2Q 2020 Commentary

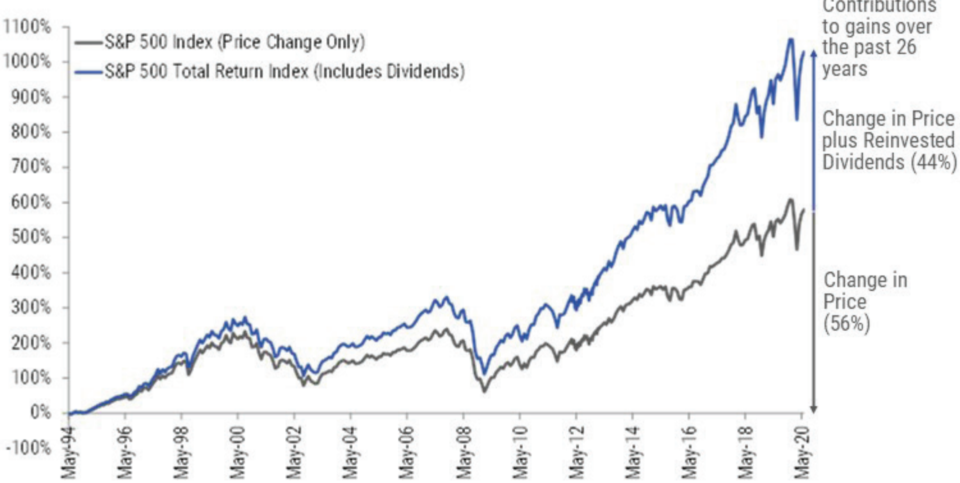
Quality Dividend Fund

Portfolio managers, Tom Mulroy, Mike Scherer, and Larry Baker, provide their current insight on the equity market and the management of the Quality Dividend Fund.

Rumors regarding “the death of dividend investing” are greatly exaggerated. Throughout market history, dividends have comprised a significant portion of the market’s total return. This has been fairly consistent regardless of the various market and economic cycles and we believe this will continue to be the case well into the future. As illustrated in **Chart 1**, dividends have provided 44% of the market’s total return over the past 26 years.

Total Return Investing **Chart 1**

5/31/1994–6/30/2020 | Monthly data | Source: Bloomberg Finance, LP



The Quality Dividend Fund has not deviated from its goals as it seeks to provide: (1) preservation of capital, (2) attractive current yield, and (3) dividend growth and capital appreciation.

S&P 500 companies posted the largest decline in dividend payments since the depths of the Great Recession in 2009. Despite this tough environment for dividend stocks, the Quality Dividend Fund did not see any dividend cuts or reductions. Among the companies currently in the portfolio, 12 have raised their dividend an average of 5.2% [1] so far this year, two companies maintained their dividends at the current level without raising them, and the remaining 11 are scheduled to address their dividends between now and the end of the year. We anticipate that some of these remaining companies will be increasing their dividends in 2020.

Portfolio adjustments during the quarter were made to reduce exposure to those companies we thought may be most at risk of a change in their dividend profile. The proceeds were allocated to companies we believe are better positioned to sustain and possibly increase their dividends. In this environment, the number one priority remains the potential safety and preservation of dividends.

(1) This is not indicative of the overall performance of the Fund.

TICKERS

CLASS A: **QDVAX**
CLASS C: **QDVCX**
CLASS I: **QDVIX**

MANAGEMENT TEAM

THOMAS P. MULROY
Senior Portfolio Manager

MICHAEL S. SCHERER
Senior Portfolio Manager

LARRY C. BAKER, CFA
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ABOUT EQUITYCOMPASS

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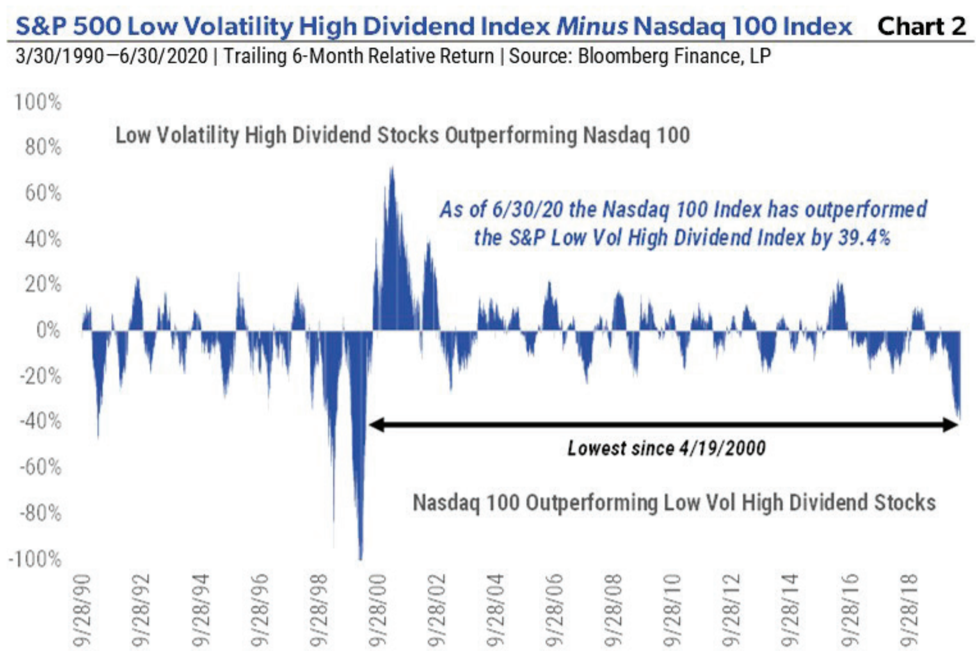

Throughout our investment experience, the market has been hit with numerous crises—economic, political, financial, acts of terrorism, military conflicts, and health related epidemics (SARS/H1N1) and pandemics (COVID-19). While these shocks and disruptions differ, they are similar in how they affect investor psyche. Investor reaction to the fear and uncertainty these events cause can prompt an emotional response that, at times, may lead to irrational decision making. At present, investors may consider dividends to be potentially at risk in the short-term due to the impact the global economic shutdown has had across various business models. We believe they may be overly discounting dividend payers in favor of growth stocks as evidenced in the dramatic disparity between the S&P 500 Low Volatility High Dividend Index and the NASDAQ 100. (**Chart 2**) In our opinion, this disparity will correct itself over time as the economy rebounds from the impacts of the pandemic. Currently, high dividend paying stocks appear to represent a compelling relative valuation opportunity.

The complete shutdown of the global economy is unlike any environment experienced in our lifetime—forcing companies to operate in uncharted waters. The number one priority for companies is to survive this temporary business disruption by taking steps to ensure they have the financial strength to withstand this economic downturn. Corporate balance sheets and cash flows are stressed prompting efforts to help maintain financial flexibility—cutting capital expenditures, drawing down credit lines, along with the suspension of buybacks and dividend cuts. However, we feel that the worst of the dividend cuts and suspensions may be behind us as economies begin to slowly reopen.

Corporate dividends aren't dead. The COVID-19 pandemic has forced some of the best managed companies to address their dividend payouts. In this unprecedented environment, we feel as the economy continues on the path to recovery, companies in the Quality Dividend Fund will emerge stronger and more competitive. The historic case for dividend investing has not changed, nor does the current environment alter our perspective on the important role that dividends play in long-term value and wealth creation for investors.■

IMPORTANT DISCLOSURES

*Total assets combine both Assets Under Management and Assets Under Advisement as of June 30, 2020. 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.

Mutual fund investing involves risk, including possible loss of principal. Although the Fund will invest primarily in income-producing equities, the Fund cannot guarantee any particular level of distributions. Companies that have paid regular dividends to shareholders may decrease or eliminate dividend payments in the future. A fund pursuing a dividend-oriented investment strategy may at times underperform other funds that invest more broadly or that have different investment styles. Cash flow is the net amount of cash and cash-equivalents being transferred into and out of a business. At the most fundamental level, a company's ability to create value for shareholders is determined by its ability to generate positive cash flows, or more specifically, maximize long-term free cash flow (FCF). 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. This index 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. Indices are unmanaged, do not reflect fees and expenses, and are not available for direct investment. The Nasdaq-100® is one of the world's preeminent large-cap growth indexes. It includes 100 of the largest domestic and international non-financial companies listed on the Nasdaq Stock Market based on market capitalization. You cannot invest directly in an index.

Investors should consider the investment objective, risks, charges, and expenses of the Quality Dividend Fund carefully before investing. A prospectus with this and other information about the Fund may be obtained by calling (888) 201-5799. Read the prospectus carefully before investing. The investment return and principal value of an investment will fluctuate, so an investor's shares, when redeemed, may be worth more or less than their original cost.

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.

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