

Alley Company Dividend Portfolio 2020 Q1 Letter

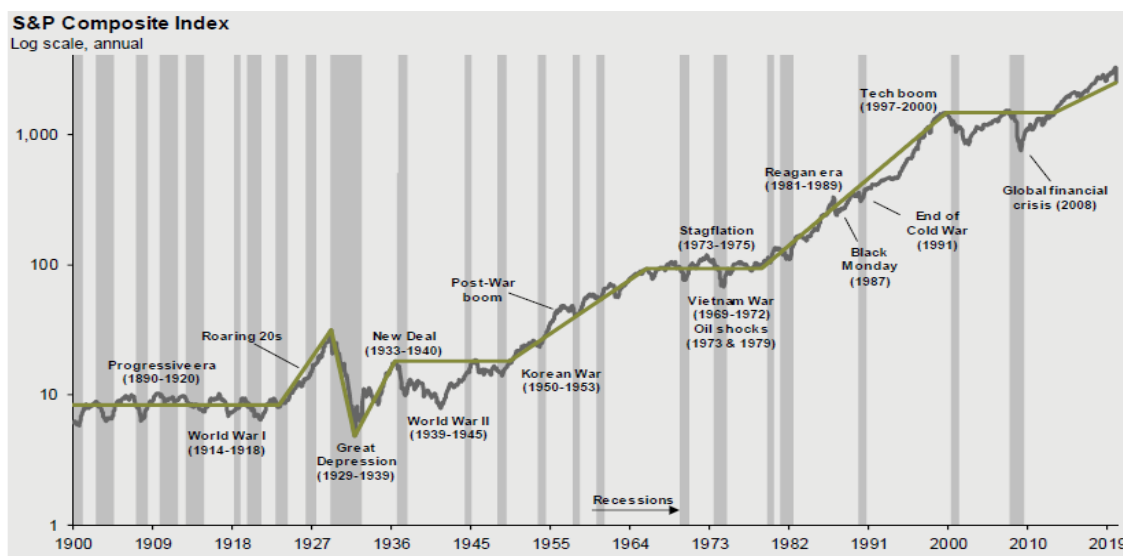
April 16, 2020

In the throes of the Covid-19 pandemic, fear has gripped Americans as incidences of infection and death have risen sharply during the months of March and April. The new coronavirus has overtaken our lives and transformed our world, presenting an unprecedented medical, economic, and human challenge. There is no doubt that the next few weeks and potentially months will be challenging for our healthcare workers, the economy, and all citizens of the United States and the rest of the world.

For investors, the period ahead will be challenging as well – and recent market volatility may persist – but given some of the panic-oriented selling that has already taken place, there are also significant opportunities to consider. Our belief is that investors who keep their eyes on the longer-term time horizon ahead, and not on the unstable ground at our feet, will experience the best investment outcomes in the future.

History suggests that bear-market periods come and go given the inevitability of economic recessions, financial crises, oil shocks, wars, or pandemics. The chart below tracks the market (S&P 500) price history and records past events that precipitated stock market corrections. While no two bear markets are alike, as they occur for different reasons, bull-market recoveries have always occurred with some happening quicker than others depending on the circumstances of the time.

S&P 500 Price History and Past Events



Source: FactSet, NBER, Robert Shiller, J.P. Morgan Asset Management.

Data shown in log scale to best illustrate long-term index patterns. Past performance is not indicative of future returns. Chart is for illustrative purposes only.

Guide to the Markets – U.S. Data are as of March 31, 2020.

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Importantly, the Federal Reserve has acted quickly during this crisis, with an awesome display of creativity and decisiveness to support the U.S. economy. Additionally, Congress and the U.S. Treasury have acted in a big way to support American workers and businesses via the \$2.2 trillion CARES Act. While this double-barreled support won't fix the root of the problem – only the medical community and social distancing can – it will help the economy bridge the gap and restart more quickly once the pandemic subsides.

Our investment philosophy is built to stand the test of time and has not changed during this period – we invest in high quality, blue-chip in nature, companies that have a culture of paying attractive and growing dividends. We look for companies that have dominant market power and are leaders in the markets they serve.

Quarterly Performance Update

The Covid-19 global pandemic caused markets around the world to decline in the first quarter of 2020. During this challenging period, The Alley Company Dividend Portfolio *outperformed*, or declined less than, the Russell 1000 Value Index.

From an individual holdings perspective, top contributors to and detractors from performance in the portfolio during the quarter were:

<u>Top Contributors</u>	<u>Top Detractors</u>
Microsoft (MSFT)	Discover Financial Services (DFS)
NextEra Energy (NEE)	Phillips 66 (PSX)
Xcel Energy (XEL)	Wells Fargo & Co. (WFC)

Top and bottom performing sectors in the marketplace during the quarter are displayed in the table below. The performance of the portfolio relative to the Russell 1000 Value Index benefited in the quarter from our sector exposures in Technology and Consumer Staples (overweight) as well as Energy and Financials (underweight). Decisions to adjust weightings in the portfolio are driven by a bottom-up fundamental research process.

<u>Top Performing Sectors</u>	<u>Bottom Performing Sectors</u>
Technology (+)	Energy (-)
Consumer Staples (+)	Financials (-)
Health Care (+/-)	Industrials (+/-)

(+) indicates that the portfolio is overweight this sector and (-) indicates that the portfolio is underweight this sector relative to the benchmark.

During the first quarter, the portfolio's position in Exxon Mobil (XOM) was eliminated and the position size of Xcel Energy (XEL) was trimmed. Position sizes in Altria (MO), Chevron (CVX), and Philip Morris International (PM) were increased during the quarter.

Dividend announcements among Alley Company Dividend Portfolio holdings during the quarter were:

<u>Company</u>	<u>Dividend Change</u>
Arthur J. Gallagher & Co. (AJG)	+5%
BCE, Inc. (BCE)	+5%
BlackRock (BLK)	+10%
Chevron (CVX)	+8%
Cisco Systems (CSCO)	+3%
Home Depot (HD)	+10%
Kimberly-Clark (KMB)	+4%
NextEra Energy (NEE)	+12%
Prologis (PLD)	+9%
Xcel Energy (XEL)	+6%

Alley Company Dividend Portfolio

The investment philosophy of the Alley Company Dividend Portfolio focuses on striking the balance between attractive absolute dividend yield and strong dividend growth underpinned by solid company fundamentals of our portfolio holdings. We employ a bottom-up, research-driven process focused on fundamental analysis of our portfolio holdings.

Alley Company, LLC

Alley Company is a boutique investment management firm that is dedicated to operating a discernible and disciplined investment philosophy and generating superior risk-adjusted investment returns. Alley Company was founded in 1998 and in 2006 established the Alley Company Dividend Portfolio to capitalize on investment opportunities in quality companies with strong dividend-paying cultures.

The Alley Company Quarterly discusses general developments, financial events in the news and investment principles. It is provided for information purposes only. It does not provide investment advice and is not an offer to sell a security or a solicitation of an offer, or a recommendation, to buy a security. The statements and opinions contained herein are solely those of Alley Company LLC and are based upon sources and data believed to be accurate and reliable. The Russell 1000 Value Index measures the performance of large- and mid-capitalization value sectors of the U.S. equity market. Additional information regarding Alley Company, LLC can be found by accessing the SEC's website at adviserinfo.sec.gov.