

# Core Investment Portfolio

## Portfolio Manager Commentary

As of 3/31/2024



### Q1 2024 Overview

At the end of the first quarter, the S&P 500 Index closed at a record high after gaining 10.56%—its strongest first quarter gain since 2019—outperforming the Dow Jones Industrial Average (+6.14%) and the NASDAQ Composite (+9.31%). In the first quarter, every sector posted a positive return except Real Estate, which declined a modest -0.79%.

While the Russell 1000 Growth Index (+11.41%) outperformed the Russell 1000 Value Index (+8.99%) during the quarter, value stocks performed strongly in March, up 5.00% compared to growth at 1.76%. In addition, the S&P 500 Equal Weight Index and small cap stocks also performed well suggesting that market returns were broadening out beyond just the returns of the largest market cap stocks—typically a good indicator of overall stock market health.

During the first quarter, the **Core Investment Portfolio (CIP)** returned 5.65% (4.87% net of maximum potential fees) versus its blended benchmark return of 5.99%. CIP's long-term investment returns can be found in the table below.

CIP's value stocks performed well to begin the year, in line with the broad market S&P 500 Equal Weight Index. The performance advantage for value stocks as well as outperformance by the S&P Equal Weight versus the market cap weighted S&P 500 was a tailwind for relative performance in March. Broadening market performance in the quarter coupled with a shift in investor preference could be positive signs for future relative returns.

Following significant outperformance in 2023, CIP's global growth stocks again surpassed their respective benchmark in the first quarter. Growth stocks have worked to reset prices higher from the indiscriminate selling that occurred in 2022. As such, many growth stocks are back to fair value—neither over- or undervalued. However, CIP's growth companies continue to report excellent results with above-average earnings growth that we believe should work to modestly benefit the portfolio throughout the year.

Supplementing CIP's value and growth equity strategies, 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 and technical conditions are positive, the tactical strategy is fully invested in equities. Conversely, if either or both indicators

### Objective

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

### Portfolio Management Team



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



**Timothy M. McCann**  
Senior Portfolio Manager



**James J. DeMasi, CFA**  
Senior Portfolio Manager

### 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 \$5.0 billion as of March 31, 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 %	5.65	16.04	5.65	15.77	4.26	7.53	5.49	-8.04	17.57	8.80	16.27	-16.55	15.79
Benchmark %	5.99	14.92	5.99	17.33	5.31	8.94	7.69	-4.89	19.45	15.25	14.02	-13.52	16.14
Net %	4.87	14.30	4.87	12.36	1.21	4.38	2.39	-10.78	14.15	5.63	12.89	-19.04	12.42

As of 3/31/2024; Inception—January 1, 2018; Benchmark = 25% S&P 500 Index / 25% MSCI ACWI Index / 25% HFRI Equity Hedge Index, / 25% Bloomberg Intermediate U.S. Gov't./Credit Bond Index, rebalanced monthly.

Net returns reflect the deduction of the maximum managed account fee of 3.00% which includes the wrap sponsor fee and EquityCompass investment management fees. Actual fees may vary.

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(technical/fundamental) decline—signaling potential disruption in the stock market—the tactical allocation can be shifted to short-term bonds or cash as a defensive measure.

CIP's tactical equity allocation remained in a neutral position throughout the first quarter—equally split between 50% equities and 50% cash and high-yielding short term Treasuries. This neutral posture has prevailed since mid-July 2022. Despite the decisively rising trend of earnings estimates, they continue to underperform the price performance of the S&P 500 resulting in more lofty equity valuations.

With the aggregation of fundamental, technical, and economic considerations neither firmly bullish nor firmly bearish, we continue to maintain our neutral posture within the tactical allocation. Furthermore, with fairly attractive yields in the short-duration funds and heightened valuations in equity markets, we feel comfortable in this positioning until the bond/equity risk-reward tradeoff becomes more favorable, albeit through lower fixed income yields and/or higher equity earnings yields.

After posting its strongest quarter in 34 years, the bond market returned a modest portion of its previous gain over the first three months of 2024. Following a stellar return of 6.82% in the fourth quarter of 2023, the Bloomberg U.S. Aggregate Bond Index (AGG) declined by 0.78% in the first quarter. Over the past 12 months, the AGG has produced a total return of 1.70%.

The AGG's sluggish start to the year was primarily attributed to a reset in expectations regarding the expected timing and magnitude of rate cuts by the Federal Reserve (Fed). At the beginning of the year, interest rate futures were anticipating 150 basis points (bps) of rate reductions over the next 12 months, with the first cut occurring in March. By the end of the first quarter, expectations had shifted toward a "higher for longer" scenario, with fewer and later rate cuts in the year. As of March 31, fed funds futures were fully pricing in only 50 bps of rate cuts through November and reflecting approximately 50% odds for an additional 25 bps reduction in December.

### Portfolio Outlook

Consensus 2024 estimates for economic activity project annual gross domestic product (GDP) growth will slow from 3.2% in 2023 to 1.5% this year, with much of the decline to occur in the second half of the year. This level of economic activity, if it were to occur, is below the sustainable growth rate of our economy. Despite this, we believe there are several positives for the Core Investment Portfolio.

First, weaker economic growth may encourage the Fed to follow through with its signaled interest rate cuts, with the goal of limiting the potential damage to employment and wages in a more sluggish economy. Second, a moderation in aggregate demand should put further pressure on inflation. Since bond prices move inversely with inflation, any further moderation in consumer prices would likely bode well for the bond market and CIP's fixed income allocation.

To prepare for a steeper yield curve, whereby short-term yields are lower than long-term yields, CIP's fixed income allocation targets bond portfolio duration at 5.5 years, which is approximately 93% of the AGG's duration. Short-term and intermediate-term yields tend to follow the path of the fed funds rate, while longer yields are more heavily influenced by growth and inflation expectations, along with technical supply and demand factors.

Concentrating the expected future principal cash flows in CIP's bond portfolio in the intermediate-term segment of the yield curve should assist performance and mitigate risk in several ways, including maximizing potential roll down benefits, reducing front-end reinvestment risk, and lowering the inflation risk associated with longer duration instruments.

A slowing economy with a corresponding decline in inflation that results in lower interest rates should also benefit CIP's value dividend stocks. Once the Fed begins to cut the fed funds rate, we believe the yield on money markets will summarily begin to decline, sending investors scurrying to purchase, once again, higher dividend-paying stocks. It is important to remember the stock market is a discounting mechanism which begins to adjust prices long before the "bell is rung." By this we mean, it is likely higher dividend-paying stock prices could begin to rise even before the Fed makes its first interest rate cut. To boot, we believe dividend stocks are the most undervalued part of the stock market, suggesting CIP's value dividend-payers could get an extra lift when prices reset.

Among CIP's value stock allocation, 95% of the companies carry debt ratings of which 92% are investment-grade. Among the holdings that pay dividends, 11 out of the 28 stocks increased dividend payouts by 7.9%. Currently, these value stocks offer a 2.1% weighted average dividend yield, higher than the S&P 500 Index.

The year-end 2024 S&P 500 earnings per share (EPS) estimate is \$243—9.4% growth in earnings year-over-year. However, of the 11 S&P sectors, seven are estimated to experience EPS growth below the average return of the index including: Consumer

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Staples, Energy, Financials, Health Care, Industrials, Materials, and Real Estate. The four sectors that are projected to generate EPS growth higher than the index include: Consumer Discretionary, Information Technology, Communication Services, and Utilities. This is good news for CIP's global growth stocks. Although CIP's growth stocks do not include Utilities, it has a significant investment in the other three secular growth sectors including Information Technology and Communication Services where EPS growth this year is expected to be 2x–3x faster than the overall S&P 500 Index.

What accounts for the above-average economic performance among the Information Technology and Communication Services sectors? In short, Artificial Intelligence (AI). Over the last several years, CIP's global growth allocation has made significant investments in companies involved with semiconductor graphics processing units (GPUs), semiconductor manufacturing equipment, and cloud computing—companies often referred to as the “picks and shovels” used in mining for Artificial Intelligence. We are now beginning to observe a tsunami of corporate spending from companies in every sector of the market seeking to benefit from the efficiencies and productivity gains made possible by the introduction of AI.

As such, CIP's global growth stocks have exposure to two significant secular growth opportunities. The first remains the rise of the middle class consumer in China, India, and Southeast Asia, where consumers are typically younger and crossing into the discretionary spending period of their lives with little debt. CIP's multinational growth companies domiciled in the U.S., Europe, and Canada are at the forefront of a long-term secular growth story of middle class consumer spending in the emerging markets that we expect to last many years.

The second secular growth story is the advent of AI. With only a few select companies currently integrating AI into their business strategy, once the payoffs are realized and reported, we believe the laggards may have no choice but to embrace the benefits of incorporating this new technology. Mass adoption means almost every company, in every industry around the world, may eventually integrate AI into their business.

The neutral position in our tactical asset allocation strategy is a reflection of the continued uncertainty about the fundamental outlook of the economy, which continues to toggle between a potential decline in economic output while at other times signaling what is called an economic “soft landing.” At which time we believe economic conditions have stabilized and corporate earnings growth, broadly speaking, are back on track, we will increase our equity position. In the meantime, CIP's short term bond allocation within the tactical model is providing a competitive yield on the back of higher short-term interest rates.

So, despite the forecasts for an economic slowdown in the second half of the year, there are several reasons to be optimistic about the Core Investment Portfolio. Even with a sluggish stock market, CIP's barbell strategy of owning both high dividend-paying stocks matched with secular growth companies has proven to be an effective strategy to navigate a sideways stock market. If growth stocks outperform dividend-paying stocks, secularly-advantaged growth stocks should more than compensate for the decline of value stocks. Conversely, if dividend-paying stocks outperform growth stocks, the total return of higher dividend-paying stocks should balance out the decline in growth stocks. We have witnessed this rotation play out since 2020.

We continue to caution investors to brace for high 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 committed to lowering interest rates perhaps sooner than the market may be expecting. On other days the news may portend that inflation is sticky and slower to decline than hoped for, putting off the prospect of lower interest rates in the near term.

In addition, geopolitics in the Middle East and Ukraine contribute to macroeconomic uncertainty. To this we can add the President and Congressional elections in the fall may cause heightened market volatility.

Economic uncertainty, paired with market price volatility can be unnerving—even fearful for many investors. No matter the economic environment, the Core Investment Portfolio seeks to provide good returns for investors despite the direction of the market.

**INVESTMENT PERFORMANCE DISCLOSURE****CORE INVESTMENT PORTFOLIO WRAP COMPOSITE (01/01/2018 – 12/31/2022)**

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 Std. Deviation	Composite Number of Portfolios	Internal Dispersion (%)	Composite Assets (USD Mil.)	Strategy Assets (USD Mil.)†	Firm & Advisory Assets (USD Mil.)
2018	-8.0%	-10.8%	-4.9%	N/A	N/A	<6	N/A	\$0.18	\$49	\$3,831
2019	17.6%	14.1%	19.4%	N/A	N/A	<6	N/A	\$0.22	\$67	\$4,294
2020	8.8%	5.6%	15.3%	14.2%	12.2%	<6	N/A	\$0.37	\$55	\$4,012
2021	16.3%	12.9%	14.1%	13.4%	11.3%	<6	N/A	\$0.40	\$67	\$5,038
2022	-16.6%	-19.0%	-13.5%	15.6%	13.6%	<6	N/A	\$0.33	\$55	\$4,469

\* 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.

EquityCompass Investment Management, LLC ("EquityCompass") claims compliance with the Global Investment Performance Standards ("GIPS®") and has prepared and presented this report in compliance with the GIPS standards. EquityCompass has been independently verified for the periods 06/01/14–12/31/22. The verification report is available upon request. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report.

**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](mailto:info@equitycompass.com).

**Composite Description**

The performance results displayed herein represent the investment performance record for the Core Investment Portfolio 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. Core Investment Portfolio is a comprehensive multi-strategy, risk-managed, equity-centric portfolio for accumulating wealth towards retirement. The strategy seeks to maximize above-average, long-term equity returns while also trying to minimize the potential for permanent capital loss or significant drawdown in asset value that occurs during bear markets. The portfolio employs focused, actively managed equity strategies that seek to generate above-average returns. It is available as a wrap fee account 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 composite uses a custom benchmark comprising 25% S&P 500 Index / 25% MSCI ACWI Index / 25% HFRI Equity Hedge Index / 25% Bloomberg Intermediate U.S. Government/Credit Bond Index, rebalanced monthly. The S&P 500 Index is a broad market index that tracks the performance of 500 stocks from major industries of the U.S. economy. This index 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. 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. Intermediate Government/Credit Bond Index measures the performance of U.S. Dollar-denominated U.S. Treasuries, government-related and investment grade U.S. corporate securities that have a remaining maturity of greater than one year and less than ten years. 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 it is not possible to invest directly in an index.

**Fees**

Gross-of-fees returns, are gross of portfolio management and custody fees and net of all trading costs in the case of non-wrap accounts and those wrap accounts traded by EquityCompass. Trading costs are not deducted from gross-of-fee return calculation if the wrap account trades are executed by the Sponsor. 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 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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It is important to review your investment objectives, risk tolerance, and liquidity needs before choosing an investment style or manager. 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. 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. Diversification and/or asset allocation does not ensure a profit or protect against loss. Rebalancing may have tax consequences, which should be discussed with your tax advisor.

***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 **S&P 500®** is regarded as the best single gauge of large-cap U.S. equities. According to our Annual Survey of Assets, an estimated USD 15.6 trillion is indexed or benchmarked to the index, with indexed assets comprising approximately USD 7.1 trillion of this total (as of Dec. 31, 2021). The cap weighted index includes 500 leading companies and covers approximately 80% of available market capitalization. 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 **Dow Jones Industrial Average (DJIA)** is an unmanaged, price-weighted index that consists of 30 blue chip U.S. stocks selected for their history of successful growth and interest among investors. The price-weighted arithmetic average is calculated with the divisor adjusted to reflect stock splits and occasional stock switches in the index. The **NASDAQ Composite Index**, comprised mostly of technology and growth companies, is a market value-weighted index of all common stocks listed on NASDAQ. The **Russell 1000 Growth Index** measures the performance of those Russell 1000 index companies with higher price-to-book ratios and higher forecasted growth values. The **Russell 1000 Value Index** measures the performance of those Russell 1000 index companies with lower price-to-book ratios and lower forecasted growth values. The **Bloomberg U.S. Aggregate Bond Index** is a broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency). All index returns are shown on a total return basis and assume that all cash distributions, such as dividends, are reinvested. 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.

\*Total assets combines both Assets Under Management and Assets Under Advisement as of March 31, 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.

**Past performance does not guarantee future performance or investment results.**

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