

Core Investment Portfolio—Tax-Advantaged

Portfolio Manager Commentary

As of 9/30/2024



Q3 2024 Overview

For the third quarter, the **Core Investment Portfolio—Tax-Advantaged (MCIP)** generated a return of 4.79% (4.02% net of maximum potential fees) versus its blended benchmark which gained 4.82%. Year to date, MCIP is up 12.99% (10.47% net), while the benchmark has returned 12.82%. MCIP's long-term results can be found in the table below.

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%, to 4.3% in the last quarter, by most accounts, gross domestic product (GDP) is still growing at a rate of more than 2%, with inflation falling from the 3% level 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 now favored to occur.

The primary catalyst for the municipal bond market's strong third quarter showing was the Fed's decisive shift toward a 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, a sizable 50 basis points (bps) reduction in the overnight federal funds rate. In addition to this initial step on the path of normalization, the Fed provided forward guidance that forecasted 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%.

We have been of the opinion that value dividend-paying stocks, serial underperformers since 2022, were at the "starting gate," poised for higher relative performance once the Fed began cutting interest rates. We also noted, "It is important to remember the stock market is a discounting mechanism which tends to adjust prices long before the bell is rung." It was our

Objective

A multi-strategy wealth accumulation approach designed to provide long-term capital appreciation while helping to mitigate risk during bear market

Portfolio Management Team



Robert G. Hagstrom, CFA
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Senior Portfolio Manager



Timothy M. McCann
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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	Inception	2018	2019	2020	2021	2022	2023
Gross %	4.79	7.04	12.99	24.48	5.33	8.20	6.25	-8.12	18.61	7.30	17.07	-16.20	16.12
Benchmark %	4.82	6.74	12.82	22.88	6.02	9.67	8.15	-4.77	19.16	14.76	14.38	-12.87	15.89
Net %	4.02	5.43	10.47	20.77	2.22	5.02	3.12	-10.86	15.16	4.17	13.67	-18.70	12.74

As of 9/30/2024; Inception—January 1, 2018; Benchmark = 25% S&P 500 Index / 25% MSCI ACWI Index / 25% HFRI Equity Hedge Index, / 25% Bloomberg Muni Managed Money Short/Intermediate Index, rebalanced monthly.

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.

belief at the time, that value dividend-paying stocks could begin to move up in price in anticipation of Fed rate cuts. True to form, that is exactly what happened. For the quarter, the S&P 500 Value Index outperformed the S&P 500 Growth Index 9.05% versus 3.70%, respectively.

Another observation last quarter was that, in our opinion, small and mid cap stocks—performance laggards throughout the year—might soon emerge as the earnings growth rates for both began to accelerate, thereby narrowing the performance gap with mega cap stocks. As expected, this scenario played out. For the third quarter, the S&P 500 Index gained 5.89%, but the S&P 500 Equal Weight Index gained 9.59%.

Since MCIP's dividend-paying stocks are positioned more to value than growth, and fewer mega cap with more mid cap, this shift in performance should be helpful to returns. Although mega cap technology stocks underperformed for the quarter, we were pleased that MCIP's secular growth allocation posted comparable returns to the broad market and has continued to generate high absolute and relative performance year to date.

Supplementing MCIP's growth and value dividend equity positions, one quarter of the portfolio is allocated to a tactical asset allocation strategy that has the ability to invest in stocks, bonds, or cash, dependent on market conditions. When fundamental earnings, technical conditions, and macroeconomic factors are positive, the tactical strategy is fully invested in passive equity exchange-traded funds (ETF). Conversely, if any of the indicators are declining—signaling potential disruption in the stock market—the tactical allocation can be shifted to bonds or cash as a defensive measure.

Currently, the tactical asset allocation strategy is in a neutral position—neither bullish nor bearish on stocks. The strategy's neutral position is indicative of the continued strength in the equity markets tempered by a cautious view that economic growth may be slowing. As a result, the tactical allocation is balanced between 50% equities and 50% short-term bonds.

Although the technical model is positive, the fundamental model is revealing some weakness, a reflection of slowing earnings growth coupled with noticeable instability among key macroeconomic indicators. What is clear is that high-frequency data has been picking up potential vulnerability in the economy fairly consistently throughout the third quarter. However, the incoming data has yet to give us an all clear signal that the economy is in sturdy shape. In other words, stock market optimism, in our view, is not fully supported by economic fundamentals, including slower GDP growth and a softer labor market.

While the odds favor a soft landing, it is important to understand the chance of a recession is not zero. At which time we believe economic conditions have stabilized and are improving, we will shift the current allocation in short-term bonds into passive equity ETFs. In the meantime, the tactical bond allocation is yielding nearly 5.0% on the back of higher short-term interest rates.

Portfolio Outlook

As Jerome Powell, Chairman of the Federal Reserve, has noted on several occasions, the precise size and timing of interest rate cuts will depend largely on 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. After averaging 2.8% over the past five quarters, GDP growth is expected to slow to 1.8% over the next five quarters according to consensus estimates.

This expected moderation in aggregate economic output should put further downward pressure on inflation. The latest reading on the Consumer Price Index (CPI) reflected a year-over-year increase of 2.5% through August, down from a peak of 9.1% in June 2022. The Bloomberg survey calls for the CPI to continue its gradual descent, reaching an annual rate of 2.2% by the end of next year.

Last quarter we 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 this constructive view, we cite 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.

Although lower inflation and lower interest rates can rightly be viewed as a positive, a slowing economy does carry some risk. Even so, we believe MCIP's allocation among value dividend-paying stocks coupled with secularly advantaged growth stocks carries the right balance for investors.

We have long been a proponent of this barbell approach of investing. In this way, no matter the near-term direction of the stock market—trying to determine whether the market favors growth stocks or value stocks—MCIP should be prudently hedged. Not only is this combination tactically appropriate, we also believe it is strategically right-sized.

We continue to caution investors to brace for short-term market volatility. In the months ahead, there will be days when the economic data may attest the narrative of higher inflation and higher interest rates is behind us, and the Fed is on the presage to continue lowering interest rates. On other days, the news may portend that inflation is sticky and slower to decline, putting off the prospect of further lowering interest rates in the near term.

In addition, the world is awash in geopolitical uncertainty. The war in Ukraine continues with no immediate end in sight. Further, the 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.

Markets inherently struggle with uncertainty, the consequence being heightened market price volatility. All this can be unnerving—even fearful—for many investors. Recognizing the risks in the market remain elevated due to economic, political, and geopolitical challenges, MCIP is currently well balanced with allocations to value, growth, and income.

We believe MCIP's portfolio positioning allows investors to (1) participate in the eventual upside of reasonably priced mid cap value stocks, (2) maintain exposure to companies that are generating superior earnings growth despite a challenging macroeconomic environment, and (3) take advantage of relatively high and attractive interest rates.

CORE INVESTMENT PORTFOLIO – TAX-ADVANTAGED WRAP COMPOSITE (01/01/2018 – 12/31/2023)

Year-End	Gross-of-Fees Return*	Net-of-Fees Return**	Custom Benchmark Return	Composite 3 Yr. Ex Post Std. Deviation	Custom Benchmark 3 Yr. Ex Post Standard Deviation	Composite Number of Portfolios	Internal Dispersion	Composite Assets (USD Mil.)	Strategy Assets (USD Mil.)†	Firm & Advisory Assets (USD Mil.)
2018	-8.1%	-10.9%	-4.8%	N/A	N/A	<6	N/A	\$0.18	\$15	\$3,831
2019	18.6%	15.2%	19.2%	N/A	N/A	<6	N/A	\$0.22	\$18	\$4,294
2020	7.3%	4.2%	14.8%	15.1%	12.4%	<6	N/A	\$0.23	\$36	\$4,012
2021	17.1%	13.7%	14.5%	14.2%	11.5%	<6	N/A	\$0.27	\$38	\$5,038
2022	-16.2%	-18.7%	-12.9%	16.4%	13.8%	<6	N/A	\$0.23	\$29	\$4,469
2023	16.1%	12.7%	15.9%	12.9%	11.4%	<6	N/A	\$0.27	\$28	\$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.

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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 Core Investment Portfolio–Tax-Advantaged 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. The Core Investment Portfolio –Tax-Advantaged is a comprehensive multi-strategy, risk-managed, equity-centric portfolio for accumulating wealth towards retirement. The portfolio employs focused, actively managed equity strategies that seek to generate above-average returns. The fixed income allocation is allocated to highly liquid exchange-traded funds and closed-end mutual funds investing in municipal bonds which provide the added benefit of generating tax-advantaged income. 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 2019 and the inception date is January 1, 2018. A sub-advisor was used to manage the strategy’s fixed income allocation from the composite’s inception until 12/31/2018.

Benchmark Description

The benchmark is custom comprising 25% S&P 500 Index / 25% MSCI ACWI Index / 25% HFRI Equity Hedge Index / 25% Bloomberg Municipal Managed Money Short/Intermediate Index, rebalanced monthly. The **S&P 500 Index** is a capitalization-weighted index that is generally considered representative of the U.S. large capitalization market. **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. MSCI ACWI Index returns are net of withholding taxes. 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 Municipal Managed Money Short/Intermediate Index** is a rules-based, market-value-weighted index engineered for the tax-exempt bond market. To be included in the index, bonds must be rated Aa3/AA- or higher by at least two of the following ratings agencies: Moody’s, S&P, Fitch. If only two of the three agencies rate the security, the lower rating is used to determine index eligibility. If only one of the three agencies rates a security, the rating must be at least Aa3/AA-. They must have an outstanding par value of at least \$7 million and be issued as part of a transaction of at least \$75 million. The bonds must be fixed rate, have been issued within the last five years, and must be at least one year from their maturity date. 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 wrap fee (3.00% on an annual basis, or 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 Core Investment Portfolio–Tax-Advantaged 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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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 EW Index 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 EW Index measures the performance of the same 500 companies, in equal weights. As such, sector exposures in the S&P EW Index will differ. 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. 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.

The **Consumer Price Index (CPI)** measures the change in prices paid by consumers for goods and services. The CPI reflects spending patterns for each of two population groups: all urban consumers and urban wage earners and clerical workers.

*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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