EquityCompass Strategies

EquityCompass Core Investment Portfolio

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

The Challenge of Maximizing Investment Returns

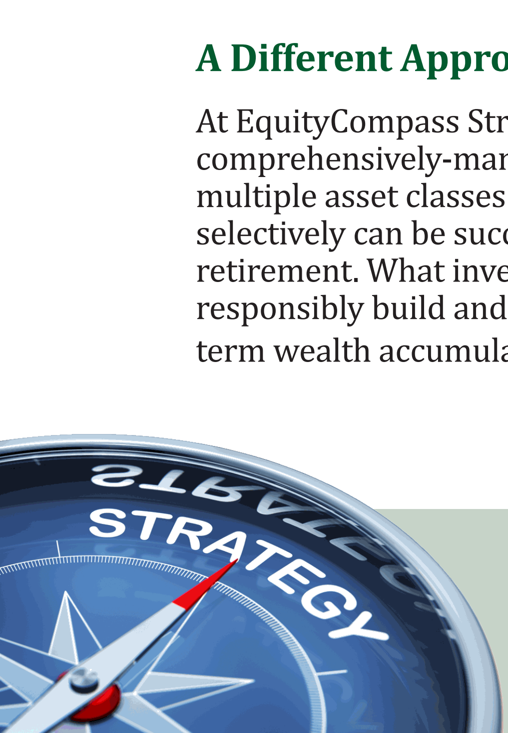
The investment landscape is always evolving in ways that are, at times, similar but also different to the past. The transformative influence of technology and a dynamic global economy will shape risk and opportunity just as much as intrinsic value and diversification will remain timeless investment principles. The greatest challenge for investors is how to maximize their investment returns in an investment 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 Strategies, 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

Broadly 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 — Select Quality Growth & Income

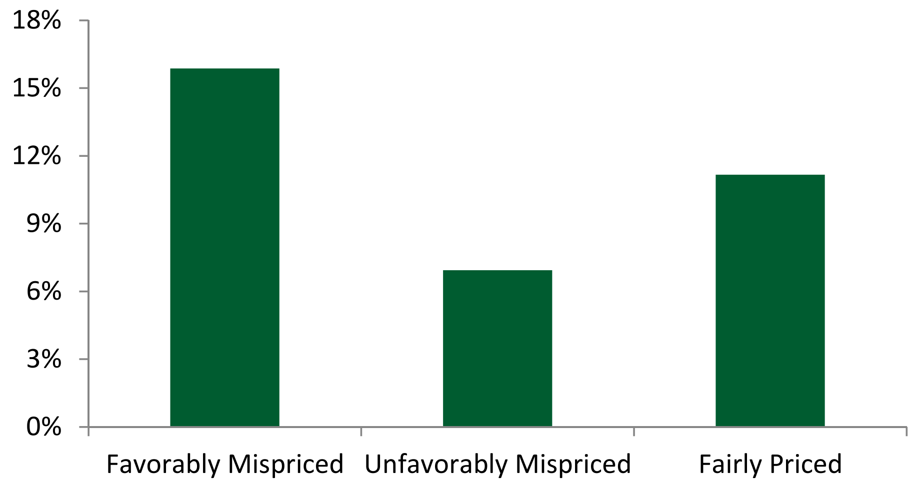
"Companies that perform better in objective measures like sales growth, profit margin improvement, and dividend growth tend to be less volatile over time. Identifying these companies when they are attractively priced can provide capital appreciation without taking undue risk."
— Mike Scherer, Senior 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 approach to stock selection 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 or style bias.

Performance of Mispriced Stocks

Annualized Returns (6/28/2002 - 12/31/2017) | Source: EquityCompass Strategies



"The Global Leaders approach in a nutshell is to:
Seek Global Opportunities. Invest in Great Companies. Invest like an Owner."
— Robert Hagstrom, Senior Portfolio Manager

The Global Leaders Portfolio 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.

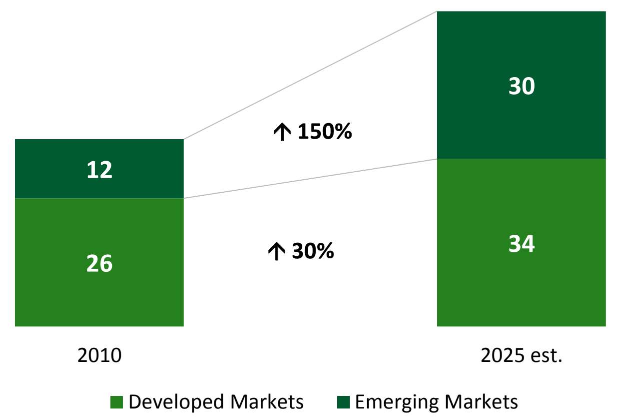
From among the multinationals, the portfolio seeks to invest in "great" businesses defined as companies that generate high and sustainable returns on capital, willing to compound shareholder value by constantly reinvesting in their company over the long-term investment horizon.[1] The portfolio maintains a long-term investment horizon to capture the power of economic compounding that great companies provide which becomes the source of long-term capital appreciation, the backbone to help fund a healthy retirement account.

The portfolio attempts to achieve lower volatility and downside protection by diversifying across sectors, maintaining equally-weighted positions, and through continuous monitoring of management actions that could lead to deterioration in shareholder value.

Emerging market consumer purchasing power is expected to increase 150% over the next 10 years and account for nearly half of global spending.

Global Consumption Demand

$ Trillions | Source: McKinsey & Company | August 2012



* Atsmon, Child, Dobbs and Narasimhan, Winning The $30 Trillion Decathalon: Going For Gold in Emerging Markets, McKinsey & Company, August 2012.
(1) The definition of "Great" is for illustrative purposes only.

> *"Though bond returns have averaged lower than stocks, they have historically produced a fraction of the "worst-case scenario" in declines. A prudent allocation to bonds, whether 10% or 90%, plays a critical role in providing long-term stability to a thoughtfully constructed portfolio."*
> **— Tim McCann, Senior Portfolio Manager**

The role of long-term bonds as a haven for income and perceived safety has been eroded with a 40-year bull market. With current interest rate levels at generational lows, the traditional role of fixed income needs to be rethought. However, fixed income does have an important role in providing stability to counteract volatile financial markets.

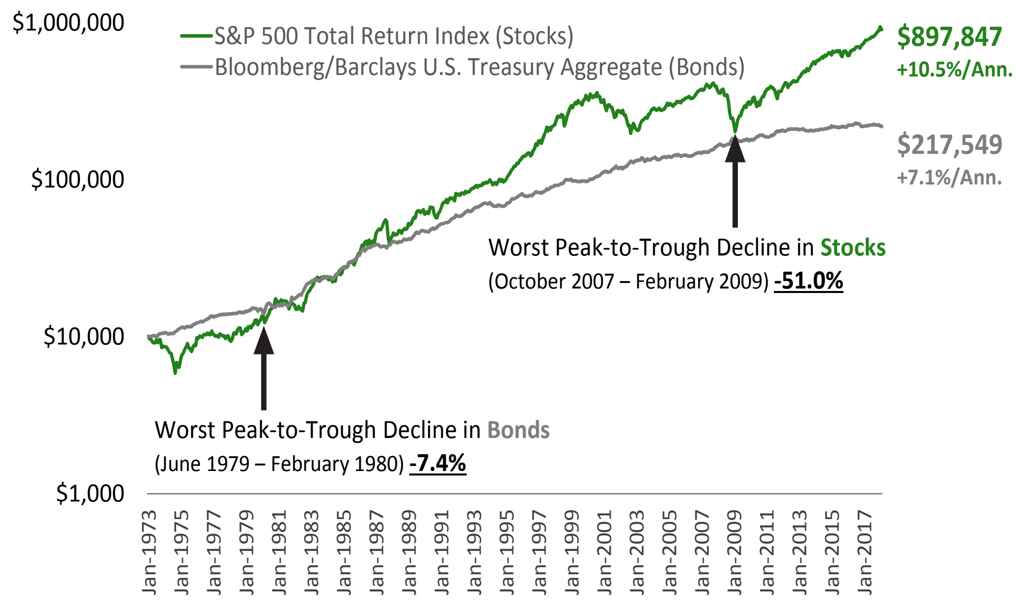
The fixed income allocation in CIP is actively managed with a focus on sector allocation, yield, and risk management strategies. It invests predominantly in taxable, U.S. Dollar-denominated, investment-grade securities and seeks to provide a total return in excess of the Barclays Capital U.S. Aggregate Bond Index. The portfolio features dynamic sector rotation based on historical spreads between fixed income segments and economic cycle considerations.

Core Investment Portfolio—Tax-Advantaged (MCIP)

The fixed-income allocation in MCIP features municipal bond securities providing tax advantages and diversification benefits and generally higher credit quality relative to corporate bond alternatives. The portfolio uses ETFs and closed-end funds that invest in municipal bonds, thus providing liquidity, cost efficiency, and diversification across securities and maturities. Municipal bonds used in the portfolio are primarily investment-grade, with a low default rate and low volatility compared to other bonds.

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

January 1973 – February 2018 | Log Scale | Source: Bloomberg | 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.



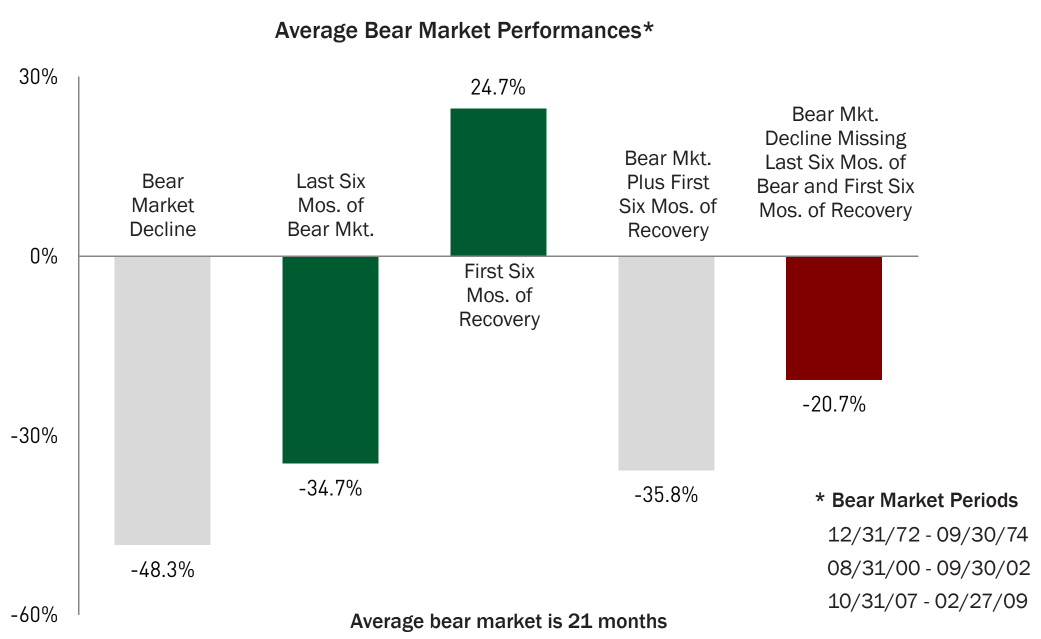
"An effective risk management strategy should not rely on emotional human judgment, but rather a predetermined set of rules that seek to avoid behavioral biases and activate only in dire conditions. A risk management strategy cannot prevent all loss, but seeks to minimize the drawdown during a significant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



Past performance is not indicative of future results.

Core Investment Portfolio — Overview

Key Highlights

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** helps mitigate the impact of large stock market declines by reducing equity exposure
   - Helps respond to market conditions to mitigate significant losses
3) **High-quality fixed income allocation** to provide stability and reduce volatility over time; offers the choice of investment in **taxable (CIP)** or **municipal/tax-advantaged strategies (MCIP)**
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
- Available as a separately managed account (SMA) on Stifel's Opportunity and CAP platforms

To Learn More

Contact your Stifel Financial Advisor

ABOUT EQUITYCOMPASS

EquityCompass Strategies is a Baltimore-based equity investment management team. We offer a broad range of portfolio strategies based on our systematic, research-driven investment process to institutional investors, financial advisors, and individual investors. As of March 31, 2018, EquityCompass provided portfolio strategies with respect to assets of approximately $3.8 billion.

The Investment Management Team

EquityCompass Strategies 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.

Richard E. Cripps, CIO
Senior Portfolio Manager

Richard Cripps is the Chief Investment Officer and Senior Portfolio Manager for EquityCompass Strategies. Mr. Cripps developed the EquityCompass, a series of equity models that quantify investment characteristics for stock selection and portfolio management. EquityCompass insights were utilized in a variety of programs at Legg Mason and currently are being offered at Stifel, Nicolaus & Company, Incorporated. Mr. Cripps has a B.S. in finance from James Madison University. He is a CFA charter holder and a member of the Baltimore Security Analysts Society.

Thomas P. Mulroy
Executive Vice President
Senior Portfolio Manager

Tom Mulroy joined EquityCompass Strategies in September 2017. He has more than 30 years of investment experience, most recently with Stifel, Nicolaus & Company, Inc. where he served as Co-Director of the Institutional Group from July 2009 to June 2017 and Executive Vice President and Head of Equity Capital Markets from December 2005 to July 2009. Tom was Co-President and Director of Stifel Financial Corp. from June 2014 through June 2017 and Senior Vice President from December 2005 through June 2014. Prior to joining Stifel, Tom served as Executive Vice President at Legg Mason Wood Walker, Inc. from 1986 through November 2005 and was instrumental in the transformative deal that brought Legg Mason Capital Markets to Stifel in their 2005 acquisition. Tom also formerly served as Chairman of the Board of Stifel Nicolaus Europe Limited. He received a B.S. in Finance from Ithaca College and an M.B.A. in Finance from American University.

Robert G. Hagstrom, CFA
Senior Portfolio Manager

Robert Hagstrom joined EquityCompass in April 2014. Prior to that, 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. He has also served as President and Chief Investment Officer of Legg Mason Focus Capital, General Partner of Focus Capital Advisory, and Principal at Lloyd, Leith & Sawin. Robert is the author of nine investment books, including The New York Times Best Seller, The Warren Buffett Way. He earned his Bachelor and Masters of Arts degrees from Villanova University and is a member of the CFA Institute and the CFA Society of Philadelphia.

Larry Baker, CFA
Senior Portfolio Manager

Larry Baker joined EquityCompass in 2010 and is currently the Senior Portfolio Manager of the EquityCompass Quality Dividend Portfolio. He has more than 30 years of investment experience, including 15 years at Legg Mason, where he was a Managing Director and award-winning securities analyst in the Industrials sector. Prior to joining Legg Mason, he was a Vice President and securities analyst at Dillon, Read & Co. Mr. Baker began his career as a securities analyst with E. F. Hutton, where he spent 10 years. He received a B.S. from the United States Military Academy and a Masters in Finance from the Sloan School of Management at the Massachusetts Institute of Technology.

Timothy M. McCann
Senior Portfolio Manager

Tim McCann is the Portfolio Manager for the EquityCompass Tactical portfolios and Select Quality Growth & Income portfolio. Mr. McCann joined EquityCompass in 2002 as a quantitative analyst. 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. Mr. McCann is responsible for managing quantitative equity portfolios, investment research, and new product development at EquityCompass. Previously, Mr. McCann worked for a Boston-based financial advisory firm, Morgan Stanley, and UBS Securities (via PaineWebber) in various positions. Mr. McCann has a B.S. in business from The College of Notre Dame of Maryland.

Michael S. Scherer
Senior Portfolio Manager

Mike Scherer is the Portfolio Manager for the EquityCompass Select Quality Growth & Income portfolio and co-manager for the Quality Dividend portfolio. Mike is a senior member of the team responsible for developing and researching EquityCompass' quantitative portfolio strategies. He has written extensively on market strategy and works closely with Stifel financial advisors educating them on EquityCompass investment portfolios and products. He joined the EquityCompass team in 2000 while it was a unit within Legg Mason, and moved with the team to Stifel in 2005. Concentrated in finance, Mr. Scherer has an M.B.A. from Loyola College in 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 Kavanagh joined EquityCompass Strategies in May 2011. He is a Portfolio Manager and a senior member of the Investment Management team. Prior to joining EquityCompass Strategies, Bernie was a member of the Stifel Institutional Equity Sales group from the time Stifel acquired Legg Mason's Capital Markets Group in December of 2005. At Legg Mason, Mr. Kavanagh began his career as an associate in the Equity Marketing and Strategy Group. Prior to Legg Mason, he was an associate at T. Rowe Price. Bernie has an M.B.A. from Loyola College in Maryland and a B.A. from Rutgers University. He holds the designation Chartered Market Technician.

IMPORTANT DISCLOSURES

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Any investment involves risks, including a possible loss of principal. Rebalancing may have tax consequences, which should be discussed with your tax advisor.

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.

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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 Barclays Capital 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 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 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.

The Stifel Opportunity Program is a fee based program that requires a $300,000 minimum investment. There may be other costs associated with the Stifel Opportunity Program, including but not limited to: exchange fees, transfer taxes, interest expense, trade surcharges, and closing costs. You should consider all terms and conditions before deciding whether the Stifel Opportunity Program is appropriate for you.

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. Please contact your Stifel Financial Advisor.

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