Global Leaders Portfolio

Portfolio Manager Commentary

As of 9/30/2024

EquityCompass

Q3 2024 Review

For the third quarter, the **Global Leaders Portfolio (GLP)** generated a return of 5.82% (5.02% net of maximum potential fees) versus the benchmark which gained 6.61%. Year to date, GLP is up 24.41% (21.62% net) while the benchmark returned 18.66%. GLP's long-term results can be found in the table below.

In our second quarter commentary, we cautioned investors that, despite the most recent strong economic returns and price appreciation among Artificial Intelligence (AI) stocks referred to as "picks and shovels," relative outperformance would most certainly diminish in the months ahead. True to form, some of GLP's mega cap technology stocks most closely aligned to AI posted modestly negative results for the quarter.

This is not to say GLP's AI investments may not continue to provide above-average returns. While these technology stocks have continued to grow revenues at a double-digit rate, what changed was the relative outperformance among low cap stocks relative to mega cap stocks. We suggested the performance gap between the two groups could narrow. Indeed, in the third quarter, the cap-weighted S&P 500 Index was up 5.89%, while the S&P 500 Equal Weight Index gained 9.60%.

Of special note, over the last three months, 332 stocks in the S&P 500 Index beat the index return while only 108 stocks in the index posted a negative return. Compare this to 2023, when only 143 stocks outperformed the index for the year. In a word, market breadth during the third quarter was "incredible." We believe this is a very encouraging sign for the overall health of the market.

Last quarter, we acknowledged one word that best described the market and economic environment was: ***anxious***.

Investors were *anxious* about an economic recession that had not yet arrived. Investors were also *anxious* about the mega cap technology stocks that had consumed all of the performance in the first half of the year—leaving bread crumbs for the rest. Taken together, optimism about the economy and the stock market seemed to be in short supply.

Three months later, investors appeared to breathe a sigh of relief that the economy is not in a recession. Although the unemployment rate has ticked up from 4.0%, the recent employment statistics point to a healthy labor market. By most accounts, gross domestic product (GDP) is still growing at a rate of more than 2%, with inflation falling to 2.6% from over 3% earlier in the year. Amidst good news heralding the start of the Federal Reserve's (Fed) interest rate cuts, an economic soft landing—although not 100% certain—is still favored to occur.

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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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	Inception	2015	2016	2017	2018	2019	2020	2021	2022	2023
Gross %	5.82	11.33	24.41	45.90	10.38	15.96	12.46	11.96	-2.24	4.23	29.50	-9.64	35.28	29.98	20.51	-28.81	38.86
Benchmark %	6.61	9.67	18.66	31.76	8.09	12.19	9.18	8.90	-2.36	7.86	23.97	-9.41	26.60	16.25	18.54	-18.36	22.20
Net %	5.02	9.61	21.62	41.54	7.14	12.58	9.39	8.69	-5.09	1.12	25.75	-12.33	31.41	26.25	17.04	-30.94	34.89

As of 9/30/2024; Inception – July 1, 2014; Benchmark = MSCI ACWI Index

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.

Portfolio Outlook

We remain steadfast in our opinion that we are still in the early innings of the AI revolution. Thus far, the beginning of AI has been centered on the development of large language models (LLM) made possible with the inclusion of advanced graphics processing unit (GPU) semiconductors and the massive processing capability of cloud computing and data centers. The next step of the AI revolution will involve applying the benefits of LLM to enhance decision-making by analyzing vast datasets to uncover insights that might be missed by human analysts.

The recent public announcement of a partnership between Nvidia Corp. (NVDA) and Accenture (ACN), a management and consulting technology business, is one example in the subsequent evolution.

Enterprise AI refers to the integration of advanced AI technologies for the benefit of individual companies to enhance business functions including automating processes, optimizing operations, and providing additional strategic insights from large datasets, all of which may contribute to higher profitability.

On the heels of Enterprise AI is the development of Industrial AI, which refers to the application of artificial intelligence within industrial settings by focusing on improving processes like manufacturing, supply chain management, and logistics. In short, as AI moves from the laboratory setting to real world applications, we believe it could become ubiquitous and a necessary tool for companies, governments, and organizations around the world.

No doubt, investors are eager to see higher earnings growth rates and improved profit margins for companies as a result of applying AI. The stock market, if nothing else, is always impatient—which leads me to recall Amara's law. Roy Amara was a researcher and scientist who studied the forecasting effects of new technology. His research revealed, *"We tend to overestimate the effect of a technology in the short run and underestimate the effect in the long run."* [1] Rest assured, the Global Leaders Portfolio is not underestimating the potential long-term effects of AI.

Our AI research has revealed another secular growth story now unfolding. We call it *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.

This year, GLP has added companies that provide electrical power systems, transmission lines, generators, cooling equipment, and heat pumps. Furthermore, GLP initiated small investments in a natural gas driller in addition to the leading producer and exporter of liquefied natural gas in the U.S. We believe natural gas is a prime candidate to fill the need between growing power demand and power generation capabilities.

At present, the Global Leaders Portfolio is being motored by three specific global secular growth stories.

1) Rapid spending of the global middle class consumer
2) Artificial Intelligence
3) Electrification

Sustainable, long-term, above-average growth is rare. When it does occur, if often creates high excess returns as the market periodically underestimates secular investment opportunities. We believe this mispricing makes possible the pursuit of successful growth investing.

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 to increase 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 GLP's future rate of return by rebalancing the portfolio among those stocks with the highest estimated future performance return—a strategy that has worked very well during past market selloffs. We are driven by the *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.

(1) Amara, Roy and Wayne Boucher, *Business Planning for an Uncertain Future: Scenarios and Strategies*, Pergamon Press: New York, 1983.

In the 1992 Berkshire Hathaway Annual Report, Buffett explained *"a high ratio of 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—*"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 an asset."* [2] Value, explained Buffett, is NOT dictated by a price-earnings (P/E) ratio.

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 fundamental including cash earnings in excess of the required capital reinvestment, long-term sales growth, and the sustainability of high 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 is skeptical about a company's prospects. But whether a high P/E or low P/E stock might be considered a value can only be determined by the DCF model.

For the Global Leaders Portfolio, we build a matrix of DCF models using various earnings growth rates over several different time horizons to arrive at a central tendency of value for what we believe a business may be worth. If the stock price is below our estimation of value, we would be interested in purchasing shares of the company. We have learned that some growth stocks, by applying rational estimates of future earnings into a DCF model, can also be attractive value stocks.

GLP is a growth investor's portfolio. We think about valuation first, then pricing second in order to determine whether 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 of our companies as it relates to intrinsic value. And on this score, we remain confident GLP is well positioned.

(2) 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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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® 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. 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.

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.

*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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