



ARGUS THEME PORTFOLIOS

THE MONTHLY RESEARCH CONFERENCE CALL

MODERATOR:

Jim Kelleher, CFA

Director of Research

Wednesday, May 5, 2021

11:00 a.m. ET

61 Broadway • NYC, N.Y. 10006

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■ Argus Theme Portfolios

- Jim Kelleher, CFA, Director of Research
- John Eade, President of Argus

■ Argus Quick Notes

- Increased target prices
- Innovative Companies
- Industrial Ideas
- Find these on the homepage of our website

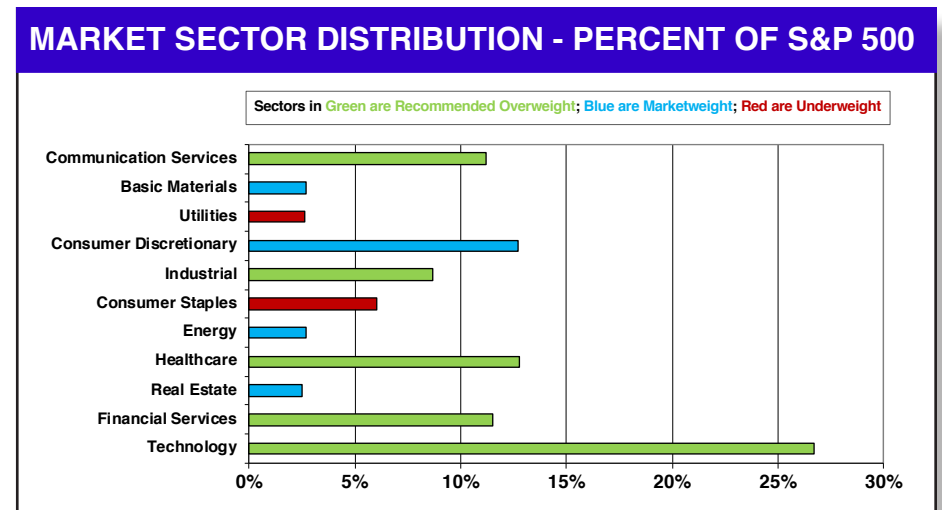
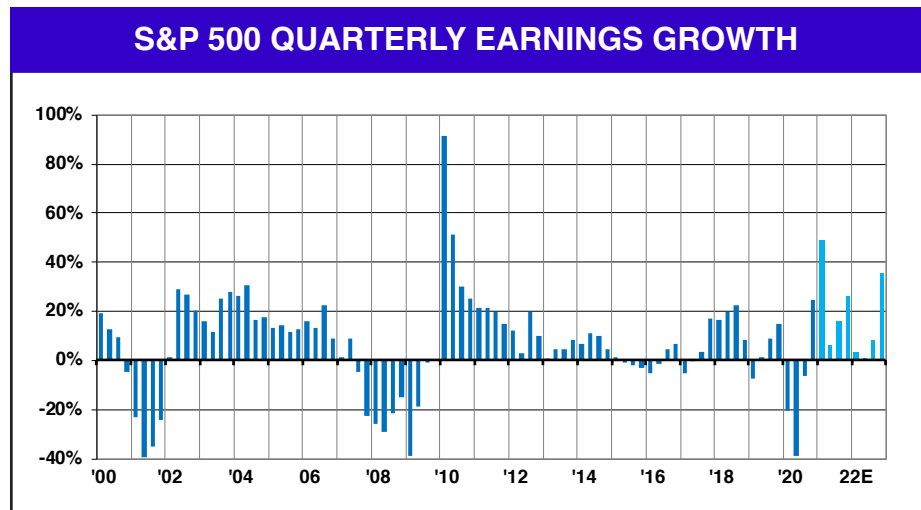
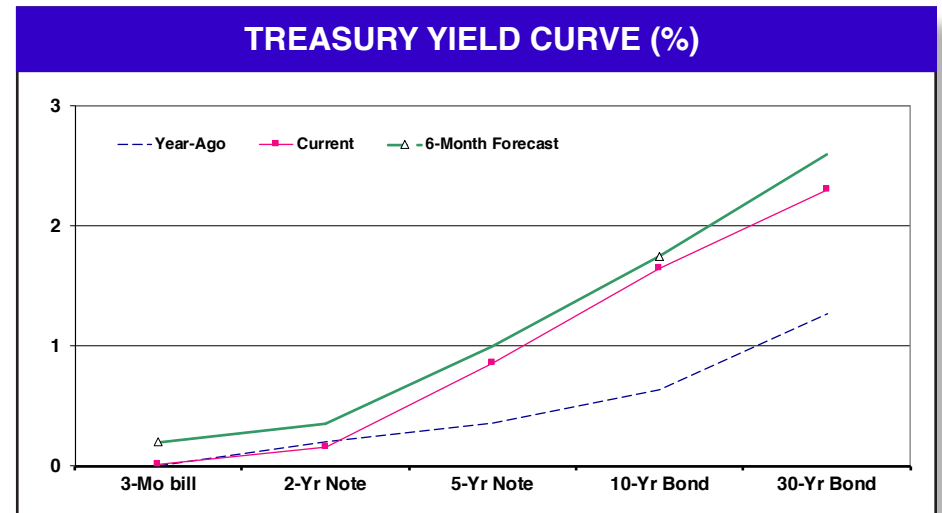
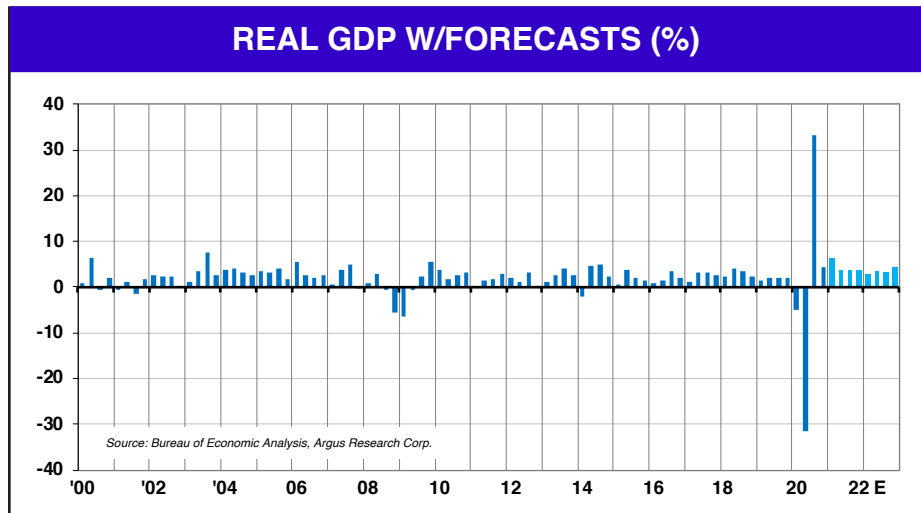
■ First-Quarter Review and Full-Year Outlook

- Our weekly economic commentary looks back at 1Q
- And looks ahead to the remainder of the year
- 1Q was strong, but risks balance opportunities ahead
- We'll update our year-ahead outlook in July
- Find it under Weekly Economic Commentary on our website

■ Investment Theme Podcast Series

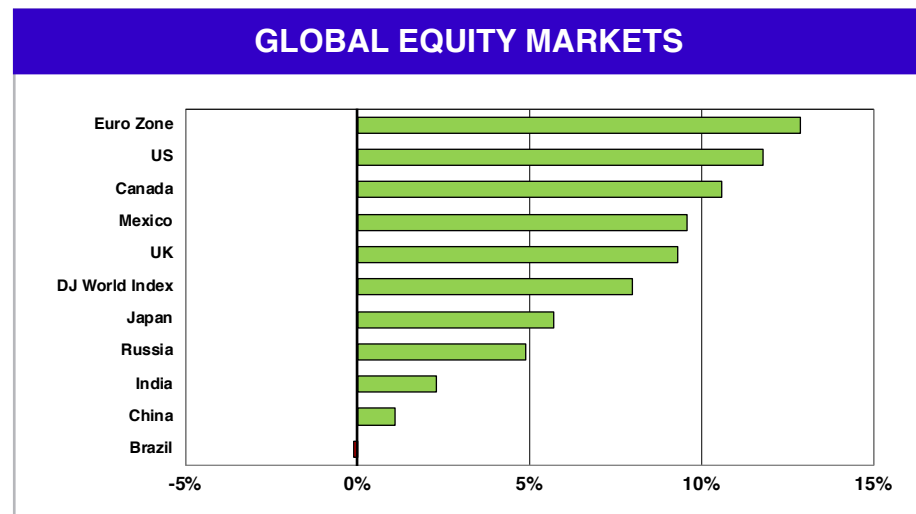
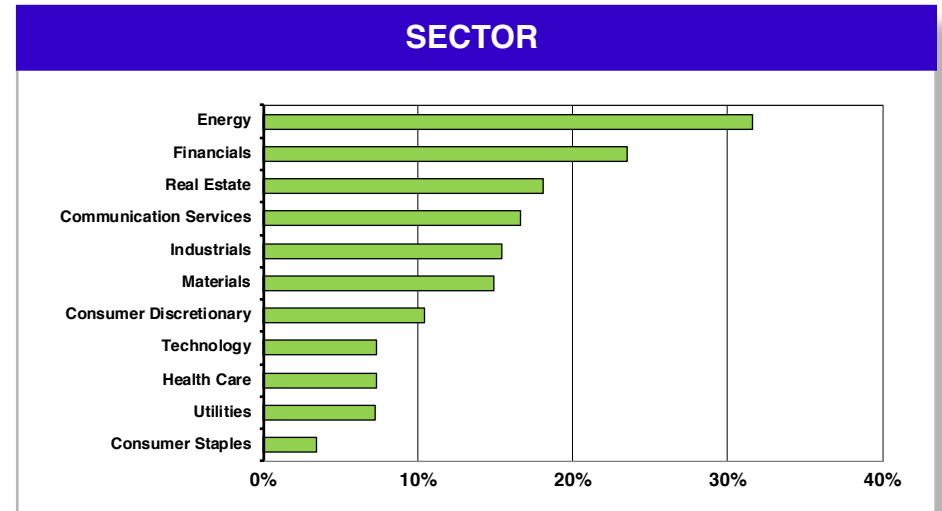
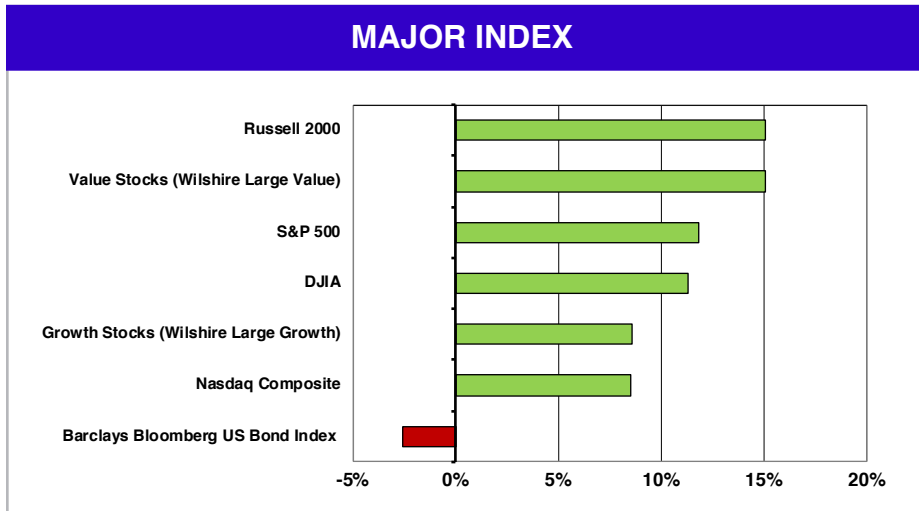
- A series of listener-friendly podcasts
- John Eade details key investment themes
- Some are time-sensitive to the current environment
- Others are durable, weather-resistant strategies
- Find under Market Podcast on our website

MACRO FORECASTS



MARKET PERFORMANCE

DATA AS APRIL 30, 2021



Dividend Growth Theme Portfolio



Dividends a Key Component of Overall Total Return

- According to Morgan Stanley, dividends accounted for 42% of total return of S&P 500 from 1930-2012
- In recent years, dividends have been 15-20% of total return
- Dividends softened blow in 2018, when stocks fell

Not all Dividends Created Equal

- High Yield
 - Dividend yields in 5-8% range or higher
 - Yields high because prices low, signaling other potential problems, ie, GE and Kraft
 - Dividends a major portion of cash flow out; other projects at risk
 - Rising interest rates attract investors over to bonds and away from high-yield stocks
- Dividend Growth
 - Lower yields, sweet spot in the 1-2.5% range
 - Dividends not as big a proportion of cash flow
 - Management teams likely to increase dividends as earnings grow

3 Signals from Dividend Growth

Company has strong balance sheet

- Low levels of debt, high fixed cost coverage ratios
- Consistent cash flow generation, high quality of earnings

Management Mindful of Shareholder Returns

- Capital allocation options include re-investment, M&A, buy-backs, debt paydown, dividends, etc.
- Dividends and buy-backs more immediate to boost shareholder returns

Message from Management about Confidence in Near-Term Outlook

- Companies hate to cut – or even worse, eliminate – dividends
- Managements give deep thought to rate of increase
- Consistent double-digit increases indicate confidence in business model & outlook

Dividend Growth Theme Stocks



Communication Services, IT

- Comcast (CMSCA), Automatic Data Processing (ADP), Corning Inc. (GLW), Mastercard Inc. (MA), Microsoft Corp. (MSFT), Texas Instruments (TXN), Intuit Inc. (INTU)

Consumer, Financial, Healthcare

- Home Depot Inc. (HD), DR Horton Inc. (DHI), Starbucks Inc. (SBUX), Costco (COST), Estee Lauder (EL), Allstate Inc. (ALL), BlackRock Inc. (BLK), Citizens Financial Group (CFG), JP Morgan (JPM), Prudential Securities (PRU), S&P Global Inc. (SPGI) Abbott Labs (ABT), Amgen Inc. (AMGN), Eli Lilly (LLY), Stryker (SYK)

Industrial, Energy, Materials, Utility

- Enbridge Inc. (ENB), Fastenal Inc. (FAST), Honeywell Corp. (HON), Illinois Tool Works (ITW), Northrop Grumman (NOC), Old Dominion Freight Line (ODFL), Sherwin Williams (SHW), WEC Group (WEC)

Innovation Theme Portfolio

US Economy Full of Innovation

- Railroads key to Innovation 100 years ago
- Then Manufacturing, much which is now Overseas
- Yet US Economy still Grows (HC, IT, Financial, A&D, Supply Chain)
- And now on Cusp of new Infrastructure Plan – More Innovation

Four Types of Innovators

- First to Market
- New Product Specialists
- Product & Process Perfectors
- Industry Disruptors

Further Screen for Financial Factors

- 5-year Sales, Operating income, market return growth
- High Operating Margins
- Focus on Return on Capital

Innovation Theme Stocks



New Markets

- Ecolab (ECL), Bio-Techne Corp. (TECH), Catalent Inc. (CTLT), Thermo Fisher Scientific (TMO), Cummins Inc. (CMI), NVIDIA Corp. (NVDA), PayPal Holdings (PYPL), Visa Inc. (V), NextEra Energy (NEE), Intercontinental Exchange (ICE)

New Products

- Johnson & Johnson (JNJ), Eli Lilly (LLY), Deere & Co. (DE), Adobe Inc. (ADBE), Analog Devices Inc. (ADI), Autodesk Inc. (ADSK), ServiceNow Inc. (NOW)

Product & Process Perfector

- T-Mobile US (TMUS), Chevron Corp. (CVX), Allstate Corp. (ALL), Generac Holdings Inc. (GNRC), Old Dominion Freight Line (ODFL), Apple Inc. (AAPL), Fiserv Inc. (FISV)

Disruptors

- Alphabet Inc. (GOOGL), Amazon.com (AMZN), Costco Wholesale (COST), BlackRock Inc. (BLK)

ESG Theme portfolio

Strategy has Evolved over years

- Started in 1980s, What to Avoid?
- Guns, Alcohol, Tobacco, Gaming, Energy, Soda?
- Performance Lagged

Focus has Changed to Highlight Best Practices

- No Longer Industry-Based
- Instead, on Environment, Social and Governance (ESG) factors
- Measure Management on Worker Relations, Community Involvement, Customers, Shareholders

Impact Investing Goals

- Climate
- Hunger & Poverty
- Disease
- Shelter
- Worker's Rights

ESG Investing & Argus



JUST Capital is our ESG partner

- Founded in 2013
- Based in New York
- Not-for-Profit Organization
- www.Justcapital.com

JUST's Mission

- To build an economy that works for all Americans by helping companies improve how they serve all their stakeholders – workers, customers, communities, the environment, and shareholders

JUST's Approach

- Poll American Public to determine most important issues
- Research & Evaluate Russell 1000 companies on these issues
- Rank Companies 1-100
- Shelter

Argus & JUST

- Argus takes top-scoring JUST companies and screens against our Universe of Coverage
- Build a 30-stock portfolio based on ESG Scores, our Ratings, Sector Weights, Analyst Conviction,

ESG Theme Stocks



Consumer

- Amazon.com (AMZN), Lowes Cos. (LOW), Costco Wholesale (COST), CVS Health (CVS)

Financial & Real Estate

- Blackrock Inc. (BLK), Charles Schwab Corp. (SCHW), JP Morgan Chase (JPM), S&P Global (SPGI), Equinix Inc. (EQIX)

Healthcare

- Abbott Laboratories (ABT), Anthem Inc. (ANTM), Intuitive Surgical (ISRG), Zoetis Inc. (ZTS)

IT & Communication Services

- Adobe Inc. (ADBE), Advanced Micro Devices (AMD), Apple Inc. (AAPL), KLA Corp. (KLAC), Microsoft Corp. (MSFT), NVIDIA Corp. (NVDA), ServiceNow Inc.(NOW), Mastercard (MA), Alphabet (GOOGL), Facebook (FB)

Materials/Industrial/Utilities

- Ecolab Inc. (ECL), Deere & Co. (DE), L3Harris Technologies (LHX), Honeywell Intl (HON), UPS Inc. (UPS), American Water Works (AWK), WEC Energy Group (WEC)

High-Yield Theme Portfolio

In past decade, Growth stocks outperformed value

- Since 2010, Growth up 400%, while Value up 200%
- Growth beat Value in 8 of past 10 years

That wasn't always the case

- Value traces roots to Graham & Dodd's Security Analysis textbook (1934)
- (Argus Research also founded 1934)
- Warren Buffett a student of Ben Graham
- From 2000-2010, Value (+8%) beat Growth (-15%)

Why recent deviation in performance?

- Make-up in Economy has changed
- Capital assets vs. Intangible assets, network effects
- When companies spend on building networks, they also are investing: profits understated
- Long-term decline in interest rates also lowers discount rates and increases value of future profits

Tide Turning toward Value in 2021



YTD Performance

- Russell 1000 Value + 16%
- Russell 1000 Growth +7%
- Energy, Financial, Industrial, Material sectors all outperforming
- Consumer Discretionary, HC, IT all lagging

Factors Driving Change

- Widening of yield curve
- Expected earnings rebound in service-economy stocks, energy & banking

Longer-Term Implications

- Innovation drives U.S. economy
- Focus on rebuilding U.S. infrastructure, supply chain offers near-term opportunity
- We are looking for more than value long-term, ie, also focus on financial strength, profitability, management

How to Find Value

Defining Value

- We recommend focusing on price/sales ratio
- P/E ratios mislead on unprofitable, low-profit companies, or cyclical companies at high EPS points
- Book value less relevant in current economy
- Pure focus on yield can result in list of stocks with shaky finances
- Sector definitions blur and can find both growth & value in almost all
- Current S&P 500 P/S ratio is 2.6x.
- To us, value stocks have P/S ratios <2.6x.

We Want More than Value from a Stock

- Favor Value stocks with yields of 2-4%
- Favor Value stocks with at least Medium Argus Financial Strength ratings
- Prefer seasoned management teams with a strong track record of achieving goals
- Using these metrics, we can find numerous value candidates across full economic spectrum

High-Yield Theme Stocks



Basic Materials/Industrial/Utilities/Energy

- Pkg Corp. of Am. (PKG, 2.9%), Du Pont (DD, 1.6%), Lockheed Martin Inc. (LMT, 3.0%), Valero Energy (VLO, 5.1%), Enbridge Inc. (ENB, 7.4%), Chevron (CVX, 4.7%), National Fuel Gas (NFG, 4.1%) Phillips 66 (PSX, 5.4%), PPL Corp. (PPL, 6.1%), Pinnacle West Capital (PNW, 4.2%), Southern Co. (SO, 4.2%), Edison Intl. (EIX, 4.6%)

IT/Communication Services

- AT&T (T, 7.0%), BCE Inc. Verizon (VZ, 4.5%) IBM (IBM, 5.4%), Seagate Technology. (STX, 3.6%), Broadcom Inc. (AVGO, 3.4%)

Consumer

- Genuine Parts (GPC, 2.9%), Altria Group Inc. (MO, 8.0%), Kellogg Co. (K, 3.7%)

Financial Services/Real Estate

- Annaly Capital Management (NLY, 10.5%), AGNC Investment Corp. (AGNC, 9.3%), Prudential Financial (PRU, 5.7%), Citizens Financial (CFG, 3.5%), Metlife (MET, 4.0%), Truist Financial (TFC, 3.8%), US Bancorp. (USB, 3.7%), Regency Centers Corp. (REG, 5.0%)

Healthcare

- Abbvie Inc. (ABBV, 5.0%), Pfizer Inc. (PFE, 4.0%), Merck & Co. (MRK, 3.3%)

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