

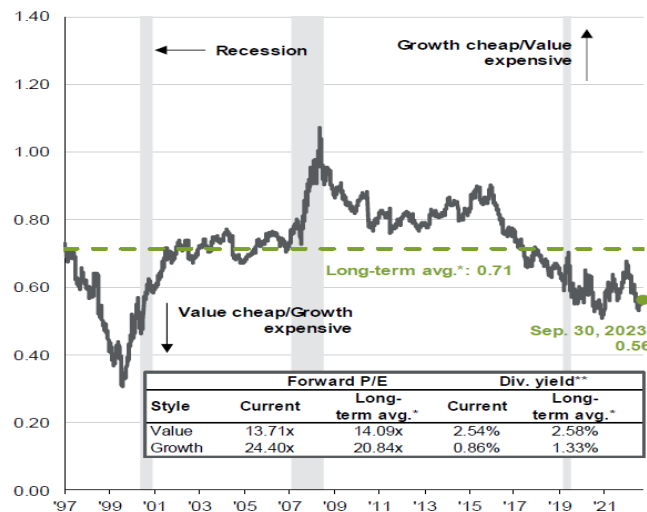
### QUARTERLY LETTER

The inner workings of the stock market in 2023 have been interesting for sure. On one hand, the “Magnificent Seven” stocks have caught fire and have appreciated an average of 88 percent so far this year through the end of the third quarter. On the other hand, interest-rate sensitive stocks like Utilities and Real Estate Investment Trusts (REITs) have been under pressure with these sectors down 15 percent and 5 percent, respectively.<sup>1</sup>

These factors have pushed growth stocks ahead at the expense of value stocks. (Although, it should quickly be noted that value stocks held up much better in the bear market of 2022.)

With this pendulum swing, the value side of the market is showing increased relative attractiveness from a valuation perspective based on forward price-to-earnings ratios and dividend yields (see exhibit below). For dividend investors, value stocks yield approximately 3 times growth stocks versus a long-term average of closer to 2 times. By comparison, the Alley Company Dividend Portfolio’s quarter-end yield of 3.0 percent was even higher, clocking in at 3.5 times the growth yield.

### Value vs. Growth Relative Valuations Rel. fwd. P/E ratio of Value vs. Growth, 1997 – Present <sup>2</sup>



### PORTFOLIO MANAGEMENT TEAM

STEVE ALLEY, PRESIDENT  
RIK DURYEA, CFA  
TOM VAN VUREN, CFA



In any case, while it's important to be cognizant of the anatomy of the stock market, of greater importance is a focus on what has the most profound impact on repeatable positive investor outcomes, in our opinion. To that end, our investment process is focused on the "bottom-up" fundamental research of the individual companies and contemplates a long-term investment horizon.

Two major fundamental developments that have grabbed attention and have potentially wide-ranging implications are 1) the acceleration of artificial intelligence in the Technology sector and 2) the emergence of the GLP-1 (glucagon-like peptide 1 agonists) class of pharmaceuticals for the treatment of obesity in the Health Care sector. There will be much more to learn about the opportunities and risks in these areas and we will be studying the trends closely. Importantly, we see this as evidence that U.S. innovation continues to flourish, which can drive economic growth and increased productivity over time.

Our investment philosophy focuses on owning high-quality dividend payers with excellent track records of fundamental performance – we are not simply looking for the highest dividend yield, but rather investing in companies that in our judgment will have the ability to produce attractive *dividend growth* in the future. We are always seeking to find value in the marketplace and the aforementioned lopsided performance is presenting attractive opportunities to consider.

### Quarterly Performance Update

During the third quarter of 2023, the Alley Company Dividend Portfolio performed roughly in-line with the Russell 1000 Value Index. On a year-to-date basis through the third quarter, Dividend Portfolio performance modestly lags the benchmark by approximately 200 basis points. Please see our Fact Sheet for a detailed review of historical performance.

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

Top Contributors	Top Detractors
Phillips 66 (PSX)	Discover Financial (DFS)
Amgen (AMGN)	NextEra Energy (NEE)
AbbVie (ABBV)	Crown Castle (CCI)

Top and bottom performing sectors in the marketplace during the quarter are displayed in the table below. (+) and (-) symbols indicate the Dividend Portfolio being overweight or underweight the sector relative to the benchmark weighting.

Top Performing Sectors	Bottom Performing Sectors
Energy (-)	Real Estate (-)
Communication Services (-)	Utilities (-)
Financials (-)	Consumer Staples (+/-)

There were no portfolio changes during the third quarter.

### Dividend Announcements

Dividend announcements among Alley Company Dividend Portfolio holdings during the third quarter are added to the table below to complement announcements made earlier in the year. The average dividend increase announcement in the portfolio on a year-to-date basis has been +7.1%.

Q3 2023	
Company	Dividend Change
Accenture (ACN)	+15%
Duke Energy (DUK)	+2%
Honeywell (HON)	+5%
Illinois Tool Works (ITW)	+7%
JPMorgan Chase & Co. (JPM)	+5%
Microsoft (MSFT)	+10%
Philip Morris (PM)	+2%
Starbucks (SBUX)	+8%
Verizon (VZ)	+2%

Q1 2023	
Company	Dividend Change
Arthur J. Gallagher (AJG)	+8%
BlackRock (BLK)	+2%
Chevron (CVX)	+6%
Cisco Systems (CSCO)	+3%
Home Depot (HD)	+10%
NextEra Energy (NEE)	+10%
Pepsico (PEP)	+10%
Phillips 66 (PSX)	+8%
Prologis (PLD)	+10%

Q2 2023	
Company	Dividend Change
Ameriprise Financial (AMP)	+8%
Apple (AAPL)	+4%
Discover Financial (DFS)	+17%
Medtronic (MDT)	+2%
Paychex (PAYX)	+13%
Procter & Gamble (PG)	+3%

## 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.

<sup>1</sup> Source: Dow Jones U.S. Utilities Index, Dow Jones U.S. Real Estate Index

<sup>2</sup> Source: FactSet, FTSE Russell, NBER, J.P. Morgan Asset Management. Value is represented by the Russell 1000 Value Index and Growth is represented by the Russell 1000 Growth Index.

\*Long-term averages are calculated monthly since December 1997.

\*\*Dividend yield is calculated as the next 12-month consensus dividend divided by most recent price.

## ALLEY COMPANY

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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 originally 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](http://adviserinfo.sec.gov).*