TRIVANT

CUSTOM PORTFOLIO GROUP, LLC

April 2024

Quarterly Insights

EXECUTIVE SUMMARY

Stocks Up And Bonds Down In Q1

In the First Quarter, the domestic S&P 500 Index was up 10.56% and out-performed all major regions. All global regions were positive. China was down 2.29% as its economic growth continues to be challenged. Communication Services (+14.99%), Energy (+12.42%) and Technology (+12.16%) were the leading Q1 sectors. Discounting Nvidia (up 82.46% in Q1), the market rally was broad. Inflation (2.4% in January) remains above the Fed's 2% inflation target. In its March 20 meeting, the Fed paused on rate cuts but indicated three rate cuts are possible this year. In Q1, the Bloomberg US Aggregate Bond Total Return USD Index (AGG) fell 0.78%.

Is The Grass Greener On The Other Side?

Since our inception, the S&P 500 Index (the domestic market) has had an average annual return of close to 10% (the "baseline" rate we expect), but the developed foreign and emerging markets have lagged badly. The grass is not greener on the other side. Challenges with investing in foreign markets include the following:

1. American Exceptionalism
2. US and Developed Foreign Markets Have Become Increasingly Correlated
3. A Disproportionate Number of the World's Most Productive Companies are Based in the US
4. Government Intervention is a Serious Threat in Emerging Markets

First Quarter 2024

In This Issue

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Deliberate Investing

For Your

Peace Of Mind

There Is No Place Like Home

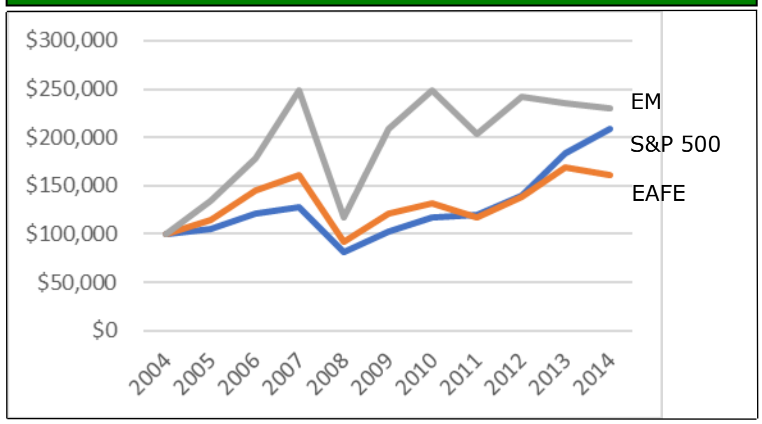
Before starting TriVant in 2003, John Barber and I (Dan Laimon) were told by our previous employer that all major global stock markets must eventually converge to the same long-term performance. Why? Arbitrage theory would ensure that any outsized gains would be corrected for markets to be efficient. This sounded plausible at the time but was it right? We eventually found out that the answer was "no".

We compared the performances of domestic markets (S&P 500 Index), developed foreign markets (MSCI Europe, Australia and the Far East) and emerging markets (MSCI EM). While these markets performed in a reasonable range to each other in our first full 10 years, this was not the case in our last 10 years. The domestic market has far out-performed. Since our inception, the S&P 500 has had an average annual return of close to 10% (the "baseline" rate we expect), but the developed foreign and emerging markets have lagged badly.

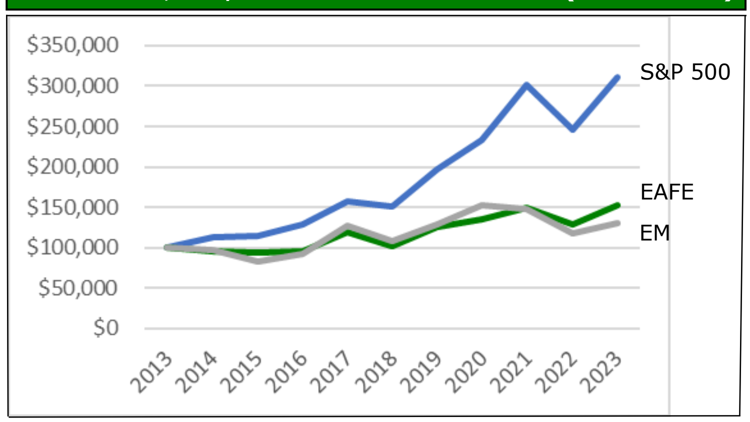
Annual Returns (%)

Year	S&P 500	MSCI EAFE	MSCI EM
2005	4.91	14.02	34.54
2006	15.80	26.86	32.59
2007	5.50	11.63	39.78
2008	(37.00)	(43.06)	(53.18)
2009	26.46	32.46	78.65
2010	15.06	8.21	19.20
2011	2.11	(11.12)	(18.11)
2012	16.00	17.91	18.69
2013	32.39	22.77	(2.66)
2014	13.69	(4.90)	(2.19)
2015	1.38	(0.82)	(14.91)
2016	11.96	1.00	11.19
2017	21.83	25.03	37.28
2018	(4.38)	(13.79)	(14.58)
2019	31.49	22.01	18.42
2020	18.40	7.82	18.31
2021	28.71	11.26	(2.54)
2022	(18.11)	(14.45)	(20.09)
2023	26.29	18.24	9.83

Growth of $100,000 - Our First 10 Years (2005-2014)



Growth of $100,000 - Our Last 10 Years (2014-2023)



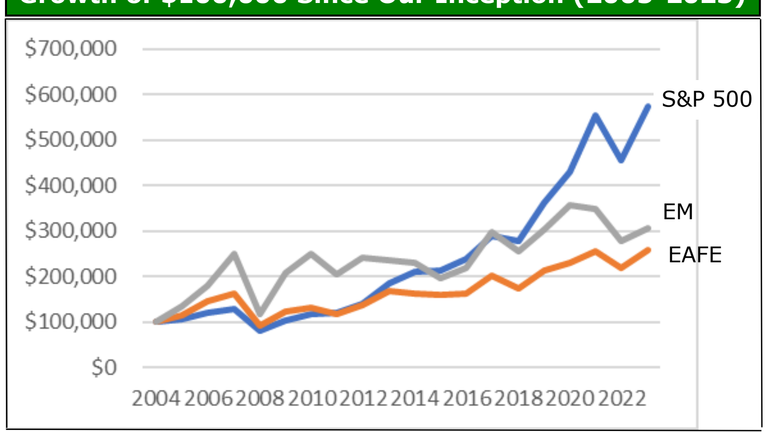
Compound Annual Growth Rates (%)

Years	S&P 500	MSCI EAFE	MSCI EM
2005-2014	7.67	4.89	8.69
2014-2023	12.03	4.28	2.66
2005-2023	9.63	5.11	6.06

The out-performance of the S&P 500 Index over the last 10 years has been stunning.

This has driven the annual growth rate of the S&P 500 Index since our inception to close to 10%. Foreign has lagged badly.

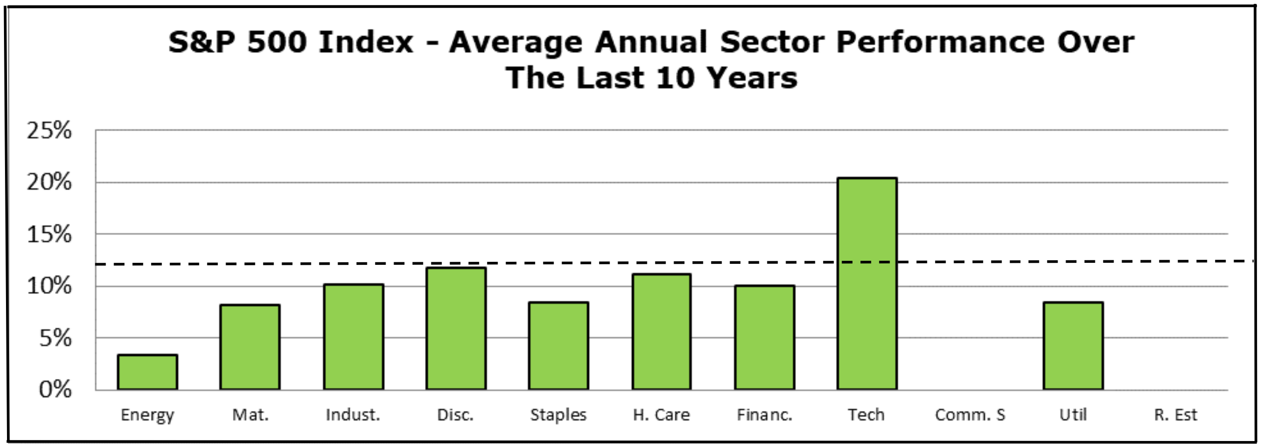
Growth of $100,000 Since Our Inception (2005-2023)



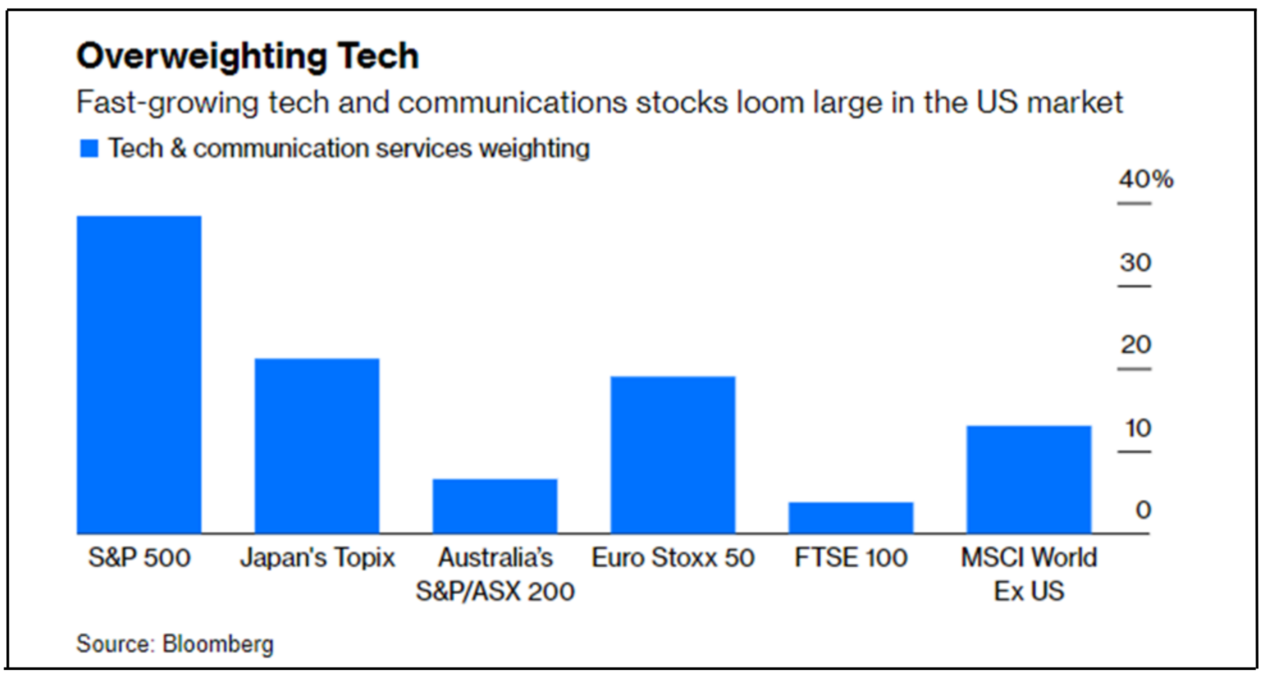
Challenges With Investing In Developed Foreign Markets

1. American Exceptionalism

The US is the global leader in technological innovation - there is only one Silicon Valley. Additionally, the US has structural advantages. It has most of the world's best universities, which attracts the best talent to innovate. The US also has the world's deepest capital markets. Given the significant out-performance of the Technology sector over the last 10 years, and the considerable out-weighting of both technology and communications stocks in the S&P 500 Index, it is not surprising that the US has out-performed developed foreign markets by so much over the past decade. In contrast, the developed foreign markets are geared much more towards "old-economy" sectors. Japan is heavily concentrated in the industrial sector, Europe has high concentration in financials and consumer discretionary, and Australia has more than half of its index weight in financials and materials.



Note: The Communications Services and Real Estate sectors are relatively new to the S&P 500 Index.



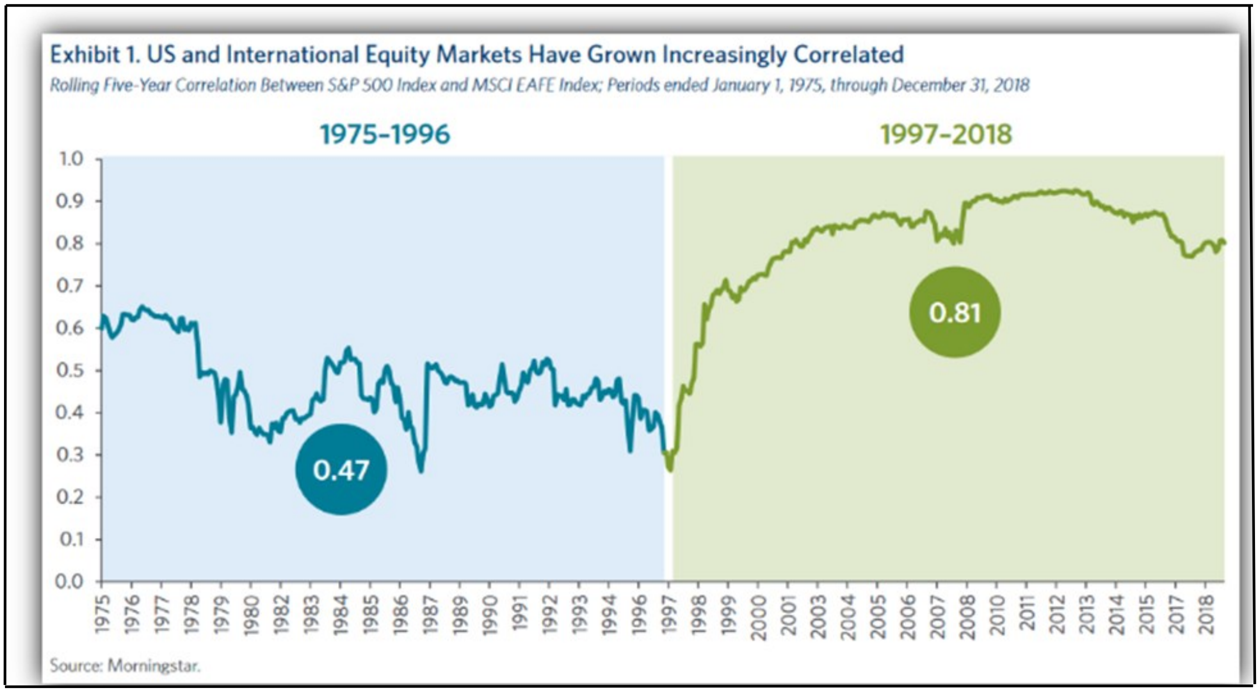
With the exception of Materials, the US offers a complete array of stocks that cover all sectors and styles. There must be very good reasons to select developed foreign stocks and assume the added currency risk.

2. Rising Correlations With US Markets

Positive correlation represents a relationship between two variables that move in the same direction together. A positive correlation occurs when one variable increases as the other variable increases, and decreases when the other variable decreases. A 100% (perfect positive) correlation would be measured at +1.00.

The theory of blending non-perfectly-correlated domestic and foreign stocks is to lower portfolio risk through reduced portfolio volatility. From 1970 through 1989, the correlation of the S&P 500 Index to the MSCI EAFE Index was just +0.49. From 1990 through 1999, the correlation increased slightly, to +0.54. Unfortunately, over the past 23 years (2000-2022), the correlation increased to +0.87. This suggests there is only a slight risk/return benefit to adding developed foreign market exposure.

According to Morningstar, the 10-year standard deviation of the Morningstar US Market Index is 15.2 and the standard deviation of the Morningstar Global Markets Index (which includes both US and non-US names) is 14.4. Put another way, having developed foreign exposure does little to reduce portfolio volatility.



3. Lower Return On Capital Employed (ROCE)

Return on Capital Employed (ROCE) is a profitability ratio that measures how efficiently a company is using its capital to generate profits. A higher ROCE is always more favorable, as it indicates that more profits are generated per dollar of capital employed. High ROCE is often a good predictor of upside stock performance.

ROCE = Earnings Before Interest and Taxes (EBIT) / Capital Employed (Total Assets - Current Liabilities)

One key reason why the US equity market has out-performed so well relative to developed foreign markets is that there is a disproportionate number of the world's most productive companies based in the US. When ranking global companies based on ROCE, US companies consistently stand out. Additionally, US companies have had better-optimized balance sheets and superior fundamentals. From 2011 through 2022, US corporate earnings grew an annualized 6%, far ahead of developed foreign and triple the rate of emerging markets.

Challenges With Investing In Emerging Markets

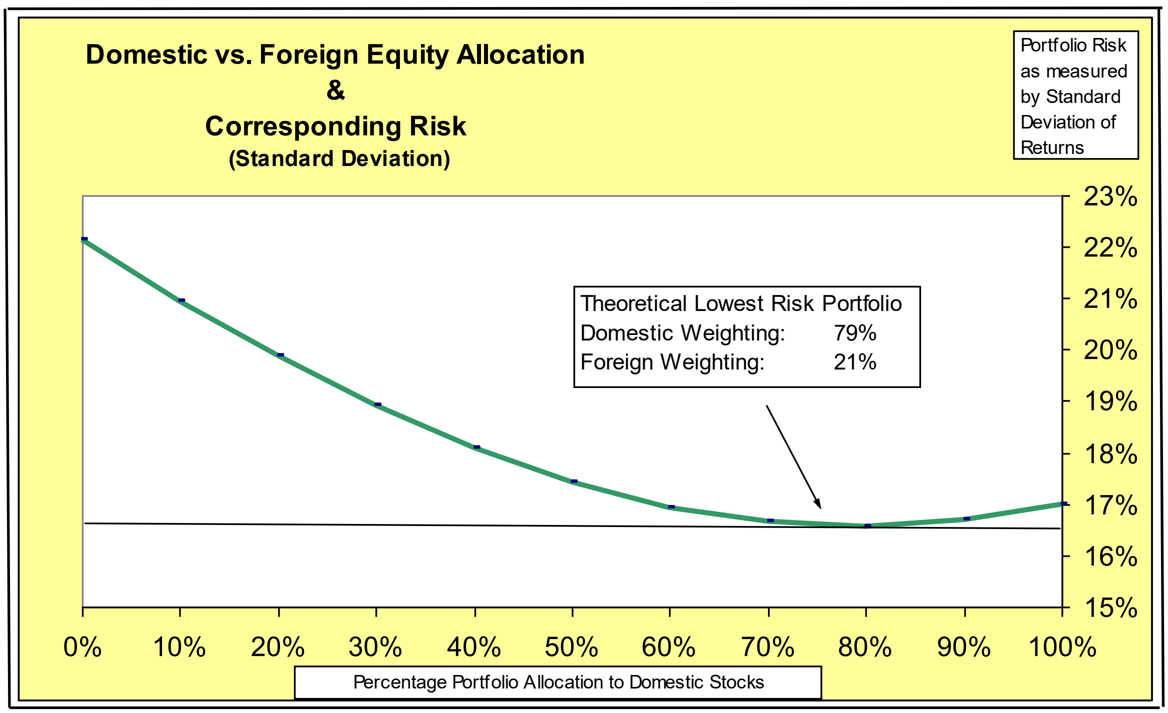
There are three reasons why we do not want emerging markets exposure at this time:

- Government Intervention - physical property and assets can be seized without remedy (look at China)
- Financial Standards - financial statements do not meet "generally accepted accounting principles"
- Reliability of Information - reporting standards are not nearly as stringent as in the US or Europe

We Have Adjusted Our Approach To Foreign Stock Exposure

A) What We Used To Do

Before the correlations between domestic markets and foreign developed markets rose a lot, statistically the greatest portfolio risk control was reached around an 80% domestic weight. We effectively operated within a range of 70% to 90% domestic exposure, and made weighting decisions based on macroeconomic factors.



B) What We Do Now

The world has changed. With global commerce, the correlations between the domestic and developed foreign markets have risen to a level where there are minimal diversification benefits. Over 20 years, the optimal standard deviation of a blended portfolio has fallen from 16.5% to under 15%. Also, many macroeconomic indicators that we previously relied upon to make foreign weighting decisions have become less reliable. Why has this happened? Increasing government economic manipulation (monetary policy and fiscal policy).

We no longer have a set agenda of a "10%-30%" weighting of foreign stocks - the decision of domestic versus foreign weighting has become increasingly irrelevant. There are wonderful companies inside and outside of the US. Selecting a company just because of its regional headquarter location is no longer sound. There is no point in trying to put a square peg in a round hole.

We are assessing domestic and foreign companies on an equal footing using factors such as ROCE. Having a foreign company in our portfolio means that the company is, in our estimation, the best choice - period.

Stocks Rise In Q1

In the First Quarter, the domestic S&P 500 Index was up 10.56% and out-performed all major regions. All global regions were positive. China was down 2.29% as its economic growth continues to be challenged. Communication Services (+14.99%), Energy (+12.42%) and Technology (+12.16%) were the leading Q1 sectors. Discretionary (+4.09%), Utilities (+3.50%) and Real Estate (-2.52%) were the laggards.

Equity Index Performance

Index	Q1 2024	2023
S&P 500 (Domestic)	**10.56%**	**26.29%**
MSCI EAFE (Foreign) *	**5.67%**	**18.24%**
MSCI Emerging Markets	**2.09%**	**9.83%**
MSCI EMU (European Monetary Union)	**7.79%**	**22.94%**
MSCI Japan	**10.49%**	**20.32%**

* Europe, Australia and the Far East

Discounting Nvidia, The Rally Was Broad

We see a US economy that is strong. If there is an economic pullback, we see a much greater likelihood of a “soft landing” versus a recession. This should add stability to a market that has had a good start to 2024. The Federal Reserve also sees US economic strength with an upward revision to its GDP estimate on March 20.

Federal Reserve Updates: Economic Projections For 2024 (source: FOMC)

Economic Variable	March Projection (Current)	December Projection (Previous)
Change in Real GDP	**2.1%**	**1.4%**
Unemployment Rate	4.0%	4.1%
PCE Inflation	2.4%	2.4%
Core PCE Inflation	2.6%	2.4%
Federal Funds Rate	4.6%	4.6%

In Q1, the “Magnificent 7” represented roughly 30% of the S&P 500 Index and had roughly 60% of its returns.

	SPX Weight	Q1 Perf.	Perf. Attrib.
Apple (AAPL)	5.71%	-10.93%	-0.62%
Microsoft (MSFT)	7.11%	11.88%	0.84%
Amazon (AMZN)	3.73%	18.72%	0.70%
Nvidia (NVDA)	**5.06%**	**82.46%**	**4.17%**
Alphabet Class A (GOOGL)	2.02%	8.05%	0.16%
Tesla (TSLA)	1.13%	-29.25%	-0.33%
Facebook (META)	2.47%	37.18%	0.92%
Alphabet Class C (GOOG)	1.70%	8.05%	0.14%
	28.93%		**5.98%**
		S&P 500 Q1:	10.56%
		Other 493 Stocks:	4.58%

However, this dominance is a little misleading. If we do not consider the high-flier Nvidia in the calculations, the remaining six stocks represented roughly 25% of the S&P 500 Index and had roughly 30% of its returns.

Bonds Fall In Q1

The Bloomberg US Aggregate Bond Total Return USD Index (AGG), a broad-based representation of bond performance, fell 0.78% in the First Quarter. Last year, the index was up 5.53%. The Fed's preferred inflation gauge, the core Personal Consumption Expenditures index, rose 2.4% in January. In its March 20 meeting, the Fed paused on rate cuts but indicated three rate cuts are possible this year.

Key US Interest Rates	Dec. 31, 2023	March 31, 2024	Change
Federal Reserve Board Funds Target Rate	5.25% - 5.50%	5.25% - 5.50%	No Change
2-Year Treasury (Constant Maturity)	4.23%	4.59%	+ 36 basis points
5-Year Treasury (Constant Maturity)	3.84%	4.21%	+ 37 basis points
10-Year Treasury (Constant Maturity)	3.88%	4.20%	+ 32 basis points

Why Bonds Fell In Q1

Remember the inverse relationship between bond prices and bond yields. As prices rise, yields fall (and vice versa). In Q1, Treasury yields rose and prices fell as investors moved from bonds to stocks. Why did this happen? Lowered expectations of future rate cuts.

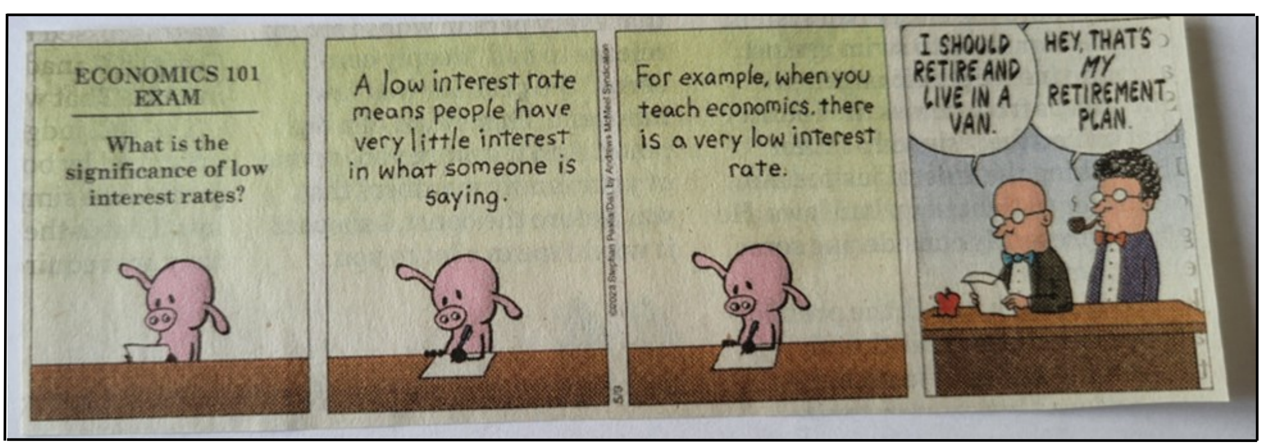
At the beginning of the year, there were aggressive rate cut expectations for 2024. The Fed expected a total 0.75% rate cut (three 0.25% rate cuts) and the market expected a total 1.50% rate cut (six 0.25% rate cuts). So far, there have been no rate cuts and no clear indication of when (or if) there will be rate cuts. Why? Inflation remains above the Fed's 2% inflation target. In Q1, market expectations of future rate cuts fell to the point where the Fed and the market are now aligned with expectations for three rate cuts in 2024.

Lower Expectations Of Rate Cuts = Higher Bond Yields = Lower Bond Prices (see Q1 2024)

Higher Expectations of Rate Cuts = Lower Bond Yields = Higher Bond Prices (see Q4 2023)

The exact opposite situation occurred in Q4 2023 - higher expectations of rate cuts drove up bond prices. At the end of Q3 2023, the AGG was down 1.21% for the year and Fed Chairman Jerome Powell had signaled only one future rate cut. Then rampant enthusiasm ensued in Q4. While the Fed signaled three future rate cuts, the market was expecting six future rate cuts. Higher expectations of rate cuts pushed up bond prices. By year-end, the AGG was up 5.53% for 2023, driven by a dramatic 6.82% rise in Q4.

Most People Find Bonds More Difficult To Understand Than Stocks

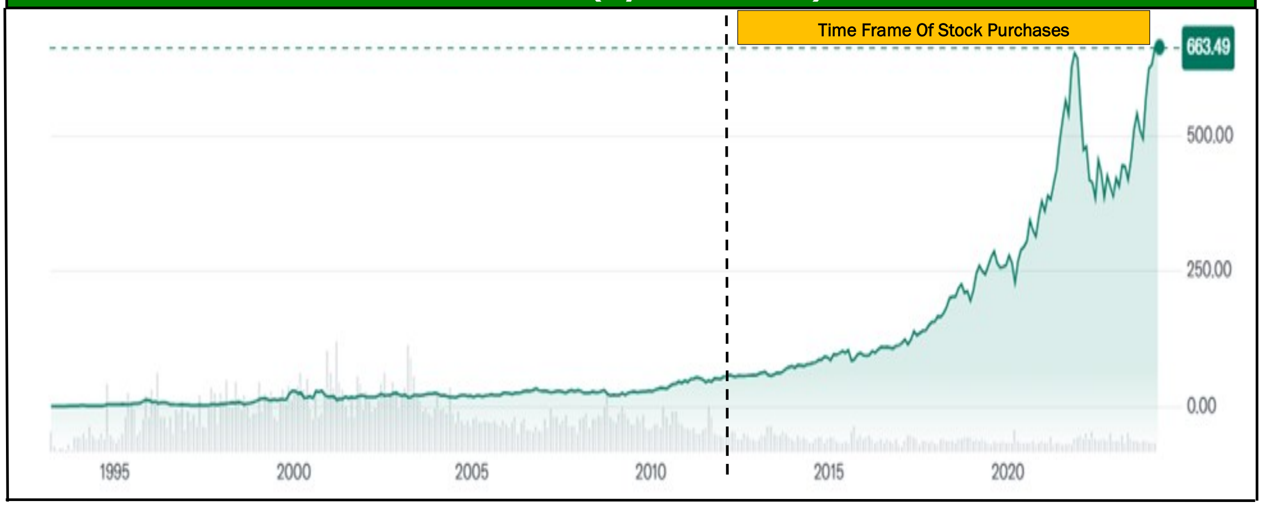


Considerations When Selling A Very Low Cost Basis Stock

On February 28, we sold Intuit Inc (symbol: INTU) in many accounts for roughly $660 a share. We purchased the stock for some clients as far back as 2012 for under $60 a share. Prior to the sell, the unrealized Intuit capital gains were substantial for most clients. It is important for us to assess the sale for each individual client before carrying out the trade. In some cases, it was not advisable to do the trade. Here are the important considerations.

First, we assess the unrealized gains on a case-by-case basis. The Intuit purchases took place anytime from November 2012 forward and hence, the amount of unrealized gains will vary from client to client.

Intuit Inc (Symbol: INTU)



Second, we look at the type of client account where Intuit is located: tax-deferred or taxable.

1. Tax-Deferred Accounts (Traditional IRA, Inherited IRA, Roth IRA)

Realized gains are not taxable in tax-deferred accounts. We can sell Intuit without any tax ramifications.

2. Taxable Accounts (Individual, Joint, Trust)

Realized gains are taxable in taxable accounts. If we sell Intuit, there will be tax ramifications.

Step 1 - Assess whether the unrealized gains are short-term (stock held less than one year) or long-term. Since short-term gains are taxed at a higher rate, it may make sense to wait until the gains go long-term.

Step 2 - Does the client have any loss carry-forwards or unrealized losses to help mitigate a realized gain? If the answer is yes, it makes selling a low cost basis stock much more palatable.

Step 3 - If the realized gain for Intuit is manageable tax-wise over one calendar tax year, sell the entire holding. There is still an opportunity to do tax-loss selling later in the year to mitigate the realized gains.

Step 4 - If the realized gain for Intuit is not manageable tax-wise over one calendar tax year, consider staggering the sale over two or more calendar tax years. There remains an opportunity for tax-loss selling.

Step 5 - Here are two scenarios where selling Inuit is not advisable. Scenario 1 occurs when the unrealized gain is simply too high for the client(s) to tolerate. Scenario 2 occurs when the client(s) situation points to a realistic opportunity for a favorable partial or full step-up cost basis for the heirs.

We made several portfolio adjustments in Q1 because we are confident in the market and wanted to add companies with attractive metrics such as sales growth and ROCE (return on capital employed, see page 4). We will hold these companies as long as they demonstrate a sustainable competitive advantage. Being disciplined is the key to successful long-term investing. We bought

- Otis Worldwide Corporation (symbol: OTIS: $37 billion market cap), the leading elevator and escalator company in the world for 170 years. Otis has two operating segments: New Equipment and Services.
- Rockwell Automation, Inc. (symbol: ROK; $33 billion market cap), the leader in automating factories. ROK provides discreet manufacturing processes with chips, autos, food, and distribution warehouses.
- The Hershey Company (symbol: HSY; $38 billion market cap), the market leader in chocolate production in the US. HSY controls 45% of the market share compared to 30% for its nearest competitor (Mars).
- PulteGroup, Inc. (symbol: PHM; $24 billion market cap), a leader in US homebuilding. PHM operations are geographically diverse, reaching 906 active communities in 46 markets across 26 states.

We sold The Walt Disney Company (symbol: DIS; $205 billion market cap), a leading entertainment company in the Communication Services sector. DIS did not progress to the level we anticipated. We also sold Intuit Inc. (symbol: INTU; $185 billion market cap), a leader in providing financial management and compliance products for consumers, small businesses, and accounting professionals. INTU was a fantastic investment.

We will continue to closely monitor the market and adjust your portfolio as needed. Please feel free to contact us anytime to discuss questions or comments you may have. We will keep you informed of portfolio progress.

Respectfully submitted,

TRIVANT

CUSTOM PORTFOLIO GROUP, LLC