# Dividend Select Quarterly Commentary

2020: Third Quarter

Argent

## Performance Summary

For the third quarter of 2020, the Argent Dividend Select strategy outperformed its benchmark, returning 8.3% net of fees, compared to a return of 5.6% for the Russell 1000 Value® Index. As of September 30th, 2020, the strategy's dividend yield was 3.0%, ahead of both the S&P 500® Index at 1.8% and the Russell 1000 Value at 2.7%.

| Performance Summary as of September 30, 2020 | % | 3Q20 | YTD | 1 Year | 3 Year* | 5 Year* | 10 Year* | 15 Year* | Since Inception* |
|---|---|---|---|---|---|---|---|---|---|
| Argent Dividend Select | Gross | 8.39 | -3.31 | 3.92 | 5.73 | 9.32 | 11.44 | 8.56 | 8.59 |
| | Net | 8.31 | -3.52 | 3.63 | 5.43 | 8.99 | 11.05 | 8.08 | 8.10 |
| Russell 1000 Value | | 5.59 | -11.58 | -5.03 | 2.63 | 7.66 | 9.95 | 6.35 | 6.58 |

*Annualized

For comparison purposes, the strategy is measured against the Russell 1000 Value® Index. Past performance is no guarantee of future results. Data is as of 09/30/20 and is supplied as supplemental information to the composite disclosures presented later in this document. Russell Investment Group is the sources and owner of the Russell Index data contained or reflected in this material and all trademarks and copyrights related thereto. The presentation may contain confidential information and unauthorized use, disclosure, copying, dissemination or redistribution is strictly prohibited. This is a presentation of Argent. Russell Investment Group is not responsible for the formatting or configuration of this material or for any inaccuracy in Argent's presentation thereof.

Both stock selection and allocation were positive contributors to performance for the quarter. Stock selection was the largest driver. On a sector basis, Consumer Discretionary and Industrials drove performance while Health Care was the largest detractor.

Within Consumer Discretionary, both allocation and selection contributed to performance. Target Corporation was the key driver of outperformance, gaining more than 31% for the three month period ending September 30th, well ahead of the 15% gain for the overall sector for the same time period. Target's strong performance was fueled by better-than-expected earnings results. The company posted an eye-popping 24% increase in same-store-sales. These results were buoyed by a nearly 200% increase in the company's e-commerce business. A key part of Target's success has been its ability to offer same-day options (pick up in store/drive up/Shipt) to consumers. These distribution channels exhibited a 300% increase during the quarter. The results validated Target's omnichannel approach and reinforced the company's status as a leader in retail.

Driven by stock selection, the Industrial sector was a positive contributor during the quarter. United Parcel Service, Inc. (UPS) added significant value as the stock climbed more than 50% for the period. Under the leadership of Carol Tome, the company's new Chief Executive Officer, UPS is focused on becoming "better, not bigger." This transformation should help UPS deliver significantly improved profitability and cash flow returns relative to its history. Carol Tome joined UPS from The Home Depot, Inc. where she is credited for leading a successful operational turnaround. Her "focus on returns" playbook, coupled with improving industry dynamics, should improve the company's pricing power across the industry.

Stock selection in Health Care detracted during the quarter. The underperformance was attributable to our investments in the biotech industry, specifically, Gilead Sciences Inc. and AbbVie, Inc. Drug pricing concerns have continued to create uncertainty for investors as health care affordability remains a top agenda item for both political parties ahead of the November elections. Gilead Sciences recently announced the largest acquisition in its history, agreeing to purchase Immunomedics, Inc. in an all-cash deal totaling $21 billion. The acquisition illustrates Gilead's continued growth strategy of expanding beyond HIV and into Oncology. Shares of AbbVie underperformed during the quarter after it was reported that the company would be subpoenaed by the House Oversight Committee regarding pricing for the company's largest drug, Humira. The headlines are a reminder to investors of the uncertainty facing the industry heading into election season. Regardless of the outcome of the election, we continue to believe that any regulatory action regarding pharmaceutical pricing will be manageable.

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## Market Commentary

Despite a tumultuous September, stocks ended the third quarter with solid gains. Uncertainty still remains around COVID-19, future economic stimulus and the presidential election, yet markets continue the recovery that began in early April. Several tailwinds such as past economic stimulus, the Federal Reserve's zero interest rate policy and the promise of another federal relief package has kept the expectations of investors high. As the calendar turned to October, the U.S. Presidential election moved front and center on investors' minds.

Quarterly Attribution Analysis, September 30, 2020
Argent Dividend Select Strategy vs. Russell 1000 Value Index*

| | Argent Dividend Select | | | Russell 1000 Value | | | Variation | | | Attribution Analysis | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Average Weight | Total Return | Contribution to Return | Average Weight | Total Return | Contribution to Return | Average Weight | Total Return | Contribution to Return | Allocation Effect | Selection + Interaction | Total Effect |
| Comm. Services | 6.63 | 14.30 | 0.92 | 9.48 | 7.88 | 0.74 | -2.84 | 6.42 | 0.18 | -0.05 | 0.40 | 0.34 |
| Cons. Discretionary | 10.48 | 25.33 | 2.44 | 7.24 | 15.37 | 1.02 | 3.24 | 9.97 | 1.42 | 0.30 | 0.94 | 1.24 |
| Consumer Staples | 9.60 | 8.27 | 0.81 | 8.25 | 9.09 | 0.73 | 1.35 | -0.82 | 0.08 | 0.06 | -0.08 | -0.02 |
| Energy | 2.75 | -18.81 | -0.54 | 4.72 | -19.54 | -0.98 | -1.97 | 0.73 | 0.44 | 0.48 | 0.03 | 0.51 |
| Financials | 22.67 | 4.01 | 0.94 | 18.30 | 3.70 | 0.69 | 4.37 | 0.31 | 0.24 | -0.09 | 0.09 | -0.00 |
| Health Care | 10.14 | -3.19 | -0.43 | 14.23 | 7.07 | 1.02 | -4.09 | -10.27 | -1.44 | -0.09 | -1.06 | -1.15 |
| Industrials | 9.78 | 22.90 | 1.99 | 12.60 | 11.52 | 1.36 | -2.82 | 11.37 | 0.63 | -0.16 | 0.96 | 0.80 |
| Technology | 15.59 | 6.08 | 0.93 | 9.76 | 0.06 | 0.02 | 5.83 | 6.01 | 0.91 | -0.43 | 0.95 | 0.53 |
| Materials | 4.79 | 19.38 | 0.86 | 4.67 | 11.96 | 0.53 | 0.11 | 7.42 | 0.33 | 0.01 | 0.32 | 0.33 |
| Real Estate | 6.15 | 6.67 | 0.41 | 4.81 | 2.01 | 0.10 | 1.34 | 4.66 | 0.31 | -0.04 | 0.28 | 0.24 |
| Utilities | -- | -- | -- | 5.94 | 5.79 | 0.36 | -5.94 | -5.79 | -0.36 | -0.00 | -- | -0.00 |
| Cash | 1.41 | 0.02 | 0.00 | -- | -- | -- | 1.41 | 0.02 | 0.00 | -0.07 | -- | -0.07 |
| Total | 100.00 | 8.33 | 8.33 | 100.00 | 5.59 | 5.59 | -- | 2.74 | 2.74 | -0.09 | 2.83 | 2.74 |

*This is based on the holding history of a representative portfolio of the Argent Dividend Select Strategy. The information provided in this report should not be considered a recommendation to purchase or sell any particular security. You should not assume that investments in any securities within these sectors were or will be profitable. A list of stocks recommended by Argent in the past year is available upon request. Past performance is no guarantee of future results.

## Top Contributors

**Target Corporation-** Target was the key driver of outperformance, gaining more than 31% for the three month period ending September 30th, well ahead of the 15% gain for the overall sector for the same time period. Target's strong performance was fueled by better-than-expected earnings results. The company posted an eye-popping 24% increase in same-store-sales. These results were buoyed by a nearly 200% increase in the company's e-commerce business. A key part of Target's success has been its ability to offer same-day options (pick up in store/drive up/Shipt) to consumers. These distribution channels exhibited a 300% increase during the quarter. The results validated Target's omnichannel approach and reinforced the company's status as a leader in retail.

**United Parcel Service, Inc.-** United Parcel Service (UPS) added significant value as the stock climbed more than 50% for the period. Under the leadership of Carol Tome, the company's new CEO, UPS is focused on becoming "better, not bigger." This transformation should help UPS deliver significantly improved profitability and cash flow returns relative to its history. Carol Tome joined UPS from The Home Depot where she is credited for leading a successful operational turnaround. Her "focus on returns" playbook, coupled with improving industry dynamics should improve the company's pricing power across the industry.

**Air Products and Chemicals, Inc.-** Air Products remains a leader in the manufacturing and distribution of industrial gases. Air Products remains at the forefront of mega themes largely around the energy transition. One such example is its leadership position in "green" hydrogen. As demand for clean energy and renewables continues to grow, Air Products remains well-positioned to capitalize on these trends.

**Eaton Corporation plc.-** Eaton serves end markets ranging from Hydraulics, Aerospace and Automotive. The company is positioned to benefit from a rebound in industrial production following the COVID-related global shutdown. In addition to improving end markets, Eaton has been successfully executing on a restructuring plan aimed at improving profitability and cash flow generation.

**Comcast Corporation-** Comcast Corporation was a key contributor during the quarter following a positive business update from the company's CEO, Brian Roberts. Comcast is expected to have its best-ever quarter in terms of broadband additions. The company continues to benefit from the positive structural forces driving higher broadband usage. In addition to the positive business update, investors cheered news of an activist investor, Trian, accumulating 20 million shares.

## Top Detractors

**Crown Castle International Corp**.- Crown Castle operates as a real estate investment trust. Crown Castle owns, operates and leases cell towers and other infrastructure for wireless communications. The company was founded in 1994 and is headquartered in Houston, Texas. Recently, Crown Castle took a different strategy than its main competitors. In addition to owning cell towers, Crown Castle began investing in small cell and fiber networks–a new way of expanding its wireless coverage. This change is important as wireless carriers roll out new 5G infrastructure (the next generation of wireless connectivity). Elliot Management, an activist shareholder, has been pushing Crown Castle to focus more on shareholder returns. With the build-out of the 5G market, increasing demand for small cell networks and an activist shareholder, we believe the company has a long runway for sustainable sales and dividend growth.

**Principal Financial Group, Inc.-** Principal Financial Group Inc. provides retirement savings, investment and insurance products and services. The company's United States and international operations are also engaged in asset accumulation and management. In addition, Principal Financial Group provides a range of insurance products, including individual and group life insurance, group health insurance, individual and group disability insurance and group dental and vision insurance. Principal Financial Group has been growing two of its most profitable businesses: International Insurance and Principal Global Investors. This has allowed Principal Financial Group to increase its return on assets.

**Chevron Corporation-** The energy sector remained a source of weakness throughout the quarter as concerns surrounding the demand outlook for oil continued to weigh on both the commodity and share prices of energy companies. Chevron remains a leading company in the oil and gas industry supported by the strength of its balance sheet. Until the fundamentals for oil demand improve, however, Chevron will remain the "best house in a bad neighborhood." We continue to own Chevron because of its strong balance sheet and 7% dividend yield, however, should fundamentals not improve we will look to sell for more attractive opportunities.

**Gilead Sciences, Inc.-** Drug pricing concerns have continued to create uncertainty for investors as health care affordability remains a top agenda item for both political parties ahead of the November elections. Gilead Sciences recently announced the largest acquisition in its history, agreeing to purchase Immunomedics in an all-cash deal totaling $21 billion. The acquisition illustrates Gilead's continued desire to expand beyond HIV and into Oncology.

**Abbvie, Inc.-** Shares of AbbVie, Inc. underperformed during the quarter after it was reported that the company would be subpoenaed by the House Oversight Committee regarding pricing for the company's largest drug, Humira. The headlines are a reminder to investors of the uncertainty facing the industry heading into election season. Regardless of the outcome of the election, we continue to believe that any regulatory action regarding pharmaceutical pricing will be manageable.

## Buys

**Medtronic plc-** Medtronic is a leading medical device company. The company's business has been significantly impacted by the reduction, and in some cases, elimination of elective procedures in hospitals as a result of COVID-19. This has caused the stock to trade at an attractive valuation. Medtronic is being led by a new CEO with a track record of driving growth through both innovation and acquisitions. While Argent can't predict the trajectory or timing of the recovery in its business, we see the potential for acceleration with Medtronic's market-leading positions, deep pipeline across its business segments and new CEO focused on driving accelerating growth.

**Union Pacific Corporation-** Union Pacific Corporation is a railroad holding company established in 1969 and is headquartered in Omaha, Nebraska. It is the parent company of the Union Pacific Railroad. Its rail network links the Pacific Coast and Gulf Coast ports with the gateways of the Midwest and Eastern United States.

Union Pacific is focused on driving increased efficiency across its railroad network. The company has implemented a methodology called Precision Scheduled Railroading or, PSR. PSR is used in the rail industry to transport the same, or an incremental amount of freight, with fewer rail cars using a more simplified, direct line of transport across a network. We believe this system should have a positive impact on the company's cash flow. The positive systems improvements along with a track record of consistent dividend growth make Union Pacific Corporation an attractive addition to the Argent Dividend Select strategy.

## Sells

**ConocoPhillips-** ConocoPhillips is a major oil exploration and production company based in Houston, Texas. The company was formed in August 2002 when Phillips Petroleum acquired Conoco Inc. Conoco has cut its capital spending in order to preserve liquidity, and although this will increase the company's financial strength, it will decrease the company's hydrocarbon production in the future. Due to COVID-19, the company faces strain as the energy sector has come under pressure over decreased demand for oil. Given the declining growth prospects for the company and its continued cash drain, we exited the position.

| Argent Dividend Select Strategy Top Contributors and Detractors for Quarter Ending September 30, 2020* | | | | | |
|---|---|---|---|---|---|
| Top Contributors | Avg. Weight | Total Effect | Top Detractors | Avg. Weight | Total Effect |
| Target Corporation | 6.14 | 1.33 | Crown Castle International | 2.68 | -0.16 |
| United Parcel Service, Inc. | 2.86 | 0.95 | Principal Financial Group | 2.54 | -0.17 |
| Air Products and Chemicals, Inc | 2.89 | 0.40 | Chevron Corporation | 2.28 | -0.30 |
| Eaton Corp. Plc | 3.68 | 0.38 | Gilead Sciences, Inc. | 2.01 | -0.37 |
| Comcast Corporation | 3.67 | 0.28 | AbbVie, Inc. | 2.89 | -0.47 |

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## Portfolio Positioning

During the third quarter the Russell 1000 Value® Index continued its rebound, gaining 5.6%. For the year, the index remains in negative territory, down 11.6%, after suffering a 27% drop during the first quarter of the year. Investors have shifted from evaluating the economic impact of a global lockdown to tracking recovery on a country by country basis. Much of the world is successfully navigating the reopening phase and global markets reflect that success. However, uncertainty remains high. Second wave scenarios and upcoming November elections are key near-term considerations. For long-term investors, uncertainty creates opportunity and our focus during the third quarter has remained on investing in companies that offer durable cash flow businesses that are positioned to not only lead in good times, but build upon their leadership during times of uncertainty. A key underpinning of the stock market's resilience has been the fact that economies across the globe are rebounding at a faster-than-expected rate. The backdrop of an improving economy, along with the potential for a vaccine to become widely available in 2021, are reasons we are optimistic about the stock market in general and companies that are more economically sensitive.

Our overweight in Financials illustrates this belief. Cyclical companies (those companies with a higher degree of economic sensitivity) are becoming an area of strength in the stock market. History has shown that cyclical strength is often followed by rising longer-term interest rates. This scenario, if it were to occur, would be a strong catalyst for Financials and a positive surprise for investors in an area of the stock market where valuations remain well below historical norms.

Our belief that the world economy is healing drove our decision to initiate a position in Union Pacific Corporation during the third quarter. Union Pacific is a best-in-breed railroad operator. Industrials will continue to benefit from an improving macroeconomic backdrop. The addition of Union Pacific increased our exposure to Industrials.

Despite our increasing long-term optimism for the stock market, short-term uncertainties loom. We aim to add value and keep it for our clients. Downside capture has been a key positive characteristic of Argent's Dividend Select strategy since inception. A reason for this has been our focus on high-quality companies with strong balance sheets and a proven ability to grow both cash flows and dividends over time. Dividend growers naturally offer investors a buffer during drawdowns in the stock market thanks to both a return from the dividend itself but also the reduced volatility offered by companies that focus on prudent and sustainable capital allocation philosophies. Since the strategy's inception, downside capture is just over 84%.

Sincerely,

**Argent Dividend Select Team**

Argent

| For the period ending December 31, | Gross-of-Fees (%) | Net-of-Fees (%) | Russell 1000 Value Return (%) | Composite 3-Yr St. Dev (%) | Russell 1000 Value 3-Yr St Dev (%) | Number of Composite Accounts | Composite Assets ($ millions) | Principal Business Assets ($ millions) | Internal Dispersion (%) |
|---|---|---|---|---|---|---|---|---|---|
| 2019 | 26.98 | 26.62 | 26.54 | 11.8 | 11.85 | 213 | 642 | 3,019 | 0.58 |
| 2018 | -10.47 | -10.73 | -8.27 | 10.3 | 10.82 | 209 | 528 | 2542 | 0.65 |
| 2017 | 16.84 | 16.49 | 13.66 | 8.97 | 10.2 | 203 | 611 | 2,898 | 0.38 |
| 2016 | 13.54 | 13.18 | 17.34 | 9.59 | 10.77 | 192 | 540 | 2604 | 0.66 |
| 2015 | 3.88 | 3.55 | -3.83 | 10.57 | 10.68 | 178 | 452 | 2,357 | 0.38 |
| 2014 | 10.24 | 9.88 | 13.45 | 9.28 | 9.2 | 155 | 404 | 2817 | 0.38 |
| 2013 | 36.93 | 36.5 | 32.53 | 11.24 | 12.7 | 115 | 282 | 2,478 | 2.3 |
| 2012 | 14.82 | 14.36 | 17.51 | 14.34 | 15.51 | 75 | 113 | 1782 | 0.57 |
| 2011 | 3.71 | 3.08 | 0.39 | 17.87 | 20.98 | 25 | 42 | 1,247 | 1.43 |
| 2010 | 12.97 | 12.31 | 15.51 | 20.57 | 23.18 | 11 | 8 | 1145 | 1.33 |
| 2009 | 22.88 | 22.12 | 19.69 | 18.19 | 21.1 | 9 | 6 | 829 | 2.86 |
| Three Year* | 9.93 | 9.6 | 9.68 | | | | | | |
| Five Year* | 9.4 | 9.06 | 8.29 | | | | | | |
| Ten Year* | 12.27 | 11.85 | 11.8 | | | | | | |
| Information for period(s) ending September 30, 2020 | | | | | | | | | |
| 3rd Quarter 2020 | 8.39 | 8.31 | 5.59 | 17.83 | 18.08 | 232 | 555 | 2,663 | |
| 1 Year* | 3.92 | 3.63 | -5.03 | | | | | | |
| 3 Year* | 5.73 | 5.43 | 2.63 | | | | | | |
| 5 Year* | 9.32 | 8.99 | 7.66 | | | | | | |
| 10 Year* | 11.44 | 11.05 | 9.95 | | | | | | |
| 15 Year* | 8.56 | 8.08 | 6.35 | | | | | | |
| Since Inception* | 8.59 | 8.1 | 6.58 | | | | | | |

*Annualized

1. Argent Capital Management, LLC ("Argent") is an independent investment management firm comprised of two distinct business entities: the Non-Wrap Fee/SMA Business of Argent Capital Management, LLC ("Principal Business"), which does not include wrap fee/SMA clients; and the Wrap Fee/SMA Business of Argent Capital Management, LLC ("Wrap Business"), which includes only wrap fee/SMA clients. The Principal Business claims compliance with the Global Investment Performance Standards (GIPS) and has prepared and presented this report in compliance with the GIPS standards. The Principal Business has been independently verified for the period January 1, 2003 through December 31, 2019. The verification report is available upon request. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.

2. This composite represents investment performance for portfolios with an Equity Income investment objective for which Argent has sole investment discretion. Portfolios typically include the following as a percentage of total portfolio value: equity holdings (excluding mutual funds) greater than 80%; cash less than 10%; and fixed income, mutual funds and preferred investments less than 20%. This composite was created in September 2011. A complete list and description of composites is available upon request. The name was changed from Argent Large Cap Equity Income Composite to Argent Large Cap Dividend Select Composite in September 2012.

3. The benchmark is the Russell 1000 Value Index which measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower expected growth values. Performance results prior to December 31, 2012 were measured against the S&P 500 Index. Effective September 30, 2018 we will no longer present the S&P 500 Index. Russell Investment Group is the source and owner of the Russell Index data contained or reflected in this material and all trademarks and copyrights related thereto. The presentation may contain confidential information and unauthorized use, disclosure, copying, dissemination or redistribution is strictly prohibited. This is a presentation of Argent. Russell Investment Group is not responsible for the formatting or configuration of this material or for any inaccuracy in Argent's presentation thereof.

4. Valuations are computed and performance reported in U.S. currency. Performance results are total return, (i.e. include the reinvestment of all income). Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request. Past performance is no guarantee of future results.

5. Gross-of-fee returns are presented before management and certain custodial fees, but after all trading expenses except where commissions have been waived. Net-of-fees performance is calculated by reducing gross performance by actual management fees incurred. During 2019, the composite included portfolios where commissions were waived representing less than 20% of composite assets.

6. Standard annual advisory fees are calculated as a percentage of assets under management according to the following schedule: 1% on the first $1M, .80% on the next $2M, .65% on the balance thereafter, although fees may be negotiated or waived in certain circumstances. Non-fee paying accounts represent less than 1% of the composite assets during the periods of 2012 - 2019.

7. Internal dispersion is calculated using the asset-weighted standard deviation of all portfolios that were included in the composite for an entire year, net of fees.

8. The three-year annualized standard deviation measures the variability of the composite and the benchmark returns over the preceding 36-month period.