

QUARTERLY LETTER

The United States economy is on solid ground heading into 2025. Real gross domestic product (GDP) notched a 3.1% quarterly increase as of September 2024, its second consecutive quarterly increase following a 3% increase in the prior quarter.¹ The U.S. unemployment rate rested at 4.1% at 2024's close, well below its long-term average of 5.7% dating back to 1948.² Corporate earnings have followed suit, making record highs since the second half of 2023.

Amid this economic strength, the new year ushers in a presidential party change, and with that speculation about the long-term impact on the economy and markets. We don't ascribe a lot to politics in our investment decision making process. Our philosophy prioritizes company fundamentals, namely, investing in stocks that have consistent revenue, earnings and cash flow growth that tend not to be tied too much to the whims of the economy or political outcomes. It's also noteworthy that the stock market historically has tended to do about the same whether we have Republicans in power or Democrats, as the graph on the following page depicts.

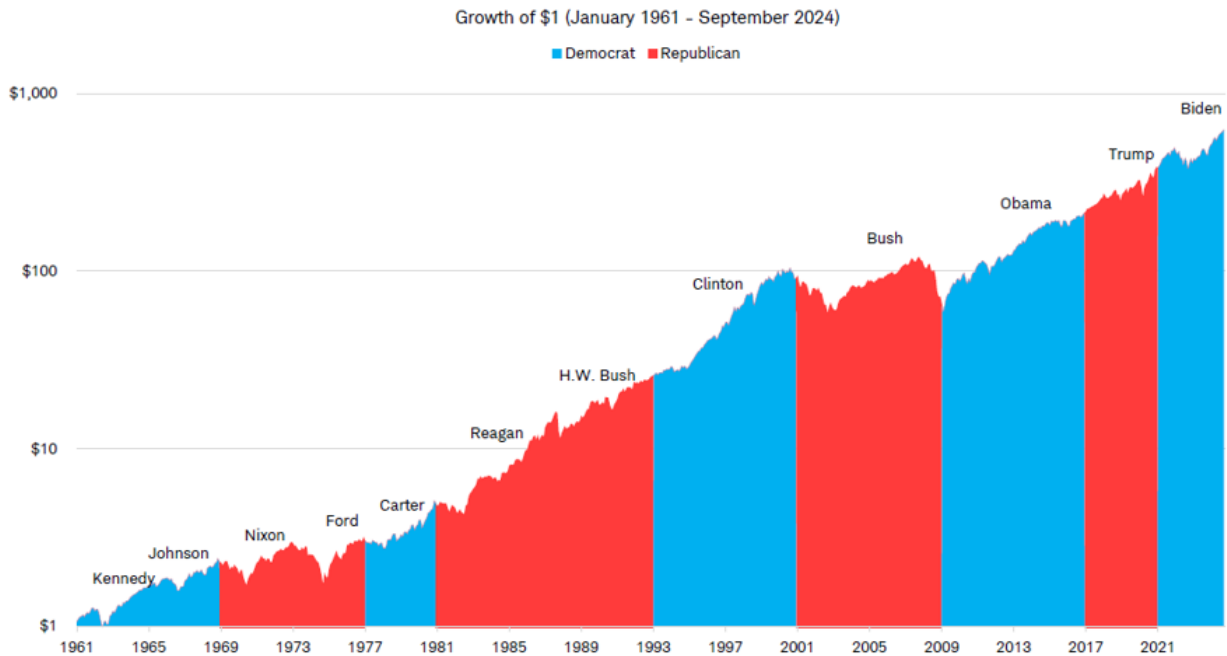
PORTFOLIO MANAGEMENT TEAM

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Politics versus sound investment principles

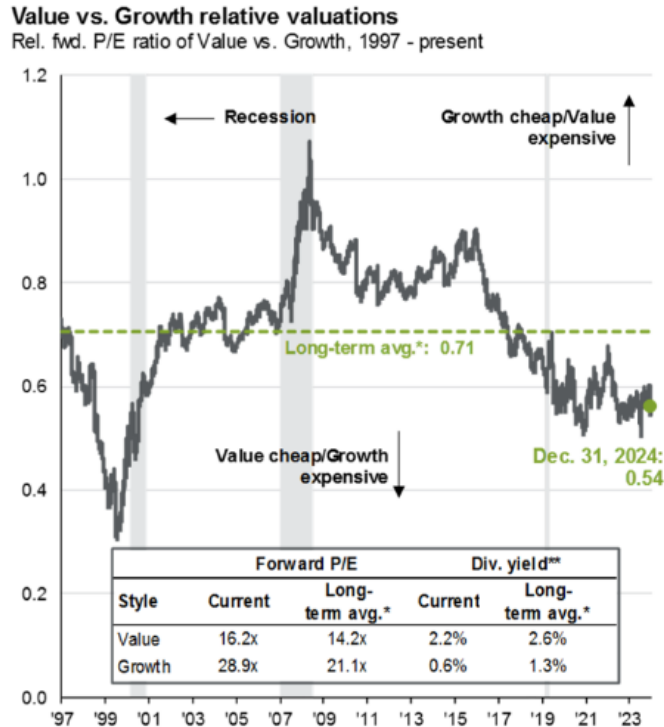
Elections are stressful and can create uncertainty and a lot of noise. Historically, markets have rewarded long-term investors regardless of the presidential party.



Source: Schwab Center for Financial Research, with data provided by Morningstar, Inc. The chart above shows the growth of \$1 invested in a hypothetical portfolio that tracks the Ibbotson U.S. Large Stock Index starting on January 1, 1961.

That said, in the short-term, political decisions can impact markets. There are pluses and minuses with the new administration's policy agenda. On the plus side, lower taxes and less regulation can foster animal spirits, which would be good for the economy and corporate earnings. Conversely, overreach on tariffs and deportation could reignite inflation. We'll watch these issues closely, but mostly take our cue from company-specific fundamentals.

Within the equity portion of an investor's strategic asset allocation, value stock prices continue to look appealing relative to their growth counterparts, as shown in the exhibit below. Pairing this relatively reasonable starting valuation with a robust economy that is set up to drive corporate profits higher, thereby enabling dividend-paying companies to return more cash to shareholders, makes for an attractive proposition, in our opinion.



Quarterly Performance Update

During the fourth 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 fourth quarter were:

Top Contributors	Top Detractors
Discover Financial Services (DFS)	Lockheed Martin (LMT)
JPMorgan Chase & Co (JPM)	Amgen (AMGN)
Snap-on (SNA)	Microchip Technology (MCHP)

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
Financial Services (+)	Materials (-)
Communication Services (-)	Healthcare (-)
Technology (+)	Real Estate (-)

Portfolio Changes

During the quarter, Merck (MRK) and Lockheed Martin (LMT) were reduced due to position size relative to fundamental outlook. PepsiCo (PEP) was sold due to secular industry headwinds related to obesity-drug adoption rates.

Concurrently, weightings in the following companies were increased: Duke Energy Corp (DUK) and Microchip (MCHP). The decision to increase the weightings of these companies was driven by attractive valuation and dividend yield.

Kenvue was added to the portfolio during the quarter. Johnson & Johnson (JNJ) spun off the company in mid-2023. The business is comprised of category-leading brands and trades at a discount relative to peers with similarly attractive product portfolios.

Dividend Announcements

Dividend announcements among Alley Company Dividend Portfolio holdings during the calendar year are below:

Q4 2024	
Company	Dividend Change
AbbVie (ABBV)	+5.8%
Amgen (AMGN)	+5.8%
Lockheed Martin (LMT)	+4.8%
Merk (MRK)	+5.2%
Microchip Technology (MCHP)*	+0.2%
Snap-on (SNA)	+15.1%
WEC Energy Group (WEC)	+7.1%

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%

Q3 2024	
Company	Dividend Change
Accenture (ACN)	+15%
Duke Energy (DUK)	+2%
Illinois Tool Works (ITW)	+7%
JPMorgan Chase (JPM)**	+9%
Microchip Technology (MCHP)*	+0.4%
Microsoft (MSFT)	+11%
Philip Morris International (PM)	+4%
Union Pacific (UNP)	+3%

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 3.6%.

**JPMorgan Chase has increased their dividend twice this year for a total increase of 19% compared to the prior year.

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. Source: U.S. Bureau of Economic Analysis

2. Source: U.S. Bureau of Economic Analysis, YCharts

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

The Alley Company Quarterly Letter 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. Additional information regarding Alley Company can be found by accessing the SEC's website at www.adviserinfo.sec.gov.