Portfolio Commentary

Navigator® High Dividend Equity

Portfolio Manager

Maira Thompson
Co-Head of Equity

Top Contributors as of June 30, 2022

Company Name	Avg. Weight (%)	Contribution to Return (%)
Eli Lilly and Company	1.48	0.20
Merck & Co., Inc.	1.92	0.20
AT&T Inc.	1.06	0.16

Top Detractors as of June 30, 2022

Company Name	Avg. Weight (%)	Contribution to Return (%)
American Express Company	2.08	-0.57
Prologis Incorporated	1.38	-0.50
Bank of America Corp	1.75	-0.46

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.

Signs of Peak Inflation

Market Review

The U.S. equity markets continued to decline in the second quarter, with the S&P 500 Index down -16.11%, compounding the losses from the first quarter. June consumer confidence dropped to its lowest level in more than a year, down from a revised May reading of 103.2 to 98.7 and below estimates of 100.0.*

The negative consumer outlook reflects increased inflation fears, particularly of rising gas and food prices. Although we expect weaker economic growth, there are already signs of peak inflation and interest rates leveling off; this could support the market in the second half of the year.

As the market adjusts to peak earnings, companies with strong cash flow and sustainable profitability are typically rewarded. The portfolio invests in undervalued, dividend growth stocks demonstrating positive earnings momentum. The first half of the year, value sectors such as Energy and Basic Materials dramatically outperformed growth. In June, momentum shifted from cyclicals, which historically tend to underperform as earnings slow and rates rise.

Higher quality defensive sectors like Staples, telecom, and Healthcare were strong in response to the Fed policy shift from record easing to record tightening. Despite growing concerns of a mild recession, a post-peak inflation scenario later this year supports the transition from cyclicals & defensives into growth stocks.

Second Quarter Performavce Highlights

- The High Dividend Equity portfolio returned -11.18% (gross of fees) vs. the Russell 1000 Value Index's -12.2% return.
- Top contributing sectors for the quarter were Healthcare, Communications Services, and Industrials. Detractors included Real Estate, Financials, and Utilities.
- Largest individual contributors to monthly performance were Eli Lilly & Co., Merck & Co. Inc., AT&T, Inc. Detractors were American Express Co., Prologis, Inc., and Bank of America Corp.

We continue to overweight Healthcare due to strong relative performance in managed care, large-cap biotech, and pharmaceutical subsectors, as we expect to see strong earnings power as economic growth decelerates while life sciences and med tech lag. The biggest contributor to outperformance in Healthcare was Eli Lilly versus the largest detractor, Stryker.

In Financials, defensive subsectors such as property & casualty insurance outperformed cyclical subsectors like consumer finance. We believe rising credit risks in a slowing economic environment outweigh the tailwind of higher rates.

*Source: Bloomberg and FactSet

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

Positioning and Outlook

Navigator® High Dividend Equity has approximately 97.7% in developed countries with the remainder in cash. The U.S. is the largest country weight at 87.8%, followed by Britain at 4.8% and Switzerland at 3.0%. Large-Cap represents 87.6% of the portfolio, 8.3% mid-cap, and the remainder is in cash. Of the eleven market sectors, Healthcare represents the largest sector weight at 19.7%, Financials 18.1%, and Technology represents 10.0%.

Portfolio changes included selling Walmart Co. after lower earnings, citing higher costs and inventory issues. We purchased Tractor Supply, Co., which we believe will provide durable earnings throughout the market cycle. The company sells farm, pet, and tradesman products. Starbucks was also sold following disappointing earnings in the face of rising costs and organized labor disputes; it was replaced with Coca Cola Co., a worldwide beverage company with organic growth and the ability to pass price costs along to the consumer.

Energy stocks continue to weigh the demand destruction risk posed by rate hikes versus the ongoing undersupply in oil and gas driven by years of underinvestment, further exacerbated by the Russian invasion of Ukraine. With oil still above $100, free cash flows yields remain high with variable dividends bringing total yields to north of 10%. While we still see value in the sector, the growing risk of an economic slowdown and weaker commodity prices prompted us reduce our overweight position. We sold Chesapeake Energy Corp., Helmerich & Payne, Inc., Oneok, Inc., and Eastman Chemical Co., to reduce overall commodity exposure.

In anticipation of peak inflation, we increased quality Technology names such as Microsoft Corp. and Fidelity National Information Services, Inc. replacing Hewlett Packard Enterprises which continues to struggle with weaker networking and hardware comps.