

# Disciplined Alpha Dividend Strategy

Portfolio and Economic Commentary – 2<sup>nd</sup> Quarter 2021





**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.

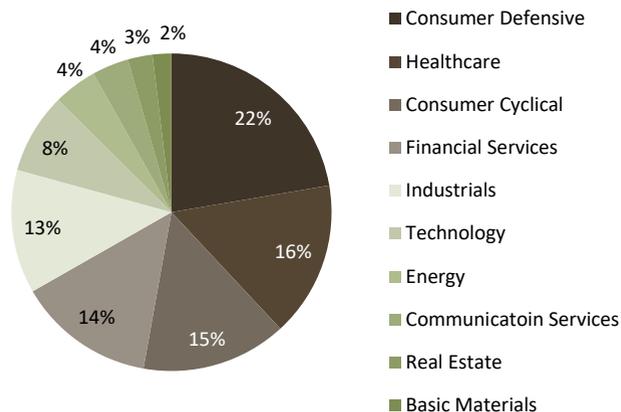
Classic value stocks sell at attractive valuations and provide above-average dividend yields and growth. Persistent earners are companies which have steady and predictable earnings and that are selling below their historic valuation. The distressed/contrarian category refers to stocks that are out of 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 rose 3.90% during the second quarter of 2021 versus a 4.03% gain for the Morningstar US Value index. The strategy has produced alpha and sound risk adjusted returns besting the Morningstar US Value index and its value peer group for the past 3-year, 5-year, 10-year, 15-year, and since inception periods. The trailing annualized ten year returns were 12.74% for the strategy and 10.92% for the Morningstar US Value index. Since inception on January 1, 2003, the strategy has returned 10.18% versus 9.43% for the Morningstar US Value index.

We have added alpha and garnered sound absolute and relative returns for our clients and investors focusing on undervalued issues offering above average dividend yields and global growth potential. The sectors which contributed the most during the quarter were the financial services, consumer defensive, consumer cyclical, healthcare, industrials, basic materials and energy sectors while the communication services and technology sectors were the only sectors which detracted from performance (albeit slightly). The top performers for the quarter were American Express (17.1%), Welltower (17.0%), Exxon Mobil (14.6%), Leggett & Platt (14.5%) and International Paper (14.4%). The bottom performers for the quarter were Intel (-11.8%), Caterpillar (-5.7%), Cardinal Health (-5.3%), Altria (-5.0%) and Hanesbrands (-4.4%).

**Sector Allocation (Morningstar)**



**Top Ten Holdings**

**Weight**

Exxon Mobil	2.52%
Welltower	2.43%
Bank of America	2.36%
American Express	2.36%
American International Group	2.33%
International Paper	2.26%
Franklin Resources	2.24%
Hanesbrands	2.24%
Norfolk Southern	2.23%
JP Morgan Chase	2.21%



**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.

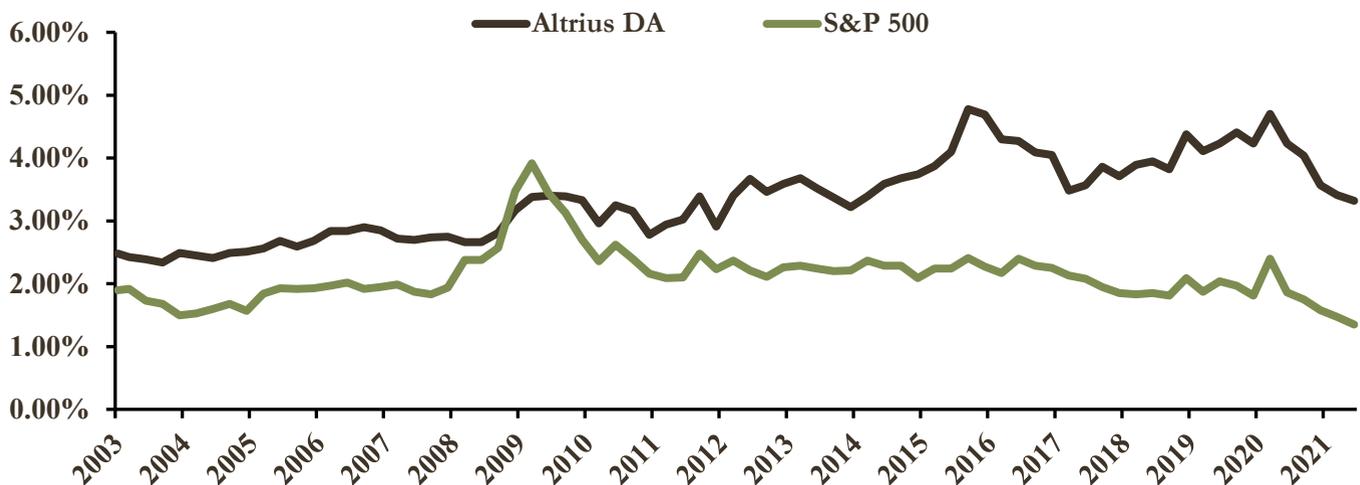
We believe that dividends allow our investors to “get paid to wait” while patiently working through volatile business and market cycles. This strategy provides emotional support during difficult cycles and enables investors to weather turbulent periods by utilizing dividend income for personal needs 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, 2020 by ACA Performance Service, LLC. The verification reports are available upon request. A firm that claims compliance with the GIPS® standards must establish policies and procedures for complying with all the applicable requirements of the GIPS® standards. Verification provides assurance on whether the firm’s policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS® standards and have been implemented on a firm-wide basis. Verification does not ensure the accuracy of any specific composite presentation. GIPS® is a registered trademark of the CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

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. 25 – 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.

**Altrius Disciplined Alpha Dividend Income Composite Performance**

*December 31, 2008– December 31, 2019*

Year	Gross Return %	Net Return %	Benchmark Return %	Composite 3-Yr St Dev %	Benchmark 3Yr St Dev %	# of Portfolios	Composite Dispersion %	Total Composite Assets	Percent of Firm Assets
2010	14.25	12.95	16.65	20.91	22.74	103	0.35	40,704,238	34.08
2011	2.96	1.78	0.92	19.10	20.53	101	0.46	32,401,233	26.04
2012	10.97	9.69	14.19	14.80	14.80	105	0.39	39,979,598	29.62
2013	38.86	37.33	32.04	12.62	12.84	117	0.77	59,675,808	34.35
2014	11.06	9.82	9.75	10.07	9.40	128	0.46	56,308,054	29.75
2015	(3.52)	(4.58)	(2.16)	11.83	10.62	114	0.47	34,362,139	18.70
2016	17.06	15.72	20.79	12.34	10.25	133	0.90	46,328,213	17.35
2017	16.20	14.93	14.23	12.02	11.08	142	0.32	42,694,959	12.53
2018	(3.46)	(4.53)	(7.51)	11.49	11.21	148	0.50	41,141,380	12.39
2019	25.24	23.89	25.09	12.77	12.20	146	0.75	52,854,027	15.53
2020	8.62	7.51	(1.31)	18.68	20.31	127	0.65	99,320,487	27.49



## DISCLOSURES

### 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 01/01/2010, cash was allocated to carve-out segments on a pro-rata basis based on beginning of period market values. Beginning 01/01/2010, carve-out segments are managed separately with their own cash balance. Carve-out accounts represent 100% of composite assets for periods prior to 01/01/2010.

The standard management fee for the Altrius Disciplined Alpha Dividend Income 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 gross of fee performance numbers 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.

Policies for valuing investments, calculating performance, and preparing compliant presentations are available upon request. A complete list and description of firm composites is available upon request.

\*Top Holding Statistics are presented as supplemental information to the GIPS compliant presentation.

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