early months of the pandemic and economic shutdowns, large cap growth stocks that are usually less dependent on broad economic growth, or actually benefited from the shutdowns, dominated market performance, while more economically-sensitive value stocks lagged. The announcement of successful vaccine trials in the fourth quarter of 2020, combined with additional government stimulus and accommodative Federal Reserve (Fed) policy, helped power strong returns for value stocks through the first quarter of 2021. In the latest quarter, signs of inflation, concerns about how it might impact Fed policy, moderating economic data, and the emergence of the COVID-19 Delta variant again tilted the scales to the benefit of growth stocks.

SQLT looks to invest in high-quality companies when they are at compelling prices, and this typically results in the portfolio bias toward value stocks. This has been especially true in recent years, which have emphasized strong investor preference for growth stocks. The performance of SQLT since the pandemic bottom has reflected this value bias. The portfolio enjoyed strong absolute returns from March 2020 through September 2020, but notably lagged the growth-driven S&P 500. In the fourth quarter of 2020 and the first quarter of 2021, SQLT enjoyed very strong returns on an absolute basis and relative to the S&P 500. The latest quarter's gains lagged the S&P 500 as growth stocks outperformed.

Looking forward, how the portfolio performs on both an absolute and relative basis will be influenced by a host of questions. Is inflation transitory or something more ominous? Will the Fed stick to their timeline for reducing bond purchases and raising rates, and will they get it right relative to inflation? Will the government be able to pass additional stimulus? Does the Delta variant pose a threat to economic reopening? Were falling bond yields a result of technical factors in the market or a concern about future growth?

Objective

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

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 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	10-yr	Incp.	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Gross %	6.77	19.44	19.44	43.49	9.20	12.93	12.26	10.63	4.34	16.04	31.42	14.59	-0.23	14.83	25.64	-9.71	30.46	-5.82
Net %	6.68	19.24	19.24	42.99	8.83	12.47	11.76	10.12	3.84	15.47	30.79	14.02	-0.72	14.25	25.03	-10.10	30.02	-6.14
Benchmark %	8.55	15.25	15.25	40.79	18.67	17.65	14.84	10.56	2.11	16.00	32.39	13.69	1.38	11.96	21.83	-4.38	31.49	18.40

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

The environment we saw in the second quarter—inflation concerns, the virus and economic growth, with falling bond yields and a flattening yield curve—was unfavorable for SQLT relative to the S&P 500. Alternatively, the economic reopening story reasserting itself, inflation moderating, and rising long-term rates and a steepening yield curve would present a very favorable backdrop for the portfolio. We remain confident that the latter scenario will play out over time and that the reopening story has a long runway. Economic data is still reflecting strong growth and commodity prices have already come well off their highest levels. Schools opening in-person in the fall and supplemental unemployment benefits winding down could help get people back into the labor force. The government coming to an agreement on an infrastructure package could provide a shot in the arm for the economy.

We are optimistic about the potential for the reopening story to reassert itself. That said, predicting the timing of shifts in market sentiment has always been a fool's errand. We seek to achieve strong relative performance by investing in high-quality stocks when they represent an attractive value relative to the broader market.

In terms of quality, we are happy with the financial position of our portfolio holdings—all stocks that have debt ratings are investment-grade and interest coverage is solid, with average EBITDA of 17.7x interest expense. Companies in the portfolio are creating solid economic value, with an average return on invested capital of 14.48%, which compares favorably to the S&P 500 at 10.57%. Of the 27 stocks that pay dividends, 18 have had increases so far this year on average of 12.97%.

With respect to valuation, the portfolio is trading at a discount to the S&P 500. The forward price-to-earnings (P/E) ratio is 15.4x versus 21.3x for the S&P 500. The weighted average dividend yield for the portfolio is 1.92% versus 1.39% for the S&P 500.

Taken together, we believe the combination of high-quality stocks at discounted valuations well positions the portfolio heading into the second half of the year.

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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.

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 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.

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 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. Due to the potential for extreme levels of volatility, the 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 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.

Past performance does not guarantee future performance or investment results.