FourThought
PRIVATE WEALTH

FourThought Consistent Growers (FTCG)

Factsheet – March 2023

STRATEGY OBJECTIVE

FourThought's Consistent Growers strategy aims to deliver long-term growth and capital appreciation by investing in companies with proven track records of consistently growing free cash flow over time.

STRATEGY RATIONALE

Our investment process is based on identifying high-quality companies with unique value propositions, competitive advantages, and strong financial positions.

Portfolio returns are generated through the compound earnings growth of competitively advantaged companies owned for many years— we believe share prices follow earnings growth.

In FT CG, we use the guardrails of strong balance sheets, abundant free cash flow, strong ROE (> 20%), stable-to-improving margins, and real-organic revenue growth.

SECTOR	STRATEGY	R1000 Growth	DIFFERENCE
Consumer Staples	0%	6.0%	-6.0%
Healthcare	17.1%	11.6%	+5.5%
Utilities	0%	0.1%	-0.1%
Communications	8.1%	7.1%	+1.0%
Energy	0%	1.4%	-1.4%
Industrials	4.7%	7.6%	-2.9%
Technology	52.4%	42.6%	+9.8%
Materials	0%	1.1%	-1.1%
Consumer Discretionary	10.7	14.6%	-3.9%
Financials	7.1%	6.5%	+0.6%
Real Estate	0%	1.5%	-1.5%

TOP TEN HOLDINGS	WEIGHT	Long-Term EPS Growth Estimate	Return On Invested Capital
Alphabet	6.0%	18.0%	22.5%
Microsoft Corp	6.0%	15.0%	28.5%
Amazon.com	5.5%	30.0%	9.5%
Salesforce	5.5%	22.0%	4.1%
ASML Holding	4.6%	26.0%	31.8%
Illumina	4.5%	16.0%	N/A
Apple	4.0%	11.0%	48.0%
Nvidia	4.0%	25.0%	22.2%
Visa	4.0%	18.0%	21.9%
Adobe	3.5%	20.0%	29.0%

PORTFOLIO QUALITIES	FT CG	R1000 Growth
Positions	33	511
Forward Price/Earnings	32.1x	27.6x
Price/Earnings/Growth	2.8x	3.2x
Price/Cash Flow	41.6x	26.8x
LT Debt/Capital	31.2%	45.6%
Hist 3Yr Sales Growth	24.6%	18.2%
Est Long Term EPS Growth	18.0%	15.2%
Return on Equity	21.6%	32.3%
Operating Margin	22.3%	24.6%

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Portfolio Manager Commentary – March 2023

EXECUTIVE SUMMARY

- In the first quarter, we saw a flight to quality that was more consistent with past market drawdowns, in our opinion, as market participants became more focused on recession risk.

- FT CG benefitted over the quarter due to a strategic overweight in Technology stocks like Nvidia and Advanced Micro Devices as well as companies in the Materials sector such as Air Products & Chemicals.

- In Q1 we eliminated our position in Disney and opportunistically added to our position in Illumina, ASML, and Thermo Fisher Scientific.

- When appropriate, we used cash available in the model to accumulate shares of high-quality businesses that were trading at attractive valuations.

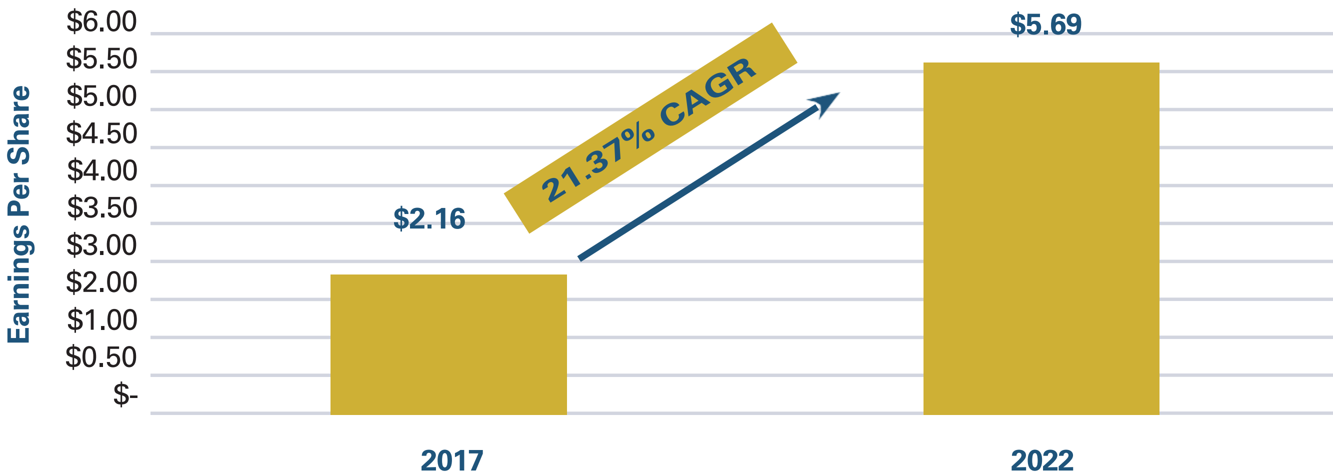
COMMENTARY

The investing landscape remains extremely challenging this year due to multi-decade high inflation and elevated interest rates aimed at dampening demand and eradicating inflation.

Today, we are primarily concerned with weakening earnings that could be felt by businesses if there is a pullback in consumer spending.

However, we expect our portfolio to see strong and accelerating EPS growth, and longer term, we believe our portfolio will continue to exhibit more durable earnings growth than the Indexes.

FT CG WEIGHTED AVERAGE EPS*



*FT CG Weighted Average EPS takes the current portfolio holdings at the current weight and their EPS from 2017-2022

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What Happapened In The Market

U.S. STOCKS

This quarter was very different than what we experienced in 2022, as technology, communications services, and consumer discretionary sectors were very strong while financials, energy, healthcare, and utilities all had negative returns. This is almost exactly the opposite of what we saw sector returns look like last year.

Late in the quarter we began to learn of certain bank funding and liquidity issues which drove the 10-year Treasury rates back to under 3.5% after peaking last year at approx. 4.5%. This led to a flight to quality in technology companies with pristine balance sheets and durable earnings growth potential.

ECONOMIC DATA

Annualized Q4 GDP for the US was 3.2% in December, which was stronger than the second estimate of 2.9%. Unemployment remains at 3.7%, as 263,000 jobs were added in November. The latest Consumer Price Index (CPI) print for November, showed inflation slowed to just 0.1% month-over-month versus October. We are seeing inflation moderate off the high of 9% in June. While inflation remains elevated yet at 7.1% year-over-year.

The Fed's final hike of the year was pared back to 50 bps after four consecutive 75 bps tightening moves. The policy rate is however expected to continue to climb in the first quarter of 2023.

SECTOR ANALYSIS

Most sectors rose over the quarter, a number climbing significantly. Energy stocks posted especially strong gains, with IOG holdings like Chevron and Phillips 66 posting record profits in the quarter.

Consumer discretionary was a notable exception, with Tesla's decline an outsized influence on the sector (note we don't own Tesla). However, within discretionary, our portfolio companies fared better than the rest of the sector with Best Buy and Home Depot leading. This was due to strong earnings results and sales guides.

Source: BlackRock Advisor Center/ American Funds/ Bureau of Labor Statistics (BLS)/ Federal Reserve Bank of Atlanta/J.P. Morgan Asset Management.

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HOW DID WE DO?

The top five performers in FourThought Consistent Growers over the first quarter were **Nvidia, Meta Platforms, MercadoLibre, Advanced Micro Devices and Salesforce.**

Each of these companies had negative narratives and stock performances last year, averaging returns of -51% in 2022. However, each gained nicely over the first quarter due to strong earnings results.

Nvidia (NVDA) had a strong earnings report in Q4 which sent the shares up over 13% the next day. Artificial Intelligence has been the major catalyst for NVDA with the rise of Chat GPT and other platforms. Management, seeing AI at an inflection point, announced they are partnering with major CSPs to offer AL cloud services.

Meta Platforms (META) *also saw a post-earnings bump in share price, mostly driven by lower operating expenditures and capital expenditures, leading to significantly higher free cashflow outlook than previously expected. META also authorized a $40bn share buyback program.*

The bottom performers in FourThought Consistent Growers over the first quarter were **Lockheed Martin, AstraZeneca, Mastercard**, and **Thermo Fisher Scientific**.

We saw a bit of weakness or underperformance relative to the benchmark from the more defensive companies in the strategy, a stark difference from what we experienced in 2022.

Lockheed Martin shares have corrected slightly after a great year in 2022 where shares appreciated by over 35%. *Recent earnings trends have been positive for LMT where Q4 results beat on both the top and bottom line.*

WHAT DID WE DO?

During the quarter, we eliminated our position in **Disney**, trimmed our position in Amazon, and added to our position in **ASML, Thermo Fisher,** and **Illumina**.

The decision to sell **Disney** was driven by our fundamental research process of the underlying business. We are remaining wary of the streaming services environment due to the immense competition and large amounts of capital investments required to remain a key player, making profitability less attainable.

We decided to add to **ASML** to take advantage of an incredible consistent grower with considerable competitive advantages at a very attractive price. **ASML** is a key player in technological innovation through their lithography machines which allow for accelerating innovation in computer chips.

ASML *is a classic "wide moat" company where competition is limited. These advantages help ASML keep the competition at bay.*

Adding to Thermo Fisher (**TMO**) and Illumina (**ILMN**) resulted in a broad increase to the healthcare industry in long-term consistent growers at very attractive prices.

TMO *is another "wide moat" company as the premier life sciences supplier with an unmatched portfolio of products, resources, and manufacturing capabilities.*

ILMN, on the other hand, is an innovative growth company in the genomic sequencing industry which is growing extremely quickly. Over the past decade, technological advancements in the sequencing industry have been largely led by Illumina.

We expect this leadership position to continue for the next decade and thanks to some weakness in operating results in 2022, we continued to add to our position.

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OUTLOOK

IOG held up well in a difficult environment in 2022. This was a result of the strategy's defensive position due to our dividend bias, low turnover, and long-time horizon approach.

Our bias towards targeting companies with a consistent dividend growth track record guides us to great companies with management teams that align their dividend policy with the profitability of the firm.

Another bias of the strategy is to invest in companies with durable competitive advantages. We believe that without competitive advantages any short-term success will be lost in competition. We focus on companies with wide protective moats that limit the ability of competition to encroach on their business.

As we head into 2023, we are confident that companies that have competitive moats and the discipline to consistently pay and grow their dividends will accomplish our long-term investment goals.

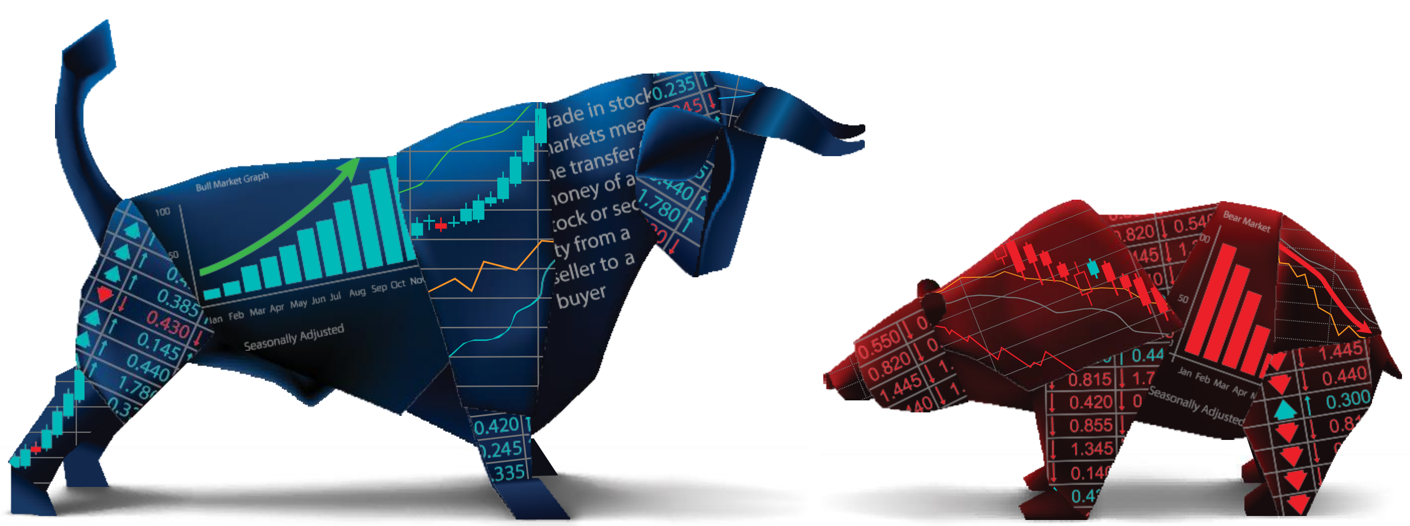
One core principle is that "We are not Gods." We can't predict what is going to happen. However, we are confident in the decision-making of world-class companies to navigate the risks.

Empirically speaking, we know that the market is forward-looking and will likely bottom well before the economy bottoms. Staying the course and focus on a diversified portfolio of high-quality dividend-paying stocks critical to achieving your planning goals.

INVESTMENT THEMES:

1. HEALTHCARE COMPANIES
- Strong pricing power
- Aging demographic
- Robust innovation & pipelines

2. MISSION CRITICAL TECHNOLOGY
- Semi-conductors
- Enterprise Technology
- Artificial Intelligence



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