Core Balanced Portfolio—Tax-Advantaged

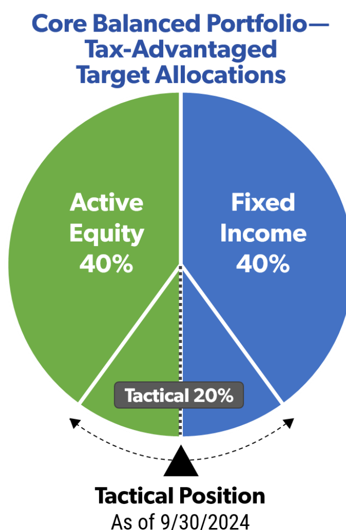
Portfolio Manager Commentary

As of 9/30/2024

Q3 2024 Overview

The **Core Balanced Portfolio–Tax-Advantaged (MCBAL)** is a diversified strategy designed to help conservatively grow and preserve wealth leading up to and throughout retirement. The portfolio attempts to garner a total return over multiple market cycles consistent with that of a broad-based 60/40 stock/bond portfolio, but with less risk than its underlying benchmark. MCBAL seeks to accomplish these objectives primarily through balanced diversification. As a whole, the portfolio is allocated to three distinct sub strategies: (1) 40% to actively-managed U.S. and global equities with a combined focus on growth and income and a bias toward companies with strong financial quality and returns on capital, (2) 40% to actively-managed municipal fixed income, and (3) 20% to tactical equity with the ability to shift between equities and low duration fixed income and/or cash as market conditions warrant. With the dynamic and flexible nature of tactical equity, the portfolio's overall target allocation to equity/fixed income can vary from its most aggressive (60%/40%) to most conservative (42%/58%). MCBAL's target asset allocation, which did not change throughout the quarter, finished with 51.1% equities and 48.9% fixed income, and a combined 11.1% among cash and higher-yielding short-term Treasuries.

Core Balanced Portfolio—Tax-Advantaged Target Allocations



Tactical Position
As of 9/30/2024

For the third quarter, MCBAL advanced 5.22% (4.45% net of maximum potential fees) versus its blended benchmark, which increased 4.38%. Our allocation to U.S. equities, fixed income, and tactical equity all positively contributed to returns for the quarter while global equities had a negative contribution. Since inception, the portfolio has an annualized return of 7.46% (4.31% net) versus 7.55% for the benchmark. Long-term results can be found in the table below.

Equity Overview

Last quarter, we highlighted trends and performance disparities that had been solidly in force for roughly 18 months (six quarters) and at or near historic extremes. We further suggested that segments of the equity market had been out of favor for so long and to such a degree that we could likely see a reverse in leadership heading into the second half of the year. The third quarter was, in

Objective

Seeks to effectively capture market returns while minimizing volatility; allocates the fixed income component to municipal bonds appropriate for tax-sensitive investors

Portfolio Management Team

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Senior Portfolio Manager

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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 $5.3 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 %	5.22	6.39	12.24	21.43	4.81	6.85	6.11	7.46	8.70	1.12	4.36	15.40	-5.40	16.28	5.71	14.02	-11.77	10.56
Benchmark %	4.38	5.79	10.61	20.63	4.98	8.13	7.04	7.55	7.79	1.40	5.64	13.35	-3.50	17.27	12.51	12.70	-12.04	14.25
Net %	4.45	4.80	9.74	17.82	1.72	3.71	2.99	4.31	5.47	-1.83	1.26	12.02	-8.22	12.90	2.62	10.70	-14.40	7.32

As of 9/30/2024; Inception — January 1, 2010; Benchmark = 32% S&P Composite 1500 Index / 8% MSCI World ex USA Index / 20% HFRI Equity Hedge Index, / 40% Bloomberg U.S. Municipal Bond Index, rebalanced monthly. Please note the above returns reflect representative portfolio performance. See important disclosures at the end of this presentation.

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.

fact, such an environment. Through the six quarters ending June 30, Information Technology and Communication Services, which had been the two best performing sectors—advancing a cumulative 101.6% and 96.5%, respectively—transitioned into the worst performing sectors over the subsequent three quarters, handing the baton of leadership over to Utilities and Real Estate. Similarly, large cap stocks, which had dominated small caps by 30.4% for the six quarter period, lagged in the recent quarter by 4.2%. Growth stocks also reversed dominance over their value counterparts, which advanced a respectable 3.7% for the third quarter but fell shy of value's increase of 9.1%. However, these "winds of change" in the quarter were not without a catalyst as the Federal Reserve (Fed), after much anticipation, finally reversed course by cutting its target rate by 50 basis points (bps) in September, ending its tightening cycle regime that began in March 2022. In anticipation of the Fed's eventual rate cut, the yield on the 10-year U.S. Treasury fell an additional 62 bps to 3.78% to end the quarter (and well below its peak level of 4.99% last October), helping to fuel advances in both stocks and bonds across the board.

2023 Leadership Continued In First Half 2024 But Reversed in Q3 — **Table 1**

Index	2023	Q1 2024	Q2 2024	Q1 2023 – Q2 2024	Q3 2024	YTD 2024	Since 12/31/2002
Sector							
S&P 500 Information Technology	57.4%	12.6%	13.7%	101.6%	1.56%	30.1%	104.8%
S&P 500 Communication Services	55.4%	15.7%	9.3%	96.5%	1.60%	28.5%	99.7%
S&P 500 Consumer Discretionary	42.0%	4.9%	0.6%	49.8%	7.74%	13.7%	61.4%
S&P 500 Industrials	17.5%	10.9%	-3.0%	26.3%	11.43%	19.8%	40.8%
S&P 500 Financials	11.5%	12.3%	-2.2%	22.5%	10.53%	21.5%	35.4%
S&P 500 Materials	11.8%	8.8%	-4.6%	16.1%	9.55%	13.7%	27.1%
S&P 500 Health Care	1.5%	8.7%	-1.1%	9.2%	5.95%	13.9%	15.7%
S&P 500 Consumer Staples	-0.3%	7.3%	1.2%	8.2%	8.76%	18.1%	17.7%
S&P 500 Real Estate	11.1%	-0.8%	-2.2%	7.8%	16.91%	13.5%	26.1%
S&P 500 Energy	-2.4%	13.4%	-2.7%	7.7%	-2.56%	7.6%	5.0%
S&P 500 Utilities	-8.0%	4.3%	4.4%	0.1%	19.09%	29.7%	19.3%
Size							
S&P 500 (Large Cap)	26.3%	10.6%	4.3%	45.6%	5.9%	22.1%	54.2%
S&P MidCap 400	16.4%	10.0%	-3.4%	23.6%	6.9%	13.5%	32.2%
S&P SmallCap 600	16.1%	2.5%	-3.1%	15.2%	10.1%	9.3%	26.9%
Style							
S&P 500 Growth	30.0%	12.8%	9.6%	60.7%	3.7%	28.2%	66.7%
S&P 500 Value	22.2%	8.1%	-2.1%	29.3%	9.1%	15.4%	41.0%
Performance Spreads							
Large Cap – Small Cap	10.2%	8.1%	7.4%	30.4%	-4.2%	12.7%	27.3%
Growth – Value	7.8%	4.7%	11.7%	31.4%	-5.3%	12.8%	25.6%

All returns include dividends and are not annualized
Source: Bloomberg Finance, LP, EquityCompass

The S&P 500 advanced 5.89% in the quarter to end near a new all-time high. Every sector posted positive returns for the period with the sole exception of Energy, which fell 2.6% as crude oil continued its decline from peak levels reached in early 2022.

Generally speaking, passive investing tends to outperform active investing when market breadth narrows, simply because the vast majority of index-tracking vehicles—such as exchange-traded funds (ETFs)—tend to track indexes that are market cap-weighted, giving greater emphasis to larger companies. Unfortunately, money flow into these products is not always based on specific fundamental factors, such as company value or earnings growth, but because they simply offer an efficient way to access exposure to a broad basket of equities. However, active management tends to perform best when market breadth is wide—a condition in which the average stock outperforms the size-weighted index among the same names. Since the pandemic, the volatility around the money flow into (and out of) passive investment

Active Equity Takes A "Breadth" In Q3 2024 — **Chart 1**

9/30/2020—10/2/2024 | Dividends excluded | Source: Bloomberg Finance, LP; EquityCompass

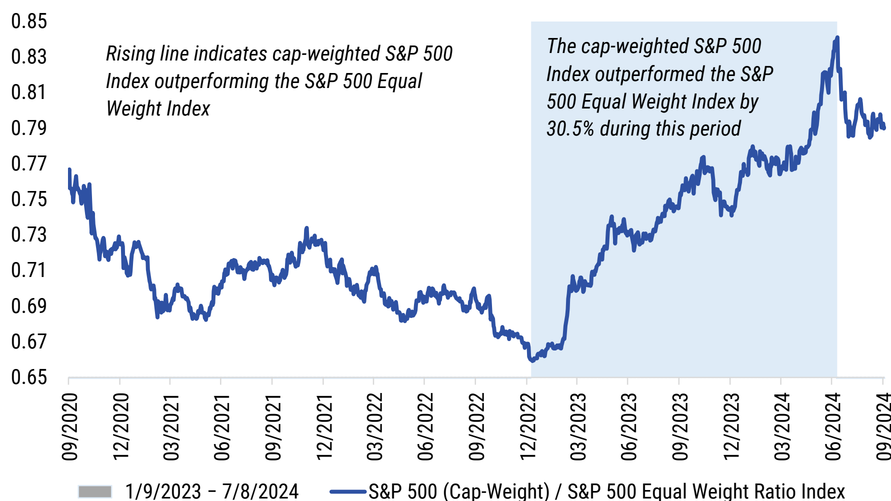

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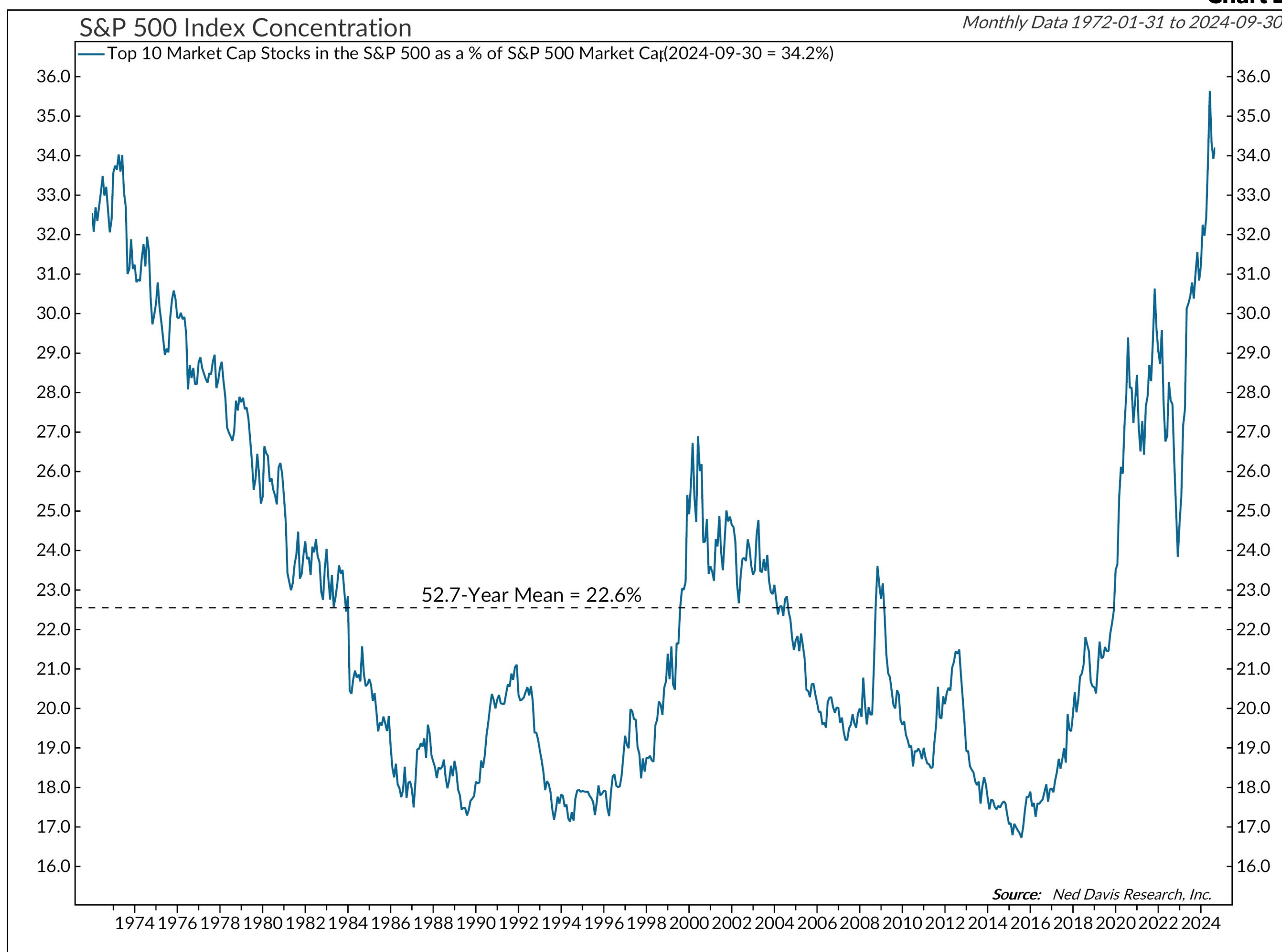
Chart 2



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vehicles has been heightened in favor of (and against) active managers, particularly when they target equally-weighted positions. As previously noted in our second quarter commentary, the trailing 18-month performance spread of the cap-weighted S&P 500 to that of its equal-weight counterpart had reached an unprecedented extreme but reversed course in the third quarter providing a tailwind for relative performance. Interestingly, market breadth, which measures the ***performance*** of the average stock relative to the size-weighted market, is just one side of the coin, whereby the other is market ***concentration,*** which measures how much combined weight is concentrated into the largest companies. It is simply just another manifestation of the same phenomenon. According to Ned Davis Research, the total market cap of the 10 largest names in the S&P 500 Index eclipsed 35% in the second quarter but offered some reprieve in the third quarter, falling to "just" 34.2%. This reduction in market concentration was welcomed by active managers and has offered some consolation for continuance of the trend given that, while reduced somewhat, concentration is still higher than the record previously set in 1973 and could provide a longer runway favoring active management over the coming years.

Tactical Equity

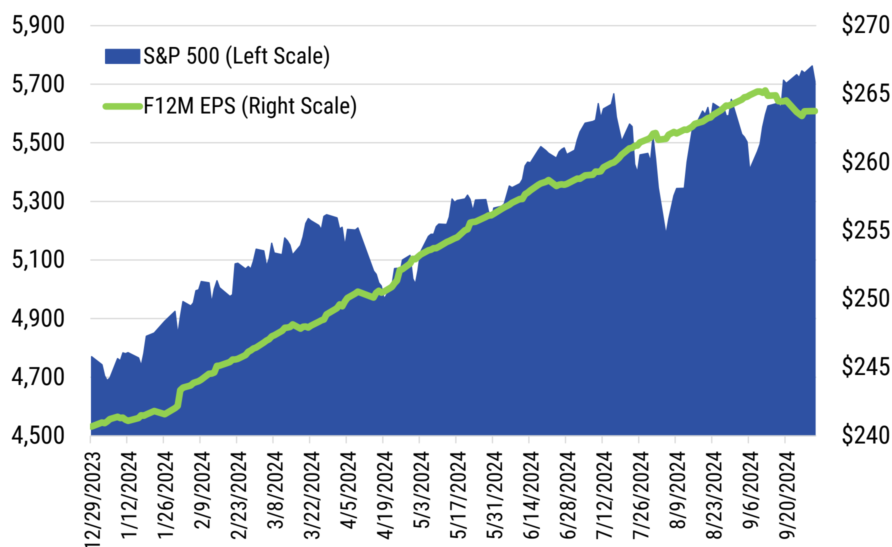
MCBAL's tactical equity allocation, which represents 20% of the overall portfolio, remained in a neutral position throughout the third quarter equally split between 50% equity and 50% cash and higher-yielding short-term Treasuries. This neutral posture has been in place since mid-July 2022.

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 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.

We should note that, in recent weeks, we have measured a moderate contraction in S&P 500 earnings expectations, 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.

S&P 500 Forward 12-Month Earnings Expectations **Chart 3**

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



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.

Fixed Income Overview

After a lackluster start to the year, the Bloomberg U.S. Municipal Bond Index (MBI) rebounded sharply in the third quarter, with a solid total return of 2.71%—representing its first positive quarter since the fourth quarter of 2023. On a year-to-date basis, the MBI has advanced by 2.30% through September 30.

The primary catalyst for the municipal bond market's strong third quarter showing was the Fed's decisive shift toward less restrictive monetary policy. At the September 18 Federal Open Market Committee (FOMC) meeting, the Fed cut interest rates for the first time in over four years, delivering a sizable 50 bps reduction in the overnight federal funds rate. In addition to this initial step on the path to policy normalization, the Fed provided forward guidance that showed another 150 bps of rate cuts through the end of 2025.

Anticipating a further decline in short-term rates, municipal yields have declined notably across the curve, sparking a broad-based rally in municipal bonds. The 10-year AAA municipal bond yield dropped by 30 bps during the third quarter to 2.59%, its lowest monthly close since March. Rates on the front-end of the curve fell to an even greater extent, led by a 77 bps decline in the two-year AAA yield to 2.37%.

Our second quarter commentary noted that *"despite the municipal bond market's weak first half, the outlook for fixed income appears more favorable for the remainder of 2024."* As support for our constructive view, we cited the following four positive factors: (1) above-average yields, (2) a more dovish Fed, (3) slower economic growth, and (4) incremental progress toward lower inflation. During the third quarter, those influences provided a considerable boost to the fixed income sector and should continue to generate a tailwind for the municipal bond market through the end of this year and well into 2025.

While municipal yields are not quite as attractive as they were three months ago, they remain well above their average levels

over the past decade. Using the 10-year AAA yield as an example, this rate ended the third quarter at 2.6%, which was above its 10-year average of 1.9%. From a historical perspective, municipal bonds have consistently produced attractive forward total returns when their yields at acquisition were above their longer-term averages.

Assuming no differences in credit quality, longer duration bonds should outperform shorter duration bonds in a declining rate environment. As the Fed was raising interest rates to restrictive levels in 2022 and 2023 to combat high inflation, we gradually increased the duration of our municipal fixed income from 4.0 years to 5.2 years. These duration extension trades were designed to take advantage of lower rates once the Fed pivoted toward a more neutral policy regime. This duration repositioning benefited the portfolio in the third quarter and should continue to facilitate price appreciation as the Fed's easing cycle progresses.

Outlook

The broadening of market breadth and narrowing of performance extremes were welcomed occurrences during the third quarter. Through the first six months of the year, less than 25% of the stocks in the S&P 500 outperformed the cap-weighted index. At the end of the third quarter, that number had increased to 33%. We believe MCBAL's active equity allocation, which has exposure across all 11 S&P 500 sectors, is well-positioned to benefit from a continuation of this trend.

Further, the balance of investment styles across secularly-advantaged global growth companies, higher yielding dividend-payers, and lower yielding dividend growth companies seeks to address the objectives of growth and income despite the ebb and flow of market performance.

Although we are pleased with MCBAL's 12.24% year-to-date gains (9.74% net), we will continue to manage the portfolio with the mantra of "safety first." The dramatic rise in short-term interest rates has allowed for the reduction in equity exposure during a time of tremendous economic and geo-political uncertainty, with minimal impact to overall portfolio performance.

As Fed Chairman Jerome Powell has noted on several occasions, the precise size and timing of interest rate cuts will depend largely on the incoming data. From that perspective, the macro outlook appears conducive for a series of sustained rate cuts over the next 15 months. The latest survey of leading economists published by Bloomberg projects a notable slowdown in economic growth through the end of next year. Although the odds favor a soft landing, it is important to understand the chance of a recession is not zero, which does pose a risk for equity markets.

In addition, the world is awash in geopolitical uncertainty. The war in Ukraine continues with no immediate end in sight and intense fighting in Israel, Gaza, and now Lebanon rages on. To this we would also add, 2024 is a presidential election year rife with amplified opinions as to what direction our country should take.

Recognizing that financial markets inherently struggle with uncertainty, the consequence being heightened market price volatility, we believe the portfolio's modest defensive positioning is warranted as we enter the final three months of the year.

However, the $7 trillion currently sitting in money market funds could provide a powerful catalyst for equity markets should some of these uncertainties begin to dissipate and the lure of higher-yielding cash-like investments begins to wane as interest rates decline.

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Representative Portfolio Performance: Returns reflect the performance of two representative portfolios that have been strung together for the life of the strategy. One portfolio was selected because it is the oldest existing account in the strategy with a continuous track record that also did not have large cash flows or mandate changes. The other portfolio was selected to capture returns from the strategy’s inception up to the open date of the oldest existing account referenced above. EquityCompass believes the representative performance is useful in terms of presenting the objectives and character of the strategy, however, returns are calculated separately for each portfolio, and therefore, performance may differ from one portfolio to another. There is no assurance that EquityCompass will make any investments with the same characteristics as the representative account presented. Portfolio 1 reflects returns from 1/1/10 – 8/31/19 and Portfolio 2 reflects returns starting 9/1/19.

The composite uses a custom benchmark comprising 32% S&P Composite 1500 Index / 8% MSCI World ex USA Index / 20% HFRI Equity Hedge Index / 40% Bloomberg U.S. Municipal Bond Index, rebalanced monthly. The **S&P 1500™** combines the S&P 500, S&P MidCap 400, and S&P SmallCap 600 to cover approximately 90% of U.S. market cap. The index is designed for investors seeking to replicate the performance of the U.S. equity market as a whole or benchmark against a representative universe of tradable stocks. The **MSCI World ex USA Index** captures large and mid cap representation across 22 of 23 Developed Markets (DM) countries—excluding the United States. With 934 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. The **HFRI Equity Hedge Index** is a fund-weighted index of strategies that maintain positions both long and short in primarily equity and equity derivative securities. The **Bloomberg U.S. Municipal Bond Index** is an unmanaged index that is considered representative of the broad market for investment grade, tax-exempt bonds with a maturity of at least one year.

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 MidCap 400®** provides investors with a benchmark for mid-sized companies. The index covers over 7% of the U.S. equity market, and seeks to remain an accurate measure of mid-sized companies, reflecting the risk and return characteristics of the broader mid-cap universe on an on-going basis. The **S&P SmallCap 600®** seeks to measure the small-cap segment of the U.S. equity market. The index is designed to track companies that meet specific inclusion criteria to ensure that they are liquid and financially viable. The **S&P 500® Growth Index** measures constituents from the S&P 500 that are classified as growth stocks based on three factors: sales growth, the ratio of earnings change to price, and momentum. The **S&P 500® Value Index** measures constituents from the S&P 500 that are classified as value stocks based on three factors: the ratios of book value, earnings and sales to price. **S&P sector indices** serve as precise measures of the market segments that drive and respond to market dynamics around the world. Since partnering with MSCI to introduce the Global Industry Classification Standard (GICS®) in 1999, S&P sector indices have tracked the sector ups and downs of economies around the world. Each sector index offers a unique set of characteristics that are distinct from the broad-market index while also providing diversification that guards against the risk associated with single-stock investing. 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. 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.

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