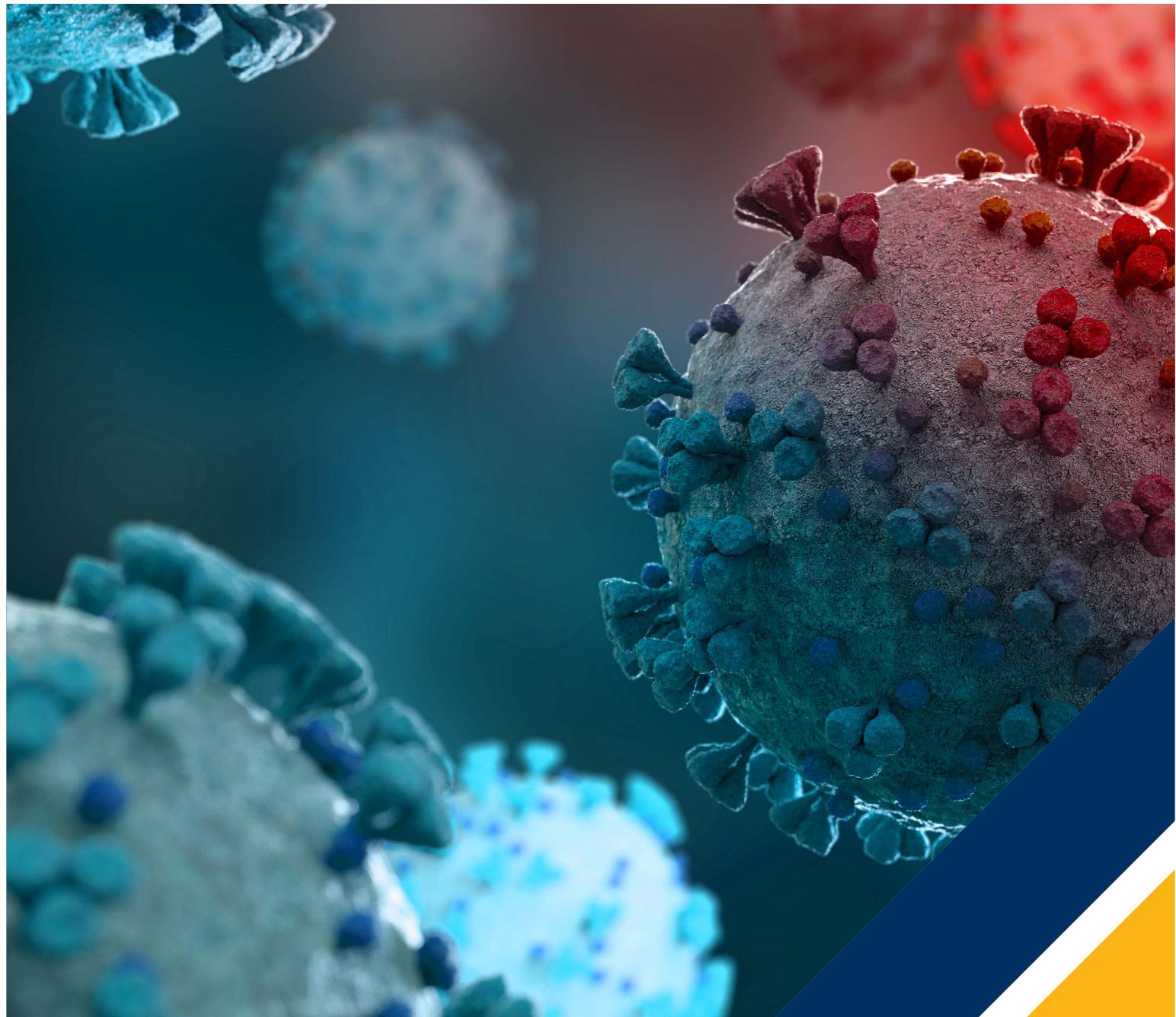




ADVISORS CAPITAL
MANAGEMENT



2020 REVIEW AND OUTLOOK

Q2



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Provided Quarterly By
ACM Investment Committee
June 30, 2020

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| Dr. Alan Greenspan, Senior Economic Advisor

Prior to the emergence of COVID-19, as I have previously indicated, the defining characteristic of the 21st century was the inexorable aging of its population. Almost a fifth of the population of the industrialized countries of the world were age 65 and older. In earlier centuries, the vast proportion of the population worked until they died. Retirement as we know it today was a rare outcome. As a political consequence, retirement benefits, especially Social Security and healthcare, escalated significantly and are now projected to expand materially further in the decades ahead.

As a consequence, pension funds and individual investors nearing retirement have been seeking means to sustain secure income further into the future, and thus the demand for safe long-term assets has risen significantly. For example, the yield on the 30-year US Treasury bond has declined by well over 1000 basis points since the early 1980s as demand for the security has increased.

For the United States, over the last half century, the sum of gross domestic savings and government social benefits payments (as a percent of gross domestic product) has remained a remarkably stable 30%. What has changed is the makeup of that sum—we can see from the data that the increase in social benefit payments has coincided with a nearly dollar for dollar decrease in gross domestic savings. Thus we infer that added spending on entitlement programs is crowding out gross domestic savings. For Britain and the rest of Europe, the relationships are similar. Most unexpectedly, they are for China as well.

COVID-19 is obviously a once-in-a-century force that has gripped the global economy. The unfortunate truth of the matter is we know virtually nothing for certain and all the “experts” are expressing not much more than informed guesses on where we will end up.

One of the consequences of confronting the COVID-19 crisis has been an increase in federal deficits already large enough to induce inflation. As they have in the past, federal budget deficits that are looming in our future will increase unit money supply which inevitably increases the rate of inflation. There is little change in my long-term outlook, which ultimately will be confronted with the inflationary increase in the impacts of rising unit money supply on inflation.

At some point, the pandemic will fade, as all past

century phenomenon like it have, after a period usually measured in a year or longer. At that point, longer-term economic forces, especially the aging of the population, will then again become the dominant factors in the economic outlook. Some of the pandemic adjustments that have already been made will, even as the virus disappears, remain a formidable force in the economic outlook.

Since 1929 and earlier, gross domestic investment for the United States has followed gross domestic saving very closely. In recent years, however, investment has outpaced domestic saving. This gap was made up with money borrowed from abroad, reflecting the increase in net foreign saving. This money borrowed from abroad is reflected in the US net international investment position, which is now approaching \$10 trillion annually.

In the future, the international competitive position of the United States and China will, if anything become a more dominant force on the world scene. From a long-term economic perspective, China is saving and investing a much larger proportion of their GDP than does the US, one of the many reasons they've exhibited such a dramatic rise in real GDP per capita and living standards. I'll dive deeper into that long-term relationship, and its historical roots, next month.

Alan Greenspan served five terms as chairman of the Board of Governors of the Federal Reserve System from August 11, 1987, when he was first appointed by President Ronald Reagan. His last term ended on January 31, 2006. He was appointed chairman by four different presidents.

Macroeconomic Overview



The second quarter presented a dramatic turnaround from the first, with large rebounds in economic activity and equity values.

Nonetheless, a full recovery will take at least a few years and require a vaccine. The effect of the virus and the shutdown on the economy and market was highly uneven. Some sectors actually benefited from the pandemic, while others found themselves right in the eye of the storm. The economic rebound is still in its early stages, so there is considerable room for recovery.



Dr. Charles Lieberman
CO-FOUNDER
CHIEF
INVESTMENT OFFICER

The worst effects of the pandemic are now clearly visible.

Unemployment surged at a record pace to record levels. The first estimate of Q2 GDP won't be released until late this month, but something in the ballpark of minus 30% at an annual rate seems highly plausible. Nonetheless, after a massive April payroll employment decline of 20.1 million, employment surged by 2.7 million in May and another 4.8 million in June. Meaning the economy is very much on the mend. Given its trajectory, a rebound in Q3 GDP in the vicinity of 20% also seems plausible.



Dr. JoAnne Feeney
PARTNER
PORTFOLIO MANAGER

The government's policy response to the pandemic was crucial in mitigating the decline and promoting the recovery.

Fiscal policy, providing very large unemployment benefits and aid to businesses, enabled many firms to retain workers, despite shutdowns and provided the cash to enable people to meet their living expenses. Even so, many firms will shut for good, especially many smaller firms, and many temporary layoffs will turn into permanent job losses. These will require time to repair. So further support is needed and is also likely to be forthcoming. Discussions are underway for a fourth fiscal stimulus plan, which may include an infrastructure component. The Federal Reserve has committed to keeping interest rates at low levels for an extended period of time and it has been buying mortgages and other bonds to add liquidity to the financial system and insure that markets function well.

The markets have responded quite well to the policy initiatives.

The rebound in stocks has made many people wonder how the S&P could have rebounded so close to its previous peak even as corporate profits declined and the unemployment rate is at 11.1%. But investors appreciate that while corporate profits were devastated, an economic recovery implies improvement in the second half of this year, a very substantial rebound in profits in 2021, and further gains in 2022. Just as the stock market started its plunge in March before a single piece of data showed evidence of the downturn, markets were also anticipating the economic rebound before that became evident in the data. Markets look ahead. It is clear a recovery is underway. We are only uncertain about its pace and how long it will take for unemployment to decline to low, desirable levels.

Investors are also somewhat discerning with respect to the uneven impact on the economy.

While the S&P 500 is only a few percentage points off its highs before the pandemic struck, the largest internet- based companies have set all-time new highs. Yet, no one is unaware that airlines, hotels, restaurants, cruise lines, and entertainment business are far from their highs and actually set multiyear lows - making the S&P 500's performance highly misleading. Just five companies within the S&P 500 now account for more than 20% of the total. The equally averaged S&P 500 stock is down 12%, and many remain down far more.

What's needed to get back to normal?

In the very short run, it is necessary to get new virus cases down to low levels so that people feel more comfortable going out and behaving more normally, even if they must remain careful. That's already happened in some states that were in the forefront of suffering, like New York and New Jersey, where new cases have fallen sharply and businesses are reopening slowly and carefully. A more permanent solution must await discovery of a vaccine and/or good treatments. Treatments are already improving, as the medical community learns more about Covid. But the hunt for a vaccine is truly breathtaking. More than a dozen major research projects are underway for such a vaccine and five companies already have started or will start trials in July. There is no guarantee of success. Even so, preliminary results are very promising and pharmaceutical firms are already gearing up vaccine manufacturing activity.

What does all this imply for the economy and the markets?

An economic recovery has already started, but it is likely to remain uneven, with ebbs and flows, until a vaccine or good treatments are known to be widely available. After the initial surge in hiring, the pace of hiring will slow some. The recovery will continue, but at a more moderate pace until the public's health can be assured. Once a vaccine arrives, the pace of recovery should reaccelerate. Some economic sectors will be in the vanguard of the recovery. Others may take longer. We are focusing our attention on the companies that we expect to survive and to regain prosperity earlier rather than later.



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INVESTMENT PHILOSOPHY + STRATEGY

Founded in 1998, ACM views the markets with a two tiered process, utilizing a top-down view of the business cycle, coupled with a bottom-up, fundamental value based analysis.

Small/Mid Cap



Review

Smaller sized companies posted an impressive second quarter return, bouncing back sharply from the first quarter plunge. The Russell 2500 Index comprising small and mid-sized companies leapt 26.56%. This return, as impressive as it was, still leaves the index in negative territory year-to-date (11.05%). The ACM Small/Mid Cap portfolio outpaced the comparison index for the quarter climbing 28.40% after fees. This result moves the strategy to a positive year-to-date gain of 1.00%, 1205 basis points ahead of the Russell 2500 Index.

Although the virus lingers, states appear to be gradually reopening, allowing many businesses to operate in a limited fashion. This inspired investor optimism towards the more economically sensitive sectors, and indeed they popped in the second quarter. The best performing Russell 2500 sectors included Consumer Discretionary (+47.07%) followed by Energy (+46.64%). Interestingly, in spite of the latest quarter gain, Energy is still trading less than half of year-end 2019 levels, showing a six-month loss of -51.23%. Leading groups in Consumer Discretionary included those industries thought to benefit in this new world. For example, consumers, traveling less, are fixing up their homes, reflected by home furnishing names more than doubling over the three months, surging 112.56%. Also, vacationers are now favoring motor homes over air travel. This encouraged investors to bid RV stocks higher by an incredible 151.65%. Defensive and other sectors less exposed to the economic cycle lagged. This included Utilities (+1.06%), the only sector not posting a double-digit gain for the three months as well as Real Estate (+13.81%). Real Estate finds few advocates as the world evolves to a work-at-home, shop-at-home mentality.

The Small/Mid Cap Portfolio performance leader for the three months came from the Consumer Discretionary sector. Namely, Ollie's Bargain Outlet Holdings soared 110.73%. Such a rate of gain is obviously not sustainable, but we believe the degree of the rebound is warranted since the first quarter price decline overly discounted the company's long-term earnings power driven by its unique discount retailing model. This model should do relatively well in a record job-loss environment. Avalara followed with a 78.40% climb. The company appears to be successfully evolving from a sales and VAT tax software system provider to a multi-product platform providing compliance, accounting, and payment services. AVLR is ideally positioned for the ecommerce world. Detractors were Evans Bancorp (4.32%) and Madison Square Garden (2.56%). New York-based Evans completed its merger with FSB Bancorp but earnings accretion guidance disappointed analysts. Further, investors fret about banks in general. Worries include the adequacy of capital reserves with virus-engendered loan payment deferrals, possible regulatory-mandated dividend suspensions, and lower net interest margins in a possibly, perpetually low interest rate world. We still expect significant cost and revenue synergies realization and believe management was being cautious with their guidance in this environment. Madison Square Garden Sports Corp owns the New York sports franchises such as the Knicks of the NBA, and the Rangers of the NHL as well as the venues of The Garden in New York, the Chicago Theatre, and Counter Logic Gaming, a premier esports organization. The sports venues continue to suffer from coronavirus-related woes, but we believe these premier assets reflect significantly more value than the company's current market cap which is currently \$3.6 billion.

New Holdings

The market's sharp ascent has made finding attractively-priced new investments more difficult, but we believe QTS Realty Trust, Inc. represents an excellent opportunity. The Kansas-based company provides data centers in the U.S. and Europe. The company serves hyperscalers, that is, companies needing massive computing power to provide their services, typically cloud-based and social media oriented, think Amazon, Google, and Facebook. The company's sales are expressed in megawatt deployments and customers tend to expand with existing providers giving QTS a ready-made source of organic growth. Notably, QTS has differentiated itself among vendors through its SDP or software defined data center platform. This provides customers with an unsurpassed monitoring tool for their data center operations. Also, QTS is one of a select few qualified to satisfy the unique security requirements of federal data centers for government agencies. This unique positioning as well as a relatively limited geographical footprint suggests QTS will realize industry leading returns on invested capital. We look for top line growth to accelerate and note management's incentive program aligns well with shareholders.

Madison Square Garden Entertainment spun out of Madison Square Garden Sports Corp (MSG) on April 17th, 2020 and is a new holding in the portfolio. MSGE provides marquee entertainment at a number of iconic venues including The Garden, The Chicago Theater, Radio City Music Hall, and Beacon Theatre. Other productions include the Christmas Spectacular, the Boston Calling Music Festival, and Tao Group Hospitality, which provides dining and nightlife experiences in several major markets including Las Vegas, New York, Los Angeles, Chicago, Sydney, and Singapore. Notably, MSGE is constructing state-of-the-art venues called MSG Sphere in Las Vegas and London. Obviously, most of these venues and operations have been closed due to the virus, but we expect rapid uptake when operations resume.

Sales included Qiagen N.V. and Brandywine Realty Trust. We sold Brandywine Realty Trust in favor of the QTS REIT mentioned above. Qiagen is being acquired by Thermo Fisher with the deal expected to close in July. With little upside remaining to the deal price we sold the company.

Growth

Macro/Portfolio Review



The Private Growth Composite rose 25.7% (net of fees) in 2Q, outperforming the S&P 500 (up 20.5%) as most positions across multiple sectors bounced back from March lows. The recovery has been more about correcting a decline in valuations that was objectively too large relative to the size of the permanent impact of the pandemic's disruption to economic activity. While the S&P 500 was slightly down through the first half, the average stock in the S&P was down 12.1%, revealing that the recovery has been uneven. This created opportunities for new additions to the Growth Strategy over the course of the last few months.

Recovery in Growth was led by our selections in Information Technology and Consumer Discretionary, and since Info Tech accounts for just over 25% of Private Growth, it was by far the largest driver of performance. Appreciation was led by PayPal, StoneCo, Apple, and Zebra. All of these are benefiting from the move to online activity, which had already been growing and accelerated with the onset of the pandemic. StoneCo is a recent addition and facilitates digital payments for both brick and mortar establishments

and for online transactions in Brazil and other parts of South America. Although Brazil continues to struggle with COVID, online transactions are growing, as they have done in the U.S. with the lockdown. StoneCo is an opportunity to get into digital payments at an earlier stage relative to U.S. providers, and we see considerable growth potential in its future. This position delivered an immediate return to clients as it reported shortly after our purchase and provided a positive outlook on its growth prospects. It has a small share of its addressable market and we expect that share to continue to grow and to further boost the stock for several years.

Gains in Consumer Discretionary also benefitted from the acceleration of the move to online transactions (EBAY, up 75%) and also by home improvement demand (Home Depot, up 34%), as people spend more time at home. We also saw the home building segment recover from the pause in March and April (Lennar Corporation, up 61%). And we are finally seeing some recovery in BorgWarner, a maker of more fuel-efficient, less-polluting drivetrain technology for cars, as investors recognized that consumers would once again buy new cars and would likely demand cars with lower environmental impact.

Unsurprisingly, Consumer Staples was the weakest contributor in the quarter since these names fell by less than the market in 1Q, but was still up approximately 17%. Our selections are less conventional Staples names, selected for their growth potential, and are leveraged to shifting consumer spending patterns around the world. Darling Ingredients (DAR, up 28%), for example, processes animal remains to make gelatin and pet food, but also is involved in a joint venture making bio-fuels. It benefits from rising incomes in China, for example, as consumption of animal proteins rises. Constellation Brands (STZ, up 22%) supplies higher end beers and wines and also is exposed to cannabis through its partial ownership of Canopy Growth. Our recent addition of Walmart of Mexico has languished, but the company has continued to gain share in online grocery delivery and provides a hedge against further virus outbreaks.

Growth remains focused on stocks that we expect to deliver above-market appreciation, but that come at a reasonable price. We prefer, for example, to secure exposure to the digitization of consumer spending through companies such as Zebra (which makes handheld barcode readers used by Amazon) at 18 times next year's earnings, rather than owning Amazon at 70 times. The possibility of a contraction in that high that price-to-earnings ratio (P/E), should expectations of future growth deteriorate, makes AMZN riskier than ZBRA, and over the past two years, ZBRA has outperformed AMZN. The P/E for Growth stood at 19.3 times 12-month forward earnings, while the S&P 500 was 21.6 times.

U.S. Dividend

Review



The ACM U.S. Dividend portfolio gained 17.50% for the second quarter. This trails the S&P 500 but handily outpaced similar style S&P 500 dividend indices. Our focus remains on large cap companies with extremely strong balance sheets. This is readily apparent with our five largest holdings – Microsoft, Apple, Home Depot, Amgen and Johnson & Johnson. As the recovery continues to be uneven, we want to seek to design a well-diversified portfolio investing in many sectors and industries of the economy using statistical techniques to avoid concentrations to individual risk factors. Our philosophy has been honed over more than two decades adhering to the principals of selecting companies with stronger balance sheets and better profitability such as return on invested capital and return on equity relative to peers.

New Holdings

New investments made during the quarter included Aon PLC, Apple Inc., The Blackstone Group Inc., Broadcom Inc., and Equinix, Inc. Aon is a leading global provider of insurance brokerage services. Aon services are crucial to clients, helping them navigate the myriad of complex insurance offerings to identify the best match of insurer strengths with their risks. Aon's knowledge of customer operations builds strong relationships, attested by a near 90% client retention rate. The company's global scope and scale gives the company a clear advantage in serving multinationals as well as obtaining favorable pricing. We're particularly encouraged by the acquisition of Willis Towers Watson. Although mergers generally can be a management exercise in "empire building" with little regard for shareholder value, we believe this combination is at a reasonable price and improves Aon's already impressive competitive position, adding scale and margins in the process. We note Aon also sold its lower margin Benefits Administration and HR Business Process Outsourcing (BPO) platform to a private equity fund in 2017. Management clearly allocates capital responsibly.

Apple requires little introduction. The ubiquitous name has a great reputation for producing elegant, intuitive, premium devices appealing to consumers globally. Although these devices receive the most media, it's Apple's ecosystem and services focus that captures our attention. The iPhone's success has not only bred a host of companion products from the iPad, Apple Watch, and Apple TV, but has created an embedded ecosystem where users lose functionality when trying to pair an Apple product with competing brands. Thus, with the average household owning multiple Apple products users remain loyal and are reticent to switch away from Apple. Further, the company's business model is nonlinear in that the Apple Store offers thousands of apps and games designed by third-party vendors to enhance user experiences. Apple does not spend to develop this software but shares in the revenue users pay for the usage of these apps. Hence, this network effect contributes to Apple's industry leading profitability. Moreover, Apple's scale of 1.5 billion users globally produces supply chain advantages in the premium end of the device market. The key to maintaining these intangible assets will be innovation, especially in the software space given that hardware typically becomes commoditized. Apple Pay and iCloud, for example, not only provide additional revenue opportunities but help solidify Apple and its service as indispensable. With its resources for research and development and strong history of effectively moving into new frontiers we look for a revved-up innovation engine going forward.

Blackstone Group is an alternative asset manager with more than \$570 billion in assets under management. Private Equity accounts for the largest asset class, but BX also has significant holdings in real estate, credit, hedge fund solutions, and multi-asset class offerings. Few companies match BX's ability to fund raise and deploy capital to large-scale investment opportunities, and lower interest rates should, overall, benefit BX's investments since many incur substantial amounts of leverage.

Broadcom's moniker is an apt description of the company. Indeed, Broadcom provides a very broad array of digital and analog semiconductors used in a large variety of end products. These chips handle a multitude of functions in electronic infrastructure and storage, networking (switching gear), broadband (television set-top boxes), and connectivity (think Wi-Fi and Bluetooth). Their strategy of consolidating semiconductor companies with best-in-breed technologies appears to be working. Through its acquisition process Broadcom seeks to accentuate the target's strength by selling off non-core products and realizing cost synergies. The firm is positioned well for future

technologies. This includes increased component share in the coming 5G iPhone as well as providing next generation switching products to help clients achieve their cloud services goals. Broadcom's scale gives the company a research edge in developing new technologies. Currently yielding over 4%, the stock provides one of the highest yields in the semiconductor industry.

Equinix (EQIX) is a real estate investment trust focused on data centers. These centers provide internet service providers (ISPs), telecommunications carriers, and creators of Internet content a place to station their telecommunications and network equipment. Also, EQIX offers colocation-related services facilitating direct connectivity between thousands of companies without going through a telecom network. Operating more than 200 centers in strategically located cities globally, EQIX's enjoys a reputation as a premier provider and serves the A-grade customer list including Amazon, Microsoft, Salesforce.com, Anheuser-Busch, Aon, and Bloomberg. As 5G opens up new application possibilities such as autonomous vehicles and smart cities, this data delivery speed through interconnection will become more important.

Sells

Sells for the quarter include General Dynamics, KLA Corporation, Phillips 66, Procter & Gamble, and MetLife, Inc. We also sold newly received positions Carrier Global Corp and Otis Worldwide Corporation. These positions were spun out of United Technologies Corp, which merged with Raytheon Company, and is now named Raytheon Technologies Corp.

General Dynamics (GD) did reasonably well since first purchase in September 2009, up 156.27% or 9.35% annualized. The company is a premier defense contractor, especially in its submarine segment. Nonetheless, we believe Lockheed Martin is better positioned in defense, and think it prudent to reduce exposure in the industry with greater political uncertainty this election year. We initially received our Phillips 66 position from our holding in ConocoPhillips in April 2012. The investment provided a 159.49%, 12.55% annualized return over this time period. Despite heavy investment in chemical and pipeline assets through its Phillips 66 Partners LP, PSX remains highly dependent on its refining operations which face ongoing refining spread volatility in the short term, and potential demand destruction longer-term from ride-sharing, autonomous driving, and electric vehicles. We believe Aon is better positioned versus MetLife in insurance. The insurer has scale, wide breadth of insurance products, and distribution strength, but we believe MET faces strong future headwinds from lower interest rates and competitive pressures. Thus, we believe future profitability will come under pressure. KLA Corporation excelled as an investment, first purchased in September 2010, the stock posted a total gain of 568.13%, equivalent to a 22.00% annualized return. The firm exhibited dominance and excess profitability in the semiconductor equipment industry. That said, the industry is not immune to cyclicalities and we believe we may be entering a less generous capital spend environment by customers for KLA's tools. For these reasons, we believe Apple is better positioned in the technology sector. Procter & Gamble was an investment first made in September 2006. The shares returned a respectable 178.15% or 7.76% annualized. Efforts to streamline operations and improve profitability pursued by CEO David Taylor under pressure by activist investor Nelson Peltz have largely been successful for several years through 2019, but we've noticed deteriorating fundamentals over the last four quarters suggesting difficulty finding additional cost cuts. We also note an intensifying household product competitive landscape with consumers conditioned to wait for lower prices and more reticent to spend on newer more expensive offerings.



What Are the Objectives of Income with Growth?

The objectives of Income with Growth are to produce a high level of income with the capacity to grow that income at the rate of inflation over time. Since fixed-income provides fixed coupons, Income with Growth relies predominantly on higher yielding equities, which implies that the portfolio produces equity, not fixed income, volatility. And since it requires all investments to produce income, it behaves very differently from the broader equity market. It may experience lesser or greater volatility than the broader market in times of volatility, especially when there are sector specific issues that concern investors. Investors choose this portfolio to get income, even if they must accept equity volatility. As long as the companies throw off those dividends, they can receive regular distributions without selling off assets and impairing their portfolio.

Review

The stock market bounced back sharply in the second quarter, carrying Income with Growth back with it. Not surprisingly, sectors that plunged the most in the first quarter tended to rebound the most in the second quarter. In general, income-oriented securities have lagged year-to-date, but should have upside potential, as finding income has become more challenging in the current interest rate environment. Companies seem to have paused with precautionary dividend cuts and we have seen two portfolio companies actually increase payouts – Kinder Morgan and New Residential. We expect others to slowly follow suit. As companies continue to heal, we expect them to put excess cash to work.

The most striking rebound occurred within the MLP and BDC spaces. Two broad based MLP ETFs, Alerian MLP (AMLP) and JPMorgan Alerian MLP Index (AMJ) rose by 43.5% and 46.2%, representing the large move upward. Energy Product Partners recovered 27.1% in Q2, Energy Transfer 54.8%, and Plains American 64.8%. Energy valuations remain quite depressed and we expect the recovery to continue in this sector. Our three largest BDC positions surged as well, with Ares Capital gaining 35.8%, Sixth Street Specialty Lending rising 18.5% and Hercules surging by 37.0%. BDC valuations are approaching fair value, so we regard the upside as more limited from this point.

We break down real estate investment trusts into two distinct categories: equity and mortgage REITs. Equity REITs recovered by 9.7%, as measured by VNQ, the largest REIT ETF, for the three-month period. Our primary holdings in this space, Medical Office Properties rose by 8.7% and W.P. Carey rose 14.1%. We also bought LTC Properties early during the quarter and it performed well. The mortgage REIT ETF, MORT, surged by 34.6% in Q2. Our holdings included Ladder Capital, +70.9%, Starwood Properties, +46.0%, Blackstone Mortgage, +29.4%, and New Residential +48.3%. While these gains were very large, they came off severely depressed levels at the end of Q1. But we believe there is still more recovery ahead.

Among our common stock holdings, we engaged in a number of swaps by selling positions that we thought had performed quite well relative to the rest of the market and redeployed cash into stocks that had declined excessively. We sold or reduced some of our pharmaceutical holdings and bought Prudential Insurance, Lincoln National, and Dow Chemical. We also bought two renewable energy companies, Atlantica Sustainable and Clearway Energy, which we regard as longer term investments with favorable secular growth prospects.

Yields:

- Taxable (K-1 permitted): 7.3%
- Tax-exempt (no K-1): 6.80%
- Model: 6.7%

Balanced

Review

The Private Balanced Composite rose 16.8% (net) in 2Q, slightly above its benchmark (70:30 split of S&P 500 and Barclay's Intermediate Credit) which was up 16.1%. Information Technology remains the largest sector in the Balanced Strategy (as it does in the S&P 500), and we continue to stay away from the particularly expensive names. Our GARP (Growth at a Reasonable Price) approach still allowed our positions in that sector to rise by an average of 39% in the quarter, led by PayPal, Microchip, and Apple. The increase in data traffic across the internet, accelerated by recent work-from-home trends, is fueling greater spending by the Cloud players (Amazon, Microsoft, Netflix, Facebook, etc.) and we continue to get exposure to that growth through less pricey stocks, such as Broadcom, Cisco Systems, and Zebra Technologies. Note that our recent addition of Zebra, which provides barcode readers for Amazon, hospitals and other businesses, sits squarely in the new economy and has risen 37% since its addition to the strategy in early March.

Consumer Discretionary was the second strongest contributor to 2Q performance as positions rebounded sharply led by appreciation of retailers (Home Depot, William-Sonoma and Target) as consumers paid more attention to homebound life. Note that Target and Home Depot are relatively new positions, offering modest yield and selected for their merits as beneficiaries of the changes wrought by COVID. We also continue to expect McDonalds and Dunkin to weather the ongoing economic storm better than most as take-out business sustains profitability and reopening builds on that strong base.

All sectors were up for Balanced in the quarter, but the weakest was Financials. There remains elevated concerns about the health of the debt-burdened companies, to which banks are leveraged, and the risks to dividends for many of the financial players. We have narrowed our holdings and diversified into aspects of financials outside of the money center banks. Banks, though, are in much better shape than during the 2008-09 crisis with stronger balance sheets and are more tightly regulated.

The Fixed Income side of Balanced saw a strong recovery in the quarter, led by high yield bonds and non-rated preferreds, which were among the assets most hurt by the liquidity crunch in mid-March. We saw some positions rise over 25% in the quarter as investors recognized that the Federal Reserve would backstop liquidity in several markets. We remain selective within the investment grade bond and preferred markets in both as credit spreads remain relatively wide on certain names.

Portfolio Updates

We made several changes over the past few months with an eye toward securing more reliable dividend-yielding stocks, gaining exposure to accelerating growth trends, positioning the portfolio to benefit from re-openings, and securing some downside protection should that reopening process take longer than expected. One higher-dividend position is AbbVie, which recently closed its acquisition of Allergan and has a strong pipeline of new drugs. We also added Palo Alto, a cybersecurity company, which benefits



as more people work from home. Reopening should benefit Target as more consumers return actively to brick-and-mortar shopping, but also provides some protection since it is effectively ramping its online capabilities.

The three tiers of Balanced offer different mixtures of targeted yield, both from dividends and fixed income holdings, and so offer a trade-off between appreciation goals and income goals. Market conditions impact our targets and dividend yields have fallen as stocks have appreciated, while fixed income yields have dropped as interest rates have declined. Our T3 Balanced is currently generating just under 3% yield, while T4 is roughly 4%, and T5 just under 5%. We still focus on selecting relatively conservative stocks, diversified across sectors, and less expensive than the market (our forward 12-month P/E on equities was 16.7 times at the end of 2Q, while the S&P 500 traded at 21.6 times).

Fixed Income



What happened in the fixed income market in 2Q'20?

The Second Quarter of 2020 was an extremely strong quarter for fixed income across Investment grade bonds, high yield bonds, and preferreds. The ACM Fixed strategy was up over 10% significantly outperforming the benchmark which was up over 5%. The Fixed Strategy benefited from the market rally as well as credit selection.

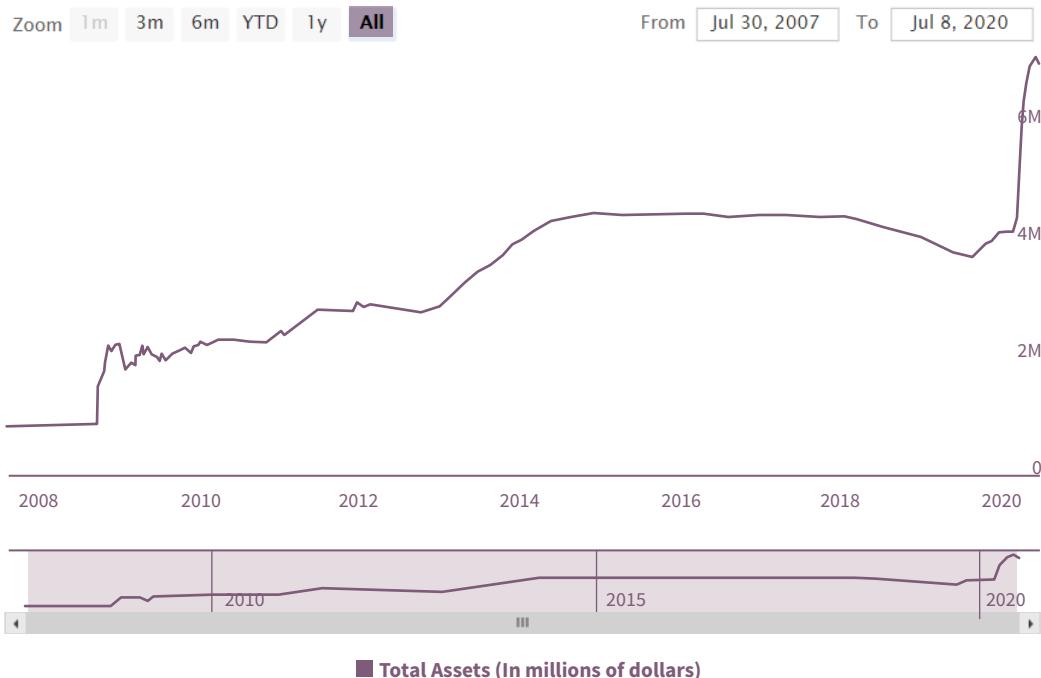
What is worth noting is that Investment Grade yields finished the quarter at the lowest levels in history and have continued to decline in early July. High yield securities also had a strong quarter with the average high yield bond up over 10%. Regarding preferreds, one benchmark, the PFF, a large preferred ETF, was up over 10%. This index includes a substantial amount of Investment grade and non-Investment grade preferreds so the performance across individual preferred securities varies tremendously.

Why was 2Q'20 strong?

Fixed Income had a strong quarter most notably due to the tremendous Fed actions. While, the Federal Reserve always has a major influence on short-term rates since it controls the Fed Funds rate (the overnight lending rate for banks), as Covid concerns intensified, the Fed took a series of significant steps to help the economy. The first action occurred on March 15th as the Fed cut the low end of the Fed Funds target from 1% to 0% and began a \$700 billion asset purchase. Since the Global Financial Crisis (GFC), and now during the Covid crisis, the Fed's actions and potential actions have impacted not only short-term rates, but also medium- and longer-term rates through its purchase of Treasury bonds, asset-backed securities, corporate bonds, municipal bonds, and a range of other fixed income securities. The Fed's asset purchases during the Covid crisis has been both more rapid and substantially larger than during the GFC, as is obvious from the sharp expansion of the Fed's balance sheet from roughly \$4 trillion to \$7 trillion, as shown below. These steps, in combination with the Covid-induced recession, drove interest rates much lower. As a result of the series of Fed actions, as well as investors' demand for safety, interest rates have declined significantly to previously unthinkable levels. The 10-year Treasury bond now yields below 0.7% after starting the year at over 1.9%..

Total Assets of the Federal Reserve

The Federal Reserve's balance sheet has expanded and contracted over time. During the 2007-08 financial crisis and subsequent recession, total assets increased significantly from \$870 billion in August 2007 to \$4.5 trillion in early 2015. Then, reflecting the FOMC's balance sheet normalization program that took place between October 2017 and August 2019, total assets declined to under 53.8 trillion. Beginning in September 2019, total assets started to increase.



Source: https://www.federalreserve.gov/monetarypolicy/bst_recenttrends.htm

Given yields are a combination of interest rates and credit spreads, fixed income investors must also analyze credit spreads. Credit spreads, which reflect the difference in yield between a Treasury and corporate bond of the same maturity, are generally the main driver of yields and bond volatility in times of turmoil. Three main drivers of credit spreads are liquidity, investor confidence, and the economic outlook. While the Fed can only do so much to impact the economic outlook, it can do a tremendous amount to impact liquidity in the fixed income market and to bolster investor confidence. In 2020, Fed purchases touched an unprecedented range of fixed income securities. These actions allowed companies to raise cash through debt issues and made investors more comfortable holding securities they already own. At a systemic level, this also helped prevent massive forced selling which would have exacerbated the decline in fixed income asset values. Portfolio liquidations can be forced in down markets when investors are subject to margin calls (the companies simply did not have enough cash and other assets to provide the lender assurance that their loan would be paid back in full). This would have set off a vicious cycle of asset liquidations triggering further price declines. The Fed recognized the risk as liquidity evaporated and credit spreads widened across all fixed income markets driving bond prices down dramatically. Therefore, the Fed stepped in to provide liquidity, allowing credit spreads to tighten. In 2008, the Fed failed to recognize early enough during the GFC how forced asset liquidations can exacerbate market panic. Fed members learned from the GFC experience and they acted promptly this time.

The interest rate decline combined with credit spread tightening have caused yields on 5-year high quality investment-grade securities to fall to extremely low levels: a benchmark that tracks 5-year A+/A/A- rated bonds now yield less than 1% compared to 2.15% at 12/31/19. The BBB+/BBB/BBB- benchmark yields less than 1.5% compared to over 2.5% at 12/31/19. Among high-yield bonds, yields remain somewhat elevated, as expected, given the significant macro uncertainty.

Please see below to appreciate the massive decline in Investment grade yields. We think low yield often goes unnoticed by investors as the coupons and therefore, the current cash flow on a fixed income portfolio are much higher than the actual return or yield being earned. ***Important: Note these yields are based on a large basket of securities and not necessarily indicative of the yield of our strategies.

	5 year Treasury	Yield on 5 yr. basket of bonds					Yield change since				
		12/31/17	12/31/18	12/31/19	3/31/20	6/30/20	12/31/17	12/31/18	12/31/19	3/31/20	6/30/20
usgg5yr index	5 year Treasury	2.21%	2.51%	1.69%	0.38%	0.29%	-1.91%	-2.22%	-1.40%	-1.31%	-0.09%
IGUUAC05 Index	A+/A/A-	2.68%	3.42%	2.15%	2.19%	0.95%	-1.80%	-2.53%	-1.26%	0.04%	-1.24%
IGUUBC05 BVAL Index	BBB+/BBB/BBB-	3.04%	3.98%	2.53%	3.02%	1.46%	-1.67%	-2.61%	-1.16%	0.49%	-1.56%
IGUUC505 BVAL Index	BB+/BB/BB-	4.37%	6.20%	3.54%	6.09%	4.64%	-0.06%	-1.89%	0.77%	2.55%	-1.44%

Source: Bloomberg, LLC.

Note: Please note we quote benchmark yields which are based on a large basket of bonds and not necessarily indicative of the yield of our strategies.

What have we done and where do we go from here?

During the quarter, we bought several high quality, Investment grade bonds with yields noticeably above the benchmark yield for a similar maturity and credit rating. This is where carefully selecting bonds can provide incremental potential return. We also purchased multiple Investment grade preferreds that we think provide attractive additional yield above Investment grade bonds.

Given the dramatic decline in yields, a few bonds were redeemed early by the Issuers. Additionally, we sold select securities to capture gains, reduce risk, and/or improve the overall risk / reward for the portfolio. A small number of the bonds and preferreds we own are trading at levels that we do not think are reflective of fundamental value and in these cases we are simply staying put either until the price recovers or until maturity.

Going forward, we are focusing on maintaining a portfolio of attractive, high quality bonds and preferreds. As always, we will continue to monitor existing positions to determine if we should move on to more attractive opportunities. We think it is important that as investors we remain disciplined and extremely selective when purchasing new securities.

Fixed Income Bonus Feature:

Do not let a High Coupon deceive you --> Yield and Coupon are **VERY different concepts**

We think it is worthwhile to remind investors that coupons and yields are often extremely different. For example, if you own a bond maturing in one year that has a 6% coupon and trades at \$105, you only net approximately 1% for the year, not 6%.

This simple example applies to the majority of Investment Grade bonds currently, as most Investment grade bonds are trading well above par.

Global Dividend

Global Growth

International ADR

Review



The ACM Global Growth and ACM Global Dividend portfolios include an allocation to U.S. and international equity holdings. Global Growth includes an allocation to smaller, faster growth U.S. companies. Global Dividend, as the moniker suggests, only invests in dividend-paying names worldwide. The Global Growth benchmark, the MSCI All Country World IMI Index, returned 19.83%, while the Global Dividend benchmark, the MSCI All Country World Index, returned 19.22%. Comparing these results with the non-U.S. index highlighted above you can easily discern U.S. equities bettered non-U.S. equities for the three-month period. Key characteristics of leading stock performers in the global indices included low quality or more levered balance sheets, higher economic sensitivity, and lower dividend yield. Despite the inherently stronger balance sheets of our investments in both Global Growth and Global Dividend, as well as the higher dividend yield in the latter, both portfolios provided competitive three-month after fee returns of 21.30% for Global Growth and 16.93% for Global Dividend.

Non-U.S. equity markets recovered in the second quarter 2020, recouping approximately 69% of the sharp first quarter price decline. The MSCI All Country World ex USA Index rose 16.12% for the quarter. The ACM International ADR portfolio outperformed the comparison index, rising 17.15% after fees. Year-to-date the benchmark index still reflects a double-digit loss at 11.00%. The ACM International ADR portfolio, net of fees, again shows notable better performance at 7.74%.

Contributors to the Global Dividend and International ADR portfolios include Top Glove, Schneider Electric, and Stabulus. Our investment theme for Top Glove featured a belief in growing rubber glove demand globally, especially in China, where many surgical operations are still performed with alcohol-rinsed hands instead of gloves. The stock returned 141.22% or 112.27% annualized since first purchase in March, 2019. France-based Schneider Electric advanced 32.99% in the three-month period. Investors increasingly appreciate the company's software-driven solutions for industrial automation systems, and reports of the company's operations in China, suggest growth will return in the second half of the year. Finally, Stabulus jumped 45.28%. The motion control company provides products which aid in lifting or dampening movements in a wide range of consumer applications including vehicle end gates and aircraft luggage compartments. Earnings and management comments during the quarter generally met analysts' expectations, but margins provided a pleasant surprise, boosting the stock price. Longer-term we believe the company is well positioned for growth as an aging consumer requests more movement assistance in many aspects of daily life.

Lagging performers in the Global Dividend and International ADR portfolios includes Guangdong Investment (8.36%), China Gas Holdings (11.43%), and RIB Software (+0.13%). RIB Software is in the process of being acquired by Schneider Electric, a process we expect to close in July of this year. China Gas Holdings reported strong earnings growth of 12% year over year for fiscal 2020 ending March, but the stock price paused in its advance after management trimmed profit guidance for 2021. We look for

continued structural growth from this China-based natural gas and liquified petroleum gas distributor. Guangdong Investment is involved in Water Resources, Property Investment & Development, Department Stores, Hotel Operations and Infrastructure. GGDVY reported somewhat disappointing earnings which put pressure on its stock price. In addition to Guangdong and China Gas, Global Growth listed Evans Bancorp (4.32%) as a laggard.

Global Growth top performers were smaller sized U.S.-based names – Ollie's Bargain Outlet Holdings (+110.73%) and Avalara +78.40%. Ollie's rate of gain is obviously not sustainable, but we believe the degree of the rebound is warranted since the first quarter price decline overly discounted the company's long-term earnings power driven by its unique discount retailing model. This model should do relatively well in a record job-loss environment. Avalara appears to be successfully evolving from a sales and VAT tax software system provider to a multi-product platform providing compliance, accounting, and payment services. AVLR is ideally positioned for the ecommerce world.

New Holdings

For Global Dividend and International ADR, we added Merck KGaA based in Germany (not the U.S. Merck). MKKGY operates in three segments: Life Sciences, Performance Materials, and Healthcare. Life Sciences provides laboratory consumables and instruments for the biopharmaceutical industry and academic researchers. Each of these businesses exhibits attractive organic growth and profitability characteristics with sustainable competitive advantages

Notable Global Growth additions include Apple and QTS Realty Trust, Inc. Apple has a great reputation for producing elegant, intuitive, premium devices appealing to consumers globally. Although these devices receive the most media, it's Apple's ecosystem and services focus that captures our attention. With the average household owning multiple Apple products users remain loyal and are reticent to switch away from Apple. Further, the company's business model is nonlinear in that the Apple Store offers thousands of apps and games designed by third-party vendors to enhance user experiences. Apple does not spend to develop this software but shares in the revenue users pay for the usage of these apps. Hence, this network effect contributes to Apple's industry leading profitability. QTS provides data centers in the U.S. and Europe, and excels at serving hyperscalers, that is, companies needing massive computing power to provide their services, typically cloud-based and social media oriented, think Amazon, Google, and Facebook. Notably, QTS has differentiated itself among vendors through its SDP or software defined data center platform, providing customers with an unsurpassed monitoring tool for their data center operations. Also, QTS is one of a select few qualified to satisfy the unique security requirements of federal data centers for government agencies. This unique positioning as well as a relatively limited geographical footprint suggests QTS will realize industry leading returns on invested capital. We look for top line growth to accelerate and note management's incentive program aligns well with shareholders.

Sales

For all three portfolios portfolios, we sold Tokio Marine Holdings, Inc. The company has been one of the more defensive, higher-yielding bond-like securities in the portfolio, but the company's inability to register sustainable book value growth recently combined with greater asset exposure to low interest rates suggests little chance of price multiple expansion.



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