

GLOBAL EQUITY INCOME COMMENTARY 2Q 2020



Global Equity Income is a separately managed account investment strategy



written by
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Performance

The global equity markets for the second quarter posted substantial positive overall returns. The Global Equity Income strategy benchmark of the S&P Global 1200 ended the quarter with a return of +18.62%. For global dividend index comparison purposes, the MSCI World High Dividend Yield Index returned +11.05%.

Factors Affecting Performance

The Global Equity Income strategy underperformed the S&P Global 1200 but outperformed the MSCI World High Dividend Yield Index for the second quarter. The portfolio's global allocation at the end of the period was 63% US and 37% International, reflecting a slight shift towards the US market from the previous quarter.

Positive relative performance for the quarter was led by Quest Diagnostics Inc. (+42.93%), a leading provider of diagnostic testing, information, and services to the healthcare sector. The opportunity in COVID-19 testing for this company is significant. Demand from companies whose employees are in constant contact with customers will climb dramatically as many are considering weekly testing. The company also foresees demand driven by states where nursing homes and long-term care facilities are adhering to testing targets. The downside is a disruption to the company's core testing (non-COVID) volumes that have been disrupted due to the pandemic; however, this demand has likely just been deferred to a later date. Shares of Analog Devices, Inc. +37.56% climbed on strong first-quarter results and second-quarter guidance that was higher than investor expectations. A lean supply chain which anticipated the COVID weakness led to these higher results. The healthcare segment posted record results, while the 5G communications segment also saw solid demand for the quarter. The second quarter is already in a 100% order backlog suggesting the potential for more additional upside. Shares of the business consultancy and outsourcing company Accenture plc +32.14% soared on reported earnings and revenue that exceeded analyst expectations. The company also revised guidance, raising the lower end of its fiscal 2020 profit projections. Accenture announced their quarterly cash dividend of 80 cents per share, up 10% from the year-ago quarter.

Negative contributors to relative performance included Algonquin Power and Utilities Corp. -2.27%. This Canadian based utility reported first-quarter earnings and revenue that were below analyst estimates. The underperformance was due to a combination of the impact of the pandemic and unfavorable weather conditions during the quarter. Despite the underwhelming report for the quarter, the company continues to be a sector leader versus its peers in rate base growth as well as earnings and dividend growth.

Shares of Spain based Grifols SA (-9.43%), a leading supplier of plasma derivatives, dropped as COVID-19 disrupted its operations by increasing plasma costs resulting from reduced donations, lower collection capacity, and higher staffing costs. These cost increases have pressured the company to respond by lowering expenses primarily in reduced marketing, bonuses, and travel-related areas. Demand for these products, however, remains strong, and the increased costs due to the pandemic should only be temporary. Overall the strategy has performed well for the period and will continue to seek high-quality dividend-paying companies that provide superior results over the long-term.

Global Equity Income Top 10 Model Holdings ¹

Taiwan Semiconductor Mfg Co.
 Accenture PLC
 McDonald's Corp.
 Intel Corp.
 Raytheon Technologies Corp.
 Texas Instruments, Inc.
 Pepsico, Inc.
 Quest Diagnostics, Inc.
 Cisco Systems, Inc.
 Analog Devices, Inc.

% of Total Portfolio: 25%

¹ Model Portfolios are based on a hypothetical account managed during the current quarter. Actual characteristics and income may differ materially from model. As of 6/30/2020.

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