# High-Dividend Portfolio

## Portfolio Manager Commentary

As of 9/30/2024

## Q3 2024 Review

On July 31, Federal Reserve (Fed) Chairman Powell signaled a rate cut would likely be appropriate if the current trends of rising unemployment and declining inflation continued. This acknowledgment set forth a powerful rally in dividend stocks well before the Fed made good on Powell's comments with a 50 basis point (bps) cut in short-term interest rates by the Federal Open Market Committee (FOMC) on September 18.

If history is any predictor of the future, then the Fed could be embarking on a rather significant reduction in interest rates over the next 12–24 months. The Fed's own "dot-plot" of future interest rate expectations implies short-term rates could fall to 3.25%–3.50% by the end of 2025. The realization that income generation from cash balances would likely decline, perhaps significantly, caused investors to seek out other income-producing asset classes. Dividend stocks were a primary beneficiary of this rotation during the third quarter.

Against this backdrop, the **High-Dividend Portfolio (HIDIV)** posted a strong 13.09% gain (12.30% net of maximum potential fees) during the third quarter versus the benchmark return of 14.90% for the S&P 500 Low Volatility High Dividend Index. Year to date, HIDIV has generated a return of 17.62% (15.01% net) versus 22.81% for the benchmark.

The underperformance relative to the bench has been primarily driven by the portfolio's overweight position among the Financials sector and its underweighting in both Utilities and Consumer Staples. Assuming the economy remains on relatively sound footing, we continue to believe that Financials could be one of the primary beneficiaries of a prolonged Fed interest rate cutting campaign. As such, we are comfortable with HIDIV's current allocation to the sector.

In addition, many stocks within the Utilities and Staples sectors now offer dividend yields less than 4.0%. We believe the overall yields within those sectors are too low relative to Financials to warrant an overweight allocation for a portfolio that seeks to maximize income generation. As a result of this positioning, HIDIV has a 30 bps yield advantage over the benchmark as we patiently await the benefit lower interest rates could potentially have on the fundamentals within the Financials sector.

Although the portfolio has experienced strong returns over the past few months due to the expectation of lower interest rates, we believe positive catalysts could persist. For example, the sizable level of cash currently on the sidelines yielding approximately 5.0% is likely to broaden out into other asset classes as the Fed embarks on its anticipated monetary easing cycle now that inflation appears to be stabilizing in the 2.5% area and signs of economic softness have become apparent.

### Objective

Seeks to generate a high level of current income with dividend growth to cover inflation and a yield that is competitive with U.S. high-yield bond benchmarks

### Portfolio Management Team


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*Senior Managing Director*



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*Senior Portfolio Manager*



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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 | Inception | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| Gross % | 13.09 | 12.70 | 17.62 | 27.43 | 12.12 | 10.16 | 9.24 | -7.95 | 21.78 | -8.30 | 29.86 | 4.22 | 4.99 |
| Benchmark % | 14.90 | 16.09 | 22.81 | 34.80 | 10.82 | 8.32 | 8.07 | -5.87 | 20.76 | -9.67 | 25.26 | 0.93 | 1.70 |
| Net % | 12.30 | 11.05 | 15.01 | 23.64 | 8.85 | 6.95 | 6.04 | -10.68 | 18.25 | -10.99 | 26.08 | 1.21 | 1.92 |

As of 9/30/2024; Inception — September 1, 2017; Benchmark = S&P 500 Low Volatility High Dividend 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.

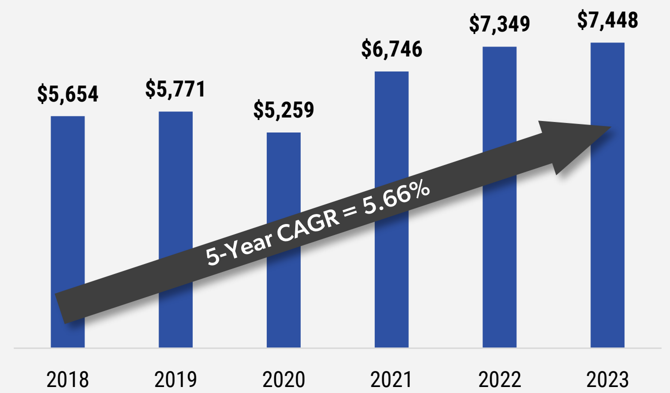
Consequently, cash may continue to become less attractive over time as yields move lower, resulting in reduced income generation and the loss of purchasing power. While some cash may be inert as yields remain appealing relative to past 0% interest rate policies, a portion could move into other investments to help maintain, if not improve, income generation. These potential allocation shifts could continue to be a relative tailwind for dividend stocks.

In addition, if indeed the economy slows after a period of growth enhanced by a significant amount of government pandemic spending, then one likely outcome could be a stretch of lower total returns from equities—especially as the broader markets are nearing all-time highs. If so, then dividend yields could contribute to a higher portion of total returns than investors have been accustomed to over the past few decades. For example, if the S&P 500 annual returns were to revert back to their historical level of 9%–10%, if not lower, then HIDIV's current dividend yield could generate approximately 50% or more of the total return in yield alone—not accounting for any potential price appreciation.

Finally, on average, approximately 80% of the portfolio's holdings have raised their dividend each year since portfolio inception. We believe the consistency of such increases, in conjunction with the above-average stated dividend yield, can potentially reduce volatility throughout various economic environments.

**High-Dividend Portfolio Annual Dividend Income**

2018—2023 | Using a starting value of $100,000* | Source: EquityCompass, Stifel




*The ability to maintain purchasing power is a key advantage of dividend stocks over cash and cash-like investments—especially if yields on cash fall as much as the Federal Reserve's own "dot-plot" forecast implies. HIDIV has generated five-year compound annual dividend income growth (CAGR) of 5.66% versus the 4.09% rate of inflation over the same time frame. HIDIV's annual dividend income is shown above.*

(*) Based on a representative account. The representative account is the oldest account in the strategy with a continuous track record that also did not have large cash flows (redemptions or deposits) or mandate changes. Portfolio inception: 9/1/2017

## Portfolio Statistics

As customary, the following statistics highlight HIDIV's portfolio management approach in an effort to address market challenges and provide support for income stability.

- Staying true to the portfolio mantra of generating consistent cash flow for investors, HIDIV maintains a weighted average dividend yield of 4.7% at quarter end (excluding supplemental and special dividends)—nearly four times that of the broader market
- Through the first nine months of 2024, investors have captured 17 dividend increases among the 30 stock portfolio with some companies raising their dividend multiple times during the year
- The average growth of those dividend increases was 3.8%—***excluding*** special and supplemental dividends paid
- Seeking to maintain quality constraints, 100% of the companies (or subsidiaries in cases where the parent company has no debt) in the portfolio have investment-grade debt ratings—the highest level since the portfolio was launched
- Since inception, HIDIV has generated a five-year compound annual growth rate (CAGR) of cash dividend income of 5.66%—well in excess of the 4.09% realized level of inflation over that period

## HIGH-DIVIDEND PORTFOLIO WRAP COMPOSITE (09/01/2017 – 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 | Portfolios With Bundled Fees | Composite Assets (USD Mil.) | Strategy Assets (USD Mil.)† | Firm & Advisory Assets (USD Mil.) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 2017 § | 8.8% | 7.8% | 6.9% | N/A | N/A | <6 | N/A | 67% | $0.11 | $0.11 | $3,785 |
| 2018 | -8.0% | -10.7% | -5.9% | N/A | N/A | <6 | N/A | 67% | $0.15 | $0.15 | $3,831 |
| 2019 | 21.8% | 18.2% | 20.8% | N/A | N/A | <6 | N/A | 67% | $0.25 | $14 | $4,294 |
| 2020 | -8.30% | -10.99% | -9.67% | 20.48% | 20.29% | <6 | N/A | 50% | $0.29 | $36 | $4,012 |
| 2021 | 29.86% | 26.08% | 25.26% | 20.30% | 20.76% | <6 | N/A | 50% | $0.37 | $87 | $5,038 |
| 2022 | 4.22% | 1.21% | 0.93% | 21.87% | 22.34% | <6 | N/A | 50% | $0.44 | $180 | $4,469 |
| 2023 | 4.99% | 1.92% | 1.70% | 14.76% | 16.82% | <6 | N/A | 50% | $0.46 | $206 | $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 09/01/2017 through 12/31/2017.*

**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 High-Dividend 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. High-Dividend Portfolio strategy invests in a focused portfolio of dividend-paying stocks domiciled in the U.S. and developed international markets seeking to generate a high level of current income with dividend growth to cover inflation and a yield that is competitive with U.S. high-yield bond benchmarks. 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 September 1, 2017.

**Benchmark Description**

The benchmark is the S&P 500 Low Volatility High Dividend Index. 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. 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 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 High-Dividend 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. Small company stocks are typically more volatile and carry additional risks, since smaller companies generally are not as well established as larger companies. The market risk associated with small-cap and mid-cap stocks is generally greater than that associated with large-cap stocks because small-cap and mid-cap stocks tend to experience sharper price fluctuations than large-cap stocks, particularly during bear markets. Due to their narrow focus, sector-based investments typically exhibit greater volatility and are generally associated with a high degree of risk. Changes in market conditions or a company's financial condition may impact the company's ability to continue to pay dividends. Companies may also choose to discontinue dividend payments. High-dividend paying stocks may carry elevated risks and companies may lower or discontinue dividends at any time. 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. Foreign securities potentially entail special risks such as less liquid markets; political and economic instability; lax regulation; and adverse fluctuations in currency exchange rates. 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.

Real estate investing is subject to special risks, including tenant default, declining occupancy rates, adverse changes in environmental and zoning regulations, and falling property values and rents due to deteriorating local or national economic conditions. REIT securities listed on a securities exchange may be subject to abrupt or erratic price movements because of interest rate changes and other factors. Non-listed REIT securities may lack sufficient liquidity to enable the Fund to sell them at an advantageous time or to minimize a loss. Distributions from REITs may include a return of capital. A REIT that does not qualify as a REIT under the Internal Revenue Code ("IRC") will pay taxes on its earnings, which will reduce the dividends paid by the REIT to the Fund. Some REITs are highly leveraged, which may increase the risk of 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® 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. 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.

**Compound annual growth rate**, or CAGR, is the mean annual growth rate of an investment over a specified period of time longer than one year. It represents one of the most accurate ways to calculate and determine returns for individual assets, investment portfolios, and anything that can rise or fall in value over time.

*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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