Core Fixed Income Portfolio

Portfolio Manager Commentary

As of 6/30/2024

EquityCompass

Q2 2024 Review

After posting its strongest quarter in 34 years to conclude 2023, the Bloomberg U.S. Aggregate Bond Index (AGG) slipped back into negative territory over the first six months of 2024. Following a stellar total return of 6.8% in the fourth quarter, the AGG posted a slight decline of -0.7% in the first half of the year, despite a small gain of 0.1% in the second quarter. Over the past 12 months, the AGG has generated a total return of 2.6%.

The AGG's lackluster first half was primarily attributable to a reset in expectations regarding the timing and magnitude of rate cuts by the Federal Reserve (Fed). At the beginning of the year, interest rate futures were anticipating 150 basis points (bps) of rate reductions over the next 12 months, with the first cut occurring in March. By mid-year, expectations had shifted toward a "higher for longer" scenario, with fewer rate cuts and a delayed start for the first easing. As of June 30, fed funds futures were fully pricing in one 25 bps rate cut in November, with 75% odds of a second 25 bps rate reduction in December.

Two primary factors led bond market participants to reassess their forecast for Fed rate cuts this year. First, the U.S. economy outperformed consensus projections across a wide range of measures. Data on employment and consumer spending outpaced economists' estimates, prompting a significant upward revision to first half gross domestic product (GDP), from 0.5% to 1.7%.

Second, inflation continued to surprise to the upside, due in part to persistently strong demand for consumer services and sustained federal budget deficits at historically elevated levels. After rapidly declining throughout most of 2023, the year-over-year increase in the Consumer Price Index (CPI) remained above 3% for the past two quarters. The most recent inflation data suggest that services costs represent the greatest obstacle to reaching the Fed's 2% inflation target, and further improvement may materialize gradually without a rapid deceleration in economic activity.

This combination of solid economic growth and elevated inflation drove interest rates higher across the Treasury curve since the start of the year, with the 10-year yield gaining 50 bps to 4.4%. Higher yields resulted in price depreciation for the AGG, which more than offset its income production over the past six months.

While the **Core Fixed Income Portfolio (CFI)** was not immune to these market forces, the portfolio outperformed the AGG in the second quarter and over the first half of the year. For the second quarter, CFI produced a total

Objective

Fixed income strategy utilizing exchange-traded funds (ETFs) to seek capital preservation, return stability, and supplemental income as part of a diversified investment portfolio

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 over $4.9 billion as of June 30, 2024.*

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	Inception	2017	2018	2019	2020	2021	2022	2023
Gross %	0.30	-0.42	-0.42	2.29	-2.28	0.20	1.32	3.19	-0.32	8.60	6.96	-1.61	-10.05	4.77
Benchmark %	0.07	-0.71	-0.71	2.63	-3.02	-0.23	1.11	3.54	0.01	8.72	7.51	-1.54	-13.01	5.53
Net %	-0.47	-1.92	-1.92	-0.77	-5.19	-2.77	-1.69	0.14	-3.30	5.39	3.82	-4.53	-12.74	1.67

As of 6/30/2024; Inception—January 1, 2017; Benchmark = Bloomberg U.S. Aggregate Bond Index

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

return of 0.30% (-0.47% net of maximum potential fees) compared to 0.07% for the AGG. Through the first half, CFI recorded a slight net loss of -0.42% (-1.92% net) versus -0.71% for the AGG. CFI has also outperformed the AGG on a gross basis over the previous three-year and five-year periods.

With bond yields moving higher over the past six months, CFI's shorter duration relative to the AGG (5.5 years versus 5.9 years) boosted its relative performance versus the benchmark. However, CFI's more favorable duration positioning was partially mitigated by the portfolio's underweight to the corporate bond sector, which served as the top performing investment-grade fixed income sector over the past two quarters.

Q3 Outlook

Despite the bond market's weak first half, the outlook for fixed income appears more favorable for the remainder of 2024. As the second half of the year unfolds, we expect the following supportive factors to bolster bond total returns: (1) above-average yields, (2) a more dovish Fed, (3) slower economic growth, and (4) incremental progress toward lower inflation.

The 10-year U.S. Treasury yield ended the first half at 4.4%, which was well above its 10-year average of 2.3%, comfortably ahead of its 20-year average of 2.9%, and somewhat higher than its 30-year average of 3.8%. Historically, bonds have produced attractive forward total returns when their yields at acquisition were above their longer-term averages.

In addition to providing reasonable current income, bonds may experience some level of price appreciation over the next few years if the Fed lowers interest rates as expected. The Fed's June Summary of Economic Projections envisions a sustained series of rate cuts through 2026. This latest forward guidance shows a cumulative reduction in the central bank's primary policy rate of 225 bps over the next 30 months, which would lower the fed funds rate to 3.3%. An easing campaign of that magnitude would likely serve as a powerful catalyst for the bond market. During similar easing cycles over the past 40 years, bonds have enjoyed prolonged, multi-year bull markets in each of those prior periods.

Turning to the economic outlook, consensus estimates project that annual GDP growth will slow from 2.9% over the past four quarters to 1.8% over the next 12 months. That type of meaningful reduction in GDP growth would likely assist the bond market in two ways. First, weaker growth may encourage the Fed to follow through with its signaled rate cuts, with the goal of limiting the potential damage to employment and wages in a more sluggish economy. Second, a moderation in aggregate demand should put further downward pressure on inflation, bringing annual price changes closer to the Fed's 2% target.

Recessions have historically acted as powerful antidotes against high inflation. But even without a full-fledged economic downturn, inflation is expected to gradually fall, as post-pandemic supply shortfalls dissipate and the excess spending power from previous rounds of fiscal stimulus diminishes. Since bond prices move inversely with inflation, any further moderation in consumer prices would likely lift valuations.

While the macro outlook appears conducive for bonds, economic conditions are rapidly evolving, and investors should remain vigilant regarding the upside risks to inflation. Although economists expect annual CPI inflation to steadily retreat from 3.3% to 2.3% over the next 18 months, the inflation outlook remains highly uncertain. Unanticipated shocks to global supply chains due to adverse geopolitical developments could exert renewed upward pressure on consumer prices. In addition to potential supply-side disruptions, consumer demand for services may remain robust if the unemployment rate continues to hover around 4.0%. Inflation dynamics have been volatile and difficult to accurately forecast in the post-pandemic environment and should continue to be closely monitored.

Portfolio Strategy

After earning very little interest on cash for well over a decade, investors have enjoyed yields of 5% or more on money market instruments since the middle of last year. Presented with this compelling opportunity at a time of significant volatility in the fixed income market, portfolio allocations have rationally shifted away from bonds and toward cash. Money market mutual fund assets have climbed by 35% over the past 24 months to a record high of $6.1 trillion, according to data from the Investment Company Institute.

While accumulating excess liquidity has been a satisfying and profitable endeavor, yields of 5%+ on cash-like instruments may not last indefinitely. If the Fed follows through with its forward guidance and reduces short-term interest rates from restrictive territory to more neutral levels, money market yields should fall accordingly.

For investors with long-term objectives, reinvestment risk and opportunity cost are two important considerations when determining the appropriate allocation to cash in a diversified investment portfolio. Regarding reinvestment risk, prevailing

yields and expected forward returns may decline significantly during a Fed easing cycle, resulting in a loss of future income. In terms of opportunity cost, when interest rates drop, money market instruments will not appreciate in market value, compared to the potentially consequential price gains that high-grade, intermediate-term bonds can provide in a falling yield environment.

As an alternative to holding excess cash indefinitely, CFI is designed to preserve capital, mitigate risk, and generate sustainable income over a five-year window. Given current market conditions, bond portfolio construction should encompass the unique risk management considerations for the next phase of the interest rate cycle. Two major themes typically emerge during Fed easing campaigns: (1) a steeper yield curve and (2) wider credit spreads. We expect these themes to serve as the primary determinants of bond performance in the second half and have tailored CFI's investment strategy to address both of those topics.

To prepare for a steeper curve (lower short-term yields coupled with flat to higher long-term yields), we are targeting the portfolio's duration at 5.5 years, which is approximately 93% of the AGG's duration. Short-term and intermediate-term yields tend to follow the path of the fed funds rate, while longer-term yields are more heavily influenced by growth and inflation expectations, along with technical supply and demand factors. Concentrating the expected future principal cash flows in the intermediate-term segment of the curve should assist performance and mitigate risks in several ways, including maximizing potential roll down benefits, reducing front-end reinvestment risk, and lowering the inflation risk associated with longer duration instruments.

When the curve steepens, credit spreads tend to widen, with investors demanding greater compensation for the risk of an economic recession and higher default rates. During periods of spread widening, Treasuries typically outperform other market sectors, as investors flock to the perceived safety of U.S. government debt. To help mitigate the risks associated with wider credit spreads, CFI maintains significantly higher credit quality relative to the AGG. Compared to the benchmark, CFI holds an overweight to Treasuries of 1100 bps, with a commensurate and combined underweight to corporate bonds and other more credit-sensitive sectors.

CORE FIXED INCOME PORTFOLIO WRAP COMPOSITE (01/01/2017 – 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	Composite Assets (USD Mil.)	Strategy Assets (USD Mil.)	Firm & Advisory Assets (USD Mil.)
2017	3.2%	0.1%	3.5%	N/A	N/A	<6	N/A	$0.02	$0.02	$3,785
2018	-0.3%	-3.3%	0.0%	N/A	N/A	<6	N/A	$0.02	$0.02	$3,831
2019	8.6%	5.4%	8.7%	N/A	N/A	<6	N/A	$0.02	$0.02	$4,294
2020	7.0%	3.8%	7.5%	3.1%	3.4%	<6	N/A	$0.05	$0.05	$4,012
2021	-1.6%	-4.5%	-1.5%	2.9%	3.4%	<6	N/A	$0.15	$8.47	$5,038
2022	-10.1%	-12.7%	-13.0%	4.8%	5.9%	<6	N/A	$0.13	$19.49	$4,469
2023	4.8%	1.7%	5.5%	6.3%	7.2%	<6	N/A	$0.14	$34.17	$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.

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 a 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 Core Fixed Income 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. Core Fixed Income Portfolio strategy utilizes exchange-traded funds to seek capital preservation, return stability, and supplemental income as part of a diversified investment portfolio. 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 2018 and the inception date is January 1, 2017.

Benchmark Description

The benchmark is Bloomberg U.S. Aggregate Bond Index. The **Bloomberg 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). 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 annual wrap fee (3.00%, by deducting 0.75% quarterly) from the gross composite return. The EquityCompass management fee per annum is 0.15%. 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 Core Fixed Income 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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The **Bloomberg 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). 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. 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.

The **Consumer Price Index (CPI)** measures the change in prices paid by consumers for goods and services. The CPI reflects spending patterns for each of two population groups: all urban consumers and urban wage earners and clerical workers.

Gross domestic product (GDP) is the total monetary or market value of all the finished goods and services produced within a country's borders in a specific time period. As a broad measure of overall domestic production, it functions as a comprehensive scorecard of a given country's economic health.

It is important to review your investment objectives, risk tolerance, and liquidity needs before choosing an investment style or manager. No representation is made that any Strategy, model, or model mix will achieve results similar to those shown in these materials. Diversification (or asset allocation) does not ensure a profit or protect against loss. Rebalancing may have tax consequences, which should be discussed with your tax advisor.

*Total assets combines both Assets Under Management and Assets Under Advisement as of June 30, 2024. 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.

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