

Alley Company Dividend Portfolio 2021 Q4 Letter

January 19, 2022

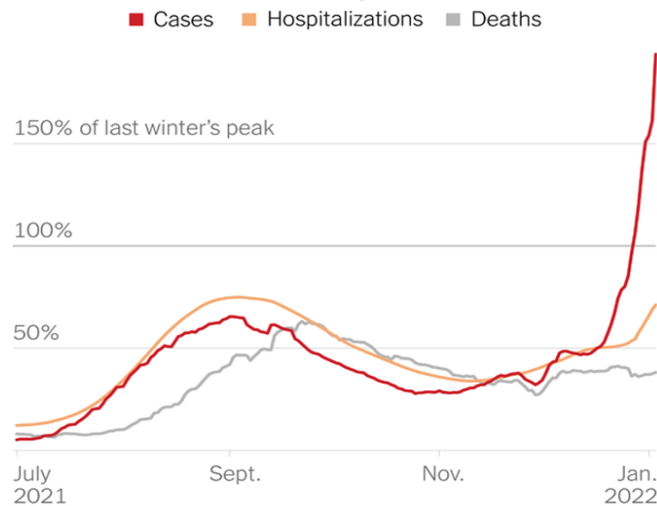
Two years into the global pandemic, the virus continues to be an unwelcome disruptor to both daily life and business activity. A recent spike in positive cases has pushed hospitalizations higher, upended family plans across the country, and added to labor shortages and supply chain bottlenecks.

Public Health

The Omicron variant emerged on the scene in late 2021 and spread quickly around the world and throughout the United States. It is now estimated to account for 95 percent of new COVID cases in the U.S., according to the Centers for Disease Control and Prevention. As Exhibit 1 below depicts, however, the worst health outcomes have remained well below last winter's peak despite the recent surge in new case counts. This suggests that Omicron, while highly transmissible, is less virulent than prior variants (a welcome development and hopefully the case with future variants). The silver lining is potentially greater herd immunity that could help society navigate to a point where the virus has less influence on daily life.

Exhibit 1

How U.S. outcomes compare with last winter



Source: New York Times database. Data as of 01/03/2022.

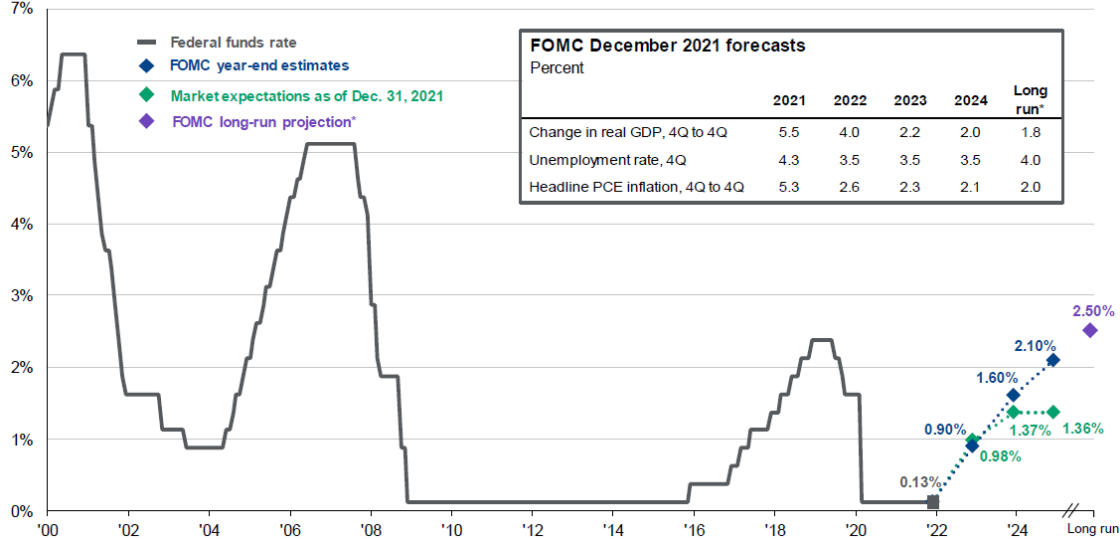
Federal Reserve

While Omicron will take the edge off of near-term economic growth, the Fed must still address the implications of recent inflation readings that have persisted on the upside for a longer period than expected. At the end of 2021, headline inflation (including food and energy) was 5.3 percent, well above the Fed’s long-run goal of 2.0 percent. Exhibit 2 below highlights the expected increases in the federal funds rate over the next few years as policymakers embark on the course of removing crisis-level accommodation.

Exhibit 2

Federal funds rate expectations

FOMC and market expectations for the federal funds rate



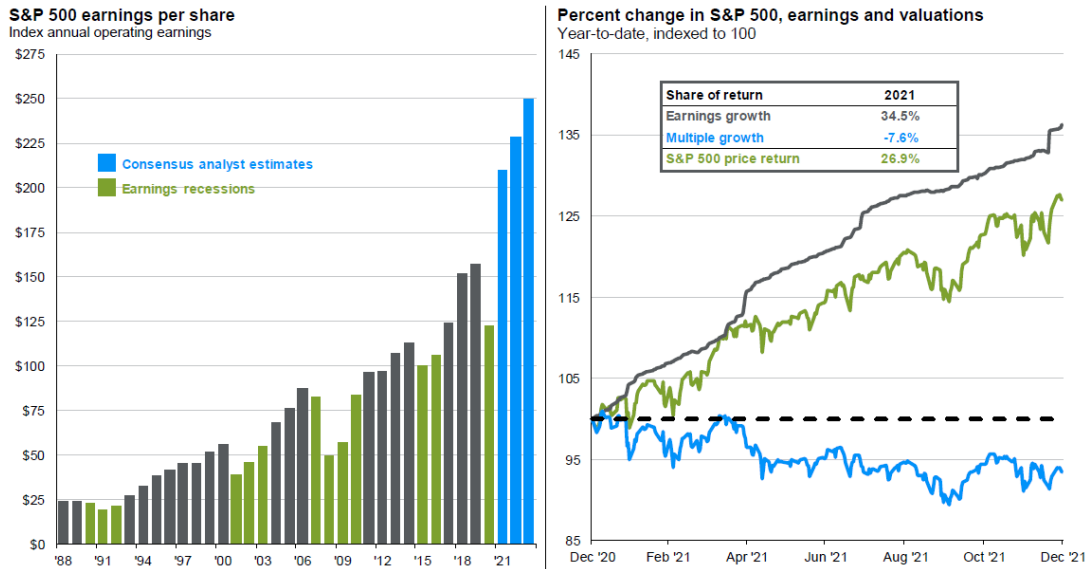
Source: J.P. Morgan Guide to the Markets. The Federal Open Market Committee (FOMC) reviews economic and financial conditions, determines the appropriate stance of monetary policy, and assesses the risks to its long-run goals of price stability and sustainable economic growth. *Long-run projections are the rates of growth, unemployment, and inflation to which a policymaker expects the economy to converge over the next 5-6 years in absence of further shocks and under appropriate monetary policy.

Corporate America

Businesses have collectively navigated the global pandemic remarkably well to this point. From lockdowns and stay-at-home orders to disrupted supply chains and tight labor markets, managers and employees alike have kept productivity high under challenging circumstances.

Strong topline results in a recovering economy, along with adept expense management has led to corporate profit margins holding near record levels. And as we wrote last quarter, skillful capital allocation via acquisitions, share repurchases, capital investments, and dividends can add additional value for shareholders over time. All told, per-share earnings recovered smartly in 2021 (see Exhibit 3 below) and importantly are expected to still grow at an above average clip in 2022 and 2023.

Exhibit 3



Source: J.P. Morgan Guide to the Markets. Earnings estimates are based on projections from Standard & Poor’s and FactSet. Past performance is not indicative of future returns.

Investors

Inflation and rising interest rates caused price-to-earnings (P/E) multiples in equity markets to *contract* in 2021 (depicted in Exhibit 3) and this will be a closely watched variable in 2022 as well.

We seek out value in the marketplace through high-quality dividend payers and believe that a diversified portfolio of companies with leadership market positions, pricing power, and astute management teams can afford investors the opportunity to increase the purchasing power of assets over time with a keen eye on the level of risk being taken.

Quarterly Performance Update

During the fourth quarter of 2021, the Alley Company Dividend Portfolio significantly outperformed the Russell 1000 Value Index. The strong performance during the quarter lead to the Alley Company Dividend Portfolio outperforming the benchmark for the calendar year 2021.

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

<u>Top Contributors</u>	<u>Top Detractors</u>
RPM International (RPM)	Medtronic (MDT)
Accenture (ACN)	Discover Financial (DFS)
Union Pacific (UNP)	U.S. Bancorp (USB)

Top and bottom performing sectors in the marketplace during the quarter are displayed in the table below.

Top Performing Sectors	Bottom Performing Sectors
Real Estate (+)	Communications (-)
Technology (+)	Financials (-)
Materials (-)	Energy (+/-)

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

There were no portfolio changes during the fourth quarter.

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

Company	Dividend Change
Abbott Labs (ABT)	+4%
AbbVie (ABBV)	+8%
Crown Castle (CCI)	+11%
Merck (MRK)	+6%
Phillips 66 (PSX)	+2%
Snap-On (SNA)	+15%
Union Pacific (UNP)	+10%

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

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 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 can be found by accessing the SEC's website at adviserinfo.sec.gov.