Global Leaders Portfolio

Portfolio Manager Commentary

As of 6/30/2024

EquityCompass

Q2 2024 Review

For the second quarter of 2024, the **Global Leaders Portfolio (GLP)** generated a return of 5.22% (4.38% net of maximum potential fees) versus its benchmark, the MSCI ACWI Index, which gained 2.87%. Year to date, GLP is up 17.59% (15.82% net) while the benchmark has returned 11.30%. GLP's long -term results can be found in the table below.

Over the past two years, GLP is up 28.46% (24.78% net) versus the benchmark, which has gained 17.94%. This outsized performance gain was made possible by two separate and distinct events. The first leg of outperformance occurred when, at the end of 2022 and into early 2023, growth companies bounced back closer to fair value following the indiscriminate selling of growth stocks caused by the Federal Reserve (Fed) aggressively raising interest rates to combat the rise in inflation.

We attribute the second leg of GLP's outperformance to the impressive earnings increases among its core mega cap technology positions closely associated with the advent of Artificial Intelligence (AI). In our first quarter commentary, we highlighted a recent research commentary titled, "***Rational Exuberance: Understanding the Investment Opportunities with Artificial Intelligence***," an informative primer that outlines potential opportunities associated with AI.

With the introduction of AI, we also took note that some have suggested we may be only on the doorstep of what could be a $1 trillion dollar opportunity for the technology sector over the next few years.[1] It is estimated that for every $1 spent on a graphics processing unit (GPU)—the essential semiconductor that is the engine for AI—there will be an additional $10–$12 spending across software, cloud computing, and information technology services.[2] These economics will likely turbocharge earnings-per-share (EPS) growth for the next several years.

Most recently, a *Barron's* article cited a JPMorgan research survey of 277 chief information officers (CIO) who have direct responsibility of $123 billion in annual enterprise technology spending. According to the survey, these CIOs suggest, *"AI hardware spending could rise by more than 40% annually over the next three years, going from 5% of IT (information technology) budgets this year to 14.5% in 2027."*[3] In other words, the annual IT spend on AI could triple in just three years.

What is being observed is that *"companies are reworking their computing infrastructure from a traditional model of information and file retrieval (powered by central processing units – CPUs) to the new generative AI approach (powered by GPUs) where answers and insights can be generated on demand."*[4]

Objective

Pursues long-term capital appreciation by investing in a focused, low turnover portfolio of secularly-advantaged global growth companies

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	10-year	Inception	2015	2016	2017	2018	2019	2020	2021	2022	2023
Gross %	5.22	17.59	17.59	29.19	7.13	14.78	11.64	11.64	-2.24	4.23	29.50	-9.64	35.28	29.98	20.51	-28.81	38.86
Benchmark %	2.87	11.30	11.30	19.38	5.43	10.76	8.43	8.43	-2.36	7.86	23.97	-9.41	26.60	16.25	18.54	-18.36	22.20
Net %	4.38	15.82	15.82	25.36	4.00	11.44	8.38	8.38	-5.09	1.12	25.75	-12.33	31.41	26.25	17.04	-30.94	34.89

As of 6/30/2024; Inception – July 1, 2014; Benchmark = MSCI ACWI 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.

There is no shortage of opinions about mega cap technology stocks and the advent of AI. They run the gamut. Some believe we have succumbed to mania and hysteria likened to the dot-com Internet bubble at the end of 1999. What followed was a brutal bear market that saw the S&P 500 decline 50% while the NASDAQ Composite plunged 70%.

Others claim that AI is at the forefront of the fourth phase of the fifth technological revolution that began with the development of Intel's microprocessor in 1971, followed by the commercialization of the Internet in 1995, then the introduction of mobile computing in 2007 with the launch of the Apple iPhone. Each of these market moving technological advancements lasted for years.

Still, other technicians believe the current market cycle is not identical to the late 1990s but reminiscent of the early 1960s bull market when concentration was similar to today—above 30% driven by the likes of AT&T Inc. (T), General Motors Co. (GM), Exxon Mobil Corp. (XOM), and International Business Machines Corp. (IBM) leading the revenue and earnings charge.[5]

"Polling doesn't replace thinking," says Warren Buffett.[6] Never forget, failure to explain is often caused by failure to describe.

Over the last 10 years, the GLP has been, and will continue to be, motored by the secular growth story of the rapid spending power of the global middle class consumer, described by McKinsey & Company as *"the biggest growth opportunity in the history of capitalism."*[7] Although consumer spending is moderating in China, it continues to be on the upswing in India, now the world's most populous country and largest democracy. To this we would add the very strong spending amongst the 10 countries within the Association of Southeast Asian Nations (ASEAN)—home to 650 million largely young consumers who are entering the discretionary spending part of their lives with relatively little debt.

Building on significant investments in technology stocks already held in the portfolio, two years ago we added companies related to GPU semiconductors and semiconductor manufacturing equipment while also increasing positions in cloud computing. These adjustments were all in preparation for the advancement of AI.

Despite the most recent strong economic returns and price appreciation of stocks associated with AI—"picks and shovels"—we caution investors that this relative outperformance may diminish in the months and years ahead. This is not to say our investments in AI may not continue to provide above-average returns. We remain of the opinion we are likely in the early innings of this transformational technology.

Our AI research has revealed another secular growth story now unfolding called *Electrification*—described as the rejuvenation of the worldwide electrical system, as a result of the power demands driven by AI and electrical vehicles. For the first time in decades, global demand for electricity is far outpacing supply, thus requiring significant capital reinvestment by electrical utilities.

More recently, GLP added companies that provide electrical power systems, transmission lines, generators, cooling equipment, and heat pumps. In addition, the portfolio initiated small investments in a natural gas driller and the world's largest liquefied natural gas producer. Natural gas is considered a prime candidate to fill the need between growing power demand and power generation capabilities.

Portfolio Outlook

The stock market is anxious.

Having waited for nearly two years, while observing an inverted yield curve and a string of negative Leading Economic Indicator (LEI) reports, investors are anxious for an economic recession that has not arrived.

Investors are anxious for inflation to decline back to the Fed's 2.0% target. Although it was relatively easy to bring inflation down from 9% to 3%, the grind of getting inflation to fall further has been frustrating.

Investors are anxious for the Fed to start cutting interest rates. At the end of 2023, the market's expectations were for six interest rate cuts this year. Now it appears one or two cuts may be possible by year end—but that's far from certain.

Lastly, investors are anxious about the stock market. It has been three months since the broad S&P 500 Index has declined 5% and nine months since a 10% correction—both, by historical standards, long overdue.

A Growth Manager Who Understands Valuation

There are growth traders and growth investors. Traders focus on short-term pricing; long-term investors focus on valuation and the potential for increasing the intrinsic value of their companies. GLP is a home for growth investors.

We are not unnerved by the idea of a 10% market correction. In fact, if one were to occur, we would jump at the chance to optimize the portfolio's future rate of return by rebalancing those stocks that we consider having the highest estimated future performance return—a strategy that has worked quite well for GLP investors during past market selloffs. We are driven by the idea there is a *difference between short-term quotational loss and permanent capital loss*.

Admittedly, growth investors are not always embraced by the value investing community. Never mind 30 years ago Warren Buffett, arguably the world's greatest value investor, sought to put to rest the ongoing debate over value versus growth investing.

In the 1992 Berkshire Hathaway Annual Report, Buffett declared, *"a high ratio price-to-book value, a high price-earnings ratio, and a low dividend yield—are in no way inconsistent with a 'value' purchase."* To underscore how value should be measured, Buffett explained it is calculated by the Discounted Cash Flow (DCF) model. He described, *"The value of any stock, bond, or business today is determined by the cash inflows and outflows—discounted at an appropriate interest rate—that can be expected to occur during the remaining life of the asset."*[8] Value, explained Buffett, is NOT dictated by price-to-earnings (P/E) ratios.

Although P/E ratios are a simple, shorthanded, and widely-used method for thinking about value, pricing relative to earnings is not valuation because of what it importantly misses—namely, a company's economic fundamentals including cash earnings in excess of the required capital reinvestment, long-term sales growth, and the sustainability of returns on capital.

The best we can say about P/E ratios is they are a reflection of the market's expectations. High P/E stocks reflect the market's optimism for a company while low P/E stocks signal the market may be skeptical about a company's prospects. Whether or not a high P/E or low P/E stock represents a value proposition, however, can only be determined by the DCF.

GLP is a growth investor's portfolio. We think about valuation first, then pricing secondly in order to determine whether or not the stock market is overvaluing or undervaluing a company.

Although we appreciate the growth opportunities associated with the expanding emerging market consumer, the advent of AI, or the rejuvenation of the global power grid, our ultimate focus is on the economic progress or our companies. On this score, we remain confident GLP is well-positioned.

1) Ives, Dan and Scott Devitt, "*Disruptive Technology: With the AI Revolution Now Here...Street Still Underestimating Impact to Tech,*" Wedbush, March 11, 2024.
2) Ibid.
3) Tae Kim, *"Nvidia Has More Than Doubled This Year. How to Know When to Sell," Barron's,* July 3, 2024, p.2.
4) Ibid., p.3.
5) Martin Adams, Gina, *"Tech Bubble 2.0 or No?"* Bloomberg Intelligence, June 25, 2024.
6) A popular Warren Buffett witticism.
7) Atsmon, Yuval, Peter Child, Richard Dobbs, and Laxman Narasimhan, *"Winning the $30 Trillion Decathlon: Going for Gold in Emerging Markets,"* McKinsey & Company, August 1, 2012.
8) 1992 Berkshire Hathaway Annual Report, p. 9.

GLOBAL LEADERS PORTFOLIO WRAP COMPOSITE (07/01/2014 – 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.)
2014 §	2.4%	0.9%	-1.9%	N/A	N/A	167	N/A	100%	$15	$23	$1,929
2015	-2.2%	-5.1%	-2.4%	N/A	N/A	519	0.1%	100%	$53	$65	$2,217
2016	4.2%	1.1%	7.9%	N/A	N/A	539	0.1%	100%	$72	$76	$2,714
2017	29.5%	25.7%	24.0%	10.1%	10.5%	<6	N/A	100%	$6	$110	$3,785
2018	-9.6%	-12.3%	-9.4%	10.6%	10.6%	13	N/A	100%	$12	$137	$3,831
2019	35.3%	31.4%	26.6%	13.0%	11.4%	8	0.2%	100%	$10	$217	$4,294
2020	30.0%	26.2%	16.3%	19.1%	18.4%	12	0.4%	92%	$12	$403	$4,012
2021	20.5%	17.0%	18.5%	17.9%	17.1%	13	0.2%	92%	$12	$593	$5,038
2022	-28.8%	-30.9%	-18.4%	22.8%	20.1%	13	0.2%	86%	$4	$444	$4,469
2023	38.9%	34.9%	22.2%	21.9%	16.5%	8	0.2%	88%	$5	$609	$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 07/01/2014 through 12/31/2014.*

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 Global Leaders 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. Global Leaders Portfolio invests in U.S. exchange-traded equities that have global revenue exposure and the ability to create and sustain long-term competitive advantages and above-average return on capital. Stocks are purchased based on a discount to the manager's perceived intrinsic value and will own roughly 20-40 stocks across multiple economic sectors. 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 July 1, 2014.

Benchmark Description

The benchmark is the MSCI ACWI Index. The **MSCI ACWI Index** is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets around the globe, including the United States. The benchmark returns are presented net of withholding taxes. 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 fees, custody fees and withholding taxes 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 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 Global Leaders 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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It is important to review your investment objectives, risk tolerance, and liquidity needs before choosing an investment style or manager. Foreign investments are subject to risks not ordinarily associated with domestic investments, such as currency, economic and political risks, and different accounting standards. There are special considerations associated with international investing, including the risk of currency fluctuations and political and economic events. Investing in emerging markets may involve greater risk and volatility than investing in more developed countries. Rebalancing may have tax consequences, which should be discussed with your tax advisor. Diversification (or asset allocation) 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 **NASDAQ Composite Index**, comprised mostly of technology and growth companies, is a market value-weighted index of all common stocks listed on NASDAQ. The **MSCI ACWI Index** is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets around the globe, including the United States. The **Conference Board Leading Economic Index** is an American economic leading indicator intended to forecast future economic activity. It is calculated by The Conference Board, a non-governmental organization, which determines the value of the index from the values of ten key variables. 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.

*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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