

Stock Rating System

Investment Process and Philosophy

At Crawford Investment Counsel (Crawford), we adhere to a well-defined investment process, believe that an experienced and philosophically aligned investment team leads to better decision making, and we seek to always hold ourselves to the highest standards. We also firmly believe that in order to be successful, integrity must extend to every part of the investment research and decision-making processes. Our internal stock rating system is one component of our process that reflects these beliefs and serves as the primary communication mechanism resulting from a culmination of all of Crawford's accrued information and intelligence surrounding an investment opportunity. In short, we feel it reflects our comprehensive outlook for stocks owned and those under consideration.

We utilize a formal, subjective stock rating system to communicate how we are evaluating individual investment opportunities. Within our team of seven senior equity research analysts, each assigns a rating to the companies under their purview, as each covers companies in a particular sector of the economy. We believe our analysts' deep knowledge of these areas of the market helps us in making more informed investment decisions and recommendations.

The primary purpose of our rating system is to communicate our sector-specific analysts' overall sentiment and individual outlook for key drivers of stock returns. The ratings are numerical values that are updated regularly as conditions dictate, and any changes in ratings serve as an impetus for formal discussion amongst the investment team. The time period for the ratings outlook is three years, which we believe strikes a favorable balance between seeking timely investment recommendations and honoring the firm's low turnover rate and longer-term horizon. We note that the team relies heavily on the sponsoring analyst's ratings but seek to prioritize overall portfolio objectives and considerations.

Our rating system is comprised of three factors that are applied to the stocks owned and followed for all Crawford strategies. In essence, the framework for this rating system consists of Valuation, Fundamentals, and an Overall rating. We use two different numerical scales, one for mid and large cap companies, which ranges from 1-3, and one for small cap companies, which is more nuanced and ranges from 1-5. The varying scales most frequently relate directly to the differing position sizes across the respective portfolios. In both cases, a "1" rating is the highest.

Valuation. The first rating, Valuation, acknowledges that the price paid for any investment has a significant influence on the potential return. We are price-sensitive investors, and our conviction for any given investment opportunity is always contingent on its valuation. We believe the best conditions for purchasing

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high-quality stocks are when short-term interruptions in the long-term growth trajectory drive prices down to a point where these stocks can be purchased at a discount, which corresponds to an elevated dividend yield.

In determining ratings, our sector-specific analysts will compare where companies are valued on an absolute basis both today and historically. In addition, our analysts consider the relative historical valuation relationship of the company to its peers and to the market as a whole. Our value orientation and price sensitivity reflect the belief that valuation is an important component of both return and risk.

In determining a Valuation rating, our analysts are making a judgement as to the value of the current operations, income/return of capital, and importantly, the growth aspects of the business relative to the price. The valuation rating ties directly into the firm's Total Shareholder Return (TSR) outlook. To give an example, for a mid or large cap company, a "1" rating on valuation implies an expectation for rising multiples (at least on a relative basis), a "2" suggests more of a neutral outlook for valuation, and a "3" signals that the analyst expects the valuation to compress or shrink.

Fundamentals. Through the Fundamental rating, our analysts make a judgement on the growth potential of the company and whether business conditions and operations are improving at a steady state or deteriorating. While not an exact determinant of the Fundamental rating, quality is an implicit factor that is captured. In the lexicon of finance, quality means something quite different than in everyday usage. In finance, a firm is considered to be of high quality if its earnings and dividends exhibit an unusual level of consistency and growth through time. It is our belief that the more predictable future earnings and dividends are, the more accurately and precisely one can forecast the returns that accrue to shareholders.

All of our strategies are rooted in quality, and our research process starts with the dividend. We consider a company's dividend history to be an excellent indicator of quality, and since all of our strategies are comprised of companies that pay dividends, other factors such as return of capital, earnings stability, margins, balance sheet strength, free cash flow generation, consistency, and visibility are also considered in the Fundamental rating.

Our firm's philosophy revolves around narrowing the range of potential investment outcomes, so only those businesses in which we can gain a high degree of confidence are afforded a "1" rating on fundamentals. Our analysts seek companies where there is growth in intrinsic value year in and year out, particularly where this growth potential may be under-appreciated or overlooked by the market. A benefit of our investment approach is that this is typically also reflected in the dividend pattern. In a best case scenario, the analyst identifies a consistent company where we believe the fundamentals will improve more rapidly or more sustainably than consensus expectations. Most typically, this is a time arbitrage where investors with shorter-term time horizons mark down the price of a stock to levels that do not fully reflect the longer-term fundamentals. This is one of the behavioral dynamics that creates opportunities for investment.

Overall. After consideration of both the Valuation and Fundamentals ratings, the analyst determines

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an Overall rating. The analyst considers the previous two metrics in combination to communicate an overall determination on the value at which we could buy the operations of the company. The goal of our investment process is to identify fundamentally strong companies and buy them when we believe they are undervalued by the marketplace. In other words, we seek to identify high-quality companies with a more balanced risk/reward trade-off; invest in them when they are under-appreciated and undervalued by the marketplace; and let the fundamental progress, valuation improvement, and dividend all contribute to the total investment return. A “1” overall rating would suggest that the company is priced at an attractive valuation and is fundamentally strong with favorable prospects for growth. These are the kinds of companies we prefer to hold.

Our emphasis on quality is prevalent in every aspect of our internal rating system because our investment team members have experienced the long-term benefits of including quality in the investment equation. In other words, each one of our analysts is philosophically aligned with our investment process and portfolio objectives, in turn serving to reinforce our bias and strengthen our ability to make sound investment decisions. In sum, we believe that through constructing a portfolio of undervalued, high-quality securities, we can participate in rising markets and protect capital in down markets.

Crawford Investment Counsel Inc. (“Crawford”) is an independent investment adviser registered under the Investment Advisers Act of 1940, as amended. Registration does not imply a certain level of skill or training. More information about Crawford including our investment strategies and objectives can be found in our ADV Part 2, which is available upon request. This material is distributed for informational purposes only. The opinions expressed are those of Crawford. The opinions referenced are as of the date of publication and are subject to change due to changes in the market or economic conditions and may not necessarily come to pass.

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