



Investment Team

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Portfolio Co-Manager

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Characteristics

Total Net Assets
(millions) \$611.63

Number of holdings: 41

Top 10 Holdings

Microsoft

Chevron

McDonald's

Broadcom

JPMorgan Chase

Merck

BlackRock

Goldman Sachs

PNC Financial

AbbVie

Please consider the investment objectives, risks, charges, and expenses of any fund carefully before investing. Call 800.421.4184 or your financial professional for a prospectus, which contains this and other important information about the funds. Read the prospectus carefully before you invest or send money.

Market Overview

The S&P 500 Index finished the year strong with a fourth-quarter return of 11.7%. For the year, the market was up 26.3%, ending the year just shy of its all-time highs. Investors became more comfortable that the U.S. Federal Reserve (Fed) was at the end of its rate-hiking cycle, prompting a downward move of more than 70 basis points in 10-year U.S. Treasury yields. Under the headlines, the market experienced a broadening with the S&P 500 Equal Weight® Index performing just as well as its market-cap weighted peer. The selloff in commodities continued with crude oil finishing the year just north of \$71 per barrel. Importantly, the Federal Reserve's preferred inflation measure – the core Personal Consumption Expenditures (PCE) Price Index – continues to moderate on a year-over-year basis, easing some of the rate concerns that have worried investors.

Portfolio Review

Top Securities	Average Weight (%)	Contribution to return (%)
Broadcom	3.29	1.07
Microsoft	4.78	0.93
BlackRock	3.08	0.79
PNC Financial	2.86	0.77
JPMorgan Chase	3.33	0.59
Bottom Securities		
Chevron	4.12	-0.56
Genuine Parts	1.18	-0.11
FedEx	2.58	-0.11
Northrop Grumman	1.25	-0.05
AstraZeneca	2.01	-0.02

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Top-performing securities

Broadcom traded higher after closing on its acquisition of VMware. The company also announced earnings that were relatively in line with estimates with some benefit of better operating expenses. The stock appears to be one of the first real beneficiaries of generative artificial intelligence (AI) with meaningful revenue expected to show up in 2024.

Microsoft performed well after reporting strong earnings supported by accelerated growth from Azure. The cloud business is seeing consistent trends from optimization while AI has contributed strongly to its growth.

BlackRock performed well due to an interest rate-driven market rally. Recall that BlackRock generates fees from assets under management. Therefore, higher asset prices lead to higher revenues.

PNC Financial and JPMorgan performed well due to more benign inflation data, which the market likely interpreted as a sign that a recession is now less likely to occur. Recall that historically speaking, banks are hyper-cyclical stocks and typically will trade lower if investors foresee a recession, because recessions tend to trigger loan losses.

Bottom-performing securities

Chevron traded lower, along with oil prices, and issued a disappointing earnings announcement due to overseas refining losses. Separately, the company announced an agreement to buy another energy company with operations offshore of Guyana, as well as in North Dakota, the Gulf of Mexico, and the Gulf of Thailand. This is a strategic acquisition for very little takeout premium.

Genuine Parts reported a second consecutive quarter of slowing organic growth. We fear that competitive pressures are building for this company and, as a result, it could be losing market share. While structural tailwinds persist for this industry, management is already falling short of the 3-year operating targets it established earlier in 2023. As a result, we sold the stock and are re-investing the proceeds in a higher-conviction stock.

FedEx traded lower as most industry transportation providers continued to see lower volumes tied to inventory destocking. Investors had hoped for a second-half volume improvement that has now been pushed back until 2024 due to a tough macroeconomic environment. Further, margin improvement also seems to be delayed despite recent cost savings initiatives.

Northrop Grumman pulled back in November following very strong performance in October that was tied to solid earnings and heightened geopolitical issues that included the war in Israel. While geopolitical issues remained front and center in November, tensions did not broaden to other areas through the end of the year.

AstraZeneca posted lackluster performance in the fourth quarter, particularly in October surrounding the European Society for Medical Oncology meeting, where AstraZeneca presented two underwhelming clinical datasets for a new cancer drug. This was coupled with concerns around a potential new competitor for AstraZeneca's largest drug in the lung cancer space.

Outlook

For most of 2023, investors belonged to one of two opposing camps when viewing future economic growth and financial market returns. The first subscribes to the idea that a recession and corresponding market downturn are imminent and are tied to the delayed impacts of global central bank tightening and a dearth of fiscal policy support. The second camp believes that financial markets already have discounted decelerating and uneven economic growth as evidenced by poor returns in 2022 and 2023 for many asset classes. As a "soft landing" becomes evident, this crowd argues for a period of renewed growth and a broadening of market participation.

Unlike the first three quarters of 2023, when financial markets swung back and forth because of ambiguous economic and inflation data, the fourth quarter appeared to declare, for now, a winner. The "soft landing" camp was bolstered by a sequence of new information showing a deceleration in inflation that was especially pronounced in October. Sentiment was further bolstered by Fed Chair Jerome Powell's comments that appeared to support multiple interest rate cuts in 2024. In response, yields on U.S. Treasury bonds plummeted approximately 100 basis points, spurring an equity market run toward all-time highs into the end of the year. The idea that the Fed could achieve its reduced-inflation goal without further interest rate hikes was a clear change in investor expectations. This would represent a regime change and a welcome shift in financial market behavior.

When we parse the data, we see an improving inflation backdrop supporting a Fed pivot. Commodity prices, especially for crude oil and agricultural products, weakened considerably in 2023. Transportation rates across most modes of transportation confirmed an end to supply chain challenges. As an example, spot truckload shipping rates fell to pre-COVID levels. While housing and broader rents look a bit stickier, we see clear signs of a deceleration in rental rates. A significant number of completed multi-family apartment units in the first half of 2024 should further alleviate consumer housing

costs. Our largest inflation concern centers on labor tightness and corresponding wage growth. Conversations with executives, especially in the industrial sector, suggest an apprehension about reducing labor even as order rates and volumes slow. These companies were at the center of supply chain challenges. Unfortunately, a sequence of stronger employment claims, monthly payroll figures, and steady wage gains would make it harder for the Fed to achieve its goal of 2% inflation. This would certainly disrupt any expectation for the Fed to cut rates, which was a clear driver of financial market strength in the fourth quarter.

The prospect of a regime change in Fed policy resulted in a pronounced flip in equity market leadership in the fourth quarter. For most of the year, markets were dominated by a narrow group of large-capitalization technology stocks. Leading companies in AI and the GLP-1 weight loss drugs joined this narrow group around mid-year. Certainly, the never-ending drumbeat of an impending recession weighed on the average stock. Conversely, a mid-October peak and precipitous drawdown in Treasury yields brought forth a very different group of winners. New leadership included shares of small-capitalization, dividend-oriented, and cyclically exposed equities that had previously endured multiple years of poor returns. Using history as a guide, we believe a continuation of this new regime could create sustained outperformance by these new winners. No doubt an extended period of easing recessionary fears supported by decelerating inflation and constructive Fed policy would be a tailwind.

We remain committed to implementing our strategy of investing in companies that pay and increase their dividends on a consistent basis. Our detailed research process will continue to seek excellent ideas irrespective of the macroeconomic backdrop. Importantly, dividend growth remained particularly healthy during 2023. We expect the compounding of income to serve our clients well in the future. We will remain diligent in search of high-quality businesses that generate strong free cash flows and have a willingness to share those cash flows with shareholders.

Risk Considerations:

International investing presents specific risks, such as currency fluctuations, differences in financial accounting standards as well as potential political and economic instability.

Because the fund normally will hold a focused portfolio of stocks of fewer companies than many other diversified funds, the increase or decrease of the value of a single stock may have a greater impact on the fund's net asset value and total return.

As with all equity investing, there is the risk that an unexpected change in the market or within the company itself may have an adverse effect on its stock. The biggest risk of equity investing is that returns can fluctuate and investors can lose money.

There are risks associated with dividend investing, including that dividend-issuing companies may choose not to pay a dividend, may not have the ability to pay, or the dividend may be less than what is anticipated. Dividend-issuing companies are subject to interest rate risk and high dividends can sometimes signal that a company is in distress.

Growth companies are expected to increase their earnings at a certain rate. When these expectations are not met, investors may punish the stocks excessively, even if earnings showed an absolute increase. Growth company stocks also typically lack the dividend yield that can cushion stock prices in market downturns. The companies engaged in the technology industry are subject to fierce competition and their products and services may be subject to rapid obsolescence. The values of these companies tend to fluctuate sharply.

Investments in mid-cap and small-cap companies generally involve greater risks than investing in larger capitalization companies. Mid-cap companies often have narrower commercial markets, more limited managerial and financial resources, and more volatile trading than larger, more established companies.

Real Estate Investment Trusts (REITs) may be affected by economic conditions including credit risk, interest rate risk and other factors that affect property values, rents or occupancies of real estate.

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Definitions

Basis points (bps) are measurements used in discussions of interest rates and other percentages in finance. One basis point is equal to 1/100th of 1%, or 0.01%.

Conviction represents a market participant's confidence in particular investments or the likelihood that particular outcomes will take place. High-conviction investments represent what participants consider to be their best bets for performance for a given outlook or period.

Core inflation is measured by the Personal Consumption Expenditures (PCE) excluding Food and Energy, Price Index, also known as the core PCE price index, is a measure of the prices that U.S. consumers pay for goods and services, not including two categories – food and energy – where prices tend to swing up and down more dramatically and more often than other prices. The core PCE price index, released monthly by the U.S. Department of Commerce Bureau of Economic Analysis, measures inflation trends and is watched closely by the U.S. Federal Reserve as it conducts monetary policy.

Cyclical stocks have prices influenced by macroeconomic changes in the economy and are known for following the economy as it cycles through expansion, peak, recession, and recovery.

Defensive stocks provide consistent dividends and stable earnings regardless whether the overall stock market is rising or falling. Companies with shares considered to be defensive tend to have a constant demand for their products or services and thus their operations are more stable during different phases of the business cycle.

Destocking describes the reduction in the inventory that a company holds, either through market demand or company decisions to reduce or hold less of a particular product or products.

Dividend payers are the companies that distribute a portion of their profits to shareholders in the form of a dividend.

The federal funds rate, known as the fed funds rate, is the target interest rate set by the Federal Open Market Committee of the U.S. Federal Reserve. The target is the Fed's suggested rate for commercial banks to borrow and lend their excess reserves to each other overnight.

Fiscal policy refers to the tax collection and spending a government uses to influence its country's economy.

Generative artificial intelligence (AI) is a form of artificial intelligence that can create new content that includes text, audio, code, video, and images.

GLP-1 weight-loss drugs, formally known as glucagon-like peptide 1 agonists, comprise a class of type 2 diabetes drugs that improve blood sugar control and may also lead to weight loss. The drugs mimic the action of a hormone called glucagon-like peptide 1 by stimulating the body to produce more insulin when blood sugar levels start to rise after someone eats. The additional insulin helps lower blood sugar levels, which helps in controlling type 2 diabetes. How GLP-1 agonists lead to weight loss is less clear.

Organic growth is the growth that companies achieve through using their own internal resources to increase production or sales. It does not include growth or revenues from mergers, acquisitions, or other external methods of adding to sales or profits.

The Purchasing Managers' Index (PMI) measures the prevailing direction of economic trends in the manufacturing sector. It is created by the Institute for Supply Management (ISM) and consists of an index summarizing whether market conditions as reported in a monthly survey of supply chain managers are expanding, staying the same, or contracting.

A soft landing is a cyclical slowdown in economic growth that avoids a recession.

A spot shipping rate represents the fee that a shipper pay to move a single shipment of goods at current freight market pricing.

A takeover premium, also called a takeover premium or control premium, is the difference between a target company's share price and the price paid to acquire it. The premium reflects the additional value that the acquiring company expects to capture from completing the acquisition.

Indices

The S&P 500 Index, the Fund's benchmark index, measures change in stock market conditions based on the average performance of 500 widely held common stocks. It is a market-weighted index calculated on a total return basis with dividend reinvested. The S&P 500 represents approximately 80% of the investable U.S. equity market.

The S&P 500® Equal Weight Index (EWI) includes the same constituents as the capitalization-weighted S&P 500 Index, but each company in the S&P 500 Equal Weight Index is allocated a fixed weight.

Indices are unmanaged, and one cannot invest directly in an index.

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