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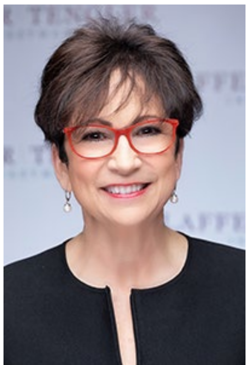
INVESTMENTS

Market Commentary | Fourth Quarter 2023



And What a Year it Was!

One of the most important things to learn as an investor is who to listen to and who to ignore. After almost 40 years in this business, I have cultivated a list of market strategists, economists and research analysts whose work I respect and another collection of what we call at Laffer Tengler, "the perfect contrary indicators."

No one in this business has demonstrated a flawless batting average but as we have written in the past, being mostly right generates enviable returns over time. We ended 2022 with a commentary entitled: What Could Go Right in 2023? Sentiment will shift at some point; we want to be ahead of the pack. And we got ahead of the pack which is why our key group of wealth equity strategies outperformed their benchmarks in 2023. (The gross and net of fee returns for the selected strategies are listed below.) We hope as we manage your wealth through the inevitable corrections and bear markets and the more common bull markets that you will come to trust our research and investment expertise. That we will continue to make your list of reliable investment sources.

- Equity Income 13.95% (12.66% net) vs. Russell 1000 Value 11.87%.
- Equity Growth 37.08% (35.56% net) vs. S&P 500 25.58%.
- Concentrated 40.69% (39.12% net) vs. DJIA 16.26%

Our investing theme remains intact. We are buying old economy companies who are embracing digitization, cloud computing and generative AI to enhance product development, increase market share and improve margins, and the supplier of the picks and shovels needed to do so. I recently gave a keynote at The Money Show entitled, The 4th Industrial Revolution. Below is a chart highlighting the early and broad adoption of generative AI.

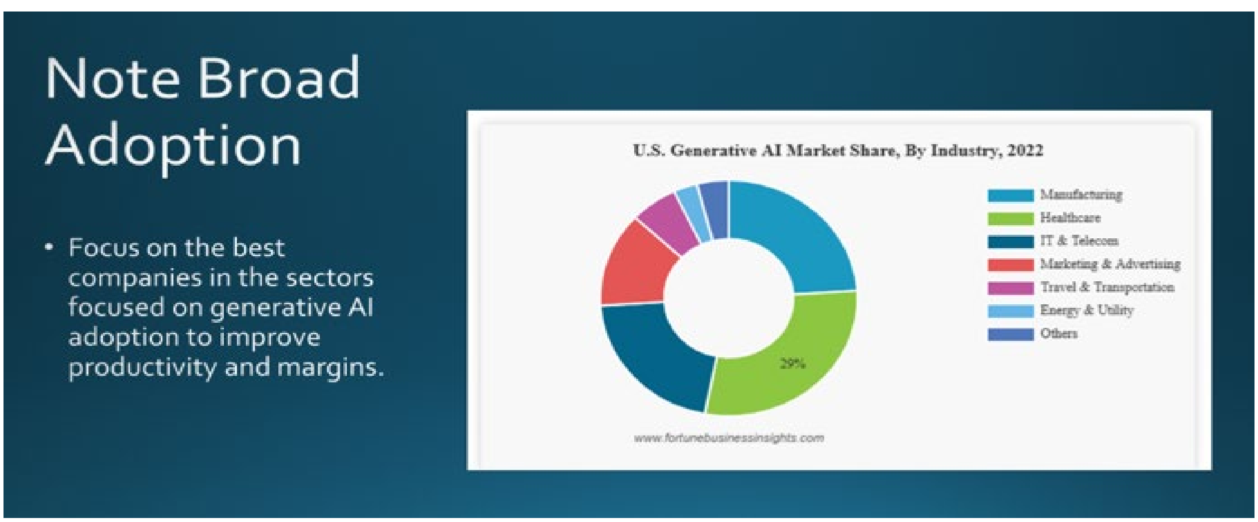


Chart source: www.fortunebusinessinsights.com

And lest you think the cloud computing trend is over see the chart below. The total addressable market continues to grow for the foreseeable future.

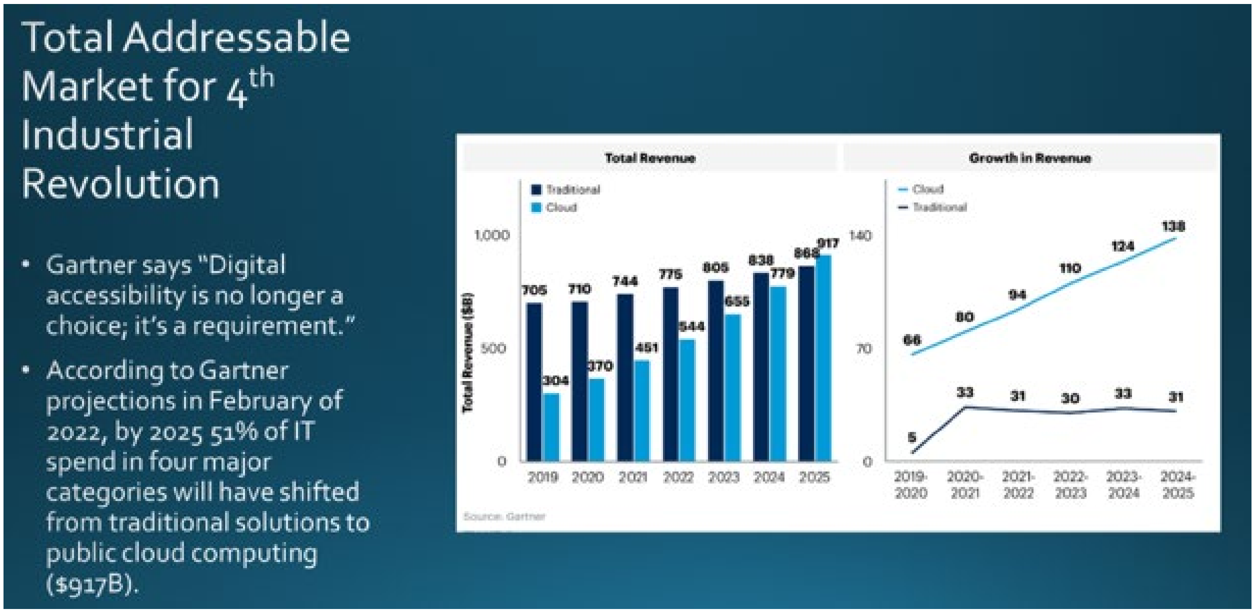


Chart source: Gartner

We are always on the lookout for great companies in the segments of the market we expect to outperform in the coming years. Our time-proven valuation metrics (Relative Dividend Yield (RDY) and Relative Price to Sales Ratio (RPSR)) point us to attractively valued stocks compared to the market and their own history. Then we overlay our proprietary 12 Fundamental Factor analysis to uncover the highest quality names with the best management teams and identifiable catalysts for outperformance. The market is a forward discounting mechanism; positioning requires anticipating what will work not what recently worked.

Our macro theme also remains intact. The analog to this economy and market remains the decade of the 1990s. Not only was I alive during the period, I was managing billions of dollars. I have written extensively on the topic (contact lmitchell@laffertengler.com for a copy of our reports) but essentially the same conditions—above 2.0% inflation, 10-year yields averaging between 5.0%-7.0% during the decade, geopolitical tensions and the Gulf War, a VIX that remained below 18 for most of the decade, an inverted yield curve, a soft landing (thank you Chairman Greenspan), a labor shortage which resulted in technology spending which increased productivity—resulted in robust returns for stocks during the decade. Higher interest rates and attractive stock returns can indeed coexist.

On February 21, 2023, I wrote a commentary entitled The Proverbial Tug of War Between Fear and Greed Continues and concluded with the following:

> Bloomberg wrote an article about money managers for the ultra-wealthy. They dumped tech stocks during the fourth quarter (of 2022) when we were buying

> them. We have always found it helpful to stay out of the echo chamber and stick to our knitting as the old saying goes.
>
> So, in the face of ongoing volatility we are patient, waiting for the right pitch as others swing for the fence. Because, after almost 40 years in this business we know two things for certain: volatility is the friend of the long-term investor, and every bear market is eventually followed by a bull market.

The most under-discussed bull case for stocks in 2024 comes in the form of share buybacks. In 2021, share repurchases put a floor under stock prices. We think that continues in 2024. The chart below (also from my keynote) outlines the expected share repurchases just from the Magnificent 7 alone. There are plenty of other companies in a broad range of industries who are employing share repurchases as one way to return capital to investors. While we prefer dividends and dividend growth, buying back shares does put a floor under stock prices.

Chart source: Bloomberg

Lastly, as readers of our commentaries know, we have been quite critical of the Fed in recent years. Flip flopping and reversing course at breathtaking speed allowed inflation to rage out of control (peaking at 9.2%) and increased (unnecessarily we might point out) volatility in both the stock and bond markets over the past few years. Our memories were tickled by a reminder of a comment made by former Federal Reserve Chairman, Alan Greenspan from the good old days when the Fed maintained independence and mystique. "I know you think you understand what you thought I said, but I am not sure you realize that what you heard is not what I meant." The Chairman was a master of Fed speak, something we think would serve the markets and American consumer well in the coming year. From Chairman Greenspan's lips to Chairman Powell's ears.

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Expect volatility in the first half of the year and remember our investing mantra: volatility is the friend of the long-term investor. We will be watching and taking advantage of price distortions for the next 3-5 years.

Happy New Year!

Nancy Tengler,
CEO and Chief Investment Officer

Convertibles Strategy | Fourth Quarter 2023

Laffer Tengler Investments

Large Cap Equity Strategies

Performance - December 2023

	1 year	5 years	Since Inception
Concentrated (Gross)	40.69%		14.51%
Concentrated (Net)	39.12%		13.39%
DJIA	16.26%	12.47%	10.86%
Equity Growth Strategy (Gross)	37.08%	14.75%	12.94%
Equity Growth Strategy (Net)	35.56%	13.69%	12.02%
S&P 500	26.37%	15.70%	13.60%
Equity Income Strategy (Gross)	13.95%	13.76%	12.31%
Equity Income Strategy (Net)	12.66%	12.67%	11.34%
Russell 1000 Value	11.50%	10.91%	7.85%

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Equity Growth Strategy (Gross)	37.08%	14.75%	12.94%
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S&P 500	26.37%	15.70%	13.60%
Equity Income Strategy (Gross)	13.95%	13.76%	12.31%
Equity Income Strategy (Net)	12.66%	12.67%	11.34%
Russell 1000 Value	11.50%	10.91%	7.85%

*Inception Dates
Concentrated 9/1/2019
Equity Growth 7/1/2016
Equity Income 1/1/2015

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NEW POSITIONS

New Mountain Finance (NMFC) issued $260 million of a 7.5% convertible bond in October of 2022 as a 144a security. It recently became registered, and we initiated a 3% position in this investment grade rated security. NMFC is a high-quality business development company. The bond trades a little above par and had a 7.25% current yield at purchase. Bond floor is at par due to the solid credit, short maturity (October of 2025), and large coupon, so downside is very limited. The conversion premium is about 12% so there is potential upside as well.

EXITED POSITIONS

We exited our position in **NiSource (NI)** 7.75% mandatory convertible preferred. This security was set to mature and convert on December 1st, and we sold it prior to this date.

On Semi (ON) 1.625% convertible bond matured on October 15, 2023. This bond was trading over 4 times par. We sold the position prior to maturity or optional conversion.

REPLACED POSITIONS

None for this period

INCREASED POSITIONS

Approximately 1% was added to our position in **Microchip Technology (MCHP)** 0.125% convertible bond. Trading just a few points north of par, this bond matures in just over one year, limiting the downside. With the sale of ON Semi recently, we wanted to maintain our weighting in the technology sector, and this quasi-IG (Investment Grade) bond provides exposure to a high-quality company in mixed-signal, application development systems, embedded control applications, and memory products. The company's products are used by more than 120,000 customers across most sectors and geographies.

We added approximately 1.5% to our position in **Lumentum (LITE)**. Trading in the low 80s, the current yield is 0.60% (the common does not pay a dividend), but the yield-to-maturity is 6.2% to the December of 2026 maturity. While 3D sensing has been weak, the company has a leading share in optical transceivers, which bodes well as the company will benefit from the growth of AI and machine learning hyperscale data centers. While the bond currently has a premium of around 90%, it does have a delta of 40, and as the stock recovers, there is ample time before the maturity date for the stock to improve and the bond to capture more of the upside in the common.

We added approximately 1.25% to our existing position in **Jazz Pharmaceutical (JAZZ)** 1.5% convertible bond. At purchase, the bond has a 6.2% yield-to-maturity, and it matures on August 15th of 2024. The company has almost $1.6 billion in cash, which is more than enough to cover the $575 million principal amount of this issue.

Approximately 1% was added to our existing position in **Two Harbors (TWO)** 6.25% convertible bond. This bond matures in January of 2026 and has a current yield of 6.8% and a yield-to-maturity of 10.64%. The bond has a high premium (thus a low degree of equity sensitivity) and is a yield-alternative security.

We added about 1% to our position in **Western Digital (WDC)** 1.5% convertible bond. Trading south of par, this IG rated security has a 6.5% yield-to-maturity. The bond matures on February 1 of 2024, and with the 6.5%YTM remains an attractive place to park a little cash in a volatile market.

The news of GLP-1 drugs and their effect on obesity has taken a toll on diabetes care and the med-tech sector. However, Abbot (who has a continuous glucose monitoring device segment) reported earnings and their results showed what many have suspected; CGM (continuous glucose monitoring) use is encouraged when patients are on some type of GLP-1 regimen. We added approximately 1% to our position in Dexcom (DXCM) on this news. DXCM's only debt is comprised of three convertible issues. One, the 0.75%, matured in December, so our position in the 0.25% will be the next debt due, maturing in November of 2025. At current level of around 94, the bond has a 3.35% YTM (the stock does not pay a dividend) and a current yield of 0.27%. The premium expanded on the stock weakness and the convert behaved as it is supposed to: the bond outperformed the stock on the way down as it approached bond floor. However, we have a two-year window for the stock to rally, and the bond will accrete to par as the maturity date approaches. We felt this was an attractive place to add to our position in this company that has demographics in its favor.

DECREASED POSITIONS

None for this period

LEADERS

Palo Alto Networks (PANW) announced Q1 results. Earnings and revenue were above estimates. Management lowered 2024 forecasts on billings but maintained their outlook on revenue and earnings. Regarding billings, PANW was impacted by the "cost of money" which led to volatility in contract duration. Next-generation security continues to deliver strong results. The mixed results for the quarter caused some weakness in the stock, but our outlook remains positive. PANW is the leader in cyber security and utilizing AI in their product offerings.

NRG Energy (NRG) reported Q3 results that showed revenue and EBITDA (Earnings before Interest Taxes Depreciation and Amortization) were above expectations. The company also guided FY24 EBITDA higher. The Vivint smart home acquisition integration and results are exceeding estimates. Management also initiated a $950 million accelerated share buyback and came to an agreement with activist investor Elliot Management (who took a 13% stake in the company earlier in the year) with the CEO leaving and four new directors joining the board.

After underperforming during Q2, AES Corp. (AES) had a nice bounce-back quarter. The company posted results for Q3 that eclipsed expectations and guided to the higher end of their previous estimates. During the quarter, the company signed 1.5 GW (gigawatts) of new renewable purchasing power agreements, which countered concerns of a demand slowdown. The stock also benefitted from the decline in interest rates during the last quarter of 2023.

LAGGARDS

Our On Semi (ON) position was disposed of in early October. The stock was off slightly from the end of Q2 through our date of disposition on general market weakness, as there was no company specific news during this short period.

Pioneer Natural Resources (PXD) had a solid earnings report with revenues and earnings above consensus expectations. During the quarter, Exxon also announced their intentions to acquire Pioneer in an all-stock transaction. Despite these events, the stock was a minimal underperformer due to the weakness in the price of oil.

New Mountain Finance (NMFC) finished the quarter just barely below the neutral line. We initiated our position at the end of the quarter, and the stock ticked slightly lower over the last few trading days of the quarter as interest rates crept up off their lows.

DISCLOSURE INFORMATION

LAFFER TENGLER INVESTMENTS EQUITY STRATEGY DISCLOSURE

Unless otherwise indicated, performance results are based on the following composites: Concentrated, Equity Growth and Equity Income Strategies (“Composite”). All performance results are shown on an annualized basis except for periods of less than one year. A composite is an aggregation of one or more portfolios managed by Laffer Tengler into a single group that represents a particular investment objective or strategy. The performance information contained in this presentation is therefore derived from actual results.

Accounts that comprise the Composite are not identical and may have different inception dates, may be subject to client-imposed restrictions or otherwise may have more or less flexibility in achieving their investment objective (including with respect to capitalization, industry, or geography). They also vary in size. Additionally, the firm's views and advice as to portfolio composition and characteristics for accounts following the strategy as reflected in the Composite evolve over time. Decisions made for one account may differ from those made for other accounts. For pre-existing accounts transferred to Laffer Tengler, Laffer Tengler may determine to retain prior holdings or employ different account weightings for a variety of reasons including tax characteristics or consequences, holding periods, transaction costs, legal or client-imposed restrictions. Thus, at any time, any particular account among those comprising the Composite may or may not include some or all of the same securities (or weightings) as other accounts that comprise the Composite. Any particular account may have portfolio characteristics and performance that differ from other accounts within the Composite. The firm's current market outlook is subject to change from time to time and without notice. A change in market outlook would generally lead to changes in account compositions, which may impact the characteristics presented herein. Individual results and portfolio compositions may also vary as a result of market conditions, trading costs, account size, cash flows, account restrictions and other factors that may be unique to each account. The portfolio characteristics, holdings, and related information for any particular account comprising the Composite will vary from time to time based on, among other things, available cash, market conditions and the client’s individual investment needs guidelines and restrictions. There is no guarantee that the portfolio characteristics, holdings, and related information for the Composite will remain identical to that presented here; Laffer Tengler may make investment decisions which cause the portfolio characteristics, holdings, and related information to vary from that presented herein over time.

The illustrated performance is historical and does not represent future results. Historical performance is not predictive or indicative of future performance. Your actual return and yield will vary, and your account may generate a gain or a loss. All performance data labeled as "Gross" reflects performance with no deduction of advisory fees or other expenses (except for brokerage commissions where applicable) associated with managing the accounts in the Composite. The returns are calculated pre-tax and would be lower if advisory fees and other expenses were deducted. For example, if a 1.00% annual advisory fee were deducted quarterly and your annual return were 10.00% (based on quarterly returns of approximately 2.41% each) before deduction of investment advisory fees, the deduction of the investment advisory fees would result in an annual return of approximately 8.93% due, in part, to the compound effect of such fees. All performance data labeled as "Net" reflects deduction of fees charged to customers by Laffer Tengler. For the strategy shown, the performance has been reduced by the amount of the highest fee charged to any customer employing the strategy used in managing the accounts within the Composite during the period under consideration. Actual fees may vary depending on, among other things, the applicable fee schedule and portfolio size. Laffer Tengler's fees are available upon request and may be found in Part of its Form ADV. All returns reflect reinvestment of dividends and capital gains.

Benchmarks:
The illustrated benchmark for the Laffer Tengler Concentrated Equity Composite is the Dow Jones Industrial Average (DJIA). The DJ Industrial Average is the most relevant index for performance comparison of the Composite. The DJ Industrial Average measures the performance of 30 US blue-chip stocks covering all industries with the exception of transportation and utilities. It is price weighted.

The illustrated benchmark for the Laffer Tengler Equity Growth Composite is the Standard & Poor's 500 (S&P 500). The S&P 500 Index is the most relevant index for performance comparison of the Composite. The S&P 500 is an unmanaged index of the common stock of 500 widely held U.S. companies selected for market size, liquidity, and industry group representation. It is a market-value weighted index (stock price times number of shares outstanding), with each stock's weight in the Index proportionate to its market value.

The illustrated benchmark for the Laffer Tengler Equity Income Composite is the Russell 1000 Value Index. The Russel 1000® Value Index is the most relevant index for performance comparison of the Composite. The Russell 1000® Value Index measures the performance of the large-cap value segment of the US equity universe. The index includes Russell 1000 companies with relatively lower price-to-book ratios, lower I/B/E/S forecast medium-term (2 years) growth, and lower sales per share historical growth (5 years). The Russell 1000® Value Index is constructed to provide a comprehensive and unbiased barometer for the large-cap value segment. The index is completely reconstituted annually to ensure the inclusion of new and growing equities and that the represented companies continue to reflect value characteristics.

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