Global Leaders Portfolio

Portfolio Manager Commentary

As of 3/31/2024

EquityCompass

Q1 2024 Review

On the heels of strong 2023 performance, the **Global Leaders Portfolio (GLP)** finished the first quarter up 11.75% (10.95% net of maximum potential fees) versus the benchmark, which gained 8.20%. GLP's long-term results can be found in the table below.

We caution investors not to extrapolate first quarter performance as an indicator of expectations for the remainder of the year—which would imply more than a 40% return in 2024. While GLP generated a 2023 gross return of 38.86%, that was largely the result of deeply undervalued stocks at the end of 2022. While the Federal Reserve (Fed) was raising interest rates that year, traders indiscriminately sold long duration growth stocks, significantly lowering prices below our calculation of intrinsic value—an observation we noted in the second half of 2022.

In 2023, the combination of stock price gains resetting higher and earnings growth among GLP companies produced a "one-two-punch" for the portfolio's outsized performance return. Now that stocks are more fairly valued—neither significantly under- or overvalued—GLP's performance return will largely be dependent on its companies' economic returns—earnings per share (EPS) growth. Even so, on this front, we remain optimistic.

For 2024, the S&P 500 EPS growth estimate is 9.3%. Of the 11 S&P sectors, seven are estimated to experience EPS growth below the average return of the index including: Consumer Staples, Energy, Financials, Health Care, Industrials, Materials, and Real Estate. The four sectors that are projected to generate EPS growth higher than the index include: Consumer Discretionary, Information Technology, Communications Services, and Utilities. This is good news for the GLP. Although the portfolio is not invested in Utilities, it has significant exposure to the other three secular growth sectors including Information Technology and Communication Services where EPS growth this year is estimated to be 2x–3x faster than the overall S&P 500 Index.

What accounts for the above-average economic performance among the Information Technology and Communication Services sectors? In short, Artificial Intelligence (AI).

In 2023, we wrote about the significant economic tailwinds that were forthcoming with the advent of AI. Most recently, we penned a commentary titled, "***Rational Exuberance: Understanding the Investment Opportunities with Artificial Intelligence***"—an investment primer providing an overview of the technology and possible investment opportunities. We highly recommend reading it if you haven't done so.

Objective

Focused portfolio of leading global companies positioned to benefit from the unprecedented growth in worldwide consumer demand

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 $5.0 billion as of March 31, 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	Incp.	2015	2016	2017	2018	2019	2020	2021	2022	2023
Gross %	11.75	31.06	11.75	33.99	9.74	15.14	11.38	-2.24	4.23	29.50	-9.64	35.28	29.98	20.51	-28.81	38.86
Benchmark %	8.20	20.14	8.20	23.22	6.96	10.92	8.35	-2.36	7.86	23.97	-9.41	26.60	16.25	18.54	-18.36	22.20
Net %	10.95	29.13	10.95	30.09	6.57	11.81	8.13	-5.09	1.12	25.75	-12.33	31.41	26.25	17.04	-30.94	34.89

As of 3/31/2024; 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.

Some have suggested we may be only on the doorstep of what could be a $1 trillion dollar opportunity within the technology sector over the next few years.[1] It is estimated that for every $1 spent on a graphics processing unit (GPU) chip—the essential semiconductor engine for AI—there will be an additional $10–$12 in spending across software, cloud computing, and information technology services.[2] These economics could be the turbocharger for EPS growth.

GLP has investments in the "picks and shovels" needed to power AI including semiconductor GPUs, semiconductor manufacturing equipment, and cloud computing services. Although the publicity surrounding AI may be fairly new, GLP has been well-positioned in advance to benefit from the fourth phase of the fifth technology revolution in the age of Information and Telecommunication.

There are risks to investing in AI.

With any new technology, there are always risks. AI is no different.

- AI has been likened to being in kindergarten—in the earliest years of the new technology, so mistakes will be plentiful. Some AI models have been said to "hallucinate"—a technology term for giving back incorrect information. Setbacks are inevitable; progress will be uneven.
- Researchers are publicly concerned about "data poisoning," which can occur when malicious actors insert misleading information with the aim of spreading misinformation.
- Regulation of AI is all but certain. Already, the European Union is introducing guardrails for the use of AI—requiring that models are transparent in the sourcing of databases and publicly allowable information. U.S. regulations will not be far behind.
- Business adoption of AI models may be slower than anticipated.
- Competition among AI providers is certain to be intense which could bite into profits and growth rates of companies.
- Technology has been the best performing sector for nearly two years. Profit taking in this sector could occur.
- As investors are constantly forewarned, past performance is no guarantee of future returns. Popular stock market sectors rotate over time. The overall stock market is long overdue for a meaningful correction which will affect all stocks—AI stocks included.

All of the above, collectively or individually, could have a negative impact on the technology sector and current AI leadership.

Portfolio Outlook

The recent price gains among AI stocks have been likened to the stock market bubble associated with the commercialization of the Internet (dot-com revolution) in 1999. From my experience managing institutional growth portfolios at the time, the differences between the two periods are night and day. At the end of 1999, speculation was rampant largely based on the belief that the new Internet's ability to capture eyeballs would soon generate profits for many companies. When eyeballs didn't translate into earnings, the market collapsed.

For those seeking to invest in AI, our advice remains the same—invest in quality companies with a proven track record of revenues and earnings. Favor industry and sector leaders while waiting for the new unproven companies to be tested.

"In the long run the stock market is a weighing machine."

In *The Intelligent Investor*, written in 1949, Benjamin Graham argued that in the long run the stock market was a weighing machine, believing long-term stock prices aligned with long-term earnings growth. However, in the short run, Graham believed the market was more like a voting machine—causing prices to bounce wildly above and below the earnings growth of companies based on fear and greed.

We examined the price appreciation of AI picks and shovels over time as it related to the growth in earnings. We found that the stock market has done a pretty good job of weighing price appreciation to earnings growth, thus affirming Ben Graham's belief.

As Ben Graham highlighted, short-term market votes will always vary, but long-term economic weights are usually rewarded. It is always helpful to understand *the difference between short-term quotational loss and permanent capital loss.*

(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.

With each technological revolution, the benefits accrue to society and subsequent financial rewards were allocated to those who invested in the new technologies. We see no reason why the fourth phase of the fifth technological revolution (AI) will be any different.

We are in the early innings of AI investment. We would point out that each the first three phases of this technological revolution: (1) Intel unveiled the microprocessor (1971), (2) commercialization of the Internet (1995), and (3) mobile computing with smart phones enjoyed a long runway with many years of investment opportunities. In that the commercialization of AI is only two years old, we believe there are several more years of development and investment yet to be realized.

As such, GLP now has exposure to two significant secular growth opportunities. The first remains the rise of the middle class consumer in China, India, and Southeast Asia where consumers are typically younger and crossing into the discretionary spending period of their lives with little debt. GLP's multinational growth companies, domiciled in the U.S., Europe, and Canada, are at the forefront of a long-term secular growth story of middle class consumer spending in the emerging markets that we expect to last many years.

The second growth story is the advent of AI. With only a few select companies currently integrating AI into their business strategy, once the payoffs are realized and reported, we believe the laggards may have no choice but to embrace the benefits of incorporating this new technology. Mass adoption means almost every company, in every industry around the world, may eventually integrate AI into their business models. We are now beginning to observe a tsunami of corporate spending from companies in every sector of the market seeking to benefit from the efficiencies and productivity gains made possible by the introduction of AI. As this unfolds, GLP investors stand the possibility of being the investment beneficiaries of this new technology.

In other words, despite recent GLP outperformance, we are of the opinion it is still an opportune time to "take another bite of the apple" that is Global Leaders Portfolio growth stock investing.

INVESTMENT PERFORMANCE DISCLOSURE

GLOBAL LEADERS PORTFOLIO WRAP COMPOSITE (07/01/2014 – 12/31/2022)

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	0.19%	100%	$10	$217	$4,294
2020	30.0%	26.2%	16.3%	19.1%	18.4%	12	0.41%	92%	$12	$403	$4,012
2021	20.5%	17.0%	18.5%	17.9%	17.1%	13	0.19%	92%	$12	$593	$5,038
2022	-28.8%	-30.9%	-18.4%	22.8%	20.1%	7	0.18%	86%	$4	$444	$4,469

** 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 7/01/14 through 12/31/14.*

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 06/01/14–12/31/22. 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 that are deemed to be of high quality in terms of their 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. 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 trading costs in the case of non-wrap accounts and those wrap accounts traded by EquityCompass. Trading costs are not deducted from gross-of-fee return calculation if the wrap account trades are executed by the Sponsor. 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.

Trademark Disclosures

GENERAL DISCLOSURES

The information contained herein has been prepared from sources believed to be reliable but is not guaranteed and is not a complete summary or statement of all available data nor is it considered an offer to buy or sell any securities referred to herein. Affiliates of EquityCompass may, at times, release written or oral commentary, technical analysis, or trading strategies that differ from the opinions expressed within. Opinions expressed are subject to change without notice and do not take into account the particular investment objectives, financial situation, or needs of individual investors.

This commentary often expresses opinions about the direction of market, investment sector, and other trends. The opinions should not be considered predictions of future results. The information contained in this report is based on sources believed to be reliable, but is not guaranteed and not necessarily complete. All investments involve risk, including loss of principal, and there is no guarantee that investment objectives will be met. It is important to review your investment objectives, risk tolerance, and liquidity needs before choosing an investment style or manager. Equity investments are subject generally to market, market sector, market liquidity, issuer, and investment style risks, among other factors to varying degrees. Fixed Income investments are subject to market, market liquidity, issuer, investment style, interest rate, credit quality, and call risks, among other factors to varying degrees.

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®** is regarded as the best single gauge of large-cap U.S. equities. According to our Annual Survey of Assets, an estimated USD 15.6 trillion is indexed or benchmarked to the index, with indexed assets comprising approximately USD 7.1 trillion of this total (as of Dec. 31, 2021). The cap weighted index includes 500 leading companies and covers approximately 80% of available market capitalization. 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. 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 March 31, 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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