Equity Risk Management Strategy

Portfolio Manager Commentary

As of 9/30/2024

EquityCompass

Q3 2024 Overview

At the end of the second quarter, we were of the opinion that the lower cap stocks that had been performance laggards throughout the year might soon emerge as earnings growth rates for the group began to accelerate, thereby narrowing the performance gap with mega cap stocks. In other words, we expected market performance to broaden out, which is indeed what has occurred in recent months.

For the third quarter, the S&P 500 Index gained 5.89%. However, the S&P 500 Equal Weight Index—perhaps a better measure of the broader market—gained an impressive 9.59% during the quarter. Among stocks in the S&P 500 Index, 332 beat the index return while only 108 stocks in the index posted a negative return—a far cry from the beginning of the year when only a few stocks beat the market. Compare this to 2023, when only 143 stocks outperformed the index during the year. The broadening market breadth that occurred during the third quarter could be viewed as an encouraging sign for the overall health of the stock market.

Our second observation last quarter was the likelihood that high dividend-paying stocks—serial underperformers since 2022 commensurate with the start of Federal Reserve (Fed) interest rate hikes—might soon have their day in the sun. In our opinion, these stocks were poised for higher relative performance once the Fed began cutting interest rates. At that time, we noted that the stock market is a discounting mechanism which tends to adjust prices long before the bell is rung. It was our belief that dividend stocks could begin to move up in price in anticipation of Fed rate cuts. True to form, that is exactly what happened.

For the third quarter, the S&P 500 Low Volatility High Dividend Index, a proxy for high dividend-paying stocks, gained 14.90% in three months—almost three times the return of the S&P 500 Index. Once again, the speed and magnitude of price fluctuations in the market—the result of the changing market structure that now included a battalion of new hedge funds all racing to capture short-term performance—has been breathtaking.

Allocation Overview

The **Equity Risk Management Strategy (ERMS)** remained in a neutral position throughout the third quarter, equally split between 50% equity and 50% cash and higher-yielding short-term Treasuries. This neutral posture has been in place since mid-July 2022.

Overall, corporate earnings estimates continue in an upward trend, but underperform the price performance of the S&P 500 Index. As a result, the S&P

Objective

Tactical allocation strategy that seeks to adjust a portfolio's equity exposure to potentially provide downside risk mitigation and volatility control

Portfolio Management Team

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Senior Portfolio Manager

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 $5.3 billion as of September 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.

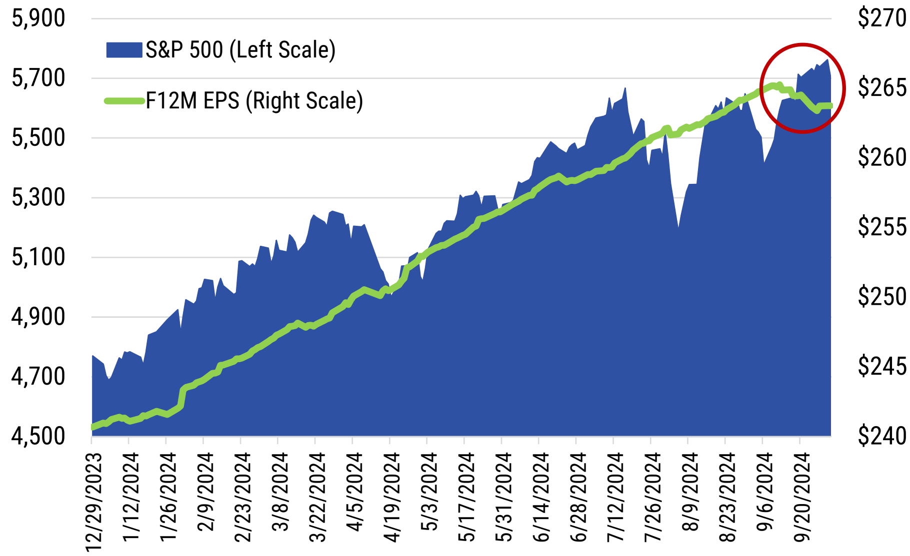
	Total Returns			Annualized Returns					Calendar-Year Returns									
	3-Mos	6-Mos	YTD	1-year	3-year	5-year	10-year	Incp.	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Gross %	4.50	5.72	10.72	17.55	3.61	7.42	5.94	7.96	12.82	-0.41	7.32	21.24	-5.45	5.97	2.91	27.15	-18.75	11.60
Benchmark %	3.75	4.79	10.16	17.21	3.53	8.93	6.13	6.58	1.81	-0.97	5.47	13.29	-7.14	13.71	17.89	11.67	-10.13	11.37
Net %	3.73	4.14	8.25	14.05	0.55	4.26	2.83	4.78	9.45	-3.31	4.15	17.70	-8.25	2.82	-0.10	23.50	-21.19	8.33

As of 9/30/2024; Inception – October 1, 2012; Benchmark = HFRI Equity Hedge Index
ERMS performance represents the standalone Separately Managed Account (SMA) strategy on Stifel's Custom Advisory Portfolio platform.
Net returns reflect the deduction of the potential maximum managed account fee of 3.00% which includes the wrap sponsor fee and EquityCompass investment management fees. Actual fees may vary.

500 forward earnings multiple ended the quarter at 21.6x, above its 22-year average of 16.0x and near its 22-year high of 23.0x.

S&P 500 Forward 12-Month Earnings Expectations **Chart 1**

12/31/2023—9/30/2024 | Excluding dividends | Source: Bloomberg Finance, LP; EquityCompass



We should note that, in recent weeks, we have measured a moderate contraction in earnings expectations for the S&P 500, ending the quarter at $263.74—down $1.51 (0.6%) from peak levels on September 12. These levels can and do have a slight variation in the short term. Consequently, the recent pullback in earnings expectations does not yet represent a cause for concern. However, we will continue to monitor the health of the current corporate earnings cycle as third quarter results begin to trickle in around mid-to-late October to determine whether this is an emerging trend.

From a technical perspective, both credit spreads and the CBOE Volatility Index (VIX), which tend to spike during periods of market stress, ended the quarter near the lower end of their ranges since the onset of the COVID-19 pandemic. However, in the early days of October, global financial markets shook on the heels of a surprising increase in Japan's central bank interest rate when analysts were actually expecting additional monetary accommodation. The Yen quickly lost more than 20% versus the Dollar, followed by the Nikkei's largest single-day drop since Wall Street's Black Monday in 1987. As a result, our indicators had sizable moves over a few short days but proved to be short lived. The Yen and Nikkei reversed course in short order and have since reverted back close to their pre-interest rate hike levels. Risks associated with global financial market structure warrant continued close monitoring for the potential of contagions that could affect the U.S. in a more meaningful way.

DISCLOSURES

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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. No representation is made that any Strategy, model, or model mix will achieve results similar to those shown in these materials. It should not be assumed that any holdings included in these materials were or will prove to be profitable, or that recommendations or decisions that the firm makes in the future will be profitable or will equal the investment performance of the securities discussed herein. Diversification and/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.

The Equity Risk Management Strategy invests primarily in ETFs, which are subject to the risk that the values will fluctuate with the value of the underlying investments or indices the ETFs are tracking. ***Exchange Traded Funds (ETFs) represent a share of all stocks in a respective index. ETFs trade like stocks and are subject to market risk, including the potential for loss of principal, and may trade for less than their net asset value. The value of ETFs will fluctuate with the value of the underlying securities. Investors should review the prospectus and consider the ETF’s investment objectives, risks, charges, and expenses carefully before investing. Prospectuses are available through your Financial Advisor and include this and other important information.*** Due to rapidly changing market conditions and the complexity of investment decisions, supplemental information and other sources may be required to make informed investment decisions based on your individual investment objectives and suitability specifications.

The **S&P 500® Index** is a capitalization-weighted index that is generally considered representative of the U.S. large capitalization market. The **S&P 500 Equal Weight Index** is based on the S&P 500. All index constituents are members of the S&P 500 and follow the eligibility criteria for that index. The S&P EWI is maintained in accordance with the index methodology of the S&P 500, which measures 500 leading companies in leading U.S. industries. The S&P EWI measures the performance of the same 500 companies, in equal weights. As such, sector exposures in the S&P EWI will differ. 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. The Chicago Board Options Exchange (CBOE) created the VIX (**CBOE Volatility Index**) to measure the 30-day expected volatility of the US stock market, sometimes called the “fear index.” The VIX is based on the prices of options on the S&P 500 Index and is calculated by aggregating weighted prices of the index’s call and put options over a wide range of strike prices. 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 September 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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