Portfolio Commentary

Navigator® High Dividend Equity

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One for the Record Books

After the historic first quarter decline due to COVID-19 fears, the second quarter rebound was the strongest in decades. The S&P 500 Index posted its best quarter since 1998, while the Nasdaq Composite had its strongest showing since 1999. Year to date, S&P 500 dividend growers have outperformed all other dividend categories but have underperformed non-dividend payers. Growth has outperformed value, with a majority of S&P 500 returns concentrated in the FANMAG stocks (Facebook, Amazon, Netflix, Microsoft, Apple & Google). As of June 30th, the FANMAG group returned 25.99% versus the S&P 500 Index at -4.04%, according to Ned Davis Research. Currently, two of the six companies pay a dividend and are held in the portfolio: Microsoft and Apple.

Dividend strategies have lagged partially due to their value bias, as investors have focused on lower-quality, growth and momentum stocks. Longer term, we believe dividend growth will continue to benefit from the low interest rate environment and economic recovery.

Portfolio Performance Statistics
Analysis Dates: 2019-12-31 2020-06-30

Portfolio	Holding Period Return*
Dividend Growers & Initiators	-14.2
All Dividend-Paying Stocks	-16.9
Dividend Payers with No Change in Dividends	-29.3
Dividend Cutters & Eliminators	-18.7
Non-Dividend Paying Stocks	-6.8
S&P 500 Geometric Equal-Weighted Total Return	-15.4
*Non-Annualized Return	

Source: Ned Davis Research

Since the start of the pandemic, an estimated 35% of S&P 500 Index companies have suspended 2020 earnings guidance. The suspensions are concentrated in vulnerable market segments such as Retail, Automotive, Leisure and Energy that have experienced the greatest negative impact from COVID-19. Stronger industries such as Technology, Healthcare and Staples continue to demonstrate earnings growth and free cash flow but are secondarily impacted by supply, consumer demand and inventory levels. According to FactSet, only 49 S&P 500 companies have issued second quarter guidance, which is well below the 5-year average of 106 companies. Guidance should return to more normal reporting levels in the next several quarters.

For the S&P 500 large-cap companies, dividends totaled $119 billion for the quarter, compared to a record $127 billion issued in the first quarter. The Q2 total was a slight increase from the $118.7 billion a year earlier. Contrary to the S&P 500 Index, the broader universe of all domestic common stocks experienced its biggest drop since 2009, with the Q2 net change in dividend payouts declining $42.5 billion from a year earlier, according to S&P Dow Jones Indices. So far, a higher percentage of negative

Source: Ned Davis, Ed Yardeni
Past performance is not indicative of future results.
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dividend announcements are classified as "suspensions" versus "eliminations." The High Dividend Equity portfolio negative dividend exposure was an estimated 11% of the portfolio, most of which were sold prior to any dividend announcement. Although the second quarter could be the market low for dividend cuts, if the pandemic persists into 2021, suspensions may turn into eliminations. Longer term data clearly demonstrates the underperformance of dividend cutters and eliminators versus the dividend growers.

In 2020, 115 S&P 500 companies announced dividend increases, although over half of the announcements occurred before the pandemic escalated in March. In the last twelve months, the largest market cap dividend growers have demonstrated consistent earnings power and free cash flow. Large cap dividend growers have been a safe haven, so far outperforming the highest dividend yielders in the last twelve months by 750 basis points. The highest yielders often possess higher debt levels and a lower earnings growth profile.

Last 1 Year(s) Statistics

Strategy	GPA (%)	Sharpe Ratio	Max Draw Down	Downside Deviation (%)	Standard Deviation (%)
Largest Growers	-2.04	-0.11	-26.95	20.39	28.66
S&P 500 Equal-Weighted Total Return Index	-3.24	-0.16	-26.70	20.41	27.26
Highest Yielders	-9.55	-0.28	-35.12	27.75	38.25

Source: Ned Davis Research

According to BlackRock, Inc., dividend reductions in Europe are higher, on a divided-weighted basis; nearly 40% of the STOXX Europe 600 Index has canceled or cut dividends by at least 10% this year versus 8% in the S&P 500 Index. European regulators strongly recommended that companies change their dividends, especially in the financial sector. The U.S. banking stress test reflected a more measured tone with its results in June. The Federal Reserve voted 4-to-1 to freeze bank buybacks until the end of September and common-stock dividends are capped at an average of the past four quarters' earnings. Banks will also be required to resubmit their capital plans later this year.

The High Dividend Equity portfolio's highest contributing sectors were Technology, Financials and Materials and its lowest contributors were Energy, Industrials and Healthcare. Best individual contributors were Apple, Home Depot, and Eastman Chemical Company while detractors included Chevron Corp, Interpublic Group of Companies, and UDR.

Ticker	Quarter Ending June 30, 2020	Average Weight (%)	Contribution to Return (%)
Top 5 Contributors			
HD	Home Depot, Inc.	2.18	0.71
AAPL	Apple Inc.	1.90	0.69
EMN	Eastman Chemical Company	1.42	0.60
MSFT	Microsoft Corporation	2.20	0.58
MDC	M.D.C. Holdings, Inc.	1.26	0.53
Top 5 Detractors			
CVX	Chevron Corporation	0.78	-0.11
IPG	Interpublic Group of Companies, Inc.	0.05	-0.11
UDR	UDR, Inc.	0.05	-0.07
LHX	L3Harris Technologies Inc	1.43	-0.07
FOXA	Fox Corporation Class A	0.65	-0.06

Source: Factset. For illustrative purposes only. Past performance does not guarantee future results. The holdings identified do not represent all of the securities purchased, sold or recommended for advisory clients. In the chart above, "weight" is the average percentage weight of the holding during the period, and "contribution" is the contribution to overall performance during the period. To obtain the calculation methodology and a list showing every holding's contribution to the overall composite during the period, contact: PortfolioAnalytics@ccmg.com

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The S&P 500 measures the performance of the 500 leading companies in leading industries of the U.S. economy, capturing 75% of U.S. equities.

Beta measures volatility, or systematic risk, of an individual stock in comparison to the unsystematic risk of the entire market. In statistical terms, beta represents the slope of the line through a regression of data points from an individual stock's returns against those of the market.

The price-earnings ratio, also known as P/E ratio or P/E, is the ratio of a company's share price to the company's earnings per share.

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