3Q 2024 Commentary

Quality Dividend Fund

Portfolio managers, Tom Mulroy and Mike Scherer, provide their current insight on the equity market and the management of the Quality Dividend Fund.

The Federal Reserve's (Fed) long anticipated interest rate cuts have finally begun. On September 18, the Federal Open Market Committee (FOMC) lowered the federal funds discount rate by 50 basis points. The Fed's dual mandate to promote maximum employment and stable prices has been partially met. With the Consumer Price Index (CPI) now at 2.5%, it appears that inflation is closing in on the Fed's 2.0% target. This is down significantly from the CPI's June 2022 high of 9.1%, which was the highest rate of inflation since 1981. The Fed can now begin to focus on employment and the economy in its effort to orchestrate a soft landing. The unemployment rate at 4.1% has slowly begun to increase but still remains quite low by historic standards. If these conditions remain benign and future economic data cooperates, the probability of further FOMC rate cuts seems likely, albeit at likely a gradual pace.

The narrow market performance discussed last quarter, with large cap technology stocks representing a disproportionate amount of equity gains resulting in a historically-wide performance gap between cap-weighted and equal-weighted indices, has begun to broaden out. In anticipation of Fed rate cuts, investors increased their appetite for companies with fundamentals that stand to benefit from lower interest rates and carry above-average dividend yields. As a result, previous stock laggards became market leaders during the third quarter. Healthier market breadth was evidenced by the 9.6% increase in the S&P 500 Equal Weight Index versus the cap-weighted S&P 500 increase of 5.9%. If the Fed can successfully navigate a soft landing with lower interest rates, positive economic growth, and continued progress on inflation, then further improvements in market breadth could occur.

Until recently, dividend stocks have been underperformers within the equity market. The Morningstar U.S. High Dividend Yield Index (representing the higher yielding half among dividend-paying stocks) has underperformed the Morningstar U.S. Market Index by approximately 30 percentage points over the past five years. As interest rates have begun to decline, the recent rotation into dividend-paying stocks experienced during the third quarter could continue. The Fed's shift in monetary policy is impacting investors and their search for yield alternatives to cash-like investments that are experiencing reduced income generation as rates fall. Dividend stocks could be direct beneficiaries of this shift.

As we have noted on numerous occasions, investors may be best served by maintaining discipline, avoiding the noise, and applying a long-term perspective when managing investments. There will always be noise within

TICKERS

CLASS A:	QDVAX
CLASS C:	QDVCX
CLASS I:	QDVIX

MANAGEMENT TEAM

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Performance data quoted represents past performance; past performance does not guarantee future results.

the market—ranging from faint to deafening—as a result of a variety of economic, environmental, and geopolitical events. Based on these noise levels, investors tend to make judgements and investment decisions tied to emotions. Between now and the November 5 election day, no doubt the noise will be deafening. However, investors should avoid the urge to make investment decisions based on the outcome of an election. History has shown that doing so would be an effort in futility. There are many factors that can potentially impact the market and stock performance other than which political party controls the narrative. Despite political and market distractions, our focus and objective remain unchanged—ignore the noise and continue to make sound long-term investment decisions. ■

For the Fund's standardized performance, please click here.

IMPORTANT DISCLOSURES

*Total assets combine 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.

Performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than original cost. Current performance of the fund may be lower or higher than the performance quoted. For performance current to the most recent month-end, please call (888) 201-5799.

Mutual fund investing involves risk, including possible loss of principal. Although the Fund will invest primarily in income-producing equities, the Fund cannot guarantee any particular level of distributions. Companies that have paid regular dividends to shareholders may decrease or eliminate dividend payments in the future. A fund pursuing a dividend-oriented investment strategy may at times underperform other funds that invest more broadly or that have different investment styles.

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. Index performance is not illustrative of fund performance. Please call (888) 201-5799 for fund performance.

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 **Morningstar U.S. Market Index** measures the performance of large-, mid- and small-cap stocks in the U.S., representing the top 97% of the investable universe by market capitalization.

The **Morningstar U.S. High Dividend Yield Index** targets stocks representing the higher-yielding half of the U.S. dividend-paying universe by float market capitalization. Stocks that make the cut are weighted by float-adjusted market capitalization.

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.

A **basis point** is a standard measure for interest rates and other percentages in finance. One basis point equals 1/100th of 1%, or 0.01% (and .0001 in decimal form). Basis points (bps) are used to show the change in the value or rate of a financial instrument, such as 1% change equals a change of 100 basis points and 0.01% change equals one basis point.

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