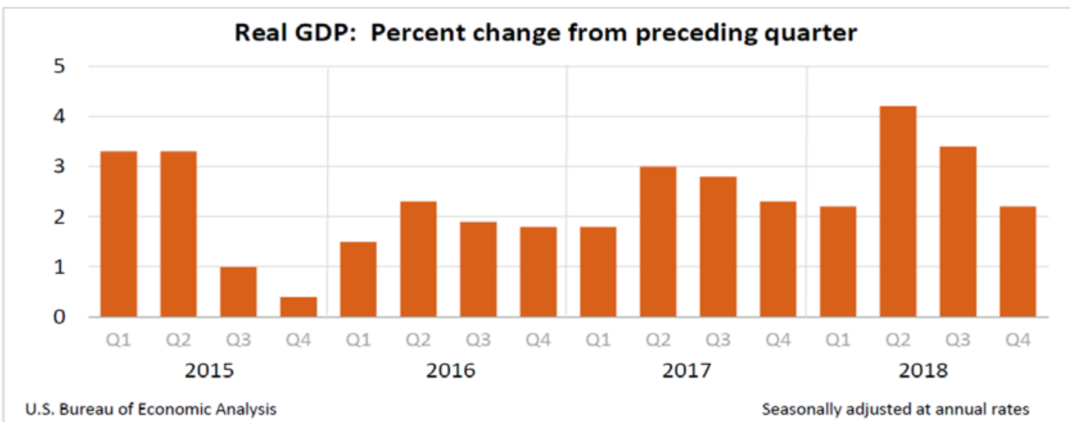
Alley Company Dividend Portfolio
2019 Q1 Letter

April 18, 2019

Domestic equity markets rallied sharply in the first quarter of 2019, completing a V-shaped recovery from the worst December for the stock market since 1931. It appears that the market was spooked by a "growth scare" in late 2018, but now is focusing on the likelihood of continued economic expansion.[1]

The U.S. economy has indeed been downshifting in recent months. For example, fourth quarter 2018 real gross domestic product (GDP) growth was 2.2 percent compared with growth rates comfortably above 3 percent in the middle quarters of last year (see exhibit below). In addition, growth estimates for the first quarter of 2019 have slid to below 2 percent according to Bloomberg consensus forecasts.



The recent decline in the *rate of growth*, however, shouldn't be confused with an unhealthy economy or one that is *contracting*; nor should it be used to support a narrative about an economy that is reaching "stall speed," which some pundits have incorrectly put forth in the recent past.

The reality is that the U.S. economy is the largest and most diversified in the world and expanding at a moderate pace over and above the rate of inflation is actually a recipe for success. More rapid growth could potentially prove to be unsustainable (boom-bust cycles) or promote overheating (creating excesses or too much inflation).

Since the end of the Great Recession in 2009, the U.S. economy has been functioning like a battleship – moving slowly at times, but heavily armored and hard to knock off course. In fact, the economy has now been expanding for 117 months, making this the 2nd longest business cycle on record dating back to the 1850s.[2]

Alley Company LLC
585 Bank Lane, Suite 2400
Lake Forest, IL 60045
Phone 847-482-0938
Fax 847-482-1237
www.alleycompanyllc.com

While recessionary periods are normal and will come and go in the future, it appears that the near-term headwinds of unwinding crisis-level monetary policy and U.S.-China trade tensions have calmed for now which should lead to a continuation of economic momentum and a positive backdrop for corporate earnings performance and dividend payments.

Quarterly Performance Update

In a strong up market, the Alley Company Dividend Portfolio outperformed the Russell 1000 Value Index in the first quarter.

Top contributors and largest detractors from an individual holdings perspective in the quarter were:

Top Contributors	Top Detractors
Philip Morris (PM)	Abbvie (ABBV)
Cisco Systems (CSCO)	Six Flags (SIX)
Accenture (ACN)	RPM Intl. (RPM)

Top and bottom sectors in the marketplace during the quarter were:

Top Performing Sectors	Bottom Performing Sectors
Technology (+)	Materials (-)
Real Estate (-/+)	Financials (-)
Industrials (+)	Health Care (-)

(+) indicates that the portfolio is overweight this sector and (-) indicates that the portfolio is underweight this sector.

Dividend announcements among Alley Company Dividend Portfolio holdings during the quarter were:

Company	Dividend Change
Arthur J. Gallagher & Co. (AJG)	+5%
BCE Inc. (BCE)	+5%
Blackrock (BLK)	+5%
Chevron (CVX)	+6%
Cisco Systems (CSCO)	+6%
Home Depot (HD)	+32%
Kimberly Clark (KMB)	+3%
Paychex (PAYX)	+13%
Prologis (PLD)	+10%
Union Pacific (UNP)	+10%
Wells Fargo (WFC)	+5%
Xcel Energy (XEL)	+7%

There were no new holdings added to the portfolio in the quarter, nor were any current holdings eliminated in their entirety. The portfolio continues to hold thirty-four (34) positions and we would expect the portfolio to stay in a fairly narrow range around the current number of holdings for the foreseeable future.

Alley Company Dividend Portfolio

The investment philosophy of the Alley Company Dividend Portfolio focuses on striking the balance between attractive absolute dividend yield and strong dividend growth underpinned by solid company fundamentals of our portfolio holdings. We employ a bottom-up, research-driven process focused on fundamental analysis of our portfolio holdings.

Alley Company, LLC

Alley Company is a boutique investment management firm that is dedicated to operating a discernible and disciplined investment philosophy and generating superior risk-adjusted investment returns. Alley Company was founded in 1998 and in 2006 established the Alley Company Dividend Portfolio to capitalize on investment opportunities in quality companies with strong dividend-paying cultures.

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[1] The "growth scare" in late 2018 was primarily caused by concerns over monetary policy and U.S.-China trade tensions. In January, Federal Reserve (Fed) Chair Jerome Powell communicated that future monetary policy action would be "data dependent," acknowledging that crosscurrents in the global economy had emerged that made a more patient approach appropriate. As the first quarter came to a close, signals were sent to the market that the U.S.-China trade negotiations were making progress.

[2] Source: National Bureau of Economic Research (NBER). Assumes current expansion started in July 2009 and continued through March 2019, lasting 117 months so far. Data for length of economic expansions and recessions can be found at nber.org/cycles/