Strategic Dividend Growth (SDG) Enhancement

June 21, 2019

Firm Overview

SWS Partners is a registered investment advisor that focuses on using technology to deliver contemporary asset management and financial planning solutions to high net worth individuals, family offices, endowments, foundations, and other institutions. We believe that by emphasizing the application of modern technologies, we can create broad efficiencies and deliver better outcomes to clients.

Strategy Info

Benchmark	Russell 1000 Value Index
PM	Michael Parker, CFA

Strategy Objective

SDG seeks to deliver income by investing in equity issuers that pay attractive dividends, while participating in capital appreciation via a lower portfolio beta than the overall market.

Portfolio Manager

Michael Parker, CFA, is the CIO of SWS and portfolio manager for the DGO Strategy. Before joining SWS in 2017, Mike was a portfolio manager of $4 billion of long-only equity portfolios at the Ohio Public Employees Retirement System (OPERS). He leverages over sixteen years of experience on both the buy-side and sell-side to bring an institutional research and portfolio management framework to SWS Partners.

Prior to OPERS, Mike was responsible for investment bank equity research at FBR Capital Markets. He received his bachelor of science in economics, finance concentration, from the Wharton School at the University of Pennsylvania and is a CFA® charterholder.

We continue our quest to find opportunities to unleash institutional approaches to the benefit of our private wealth clients. Today that translates into an enhancement to our Strategic Dividend Growth (SDG) strategy. The premise of this enhancement is to take best practices deployed by multi-billion dollar institutions and avail them to individual investors, while simultaneously avoiding compromises that would prohibit success by the future institutional or private wealth client. The first stage of this strategic roadmap deployment was the launch of our equity growth strategy, Dynamic Growth Opportunities (DGO), which began trading May 1, 2018, and recently celebrated its first full year as a stand-alone mandate.

Stage two of our build-out included a revamp to our ETF-based asset allocation strategies—our SWS Direct automated platform, and our Multi-Asset Income (MAI) portfolios—in order to maximize the benefits surrounding asset allocation and cash management.

For the third stage, we turn to SDG and focus our attention on the following areas for enhancement:

- **Benchmark consideration:** SDG places income generation front-and-center as its main objective. Therefore, benchmark appropriateness would encourage seeking a bogey with a constituent composition containing a similar premise. That said, the presence of a dividend is not the sole consideration behind the analysis. Careful scrutiny of the types of issuers and the inherent sector exposures within the benchmark's portfolio are essential to understanding sources of active risk. This is where we found our first opportunity for fit improvement, as an addressable universe of higher dividend paying constituents mimics the value style more so than blend or growth styles. To achieve an acceptable dividend yield, i.e. something in excess of 3%, one will find larger quantities of investment opportunities among financial services, energy, and utility companies than, say, those in technology and consumer discretionary sectors.

  To put this in context, we analyzed the sector composition of equity issuers with >2% dividend yields among the largest 1,000 US-listed companies via the Russell 1000 Index. Chart 1 below reveals how the relative weighting of the higher dividend payers maps more closely to the Russell 1000 Value Index than it does either the Russell 1000 or the S&P 500, i.e. the green bars are more similar in size than the blue bars.

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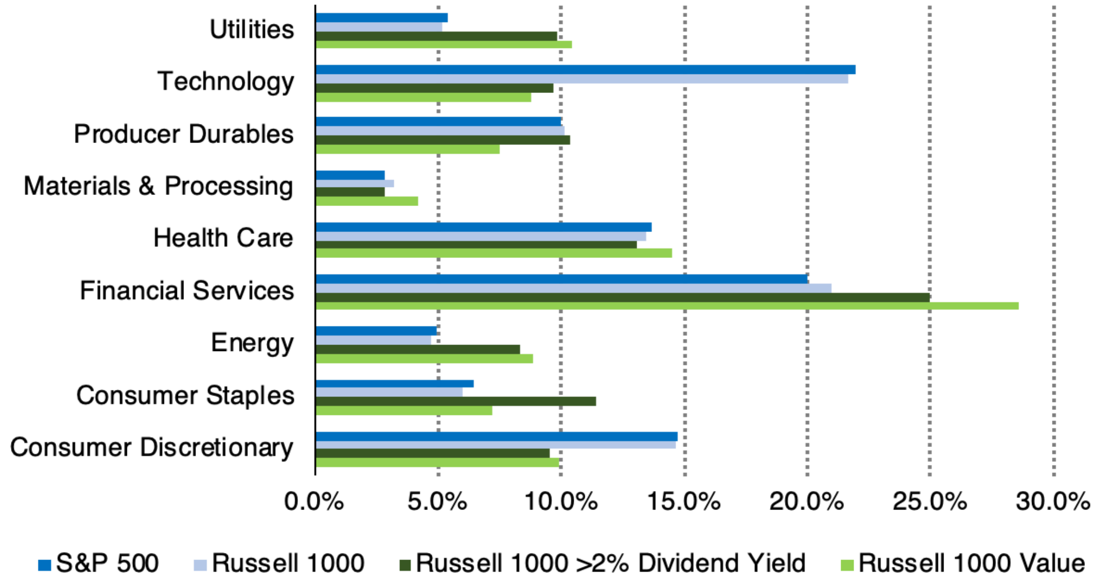
This suggests a more apples-to-apples analysis for choosing equities with attractive dividend yields would be to select the Russell 1000 Value Index as a benchmark, rather than the Russell 1000 or the S&P 500. This is precisely what we've done by selecting the Russell 1000 Value as SDG's stated index moving forward.

Chart 1: Sector Allocation Differences



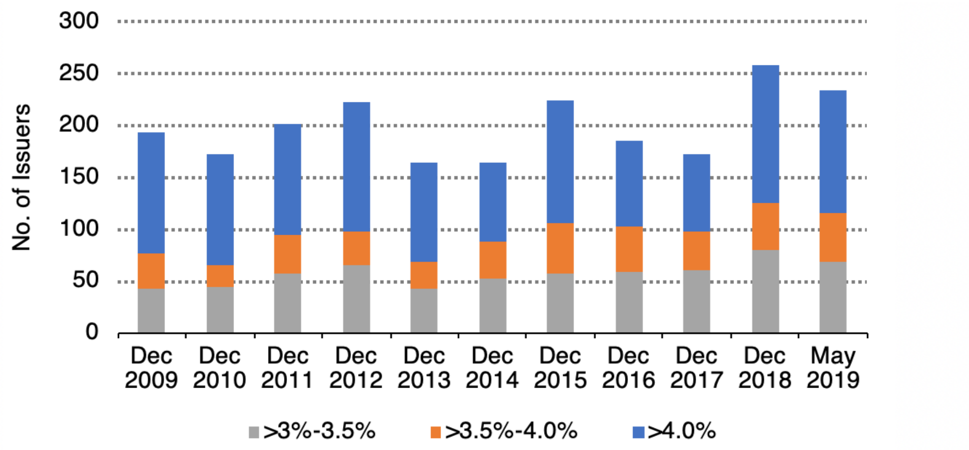
Data as of 5/31/2019, sectors as defined by FTSE Russell. Source: FactSet.

- **Position weighting:** We have also introduced position size variability, which will allow for increased precision of risk and conviction expression. This in an essential capability to parsing through sub-sector selection, e.g. how to allocate among banks/thrifts, investment services, payment services, and insurers within the overall financial services sector. Just as an artist crafting a mural would select brushes of various sizes to cover a canvas, we too need to be able to express risk via varied portfolio position sizes to achieve the desired allocation. This can be seen via position sizes ranging down to 2.0% up to 5.0% in our new SDG allocations, and we will continue to rebalance quarterly while revisiting our sector tilt relative to our benchmark on an ongoing basis. Additionally, we target a leaner 1.0% cash balance to put more capital to work towards income-producing opportunities. Cash is a component to both asset allocation and liquidity, and its allocation can be scaled up in times requiring more defensive posturing. We view the current environment as meriting more capital being put to work within equities vs. cash.
- **Yield flexibility:** Rather than peg a fixed dividend yield, it's important to take a dynamic approach on how the economic and interest rate backdrop impacts the ability to extract income via dividends from equity issuers. There may be environments where boards of companies see it more prudent to shore up their balance sheets rather than utilize excess cash to pay common equity holders, causing dry spots of yield to form among the available equity universe. This precisely describes the backdrop that much of the financial services sector faced following the financial crisis, which manifested in a much smaller pool of financial services companies paying meaningful dividends. In fact, the number of financial services names paying a 3% or higher dividend yield in 2013 stood at 67, whereas that pool stood at 119 deep by the end of 2018. Today, the overall universe of >3%

dividend payers sits at 235 issuers (Chart 2 below), down from the 258 that ended 2018 but up from the 182 average across 2013-2017.

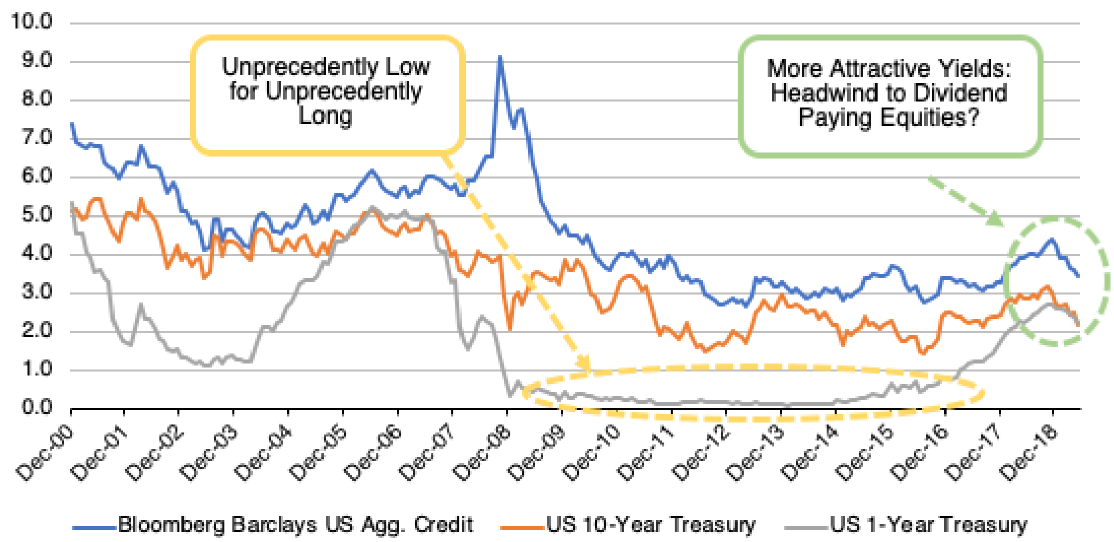
As the bond yield backdrop changes with Fed action impacting the short end of the curve (Chart 3 below), the relative attractiveness of fixed income could have impacts to dividend-yielding equities as an overall asset class. Capital flows could shift back to a higher-yielding fixed income market, which could create a disproportionate headwind to dividend payers among equities. With a respite on rate hikes having been articulated more recently by the Fed, and probabilities of rate cuts increasing, this concern has been mitigated in the short run. However, rates have been disproportionately low for the prior decade, and this situation merits continued monitoring as we manage SDG given that it could impact its overall yield opportunity as a portfolio. As such, we need to take a flexible approach to the portfolio's yield target.

Chart 2: Dividend Yield Tiers



Above displays quantity of Russell 1000 equity issuers with dividend yields 3-3.5%, >3.5%-4.0%, and >4.0%. Source: FactSet

Chart 3: Fixed Income Yields



Source: FactSet

Side Note on Dividends:

Since the presence of a dividend sits atop the selection funnel for SDG, it's critical to keep in context the mechanics of dividends and what their presence means. There are myriad textbooks, academic publications, and investor opinions on the topic of dividends, and we will not attempt to summarize them all in this note. That said, there are universal truths pertaining to what creates the dividend, how its size relative to its share price (i.e. dividend yield) is an important consideration, and how to avoid common pitfalls of confusing correlation with causation.

In a nutshell, a dividend payout is a board-level decision on what to do with excess cash generated by a company. Every publicly-traded issuer's management team is tasked with directing company capital towards its highest returning use. By paying excess cash to common equity shareholders via a dividend, an issuer signals that it has identified the dividend as being the best use of that portion of capital, in lieu of using that cash to reinvest towards organic (e.g. R&D) or inorganic (e.g. M&A) opportunities. As such, a dividend paid today is the certain loss of a future capital gain. Since the market rewards equities for what they do with their capital, not for what they don't do, the presence of a dividend does not necessarily ensure lower share price volatility. Factors relating to product demand, and the variability of cash flows generated by business operations, are much more the culprit to share price volatility than the presence of a dividend.

Stock price reactions that coincide with dividend changes are reflections of the upstream impact that modified the outlook on excess cash generation, rather than a reflection of downstream decisions on how leftover cash was spent. Take, for example, GE's Nov 2017 decision to chop its dividend in half. This was the result of a languishing industrial conglomerate failing to stem the degradation of free cash flow after having shed core assets, essentially a period of economic value destruction rather than creation. Its dividend cut occurred as a result of changes in its competitive landscape, which is very much a correlation phenomenon rather than a causation one.

Lastly, disproportionately high dividend yields can be a signal that current dividend payout ratios are unsustainable. This entails situations where the denominator (stock price) adjusts faster than the numerator (dividend) in the yield equation. Some sectors, such as REITs and energy, are more immune to higher yields acting as yellow flags, due to structural nuances of these issuers. However, it's key to keep this in mind when selecting stocks with temptingly high dividend yields.

This is the backdrop that frames our stock-picking opportunity set among the dividend-paying crowd. With the aforementioned enhancements to the SDG strategy, we continuously look to evolve our strategy in order to stay ahead of an increasingly dynamic market. This is very much a journey rather than a destination, which speaks to our relentless pursuit of extracting value within our managed strategies. This comes from an intimate understanding of underlying securities and their impact to a portfolio, wrapped in an institutional approach to allocating risk across a portfolio. In turn, our clients' success becomes our success, which we view as a powerful alignment of mutual interest.

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SDG Allocation and Supporting Data

Sector/Ticker	Name	SDG Wt.	Mkt Cap ($M)	Div Yld (%)	Beta
Technology		**6.00%**			
AVGO	Broadcom Inc.	2.00%	99,611	3.14	1.22
IBM	International Business Machines Corp.	2.00%	112,595	4.95	0.99
CSCO	Cisco Systems, Inc.	2.00%	222,727	2.54	1.30
Health Care		**12.25%**			
MDT	Medtronic Plc	4.00%	124,122	2.12	0.68
BMY	Bristol-Myers Squibb Company	4.25%	74,213	3.55	0.97
MRK	Merck & Co., Inc.	4.00%	203,938	2.51	0.70
Consumer Discretionary		**11.00%**			
GPC	Genuine Parts Company	3.00%	14,446	2.91	0.56
MTN	Vail Resorts, Inc.	2.50%	8,647	2.73	1.10
IPG	Interpublic Group of Companies, Inc.	3.00%	8,213	4.08	0.79
KSS	Kohl's Corporation	2.50%	8,047	4.95	0.91
Consumer Staples		**8.00%**			
KO	Coca-Cola Company	4.00%	209,594	3.18	0.37
KMB	Kimberly-Clark Corporation	4.00%	43,968	3.13	0.35
Energy		**9.00%**			
OKE	ONEOK, Inc.	4.50%	26,260	5.24	0.93
VLO	Valero Energy Corporation	4.50%	29,374	4.69	1.17
Materials & Processing		**4.50%**			
LYB	LyondellBasell Industries NV	2.25%	27,497	5.39	1.04
PKG	Packaging Corporation of America	2.25%	8,418	3.37	1.14
Producer Durables		**9.00%**			
ETN	Eaton Corp. Plc	4.50%	31,517	3.54	1.04
UPS	United Parcel Service, Inc. Class B	4.50%	64,814	3.97	1.08
Financial Services		**29.25%**			
RF	Regions Financial Corporation	4.00%	14,013	3.33	0.98
BBT	BB&T Corporation	4.00%	35,807	3.40	0.69
MET	MetLife, Inc.	4.00%	43,917	3.64	1.01
FNF	Fidelity National Financial, Inc.	4.50%	10,596	3.11	0.76
BLK	BlackRock, Inc.	4.50%	64,213	2.89	1.15
LAMR	Lamar Advertising Company Class A	4.25%	6,692	4.67	0.77
O	Realty Income Corporation	4.00%	22,178	3.77	0.36
Utilities		**10.00%**			
T	AT&T Inc.	5.00%	223,173	6.57	0.65
DUK	Duke Energy Corporation	5.00%	62,328	4.29	0.06
Cash		**1.00%**			
USD	n/a	1.00%	n/a	n/a	0.00
Total*		**100.00%**	**66,424**	**3.76**	**0.80**

Notes: Total SDG weightings represent sum total; market capitalization, dividend yield, and beta represent weighted average totals. All market data above as of 5/31/2019. Dividend yield represents annualized dividend rate divided by security price. Beta represents one year historical beta relative to the S&P 500 Index. Sectors as defined by FTSE Russell. Source: FactSet.

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Important Disclosures

This material is not intended as and should not be used to provide investment advice and is not an offer to sell a security or a recommendation to buy a security. This summary is based exclusively on an analysis of general market conditions and does not speak to the suitability of any specific proposed securities transaction.

This investment strategy is subject to management risk such that no assurance may be given that the portfolio's value will be more than the original investment. The investment return and principal value of SWS Partners, LLC portfolios will fluctuate as the stock and bond markets fluctuate such that an investor's shares and/or portfolio value, when redeemed, may be worth more or less than their original cost.

This portfolio of individual equity and pass-through securities and our forward-looking statements or projections are subject to risks including but not limited to portfolio concentration risk, company-specific risk, regulatory risk, financial market risk, global economic risk, credit risk, interest rate risk, foreign market risk that may involve currency, political, and social risk.

Diversified portfolio strategies do not assure or guarantee better performance and do not eliminate the risk of investment losses. It should not be assumed that any security holding shown was or will be profitable. The portfolio's holdings and allocation are subject to change based on the discretion of SWS Partners, LLC. This strategy has undergone a lead manager change, and as such has a limited operating history under the discretion of the new manager as of June 20, 2019. As a result, SWS Partners, LLC has a minimal track record or history under the new lead manager on which prospective investors may base their investment decisions. Different types of investments involve varying degrees of risk and there can be no assurance that any specific investment will be suitable for a client's portfolio. Investors should consider the risks, charges, and expenses carefully before investing in this or any other strategy. Investors should ensure the strategy presented fits within their investment objectives.

The Russell 1000 Value Index is a market cap-weighted index of common stocks incorporated within the US and its territories and may not necessarily be substantially similar to your portfolio. It is not possible to invest directly in an index.

All opinions and views mentioned in this report constitute our judgments as of the date of writing and are subject to change at any time. We will not advise you as to any change in figures or views found in this report.

Our judgment or recommendations may differ materially from what may be presented in a long-term investment plan. Investors should consult with an investment advisor to determine the appropriate investment strategy and investment vehicle. Investment decisions should be made based on the investor's specific financial needs and objectives, goals, time horizon and risk tolerance. Security information, portfolio management strategies and tactical decision processes are opinions of SWS Partners, LLC and the performance results of such recommendations are subject to risks and uncertainties.

This commentary has been prepared by SWS Partners, LLC ("SWS"), a registered investment adviser in the state of Ohio. If you would like a copy of SWS's disclosure brochure, please visit www.adviserinfo.sec.gov.

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