Alley Company Dividend Portfolio
2020 Q3 Letter

October 16, 2020

The term “20/20” is synonymous with having clear vision, but the year 2020 has caused blurriness for investors as the world continues to wrestle with the uncertainty of the global COVID-19 pandemic. What has been *clear* throughout this year is that an investment philosophy that focuses on quality companies that pay attractive and growing dividends can stand the test of time.

Less-than-quality businesses have been challenged in this environment, especially those that operate with too much debt on the balance sheet. Many companies have been forced into difficult near-term decisions with negative implications for earnings and cash flow. As Warren Buffett has quipped in the past, “It’s only when the tide goes out that you learn who has been swimming naked.”

By contrast, quality companies that have the ability to produce consistent revenue, earnings, and cash flow are showcasing their resiliency. With conservative balance sheets, they also possess the wherewithal to simultaneously re-invest back into their respective businesses and reward shareholders with consistent dividend payments. Quality companies can offer better downside protection relative to companies with weak fundamental positioning or shaky balance sheets.

In our opinion, downside protection can occur in two ways: i) investors see the long-term value in companies that can actually *expand* market share during challenging times *and* make important investments in future growth during these periods (i.e., they have the ability to stay on the offensive), and ii) with the perception of long-term dividend sustainability, the stocks of quality companies will find “yield support” in the market as rising dividend yields become more attractive to prospective investors.

With the elevated uncertainty of a global pandemic and a tense U.S. political environment, our view is that a continued focus on proven, high-quality businesses that pay attractive dividends to shareholders offers the best prospects for meeting objectives in equity portfolios and achieving attractive risk-adjusted returns over time.

For a more detailed read of our view on quality companies, please see our recent Commentary: Quality: In the Eye of the Beholder (www.alleycompanyllc.com).

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Quarterly Performance Update

The Alley Company Dividend Portfolio outperformed the Russell 1000 Value in the third quarter. On a year-to-date basis, the portfolio has delivered substantial outperformance relative to the benchmark.

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

Top Contributors	**Top Detractors**
Apple (AAPL)	Phillips 66 (PSX)
Abbott Laboratories (ABT)	Chevron (CVX)
Starbucks (SBUX)	Cisco Systems (CSCO)

Top and bottom performing sectors in the marketplace during the quarter are displayed in the table below. The portfolio's lower weighting in the energy and financial sectors were additive to performance during the quarter.

Top Performing Sectors	**Bottom Performing Sectors**
Consumer Discretionary (-)	Energy (-)
Materials (-)	Real Estate (+)
Industrials (-)	Financials (-)

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

There were no new companies added to the portfolio during the third quarter.

The portfolio's weighting in Altria (MO) was increased during the quarter, while Apple (AAPL) was trimmed back on strength. MO's attractive valuation, current dividend yield, and improving fundamentals were contributing factors to increasing its weighting in the portfolio. AAPL has performed well in the portfolio and the decision to trim its weighting was the result of our disciplined portfolio management process.

It is our view that the consistency of a company's dividend payment along with the ability to increase it in a sustainable fashion is a strong indicator of the financial health of a business. Throughout this calendar year, the portfolio has benefited from numerous dividend increases, while experiencing no dividend cuts. During the challenging economic climate of 2020, six (6) companies in the portfolio have increased their dividend at a double-digit pace on a year-to-date basis. These companies include, Accenture (ACN), BlackRock (BLK), Home Depot (HD), Microsoft (MSFT), NextEra Energy (NEE), and Starbucks (SBUX).

Dividend announcements among Alley Company Dividend Portfolio holdings during the third quarter are listed in the following table.

Company	Dividend Change
Accenture (ACN)	+10%
Altria (MO)	+2%
Honeywell (HON)	+3%
Lockheed Martin (LMT)	+8%
Microsoft (MSFT)	+10%
Philip Morris International (PM)	+3%
Starbucks (SBUX)	+10%
Verizon (VZ)	+2%

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.