

GLOBAL EQUITY INCOME COMMENTARY 3Q 2020



Global Equity Income is a separately managed account investment strategy



written by
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The global equity markets posted additional positive overall returns in the third quarter. The Global Equity Income benchmarks of the S&P Global 1200 and the S&P 500 Indices ended the quarter with returns of 7.61% and 8.93%, respectively. For global dividend index comparison purposes, the MSCI World High Dividend Yield Index returned 3.14%. As such, we are pleased to confirm that the Global Equity Income model account outperformed the S&P Global 1200 and significantly outperformed the MSCI World High Dividend Yield Index for the third quarter.

Allocation and Holdings Detail

At the close of the quarter, the portfolio's global allocation was 64% U.S. and 36% international. Positive relative performance for the quarter was led by Taiwan Semiconductor Manufacturing Co., Ltd. (up 43%). Shares climbed after the company announced upbeat second quarter results. It also raised full-year revenue guidance to expect more than 20% growth over the previous year. The company's technology leadership has secured accelerating penetration in the 5G smartphone market. It has also received robust order flows from Apple for the company's cutting edge 5 nanometer (nm) process. Shares of Infosys Ltd. (up 43%) surged on solid quarterly results backed by growth in several areas of its consulting and software services business segments. During the quarter the company won 15 large deals worth \$1.7 billion that were in the financial services, manufacturing, retail, utilities, resources, services and technology segments. Despite the pandemic-related economic slowdown, the company also reported record free cash flows supported by robust collections. United Parcel Service, Inc. (up 51%) shares jumped as the company reported results that massively beat all analyst estimates. The company noted that the better-than-expected results were driven by a surge in residential volumes, COVID-19 related healthcare shipments and strong outbound shipments from Asia. While the company is still withholding revenue and EPS guidance given the current uncertainty, the new CEO laid out the future strategic direction for UPS, which met broad analyst approval.

Underperformers for the Quarter

Negative contributors to relative performance included Intel Corp. (down 13%). Shares dropped after the company reported earnings that beat expectations but noted a production delay in the 7 nm CPUs by 6 months due to a defect in the process. Normally such a delay would not have much impact but in this case, it raises the question whether the company is losing its technological leadership position. This could lead the company to consider outsourcing some of its manufacturing, which would be a change in its business model. Shares of Cisco Systems, Inc. (down 15%) dropped after reporting poor top-line guidance. This was not surprising given the current pandemic-related recessionary environment. However, reported sales and earnings for the previous quarter were solid and beat analyst expectations. The sales mix from software was positively impacted - 78% was subscription services which represents recurring revenue. The company is also planning to continue reducing its cost structure, targeting \$1 billion in additional annual savings.

Looking Ahead to the Fourth Quarter

Moving into the fourth quarter, uncertainty surrounding the coming U.S. election and the eventual resolution to the pandemic will continue to weigh on markets. The dividend objective of our strategy precluded it from participating in some of the outperformance recently recorded by a number of technology-related companies. This should provide additional opportunities for our strategy going forward, as many sectors are still positioned for future growth.

Global Equity Income Top 10 Model Holdings ¹

McDonald's Corp.
 Taiwan Semiconductor Mfg Co.
 Texas Instruments, Inc.
 Infosys Technologies Ltd
 PepsiCo, Inc.
 Comcast Corp.
 Quest Diagnostics, Inc.
 Cummins Engine, Inc.
 Unilever NV
 United Parcel Service, Inc.

% of Total Portfolio: 24%

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 9/30/2020.

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