Portfolio Commentary

Navigator® High Dividend Equity

Portfolio Manager

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Top Contributors as of December 31, 2021

Company Name	Avg. Weight (%)	Contribution to Return (%)
UnitedHealth Group Incorporated	2.48	0.64
Prologis, Inc.	1.64	0.50
Broadcom Inc.	1.23	0.42

Top Detractors as of December 31, 2021

Company Name	Avg. Weight (%)	Contribution to Return (%)
Helmerich & Payne, Inc.	0.61	-0.32
Medtronic Plc	0.78	-0.19
Comcast Corporation Class A	1.68	-0.18

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.

2022 Headwinds May Benefit Dividend Stocks

Market Review

Despite the negative headlines dominated by Omicron, inflation, and rate hikes, the market closed 2021 on a stellar note. In a year of unprecedented stimulus and the global economy attempting to reopen, mega-cap growth stocks outperformed, with the Russell 1000 Growth Index rising 27.6% versus the Russell 1000 Value Index up 25.1%. In the fourth quarter, the mega-cap Russell 1000 Value Index lagged the Russell 1000 Growth 7.7% to 11.6%, although value managed to outperform growth in mid-cap and small-cap. The High Dividend Equity portfolio benefits from both styles by investing in dividend growers across broad market sectors.

Starting in 2020, performance factors favored value and lower quality stocks including dividend cutters, rather than quality dividend growers. In 2022, rising rates and a challenging earnings comparison may be negative for high duration assets like richly valued growth stocks. In 2021, the performance disparity of dividend cutters versus dividend growers narrowed as quality gained momentum. We witnessed some mean reversion in December, when defensive sectors rallied due to looming 2022 headwinds. While monetary tightening alone does not end a bull market, it can increase market volatility after a relatively low volatility year.

In the current maturing economic and corporate profit cycle, we expect 2022 earnings growth of 10-12%. Ten of eleven S&P 500 Index sectors are projected to report year-over-year earnings growth, led by the Industrials, Consumer Discretionary, and Energy sectors. The Financial sector is the only sector projected to report a year-over-year decline in earnings. In a late cycle scenario, the importance of dividend growers increases versus the pre-pandemic era to combat rising inflation by consistent dividend growth. As of December 2021, the High Dividend Equity dividend growth rate was 11.4% over 12 months versus the 2020 growth rate of 3.8%.

Dividend growers also drive performance with sustainable free cash flow and profitability as the credit cycle tightens and volatility increases. Since the beginning of the pandemic, the dividend status of the S&P 500 Index members has turned bullish for income investors, with 312 S&P 500 companies raising their dividend, 18 suspended, 59 maintained and only 24 eliminated the dividend. The Index also has a low dividend payout ratio of 30%, well below the 50% historic average which could be another catalyst to drive dividend growth over the next 3-5 years.

Fourth Quarter Performance Highlights

- The Russell 1000 Value returned 7.7% versus the High Dividend Equity portfolio 7.9%.
- Top contributing sectors were Technology, REITs and Industrials versus detractors Energy, Financials, and Healthcare.

Past performance is not indicative of future results.
This is not a recommendation to buy or sell a particular security. Please see attached disclosures.

- Top individual contributors were United Health Group, Inc., Prologis, Inc, Broadcom, Inc., and AbbVie, Inc. Underperformers included Helmerich & Payne, Inc., Medtronic, Plc., Comcast Corp CL A, and Garmin, Ltd.
- Positive factors contributing to performance included liquidity and momentum versus detractors of dividend yield and residual volatility. We expect dividend yield to be an improving performance factor in 2022.

Positioning and Outlook

Navigator® High Dividend Equity is positioned with approximately 96.8% in developed countries, 1.0% in emerging markets, and the remainder in cash. The U.S. is the largest country weight at 88.4%, followed by Britain at 5.0% and Switzerland at 2.4%. Large-cap stocks represent 87.6% of the portfolio, with 9.7% mid-cap, and 0.8% small-cap with the remainder in cash. Portfolio changes included the purchase of what we believe are undervalued companies with improving business momentum and dividend growth. This included companies such as HP, Inc., Scotts Miracle-Gro Company, Pfizer, Inc., and Helmerich & Payne, Inc.

Sales in the portfolio focused on companies demonstrating weaker business momentum including Synchrony Financial, Cigna Corp., and Medtronic, Plc. Financials remain the largest sector weight at 19.8% which is slightly below the benchmark at 20.8%. The next two largest portfolio weights are Healthcare and Information Technology at 16.1% and 12.1%, respectively.

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.

Russell 1000 Value Index refers to a composite of large and mid-cap companies located in the United States that also exhibit a value probability.

Russell 1000 Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

The volatility (beta) of a client’s portfolio may be greater or less than its respective benchmark. It is not possible to invest in these indices.

Index returns include the reinvestment of income and dividends. The returns for these unmanaged indexes do not include any transaction costs, management fees or other costs. It is not possible to make an investment directly in any index.