Q2 | 2024 ALLEY COMPANY DIVIDEND PORTFOLIO

QUARTERLY LETTER

As background, it was about a year ago at this time that the Federal Reserve increased interest rates for an eleventh consecutive time to the current range of 5.25 – 5.50 percent. Despite this aggressive fight against inflation, the U.S. economy has proven to be more resilient than many economists and Wall Street pundits predicted.

Looking forward, while a bottom-up research process drives our decision making, an argument can be made that a constructive set of key fundamentals appear to be in place from a macro perspective as we outline in the sections below:

Inflation

The rate of inflation has declined significantly from the elevated levels that pandemic-induced supply/demand imbalances ushered in (see Exhibit 1). A lower rate of inflation is a major positive for both consumers and investors relative to the all-important purchasing power of assets. If the current disinflationary trend persists, it is highly likely that the Fed's next move would be to cut interest rates, which typically supports the expansion of gross domestic product (GDP). Meaningfully lower interest rates at the short end of the yield curve would have positive implications for the banking system, businesses with floating-rate debt, and, potentially, overall investor psychology.

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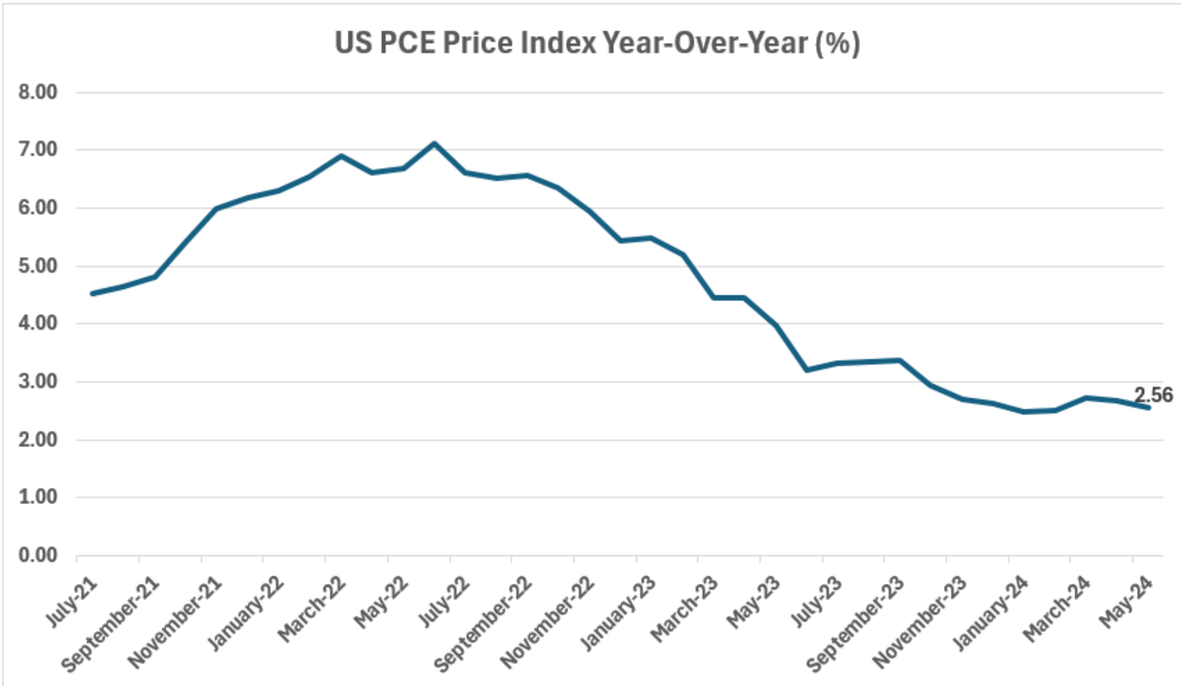
Exhibit 1: Personal Consumption Expenditures (PCE) Index – the Fed's Preferred Measure of Inflation

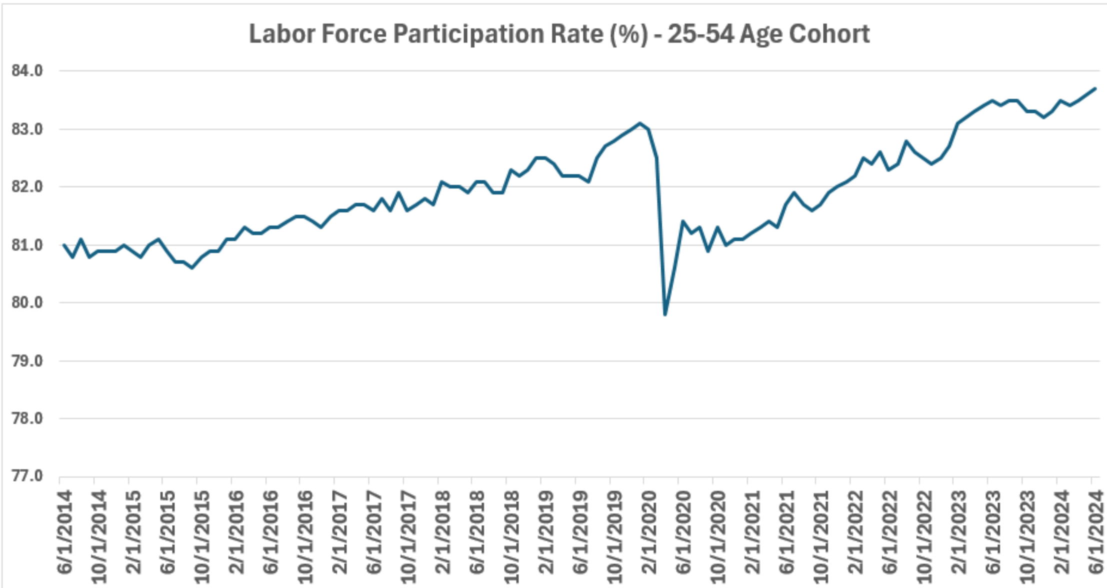


Source: YCharts, U.S. Bureau of Labor Statistics

Labor Market

While the labor market has cooled recently, at 4.1 percent, the unemployment rate is still near 50-year lows and well below the average rate of 6.2 percent. With consumption in the U.S. driving about two-thirds of GDP, the health of the labor market, and in turn the consumer, is of obvious importance. The chart below notes further strength, as the labor force participation rate among prime-age workers (e.g., age 25 – 54 cohort) has eclipsed pre-pandemic levels and now stands at a healthy 83.7 percent.

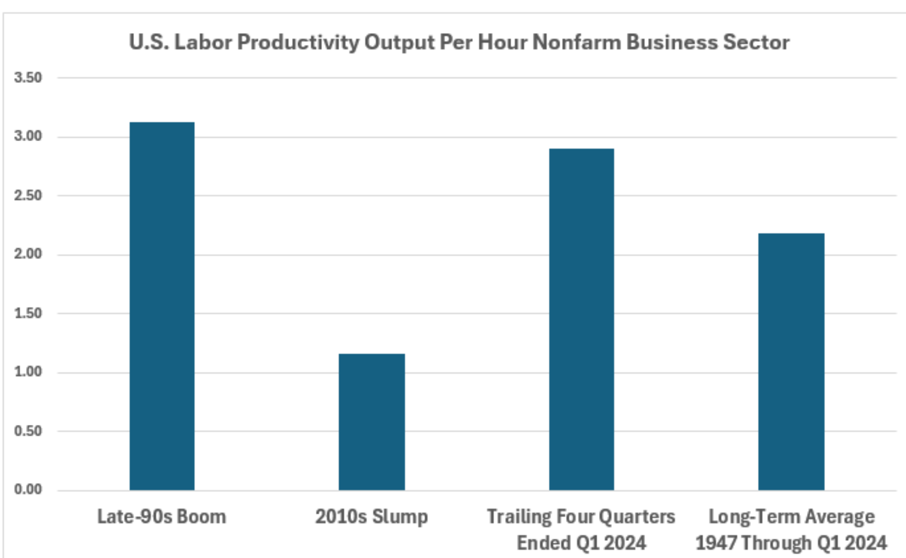
Exhibit 2: Prime-Age Labor Force Participation – Employed or Seeking Employment



Source: U.S. Bureau of Labor Statistics

Productivity

Productivity growth has experienced an uptick over the past year, as the third bar in the below chart depicts, and continued innovation and dynamism across Corporate America could fuel a sustained rally in this important economic metric. Productivity is the measurement of output per hour worked and is a key mechanism through which the economy can grow without consuming more resources and stoking inflation. Recent new-business creation and technological advancements are believed to be drivers of better productivity and sustained improvement would help economic growth and benefit Americans' standards of living.



Source: U.S. Bureau of Labor Statistics, Average Quarter-over-Quarter % Change (Annual Rate)

Market Narrowness

A narrow group of stocks, highlighted by the "Magnificent Seven," have driven recent market performance, which provides the opportunity for other areas of the market to play catch up and gain investor attention. For example, for the 3-year period ending June 30th, 2024, the market-capitalization-weighted S&P 500 Index advanced 10.0 percent annually while the average stock (equally weighted) in the index only advanced 4.8 percent. From a valuation perspective, while the S&P 500 Index trades at 21.0 times next 12-months earnings estimates, the median price-to-earnings ratio is lower at 17.8x and the value segment of the marketplace trades at 15.3x. [1]

Quarterly Performance Update

During the second quarter of 2024, the Alley Company Dividend Portfolio modestly outperformed the Russell 1000 Value Index.

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

Top Contributors	Top Detractors
Apple (AAPL)	Starbucks (SBUX)
Philip Morris (PM)	Prologis (PLD)
NextEra Energy (NEE)	Phillips 66 (PSX)

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
Technology (+)	Materials (-)
Communication Services (-)	Industrials (+)
Utilities (+)	Energy (-)

Portfolio Changes

During the quarter, Ameriprise Financial (AMP), JPMorgan Chase (JPM), Merck (MRK), Phillips 66 (PSX), and Microsoft (MSFT) weightings within the portfolio were all trimmed back largely due to position size discipline.

Concurrently, weightings in the following companies were increased: Abbott Laboratories (ABT), Accenture (ACN), Amgen (AMGN), NextEra (NEE), and Prologis (PLD). The decision to increase the weightings of these companies was a combination of attractive valuation and stable to improving long-term fundamentals.

Dividend Announcements

Dividend announcements among Alley Company Dividend Portfolio holdings during the first and second quarter are listed below.

Q2 2024	
Company	**Dividend Change**
Ameriprise Financial (AMP)	+10%
Apple (AAPL)	+4%
JPMorgan Chase (JPM)	+10%
Microchip Technology (MCHP)*	+0.4%
Paychex (PAYX)	+10%
Pepsico (PEP)	+7%
Phillips 66 (PSX)	+10%
Procter & Gamble (PG)	+7%

Q1 2024	
Company	**Dividend Change**
Arthur J. Gallagher (AJG)	+9%
BlackRock (BLK)	+2%
Chevron (CVX)	+8%
Cisco Systems (CSCO)	+3%
Home Depot (HD)	+8%
Microchip Technology (MCHP)	+3%
NextEra Energy (NEE)	+10%
Prologis (PLD)	+10%
WEC Energy Group (WEC)	+7%

*Microchip Technology (MCHP) of late has been increasing their dividend each quarter. Based upon the most recent announcement, the year over year increase is 18%.

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.

[1] Represented by the 12-month forward P/E ratio of the Russell 1000 Value Index

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 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