

# Equity Portfolios

QUALITY INVESTING IN A RISKY WORLD



**Rising Dividend Portfolio**

**Victory Portfolio**

**Separately Managed Account**

**WASHINGTON CROSSING ADVISORS**

# The prevalence of risk...

THE WORLD IS A RISKIER PLACE THAN  
MANY UNDERSTAND OR REALIZE

**1987:** Black Monday  
**1990:** Iraq Invades Kuwait  
**1991:** Japan Asset Bubble Bursts  
**1992:** Pound Sterling Crashes  
**1994:** Treasury Bond Losses  
**1997:** Asian Financial Crisis  
**1998:** Russia Debt Default  
**2000:** Dot-Com Bubble Bursts  
**2001:** 9/11 Terrorist Attacks  
**2002:** Accounting Scandals  
**2007:** U.S. Housing Bubble Bursts  
**2008:** Financial Crisis  
**2010:** European Sovereign Debt Crisis  
**2010:** “Flash” Crash  
**2011:** U.S. Sovereign Debt Downgrade  
**2015:** China Market Crash  
**2018:** Global Growth Worries  
**2020:** Coronavirus Pandemic  
**2022:** Russia Invades Ukraine

**Shocks to the financial system  
can roil markets and turn a portfolio  
on its head.**



# ...underscores the need for quality.

## WHAT WE MEAN BY QUALITY

Quality can mean different things to different people.

To us, quality means:

- 1** | **DURABLE** (i.e., low debt)
- 2** | **FLEXIBLE** (i.e., profitable assets)
- 3** | **PREDICTABLE** (i.e., steady businesses)

A close-up photograph of a hand holding a small amount of golden wheat grains. The hand is positioned in the lower right quadrant, with the fingers slightly curled. The grains are scattered, with some falling from the hand. The background is a soft, out-of-focus field of wheat under a warm, golden light, suggesting a sunset or sunrise. The overall mood is peaceful and natural.

Quality  
companies  
are  
durable



**Durable businesses tend to have low debt, which reduces risk of failure during downturns.**

**Sound financial management avoids taking on unnecessary debt and adds a “margin of safety.”**

A close-up photograph of a person's hand, wearing a light blue denim shirt, gently touching a field of golden wheat. The scene is set during sunset or sunrise, with a warm, golden light illuminating the field and the sky. The text "Quality companies are flexible" is overlaid on the left side of the image in a large, black, serif font.

Quality  
companies  
are  
flexible



**Flexible companies tend to own profitable assets and offer differentiated products.**

**Quality management at flexible companies consistently demonstrate the profitable use of capital.**



Quality  
companies  
are  
predictable



**Predictable businesses start with stable cash flow and can provide an element of resilience for investors.**

**Predictable companies can serve to stabilize a portfolio, particularly during times of uncertainty and elevated risk.**



At a  
reasonable  
price....

# A different take on “value”

## PERSONALIZED INVESTING APPROACH

### › **NOT JUST “CHEAP”**

We look for reasonably-priced, quality assets, not just “cheap” ones. A proprietary and fundamentally-grounded approach guides our valuation work.

### › **DISCIPLINED AND PATIENT**

We are disciplined and patient investors. Investments are evaluated over a 3-5 year horizon. This perspective helps us avoid many pitfalls that come with short-term thinking.

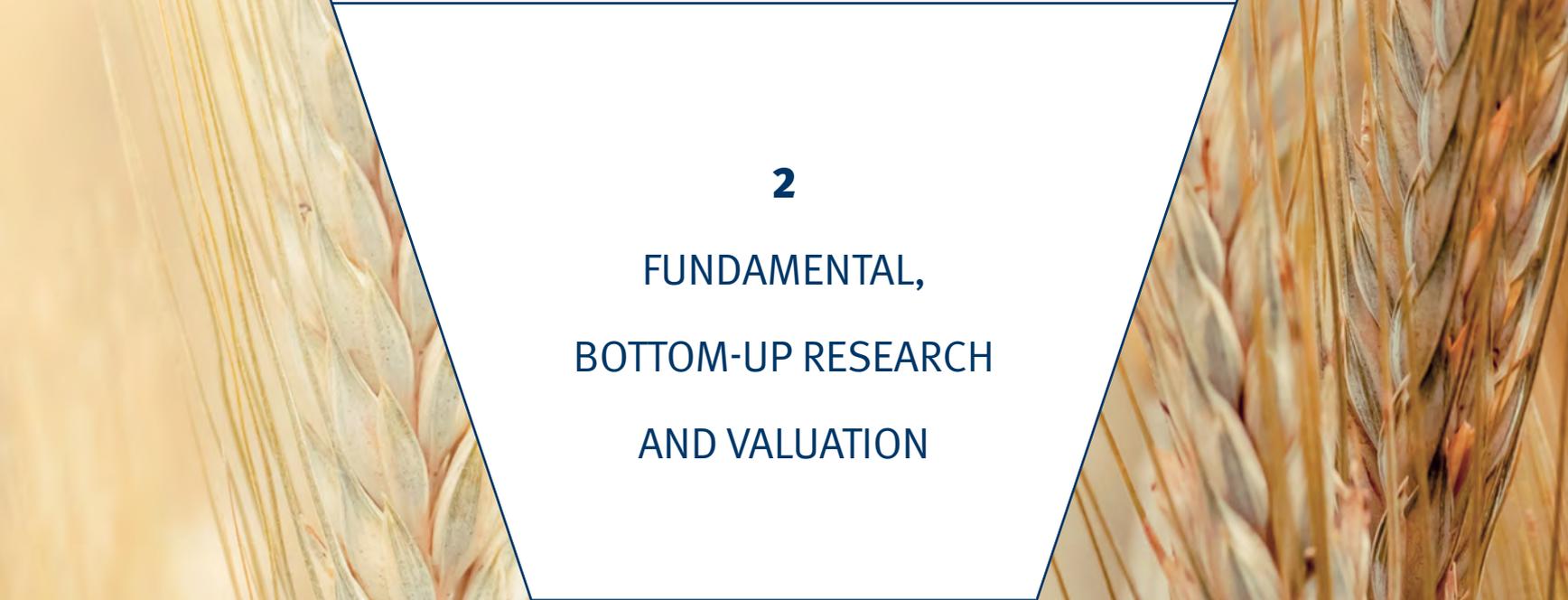
### › **HOLISTIC CONSTRUCTION**

Portfolios are constructed holistically. Each investment must “fit” in a portfolio in such a way as to add to the portfolio’s expected risk-adjusted return.



**1**

QUANTITATIVE ANALYSIS TO  
FIND HIGH-GRADE,  
QUALITY COMPANIES



**2**

FUNDAMENTAL,  
BOTTOM-UP RESEARCH  
AND VALUATION



**3**

CONSTRUCT  
PORTFOLIO

# Where quality and value meet

## CONSTRUCTING A WCA EQUITY PORTFOLIO

- 1** | Quality companies are less indebted, highly profitable, and operate steady businesses.
- 2** | Investments should be selected only after clear and quantified measures of value, risk, and reward have been made.
- 3** | Portfolios seek to maximize expected risk-adjusted return.

# Rising Dividend Portfolio

## P O R T F O L I O   S U M M A R Y

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- › Large cap relative value, primarily domestic stock.
  - › Quality companies with a record of growing dividends for five consecutive years.
  - › Seeks income growth coupled with capital appreciation.
  - › Tax efficient, low turnover strategy.
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**QUALITY** : The emphasis of the WCA Rising Dividend Portfolio strategy is quality. Starting with a universe of the 1,000 largest companies, we look for resilient, conservatively-financed businesses with a competitive advantage. Academic studies show that quality is one of the few market anomalies that tend to persist over time.

**STEADILY RISING DIVIDENDS** : Eligible companies must have demonstrated at least five consecutive years of dividend increases. Failure to raise the dividend is grounds for removal from the portfolio. Yet, we do not see a rising dividend as an end in itself, as much as a means to find quality. Thus, dividend growth rather than dividend yield is most important to us.

**VALUE** : Quality endures, and we seek to buy it at a reasonable price. We use a proprietary valuation process using fundamentally-driven techniques.

**STYLE CONSIDERATIONS** : We seek solid risk-adjusted returns and income growth, but no strategy outperforms in all markets. Quality styles tend to perform better in flat-to-down markets, but lag in strong bull markets. Because the strategy avoids high debt and volatile earnings, performance can differ substantially from traditional value strategies.

# Victory Portfolio

## P O R T F O L I O   S U M M A R Y

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- › All cap value, primarily domestic stock.
  - › Seeks capital appreciation through quality companies at attractive valuations.
  - › Strategy includes a flexible cash mandate.
  - › Low turnover and low volatility.
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**GROWING** : Portfolio candidates should have a demonstrated ability to grow shareholder value over time. The compounding effect of profitable growth is a powerful driver to returns and why this is a primary focus of our analysis.

**CONSISTENTLY PROFITABLE** : Not all growth is good growth. Growth can be achieved from unprofitable investments, but detracts from shareholder wealth over time. Therefore, we seek businesses that are demonstrating the profitable use of capital in generating cash flow and returns to investors.

**WELL-CAPITALIZED** : Companies should have relatively low amounts of debt. As a general rule, we believe that companies with less debt on the balance sheet have greater financial flexibility. This flexibility becomes even more valuable during periods of economic distress.

**ATTRACTIVELY VALUED** : Candidate companies should trade at a discount to our estimate of intrinsic value under a set of conservative assumptions. In so doing, we hope to establish a “margin of safety” that helps us to avoid unnecessary risk without sacrificing return. In situations where valuations do not reflect underlying risk, the portfolio may hold cash.

# Washington Crossing Advisors

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