Disciplined Alpha Dividend Strategy

Portfolio and Economic Commentary – 4th Quarter 2019

ALTRIUS
CAPITAL MANAGEMENT
INVEST LIKE AN AARDVARK

Disciplined Alpha Dividend Strategy Commentary

As value investors, we constantly focus on our duty to protect the principal of our investments even as we look for ways to grow them over time as well. As economists, we remain alert to trends taking place in the larger global economy. As analysts, we seek to invest in securities priced with a margin of safety in order to account for their near term volatility and our uncertainty about what the future holds. With this in mind, we look for opportunities in three specific categories: classic value, persistent earners, and distressed or contrarian.

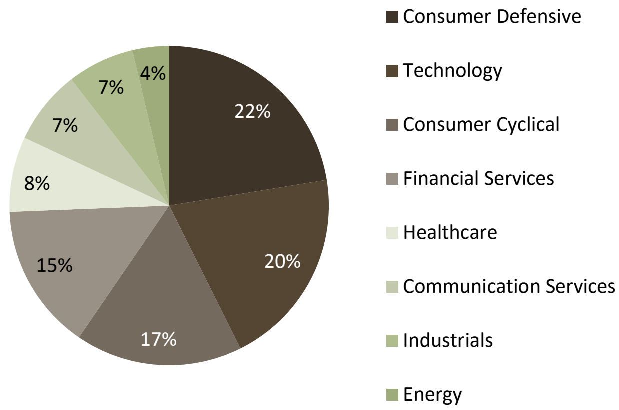
Classic value stocks sell at attractive valuations and provide above-average dividend yields and growth. Persistent earners are companies which have steady and predictable earnings and that are selling below their historic valuation. The distressed/contrarian category refers to stocks that are out of favor due to what we perceive to be temporary factors and are likely to appreciate substantially as the temporarily distressing factor recedes. Typically the distressed category is the smallest in the portfolio.

Performance Commentary

The Disciplined Alpha Dividend strategy returned 25.24% for 2019 outpacing the Morningstar US Value index which returned 25.09%. The strategy has produced alpha and sound risk adjusted returns besting the Morningstar US Value index and its large value peer group for the past 1-year, 3-year, 5-year, 10-year, 15-year, and since inception periods. The trailing annualized ten year returns were 12.31% for the strategy and 11.77% for the Morningstar US Value index. Since inception on January 1, 2003, the strategy has returned 9.48% versus 9.37% for the Morningstar US Value index.

We have added alpha and garnered sound absolute and relative returns for our investors focusing on undervalued issues offering above average dividend yields and global growth potential. The greatest contributions to performance during 2019 came from the technology, consumer cyclical, financial services, consumer defensive and communication services sectors while the industrials, health care and energy sectors contributed the least to total return – though still providing positive returns. The top performers for the year were Apple (89.2%), Qualcomm (60.4%), JP Morgan (46.9%), AT&T (45.7%), Procter & Gamble (39.6%) and Starbucks (39.4%). The bottom performers for the year were B&G Foods (-32.2%), Pitney Bowes (-26.4%), Pfizer (-6.98%), Altria Group (7.95%) and Cisco Systems (13.7%).

Sector Allocation (Morningstar)



Top Ten Holdings	Weight
Apple	4.83%
Qualcomm	4.28%
Procter & Gamble	4.00%
Merck & Co.	3.99%
JPMorgan Chase & Co.	3.97%
Intel Corp	3.84%
Kimberly-Clark	3.75%
Norfolk Southern Corp	3.69%
AT&T	3.66%
PepsiCo	3.62%

Disciplined Alpha Dividend Strategy Commentary

As one may recognize from the below chart, our firm has consistently provided a steady stream of income to our clients in the form of dividends. It is our assertion that this income stream has not only reduced the risk of our portfolio, but also provided a large part of the total return thereby leading to our performance success over this past tumultuous decade plus.

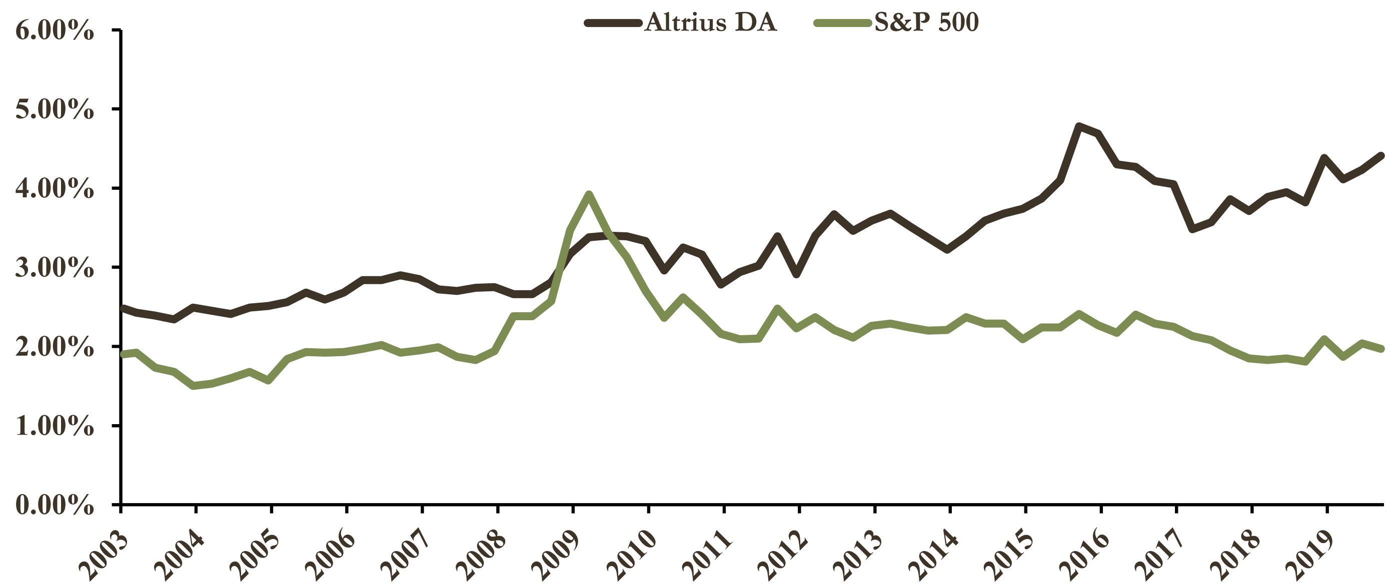
We believe that dividends allow our investors to "get paid to wait" while patiently working through volatile business and market cycles. This strategy provides emotional support during difficult cycles and enables investors to weather turbulent periods by utilizing dividend income for personal needs or to reinvest cash at lower valuations. Our strategy is not only grounded in psychological and behavioral finance concepts, but is also supported by empirical evidence outperforming in both negative and full market cycles.

Dividends also act to align the interests of corporations and shareholders in helping to eliminate the agency effect. Corporate boards have recognized the value of dividends in stabilizing their stock prices and encouraging investment during both high and lower tax regimes. In supporting and increasing dividends over time, managers are compelled to maintain a reliable stream of cash flows to shareholders rather than waste capital on those expenses adding little to corporate revenue including executive perks, pet projects, and ill-timed, unwise acquisitions. It appears a paradox; however, our experience and academic studies have displayed that sufficient investment for a good business can still occur in conjunction with dividends as managers are forced to invest cash flow more prudently and only in those capital investments in which they have the highest conviction in adding to corporate revenue, particularly since stock buybacks are often ill-timed.

Altrius: A Story of Consistent Dividends Over the Years

The strategy has consistently delivered an above average dividend yield versus the S&P 500 since its inception.

Altrius Disciplined Alpha Dividend Income vs. S&P 500 Dividend Yield



Source: Morningstar

DISCLOSURES

This report includes candid statements and observations regarding investment strategies, individual securities, and economic and market conditions; however, there is no guarantee that these statements, opinions or forecasts will prove to be correct. These comments may also include the expression of opinions that are speculative in nature and should not be relied on as statements of fact. Altrius is committed to communicating with our investment partners as candidly as possible because we believe our investors benefit from understanding our investment philosophy and approach. Our views and opinions include “forward-looking statements” which may or may not be accurate over the long term. Forward-looking statements can be identified by words like “believe,” “expect,” “anticipate,” or similar expressions. You should not place undue reliance on forward-looking statements, which are current as of the date of this report. We disclaim any obligation to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise. While we believe we have a reasonable basis for our appraisals and we have confidence in our opinions, actual results may differ materially from those we anticipate.

Past performance does not guarantee future results. The information provided in this material should not be considered an offer nor a recommendation to buy, sell or hold any particular security.

Performance Reporting

Altrius Capital Management, Inc. (Altrius) claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Altrius has been independently verified for the periods January 31, 2001 – December 31, 2018 by ACA Performance Service, LLC. The verification reports are available upon request. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm’s policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.

The Firm is defined as Altrius Capital Management, Inc. (Altrius), a registered investment advisor with the Securities and Exchange Commission. Altrius was founded in 1997 and manages equity, fixed income and balanced portfolios for high net worth individuals and families.

Composite Characteristics

The Disciplined Alpha Dividend Strategy is a subaccount from the Altrius Global Income Composite. As of 06/30/16, the name of the Disciplined Alpha Dividend Strategy was changed from the U.S. Large Cap Dividend Income Strategy. The composite and subaccount were created in December 2010 with a performance inception date of December 31, 2002. The subaccount strategy seeks long term capital appreciation and income by investing at least 80% of its assets in a diversified portfolio of income-producing equity securities paying higher than average dividends. 30 – 50 U.S. positions are chosen from a universe of stocks with market capitalizations generally greater than $10 billion.

Accounts are included on the last day of the month in which the account meets the composite definition. Accounts no longer under management are withdrawn from the composite on the first day of the month in which they are no longer under management. Closed account data is included in the composite as mandated by the standards in order to eliminate a survivorship bias.

DISCLOSURES

Benchmark

The benchmark is the Morningstar US Value TR USD. It was changed from the Russell 3000 Value Index as of 11/01/2019 and changed retroactively for all periods. The change was made due to licensing fees being charged by the firms who own the indices. Effective 10/01/2017, the benchmark was changed from the Russell 1000 Value Index to the Russell 3000 Value index. The benchmark was changed to reflect the fact that this is an all-cap strategy that can hold small- and mid-cap companies as well as large-cap. The volatility of the indices may be materially different from that of the performance composite. In addition, the composite's holdings may differ significantly from the securities that comprise the indices. The indices have not been selected to represent appropriate benchmarks to compare the composite's performance, but rather are disclosed to allow for comparison of the composite's performance to those of well-known and widely recognized indices.

Economic factors, market conditions, and investment strategies will affect the performance of any portfolio, and there are no assurances that it will match or outperform any particular benchmark.

Performance Calculations

Valuations and returns are computed and stated in U.S. dollars. Results reflect the reinvestment of dividends and other earnings.

Gross of fees return is net of transaction costs and gross of management and custodian fees. Net of fees returns are calculated using actual management fees that were paid and are presented before custodial fees and but after management fees and all trading expenses. Returns can be net or gross of withholding taxes, depending on how taxes are recorded at the custodian. Some accounts pay fees outside of their accounts; thus, we enter a non-cash transaction in the performance system such that we can calculate a net of fees return. Prior to 01/01/10, cash was allocated to carve-out segments on a pro-rata basis based on beginning of period market values. Beginning 01/01/10, carve-out segments are managed separately with their own cash balance. Carve-out accounts represent 100% of composite assets for periods prior to 01/01/10.

The standard management fee for the Altrius Disciplined Alpha Dividend Strategy is 1.40% per annum on the first $500,000 USD, 1.00% per annum on the next $500,000 and 0.80% per annum thereafter. Additional information regarding Altrius Capital Management fees are included in its Part II Form ADV.

Internal dispersion is calculated using the asset-weighted standard deviation of all accounts included in the composite for the entire year; it is not presented for periods less than one year or when there were five or fewer portfolios in the composite for the entire year. The three-year annualized standard deviation measures the variability of the composite and the benchmark (Morningstar US Value TR USD) returns over the preceding 36-month period.

There are no non-fee paying accounts in our composites. When a security is purchased or sold, the principal amounts tied to the transaction are net of trading costs; therefore the calculation and market values represent amounts net of trading costs. Dispersion is calculated using asset-weighted standard deviation, gross of fees. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request. A complete list and description of firm composites is available upon request.