Portfolio Commentary

Navigator® High Dividend Equity

Portfolio Manager

Maira Thompson
Co-Head of Equity

Top Contributors as of December 31, 2022

Company Name	Avg. Weight (%)	Contribution to Return (%)
Exxon Mobil Corporation	2.51	0.69
JPMorgan Chase & Co.	2.50	0.63
Chevron Corporation	1.93	0.54

Top Detractors as of December 31, 2022

Company Name	Avg. Weight (%)	Contribution to Return (%)
UDR, Inc.	0.59	-0.14
Carrier Global Corp.	0.77	-0.10
Walt Disney Company	1.46	-0.10

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.

A Banner Year for Dividend Stocks

Market Review

The end of 2022 brought little change to the hawkish Federal Reserve narrative, but after three negative quarters, the S&P 500 Index rallied 7.5% in the fourth quarter. It was a year of record tightening, high inflation, and low housing affordability, which contributed to a decline in every market cap and style box except for the Energy sector, which outperformed for a second year up 59.1% according to S&P 500 Index sector returns.

The era of record low interest rates ended, causing growth indices to experience their worst year since the Technology bubble burst in 2000 with the Russell 1000 Growth down -29.1% versus the Russell 1000 Value -7.5%. In the last three recessions, dividend growers with strong free cash flow posted favorable returns as the economy slowed.

Post-Covid, the number of S&P companies announcing a dividend increase rose from an estimated 264 to 339 by year end. Despite widespread negative returns, dividends, quality, and EBITDA to enterprise value were the top performing factors for the quarter and year versus the negative factors like short-term beta, long-term volatility and price-to-earnings NTM. By yield decile, dividend growers outperformed the highest yielders as well as non-dividend payers.

In 2023, growth stocks may narrow the performance gap relative to value, but we believe that traditional quality metrics that are characteristic of dividend stocks will continue to prevail such as valuation, free cash flow, earnings growth, and revenue guidance. The current "late stage" economic cycle prompts us to barbell portfolio exposure in a blend of cyclical and growth companies.

Fourth Quarter Portfolio Highlights

For the quarter, the top relative sector performers were Communications, Healthcare, and Financials. Bottom sectors were Information Technology, Basic Materials, Energy and Consumer Staples. The top three individual contributors to portfolio return were ExxonMobil Corporation, J.P. Morgan Chase & Company, and Chevron Company versus detractors UDR, Incorporated, Carrier Global Corporation and Walt Disney Company.

Positioning and Outlook

Sector allocation has returned as a crucial factor for total return. In 2022, growth-oriented global markets with high exposure to Technology and Communications underperformed those with less growth. Record high inflation favored companies in sectors like Consumer Staples who had the pricing power to drive revenue and earnings per share growth, but in 2023, we believe that weakening economic activity will ease inflation, creating downward pressure on nominal activity, and in turn revenue and profits.

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

Earnings estimates remain high given the combination of margin pressure and slowing consumer demand. Global rate tightening will impact earnings estimates, but earnings usually trough one or two quarters after the end of a recession. By mid-year, we believe the market will begin to "look through" a potential earnings recession due to a resilient consumer, lower inflation, and weakening commodity prices.

The Navigator® High Dividend Equity portfolio is positioned with approximately 98.7% in developed countries with the remainder in cash. The United States is the largest country weight at 89.9%, followed by Britain at 4.7% and Switzerland at 2.1%. 92.1% of the portfolio is positioned in large-cap holdings, 5.7% in mid-cap, 0.9% in small-cap, and the remainder is in cash. Financials are the largest sector weight at 18.7% and below the benchmark at 20.1%. The next two largest portfolio weights are Healthcare and Information Technology at 18.4% and 11.0%, respectively.

Portfolio changes included a year-end tax loss in companies demonstrating weak business momentum like Zion Bancorporation, Intel Corporation, Intercontinental Exchange, Inc., Ford Motor, Company, Fox Corporation, Class A, Verizon and UDR, Incorporated. New positions established were in companies with improving post-Covid business momentum such as Starbucks, Activision Blizzard, Inc., American Tower, Analog Devices, Inc and Walmart, Incorporated. We remain focused on those companies we believe have the ability to beat on the top-and bottom-line with improving business momentum.

Sources: NDR, Morgan Stanley, Bloomberg, FactSet