

### QUARTERLY LETTER

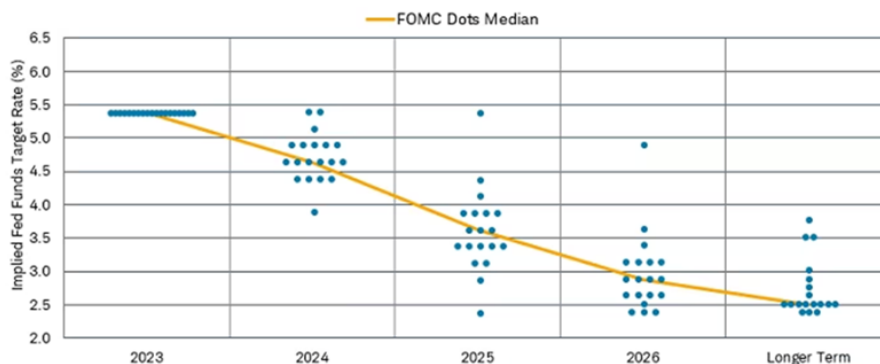
Stock and bond markets rallied in tandem during the fourth quarter of 2023, as the market began to price in the possibility that the Federal Reserve’s current interest rate hiking cycle is near its end. The “Magnificent 7” growth stocks continued to perform well in the period, but there was some indication of a broadening in performance. Notably, interest-rate sensitive stocks started to recover some of the losses that earlier interest rate hikes invoked.

Recent inflation data support the market’s view of the Federal Reserve’s potential interest rate path. Inflation marched downward to 3.4% as of December 2023 from a June 2022 peak of more than 9%.

All the while, the flip side of the Federal Reserve’s dual mandate of keeping prices stable and maintaining maximum employment was largely fulfilled. The December 2023 U.S. unemployment rate of 3.7% remained well below the 5.7% long-term average dating back to 1950<sup>1</sup>, while labor force participation among the important 25-54 age cohort rose to more than 83% from roughly 80% in early 2020.

Further, the economy showed signs of strength. Real gross domestic product (GDP) grew at an annual rate of 4.9% during 2023’s third quarter, and nonfarm labor productivity’s 4.7% annualized increase was its most rapid advance in three years.<sup>2</sup>

These competing factors obfuscate how the Fed will proceed, but the “dot plot” below indicates that the normalized Fed Funds rate in the future may well be at a lower level than it is today.



Source: Federal Reserve, Summary of Economic Projections, December 13, 2023

### PORTFOLIO MANAGEMENT TEAM

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Accordingly, today's 5% risk-free rate in money markets, CD's, and Treasury bills may be "here today, gone tomorrow." The implications of this for investors is that the comfort of holding cash equivalents could lose its luster rather suddenly and pose substantial re-investment risk.

Companies that pay attractive (and growing) dividends may well stand to benefit from the shifting interest rate landscape noted above. Investing in high quality, dividend paying companies has proven to be a timeless approach to generating attractive risk-adjusted returns.

## Quarterly Performance Update

During the fourth quarter of 2023, the Alley Company Dividend Portfolio outperformed the Russell 1000 Value Index. On a year-to-date basis, Dividend Portfolio performance modestly lagged the benchmark. 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 fourth quarter were:

Top Contributors	Top Detractors
US Bancorp (USB)	Chevron (CVX)
Discover Financial (DFS)	Cisco Systems (CSCO)
BlackRock (BLK)	Arthur J. Gallagher (AJG)

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
Real Estate (-)	Energy (+/-)
Technology (+)	Consumer Staples (-)
Financials (-)	Health Care (-)

Medtronic (MDT) was removed from the portfolio during the quarter. The company's supply chain and overall business challenges have resulted in uneven growth, with a turnaround that has been prolonged. WEC Energy Group (WEC) was added to the portfolio during the quarter. The company is positioned to continue its strong long-term track record of earnings and dividend growth, and interest-rate driven pressure on the utilities sector provided an attractive entry point.

## Dividend Announcements

Dividend announcements among Alley Company Dividend Portfolio holdings during the fourth 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 +6.5%.

Q4 2023	
Company	Dividend Change
Abbott Labs (ABT)	+8%
AbbVie (ABBV)	+5%
Amgen (AMGN)	+6%
Lockheed Martin (LMT)	+5%
Merck (MRK)	+5%
Snap-On (SNA)	+15%
US Bancorp (USB)	+2%

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%

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%

## 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> U.S. Bureau of Labor Statistics, retrieved from FRED, Federal Reserve Bank of St. Louis, J.P. Morgan Asset Management.

<sup>2</sup> Bureau of Economic Analysis (BEA), U.S. Bureau of Labor Statistics. Seasonally adjusted annual rate.

## 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.

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