

Interview with the Core Equity Portfolio Manager

Interviewer: What is the Core Equity strategy?

Frank Pinkerton: The Core portfolio represents our analysts' "best ideas" across the entire Crawford research complex. First and foremost, Core is a total shareholder return portfolio. It is focused on companies with market capitalizations of \$1 billion and up. In keeping with Crawford's focus on quality, all of the companies owned pay dividends. What is unique about Core is that it has the ability to invest in almost all of the areas where the other Crawford portfolios are focused. In doing so, we are able to bring what we believe are the best ideas from each area together into one portfolio.

So the investable universe for Core must be pretty wide?

That's right. In Core, we can own companies that don't necessarily have the longer dividend-paying history required for our Dividend Growth strategy or the higher yield required for our Dividend Yield strategy. And we can own smaller sized and faster-growing companies that we invest in for our Small Cap and SMID strategies.

I would assume that, as the Portfolio Manager for the strategy, one of your challenges is narrowing that set of companies down to the appropriate candidates. How do you do this?

This is where our team of seven sector-specific analysts is very helpful. Each of us has a great deal of knowledge of our sector, and we work daily to identify the stocks we believe have the strongest total return potential. You are correct that my role is to sift through each analyst's best ideas and arrive at a portfolio that is diversified, avoids excessive risk/return concentration, and balanced in terms of market exposures.

You have used the term "best ideas" a few times. Can you explain what constitutes a best idea, in your view?

In addition to serving as the Portfolio Manager for the Core Equity strategy, I am the firm's Health Care analyst. As the Health Care analyst, this is an easy question to answer. Examples might include Pharmaceutical companies with the strongest pipelines of new drugs, Medical Device companies that have embraced technology in the fastest-growing markets, and Life Sciences companies that can deliver reliable products that allow companies to research and develop new products at a faster rate. As the Core Equity Portfolio Manager, I try to realize there are six other experts that can help me understand the best ideas in their sectors to the same extent I can do so in the Health Care sector. In many cases, this includes undervalued stocks where the covering analyst has a differentiated thesis.

Can you give any examples outside of the Health Care sector?

Interview

Of course. In the Real Estate sector, our analyst continues to be bullish about the build-out of data centers. Data centers are being developed to allow the largest Technology companies to enter and grow in the Artificial Intelligence (AI) space. This is a lower-risk way to participate in a significant growth area of our economy. Another example is the growth of e-gaming, which we have had exposure to in a number of ways, as our analysts across multiple sectors have realized the sustainable growth of this trend. Our Technology, Communication Services, and Consumer Discretionary analysts have all contributed to helping us identify the right companies in this area, and through collaboration, have brought best ideas forward. Is that helpful?

Yes, you've done a great job explaining the portfolio construction process, but what investor objectives are you trying to satisfy through this process?

By utilizing “best ideas” from across the Crawford research complex, we are seeking to satisfy the objective of earning attractive, risk-adjusted total investment return. At Crawford, all of our strategies help investors achieve a specific set of goals and solve for certain needs. Clients are attracted to the strategy because it has a higher focus on growth than other Crawford strategies. As a reflection of this, the strategy has larger allocations in Technology and other higher-growth areas of the market. Crawford clients that invest in Core are most typically participating in stocks of companies with higher revenue and earnings growth rates across various sectors of the market.

A higher level of total return typically insinuates a higher level of risk. Is this the case in the Core Equity portfolio?

Good question. When someone invests with Crawford, their individual risk tolerance is always taken into consideration, and this does narrow Core's applicability for some clients. While Core has an excellent history of dampening downward market movements because of the quality of the companies we hold, it will have some near-term swings that may at times be greater than Crawford's other large capitalization stock portfolios. Overall, we view the small amount of extra risk that clients take as “well worth it” to get the potentially higher return over the long run. However, we acknowledge that this may not be a good fit for some investors as not all of our clients can tolerate this higher degree of volatility. Depending on the client, owning the Core strategy and marrying this with an allocation to another Crawford portfolio or even a bond allocation may help best meet objectives, depending on the circumstances.

Let's talk more about risk. How are you viewing risk in the current market environment?

Today, it feels like we are in a period of heightened uncertainty given the recent disappointing unemployment report, pending interest rate reductions, and the increasing probability of a recession. However, we know that uncertainty is the only certainty. Regardless of the market environment, our goal with regard to risk management is to lower volatility, preserve capital, and increase the likelihood of achieving positive returns. In other words, we try to “smooth out the ride” for our investors. The best way to accomplish this is to own high-quality companies and to be valuation-sensitive, which means owning stocks where expectations are more reasonable and likely to be achieved.

As a result, Core almost always has lower volatility than its primary benchmark, the S&P 500 Index. Core should also have lower volatility than a total market index. And actually, we have a lot less volatility than the majority of our peers in the marketplace, which is consistent with our quality bias across all Crawford strategies. In other words, investing in high-quality

Interview

businesses enhances consistency and visibility, in turn, mitigating risk.

How does the Core Equity portfolio mitigate these risks?

It is sometime easiest to explain risk on an individual position level. For Crawford, the biggest component of risk reduction starts with our central process for screening, analyzing, and evaluating stocks. By simply requiring companies in Core to pay a dividend, risk is reduced. Each analyst then weighs the various potential outcomes for each company and determines if the potential reward is worth the risk. Risk is further reduced by the deep industry and sector expertise of each of our analysts, as they have vast experience uncovering businesses with sustainable quality advantages. Even if the stock market may not recognize that quality advantage over a short period of time, over the long term, the benefits will become apparent. Some of these benefits include consistent growth of dividends, profits, cash flows, and ultimately, growth in share prices.

At the portfolio level, we attempt to create a portfolio that is diversified across securities, position sizes, and areas of the market. We also use several models to track the portfolio's exposure to multiple factors. A factor is simply an outside influence that could move stock prices. These may include everything from a rise in oil prices to movements in interest rates or other potential influences.

Thanks for all of that detail. It might make sense to close by asking what company/quality attributes are particularly important in the current environment?

At Crawford, we believe that dividends are an indicator of quality. More specifically, dividends represent a company's ability to sustainably produce excess free cash flow and the willingness of a management team to reward shareholders. Aside from the dividend, we have various other quality metrics that we employ. Our analysts use different quality metrics for each sector because fundamental business drivers vary between sectors. Currently, we have a focus on high-quality balance sheets. This means we are more attracted to companies with lower levels of debt. Matching lower debt levels with our requirements for sustainable cash flow production should yield companies that not only can weather a downturn in the economy but could also benefit at the expense of weaker competitors. In conclusion, Core is constructed with companies that have higher-quality financial metrics such as stronger cash flow, higher margins, better balance sheets, and higher return metrics, which should allow them to outperform in many different environments.

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