

# High Excess Capital Yield and Sustainable Dividends

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## Strategy overview

Actively managed large cap value strategy that relies on fundamental research to capture the benefits of high excess capital yield and sustainable dividends.

### Key takeaways

- In 3Q 2024, equity markets had varied performance with broadening returns. Small- and mid-cap stocks led, and emerging markets rebounded strongly, especially in China. Falling interest rates boosted bond returns, and value stocks outperformed growth stocks, driven by defensives, cyclicals and banks. Technology saw a slight uptick in September but was muted compared to the first half of the year. AI remained a significant driver, rewarding companies involved in its development and integration.
- Looking ahead, the equity market outlook for the remainder of 2024 is cautiously optimistic despite expected volatility. Uncertainties around U.S. Federal Reserve policies, upcoming elections, and rising geopolitical tensions may cause fluctuations. However, potential buying opportunities in large-cap stocks and positive reactions to recent rate cuts, along with a strong labor market, could support equities.
- For the quarter ended September 30, 2024, the Strategy underperformed the Russell 1000 Value Index on a net asset value (NAV) basis due to unfavorable stock selection. Stock selection in consumer staples and, to a lesser extent, information technology contributed most to performance, while industrials and health care detracted.

## Portfolio review

**U.S. stocks advanced during the third quarter following the Fed implementing a larger-than-expected 50 basis points interest rate cut.** The S&P 500 Index rose by 5.89% and the Nasdaq Composite grew by 2.57% during the quarter. The utilities and real estate sectors led, while information technology and communications services lagged. Small cap stocks outperformed large caps and value significantly beat growth.

**U.S. bonds logged their first positive quarterly performance of 2024 in the past three months.** The Bloomberg U.S. Aggregate Bond Index rose by 5.20%. The 10-year U.S. Treasury yield fell from 4.48% at the beginning of July to 3.81% by quarter end (declines in the 10-year yield generally signal investor pessimism).

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**For the quarter ended September 30, 2024, the Strategy underperformed the Index on a NAV basis due to unfavorable stock selection.**

Stock selection within the consumer staples sector, and to a lesser degree the information technology sector, contributed the most to performance. Conversely, the selection in industrials and health care sectors detracted from performance.

**At the individual stock level, overweight positions in Philip Morris International Inc., Kenvue, Inc. and Lazard Inc. added the most to performance.**

Our overweight position in Philip Morris International, Inc. (PM) contributed favorably to performance during the quarter. The stock price rose in response to a strong earnings report driven by the continued success of its smokeless tobacco products and significant profit growth. The company also raised its full-year outlook. An overweight position in Kenvue, Inc. (KVUE) contributed to performance. KVUE outperformed due to better-than-expected organic growth and margin performance, with results ahead of expectations. Management's effective response to inventory replenishment and successful sales initiatives, along with significant gross margin improvement, contributed to the strong performance. An overweight position in Lazard, Inc. (LAZ) contributed to performance. LAZ outperformed due to strong advisory revenue growth which came in above expectations. Management's positive outlook on the merger and acquisition (M&A) environment and improving non-M&A advisory revenues also contributed to the stock's strong performance.

**An overweight position in Dollar General Corp., owning a non-benchmark position in BP p.l.c. and an overweight position in Raymond James Financial, Inc. were the biggest individual detractors.**

Our overweight position in Dollar General Corp. (DG) detracted from performance this quarter. The stock declined following an earnings announcement that adjusted annual sales forecasts downward, exacerbated by increasing competition in the budget retail sector. Our non-benchmark position in BP Plc (BP) detracted from performance this quarter. Profits were impacted by lower oil and gas prices. Additionally, increased investor caution regarding its balance sheet and capital allocation have contributed to the underperformance. Our overweight position in Raymond James Financial, Inc. (RJF) negatively impacted our performance this quarter. Early in the period, shares were pressured by concerns over potential cash sweep repricing in the brokerage industry.

## Current strategy and outlook

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**The stickiness of the “last mile” of inflation suggests the United States may be facing structural inflation**

**pressures**, driven by supply chain constraints and a tight labor market (despite disappointing job growth numbers, layoffs have not increased and unemployment remains at only 4.2%). Inflation that persists above 2% may prevent the Fed from cutting rates as aggressively as the market hopes. The anticipated rate cuts resemble past recession scenarios, but today's economic landscape differs significantly—the current economy does not seem to be on the brink of collapse. In fact, in Fed Chair Powell's words, “the U.S. economy is basically fine.” The temporary boost to the workforce from immigration and shift in consumer spending back to services have also helped dampen inflation, but these trends may not be sustainable.

**This disconnect could lead to increased volatility**, especially in the bond market, if the Fed's actual moves fall short of expectations. Investors should be prepared for potential sharp adjustments in pricing as the market navigates its perceptions this rate-cutting cycle.

## Holdings detail

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Companies mentioned in this report—percentage of Strategy investments, as of 09/30/24: Philip Morris International Inc. 2.14%, Kenvue, Inc. 2.40%, Lazard Inc. 1.57%, Dollar General Corporation 0.00%, BP p.l.c. 0.00%, Raymond James Financial, Inc. 0.00%, 0% indicates that the security is no longer in the portfolio. Portfolio holdings are subject to daily change.

## Read our [fund factsheet](#)

The **Russell 1000 Index** includes approximately 1000 of the largest capitalization securities within the float-adjusted, market-capitalization-weighted Russell 3000 Index. The **Russell 1000 Value Index** includes those Russell 1000 Index companies with lower price-to-book ratios and lower expected growth values.

Index returns do not reflect fees, brokerage commissions, taxes or other expenses of investing. **Investors cannot invest directly in an index.**

**All investing involves risks of fluctuating prices and the uncertainties of rates of return and yield inherent in investing. You could lose money on your investment and any of the following risks, among others, could affect investment performance. The following principal risks are presented in alphabetic al order which does not imply order of importance or likelihood:** Company; Convertible Securities; Credit; Currency; Dividend; Environmental, Social, and Governance (Equity); Foreign (Non-U.S.) Investments/ Developing and Emerging Markets; Interest Rate; Investment Model; Liquidity; Market; Market Capitalization; Market Disruption and Geopolitical; Mid-Capitalization Company; Other Investment Companies; Preferred Stocks; Real Estate Companies and Real Estate Investment Trusts; Securities Lending; Small-Capitalization Company; Value Investing. **Investors should consult the Fund's Prospectus and Statement of Additional Information for a more detailed discussion of the Fund's risks.**

The strategy is available as a mutual fund or variable portfolio. The mutual fund may be available to you as part of your employer sponsored retirement plan. There may be additional plan level fees resulting in personal performance that varies from stated performance. Please call your benefits office for more information.

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