EquityCompass

EquityCompass
Core Investment Portfolio

Four Cornerstone Strategies, One Comprehensive Portfolio
Designed to Grow and Preserve Wealth

The investment landscape is always evolving in ways that are, at times, similar but also different to the past. The transformative influence of technology and a dynamic global economy will shape risk and opportunity just as much as intrinsic value and diversification will remain timeless investment principles. The greatest challenge for investors is how to maximize their investment returns in an environment that may produce lower than average historical asset class returns with similar, or even higher, levels of risk. Today's popular investing approach stresses "how to allocate" rather than what we believe is the far more important focus of "what to own," which is the essence of active investment management. Equally important is active portfolio management, which offers the opportunity to tailor an investment strategy to each investor's unique needs rather than being a passive participant in the broader market.

As in the past, financial markets will likely experience both bull and bear markets. Bear markets, in particular, represent the behavioral risk of ill-timed selling that can derail long-term wealth accumulation goals. To help mitigate portfolio loss during extended equity market declines, investors employ various tactics, such as diversification, using less-correlated asset classes such as bonds. However, in the current "lower for longer" environment, where interest rates are expected to remain below historical averages, bond allocations could be an even bigger drag on a portfolio's overall long-term return potential. Other investors engage strategies that perpetually hedge against a market loss which can be complex, costly, and curtail long-term returns. We recommend that investors incorporate a systematic equity risk management strategy that will tactically reduce equity exposure when there are signs stock market conditions are deteriorating and restore exposure when signs of improvement emerge.

The challenge of maximizing investment returns is balancing all of these concerns in an overall investment portfolio.

A Different Approach is Needed

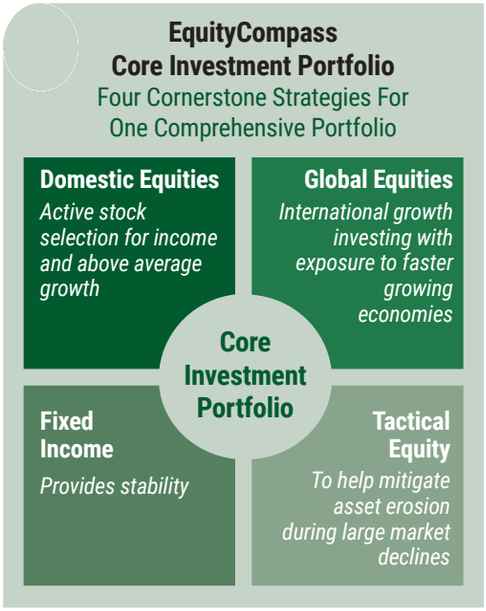
At EquityCompass, we believe a portfolio that is comprehensively-managed to the opportunities available, involves multiple asset classes and strategies, and focuses on investments selectively can be successful in achieving wealth accumulation goals for retirement. What investors require is a fresh approach — a new way to responsibly build and preserve portfolios in order to maximize long-term wealth accumulation.

Strategy To Grow and Preserve Long-Term Wealth

The EquityCompass Core Investment Portfolio (CIP) has four sleeves or independent strategies that work together to provide the opportunity for capital appreciation along with diversification and tactical allocation to mitigate against a large and extended equity bear market.

DOMESTIC EQUITIES

Diversified portfolio of large and mid-cap stocks that seek to outperform the broad market by investing in stocks that have become mispriced from investor over-/ underreaction. Selection criteria emphasizes quality with a focus on strong fundamentals, a sound balance sheet, and dividend growth.



GLOBAL EQUITIES

High conviction portfolio investing in large multinational companies that are positioned to benefit from the economic expansion of developing countries and the anticipated unprecedented growth in worldwide consumer demand. Selection criteria emphasizes "great" businesses defined as companies that generate high and sustainable returns on capital and willing to compound shareholder value by constantly reinvesting in their company over the long-term investment horizon.

FIXED INCOME

Actively managed portfolio investing primarily in investment grade bonds with moderate duration to provide diversification and stability.

TACTICAL: EQUITY RISK MANAGEMENT STRATEGY

The Equity Risk Management Strategy (ERMS) is a rules-based tactical allocation strategy designed to reduce a portfolio's equity exposure when near-term market conditions are deemed unfavorable and to restore exposure when factors become favorable. Under favorable conditions, the strategy is fully invested and the portfolio is allocated 75% to stocks and 25% to bonds, consistent with a moderately aggressive risk tolerance. When conditions are deemed unfavorable, the ERMS can reduce overall equity exposure as low as 27.5%, which is consistent with a moderately conservative risk tolerance.

Domestic Equities — Growth & Income

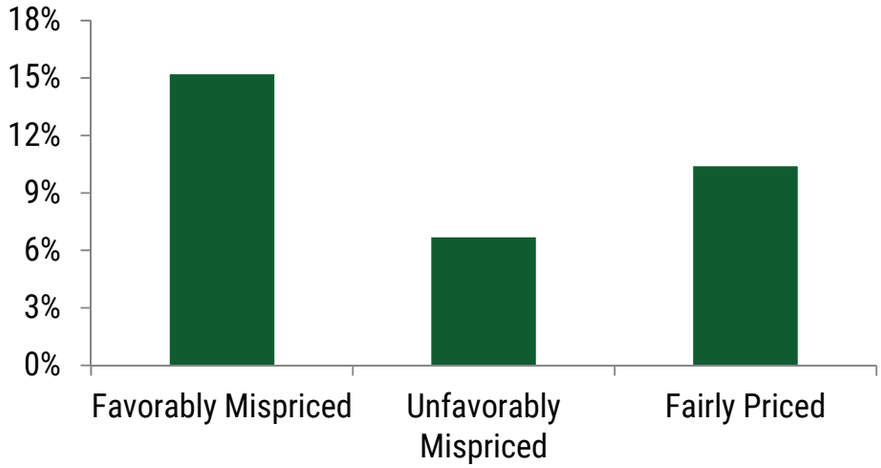
"Historically, companies that perform better in objective measures like sales growth, profit margin improvement, and dividend growth tend to be less volatile. Identifying these companies when they are attractively priced can provide capital appreciation without taking undue risk."
— Mike Scherer, Senior Portfolio Manager

Our domestic equity strategy seeks to outperform the S&P 500 over time. The portfolio objective is pursued with a two-fold strategy of identifying higher quality stocks, as measured by company fundamentals, and then selecting those that have become significantly mispriced relative to changes in their fundamental expectations. While the focus on quality mitigates portfolio risk, the emphasis on mispricing seeks to identify stocks with the potential for excess returns. Stocks can become mispriced from investor over-/underreaction to news. We identify the over-/underreaction as favorable or unfavorable. Favorable stocks have most often experienced an underperforming share price relative to stable or improving expectations. Unfavorable stocks have more often experienced a sharply rising stock price relative to flat or declining expectations. The key insights of our portfolio strategy are that mispricings are viewed as temporary and require a systematic stock selection approach to exploit the opportunity.

Additionally, the portfolio managers seek to manage portfolio risks by maintaining equally weighted positions, diversifying across economic sectors, and avoiding significant sector bias.

Performance of Mispriced Stocks*

Annualized Returns (6/28/2002—12/31/2019) | Source: EquityCompass



* For illustrative and informational purposes only. Information provided herein has been compiled by EquityCompass. EquityCompass evaluates stocks on the basis of relative valuation versus a universe of approximately 3,000 stocks. We then compare each stock's current relative valuation ranking within the universe to its 12-month average ranking. Stocks with rankings significantly below their 12-month average are considered favorably mispriced (Redline Low Index), while stocks with rankings significantly above their average are considered unfavorably mispriced (Redline High Index).

Global Equities — Global Growth

"We believe the world's largest economic growth lies outside the U.S. The challenge for investors is to gain exposure to these valuable global growth opportunities without taking emerging market risk. Understanding how the global landscape is changing and where the future opportunities reside are the keys to pursuing investment success."

— Robert Hagstrom, Chief Investment Officer, Senior Portfolio Manager

The global growth equity sleeve invests in large multinational companies positioned to benefit from the economic expansion of developing countries and the potentially unprecedented growth in worldwide consumer demand. By 2025, global consumers are estimated to reach 4.2 billion people with purchasing power of $64 trillion — termed the "biggest growth opportunity in the history of capitalism" by McKinsey & Company.* Multinational companies with strong business franchises and a global presence are ideally positioned to benefit. Moreover, by investing in globally operating developed market companies, the portfolio is able to manage the risk associated with investing directly in foreign developing markets.

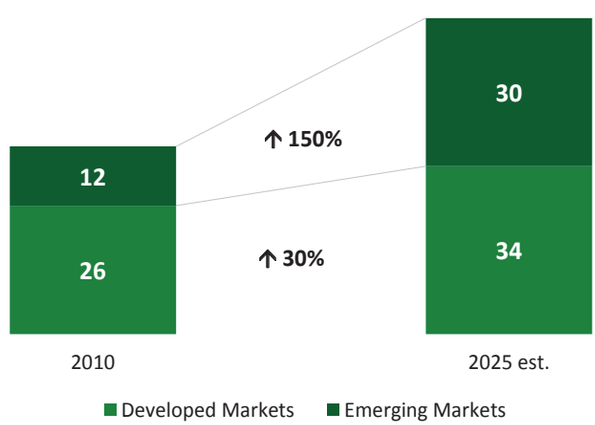
Multinational companies domiciled in the developed world have better accounting transparency, robust corporate governance practices, and lower transaction costs while still generating above-average growth that is levered to emerging market economies. From among the multinationals, the portfolio seeks to invest in companies that generate high and sustainable returns on capital, willing to compound shareholder value by constantly reinvesting in their company over the long-term.[1] The portfolio maintains a long-term investment horizon to capture the power of economic compounding that these type of companies can provide which could become the source of long-term capital appreciation.

In addition, the portfolio attempts to achieve lower volatility and downside protection by diversifying across sectors, minimizing realized short-term taxable gains while maximizing the benefit of compounding unrealized long-term capital gains, and maintaining a concentrated, low turnover profile of high-quality global businesses.

Global Consumption Demand

$ Trillions | Source: McKinsey & Company | August 2012

Emerging market countries are expected to account for $30 trillion of world consumption (nearly half of global spending) by 2025—an increase of 150% since 2010.



* Atsmon, Child, Dobbs and Narasimhan, Winning The $30 Trillion Decathalon: Going For Gold in Emerging Markets, McKinsey & Company, August 2012.

Fixed Income — Taxable (CIP) or Tax-Advantaged (MCIP)

"Bonds play an important role in multi-sector investment strategies, even in a low interest rate environment. We believe employing a moderate allocation to high-grade fixed income securities can help diversify risk, reduce return variability, and provide modest cash flow. The fixed income portfolio within CIP seeks to accomplish three primary objectives: capital preservation, stability, and supplemental income."
— Jim DeMasi, Senior Portfolio Manager

After four decades of steadily declining interest rates, the level of income generated by a portfolio of high quality bonds has greatly diminished. With bond yields seemingly mired at generational lows, the traditional role of fixed income should be reevaluated. While fixed income may continue to provide modest cash flow, the primary goal of a bond allocation in the current environment is to counteract equity market volatility.

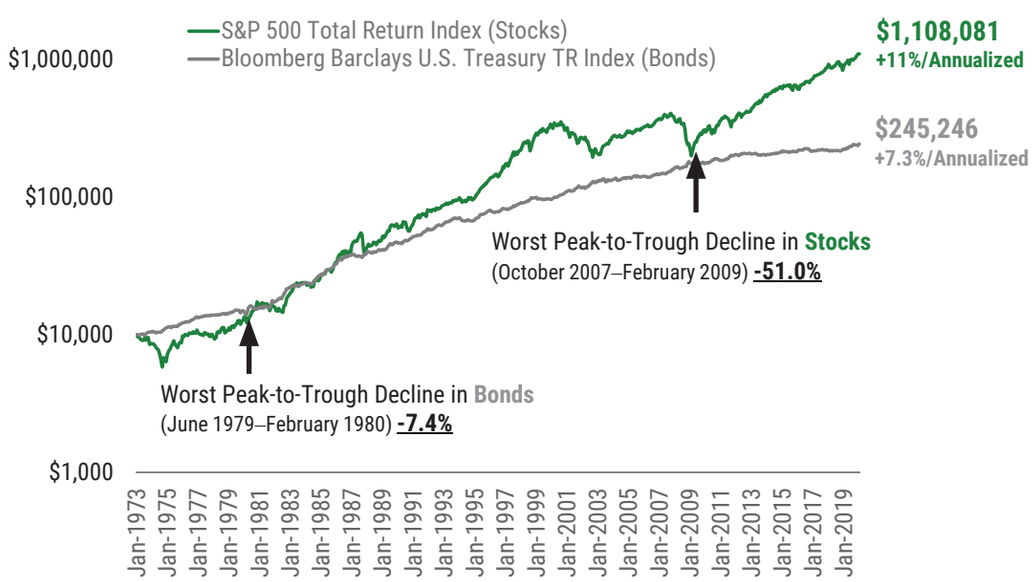
The fixed income allocation in CIP is actively managed with a focus on duration, curve positioning, sector allocation, and risk management. The portfolio invests predominantly in taxable, U.S. Dollar-denominated, investment-grade securities and seeks to provide a total return in excess of the Bloomberg Barclays U.S. Aggregate Bond Index. Portfolio strategies feature ETF-based dynamic sector rotation, based on historical relative value relationships and economic cycle considerations.

Core Investment Portfolio—Tax-Advantaged (MCIP)

The fixed income allocation in MCIP is comprised of municipal bonds that provide tax advantages, diversification benefits, and generally higher credit quality relative to corporate bonds. The portfolio employs ETFs and closed-end funds that invest in municipal bonds, which provide liquidity, tax efficiency, and diversification across securities and maturities. The underlying municipal bonds are predominately investment-grade, with historically low default rates and low volatility levels compared to other fixed income alternatives.

Peak-To-Trough Decline in Stocks *Versus* Bonds

January 1973–January 2020 | Log Scale | Source: Bloomberg Finance L.P. | Past performance should not and cannot be viewed as an indicator of future performance. Indices are unmanaged, do not include fees and expenses, and it is not possible to invest directly in an index.



Tactical Equity — Equity Risk Management Strategy

"An effective risk management strategy should not rely on emotional human judgment, but rather a predetermined set of rules that seek to avoid behavioral biases and activate only in dire conditions. A risk management strategy cannot prevent all loss, but seeks to minimize the drawdown during a significant market decline."

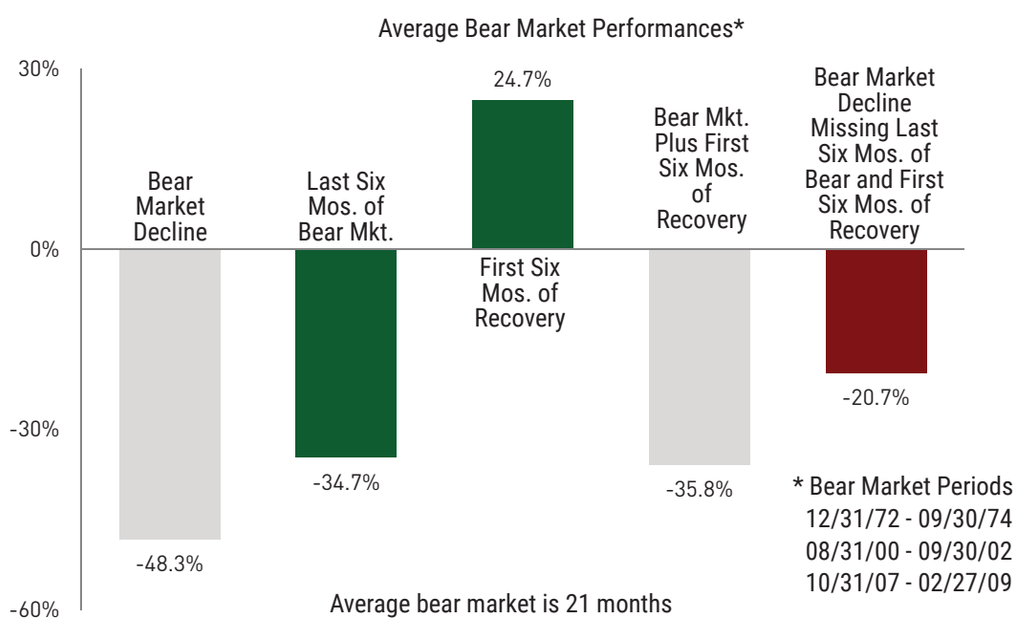
— Bernie Kavanagh, Senior Portfolio Manager

Investors' emotional response to market volatility can lead to ill-timed investment decisions. The Equity Risk Management Strategy (ERMS) systematically and unemotionally reduces a portfolio's equity exposure when market conditions present a higher-than-normal risk of a large market decline and/or above average volatility. Specifically, ERMS identifies that when forward expectations for earnings are falling, or when technical conditions deteriorate, equity exposure should be reduced and subsequently restored when conditions improve.

Implementing the strategy as a separate allocation component can be more efficient than disrupting the dedicated equity portion. The majority of the time, equity markets produce favorable risk-adjusted returns, therefore the ERMS is expected to be fully invested. An important insight to bull and bear markets is that they tend to experience the majority of their wealth creation or destruction near the latter portions of their respective cycles. The implication is that premature selling in a bull market can relinquish the opportunity for wealth creation. Waiting for confirmation of fundamental and technical deterioration before selling in a bear market can help mitigate downside volatility. Our tactical strategy seeks risk control during periods of market stress when traditional asset class diversification may be less effective.

The Cost / Benefit of Avoiding Bear Market Bottoms

Cumulative Performances | Dividends excluded | Source: EquityCompass | Past performance is not indicative of future results.



Core Investment Portfolio — Overview

Key Highlights – Objectives

1) Equity centric with 75% of the portfolio dedicated to long-term appreciation
   - Above-average allocation to stocks with exposure to rapidly growing foreign markets
   - Exposure to large cap global and emerging market stocks as well as small and mid cap U.S. stocks
   - Broadly diversified across major economic sectors
2) Tactical equity allocation can help mitigate the impact of large stock market declines by reducing equity exposure
   - Helps respond to market conditions to mitigate significant losses
3) We seek to obtain a high-quality fixed income allocation to provide stability and reduce volatility over time
4) Low-to-moderate turnover offering lower investment costs and consideration of tax consequences

Details

- Offered in two versions—taxable and tax-advantaged:
  - **Core Investment Portfolio (CIP)**
  - **Core Investment Portfolio–Tax-Advantaged (MCIP)**
- Account minimum: $200,000

To Learn More

Contact your Financial Advisor

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. and Europe. Formally organized in 2008, EquityCompass provides portfolio strategies with respect to total assets of approximately $4.2 billion as of January 31, 2020.

The Investment Management Team

EquityCompass is an investment management firm that provides strategies to help investors achieve their financial goals. We seek to achieve our mission with enduring investment principles while also recognizing the transformative influence of a dynamic global economy that shapes risk and opportunity. Our values focus on people as our ultimate resource, professional and ethical responsibilities, and maintaining a culture of performance that produces successful results.

Robert G. Hagstrom, CFA
Chief Investment Officer, Senior Portfolio Manager

Robert is Chief Investment Officer and Senior Portfolio Manager of the Global Leaders Portfolio and Core Retirement Portfolio. He joined EquityCompass in April 2014 and launched the Global Leaders Portfolio in July 2014. In addition, Robert serves as Chairman of the Investment Management Committee for Stifel Asset Management. Robert has more than 30 years of investment experience. Prior to joining EquityCompass, he was the Chief Investment Strategist of Legg Mason Investment Counsel, and before that, the Portfolio Manager of the Growth Equity Strategy at Legg Mason Capital Management for 14 years where he managed over $7 billion in assets. Robert is the author of nine investment books, including the *New York Times* bestseller *The Warren Buffett Way*, which considers how Warren Buffett analyzes stocks and makes investment decisions. Robert earned his Bachelor's and Master's of Arts degrees from Villanova University and is a member of the CFA Institute and the CFA Society of Philadelphia.

Timothy M. McCann
Senior Portfolio Manager

Tim is responsible for managing quantitative equity portfolios, investment research, and new product development at EquityCompass. Tim joined the Legg Mason equity marketing department in 2002 as a quantitative analyst and arrived at Stifel as part of the acquisition of Legg Mason's Capital Markets Group in December 2005. He led the efforts to develop, refine, and implement the EquityCompass proprietary quantitative models and rules-based investment strategies. He was appointed Portfolio Manager in 2006 and promoted to Senior Portfolio Manager in 2008 overseeing all EquityCompass tactical portfolios. Previously, he worked for a Boston-based financial advisory firm, Morgan Stanley, and UBS Securities (via PaineWebber) in various positions. Tim has a B.A. in business from The College of Notre Dame of Maryland.

Michael S. Scherer
Senior Portfolio Manager

Mike is the portfolio manager of the Select Quality Growth & Income portfolio and co-manages the Quality Dividend and Core Balanced portfolios. He is a senior member of the team responsible for developing and researching quantitative portfolio strategies. Mike has written extensively on market strategy and works closely with Stifel financial advisors educating them on EquityCompass investment portfolios and products. He joined the Legg Mason Equity Marketing department in 2000 and arrived at Stifel as part of the acquisition of Legg Mason's Capital Markets Group in December 2005. Mike has an M.B.A. in Finance from Loyola University Maryland and a B.A. from the College of William & Mary with a concentration in government.

Bernard J. Kavanagh III, CMT
Senior Portfolio Manager

Bernie manages the Equity Risk Management Strategy and is a senior member of the investment management team responsible for developing and researching EquityCompass' quantitative portfolio strategies. He also writes extensively on market and portfolio strategy. Prior to joining EquityCompass in May 2011, Bernie was a member of Stifel's Institutional Equity Sales group from the time Stifel acquired Legg Mason's Capital Markets Group in December of 2005. At Legg Mason, Bernie began his career in May 2000 as an associate in the Equity Marketing and Strategy Group. Prior to Legg Mason, he was an associate at T. Rowe Price beginning in 1997. Bernie has a Master of Science in Finance from Loyola University Maryland and a B.S. from Rutgers University. He holds the Chartered Market Technician designation.

James DeMasi, CFA
Senior Portfolio Manager

Jim joined EquityCompass in July 2019 as a Senior Portfolio Manager for fixed income and co-manager of the High-Dividend Portfolio and Core portfolio suite. Prior to joining the portfolio management team, Jim served as the Chief Fixed Income Strategist at Stifel, Nicolaus & Company, Incorporated for 12 years. At Stifel, Jim created investment portfolio and risk management strategies for the firm's institutional fixed income clients. He also managed a $3 billion bond portfolio for Stifel Bank. Previously, he spent five years at Legg Mason as a fixed income strategist and 13 years at the Federal Deposit Insurance Corporation (FDIC) in bank supervision. His FDIC career focused on the credit analysis of bank balance sheets and the risk profile of innovative credit market instruments, including corporate bonds, mortgage-backed securities, and derivatives. Jim has a B.S. in Finance from West Virginia University. He is also a CFA charter holder and member of the Baltimore Security Analyst Society.

IMPORTANT DISCLOSURES

The information contained herein has been prepared from sources believed to be reliable but is not guaranteed and is not a complete summary or statement of all available data nor is it considered an offer to buy or sell any securities referred to herein. EquityCompass Investment Management, LLC ("EquityCompass") is a a wholly owned subsidiary and affiliated SEC registered investment adviser of Stifel Financial Corp. Affiliates of EquityCompass may, at times, release written or oral commentary, technical analysis, or trading strategies that differ from the opinions expressed within. Opinions expressed are subject to change without notice and do not take into account the particular investment objectives, financial situation, or needs of individual investors.

Any investment involves risks, including a possible loss of principal. Rebalancing may have tax consequences, which should be discussed with your tax advisor. The portfolio risk management process includes an effort to monitor and manage risk, but does not imply low risk.

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.

Due to their narrow focus, sector-based investments typically exhibit greater volatility and are generally associated with a high degree of risk. Bonds are subject to market, interest rate and credit risk; and are subject to availability and market conditions. Generally, the higher the interest rate the greater the risk. Bond values will decline as interest rates rise. Government bonds are subject to federal taxes. Municipal bond interest may be subject to the alternative minimum tax; other state and local taxes may apply. High yield bonds, also known as “junk bonds” are subject to additional risk such as increased risk of default. 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. Diversification and/or asset allocation does not ensure a profit or protect against loss.

All performance results presented are done solely for educational and illustrative purposes and are not intended for trading, or to be considered investment advice. No representation is made that any Strategy, model, or model mix will achieve results similar to those shown in these materials.

Index Description(s):

The S&P 500 Total Return Index tracks both the capital gains of the stocks in the S&P 500 Index over time, and assumes that any cash distributions, such as dividends, are reinvested back into the index. Looking at an index's total return displays a more accurate representation of the index's performance. By assuming dividends are reinvested, you effectively have accounted for stocks in an index that do not issue dividends and instead, reinvest their earnings within the underlying company. The Bloomberg Barclays U.S. Aggregate Bond Index is an index used as a benchmark to measure the relative performance of bond funds. The index includes government securities, mortgage-backed securities, asset-backed securities and corporate securities to simulate the universe of bonds in the market. The maturities of the bonds in the index are more than one year. The Bloomberg Barclays U.S. Treasury Total Return Index measures U.S. dollar-denominated, fixed-rate, nominal debt issued by the U.S. Treasury. Treasury bills are excluded by the maturity constraint, but are part of a separate Short Treasury Index. Indices are unmanaged, do not include fees and expenses, and it is not possible to invest directly in an index.

Exchange Traded Funds (ETFs) are subject to market risk, including the possible loss of principal, and may trade for less than their net asset value. ETFs trade like a stock, and there will be brokerage commissions associated with buying and selling exchange traded funds unless trading occurs in a fee-based account. Investors should consider an ETF’s investment objective, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other important information, is available from your Financial Advisor and should be read carefully before investing.

It should not be assumed that any holdings included in these materials were or will prove to be profitable, or that recommendations or decisions that the firm makes in the future will be profitable or will equal the investment performance of the securities discussed herein.

PAST PERFORMANCE CANNOT AND SHOULD NOT BE VIEWED AS AN INDICATOR OF FUTURE PERFORMANCE.

Additional Information Available Upon Request.

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