

# Q2 - 2020

LARGE CAP VALUE  
STRATEGY



MORGAN-DEMPSEY  
CAPITAL MANAGEMENT, LLC

## FIRM PROFILE

Majority Employee Owned  
Registered Investment Advisor

Founded - 1994 - Menomonee Falls, WI

## INVESTMENT OBJECTIVE

*Our objective is to produce a defensive portfolio that generates a high level of income with the goal to outperform its benchmark on both a risk-adjusted and absolute basis over a market cycle.*

## INVESTMENT STYLE

Large Cap Value

Equity Income

## BENCHMARK

Russell 1000 Value Index

## OBJECTIVE

High Level of Income

Defensive - Low Down Capture

Attractive Risk-Adjusted Returns

## WHAT INVESTORS SHOULD EXPECT

### CLIENT PORTFOLIOS

- \* 30 to 45 individual stocks
- \* Above average dividend yields
- \* Maximum position size of 5% and sector limits of 35%
- \* Generally low turnover (10% - 25%)

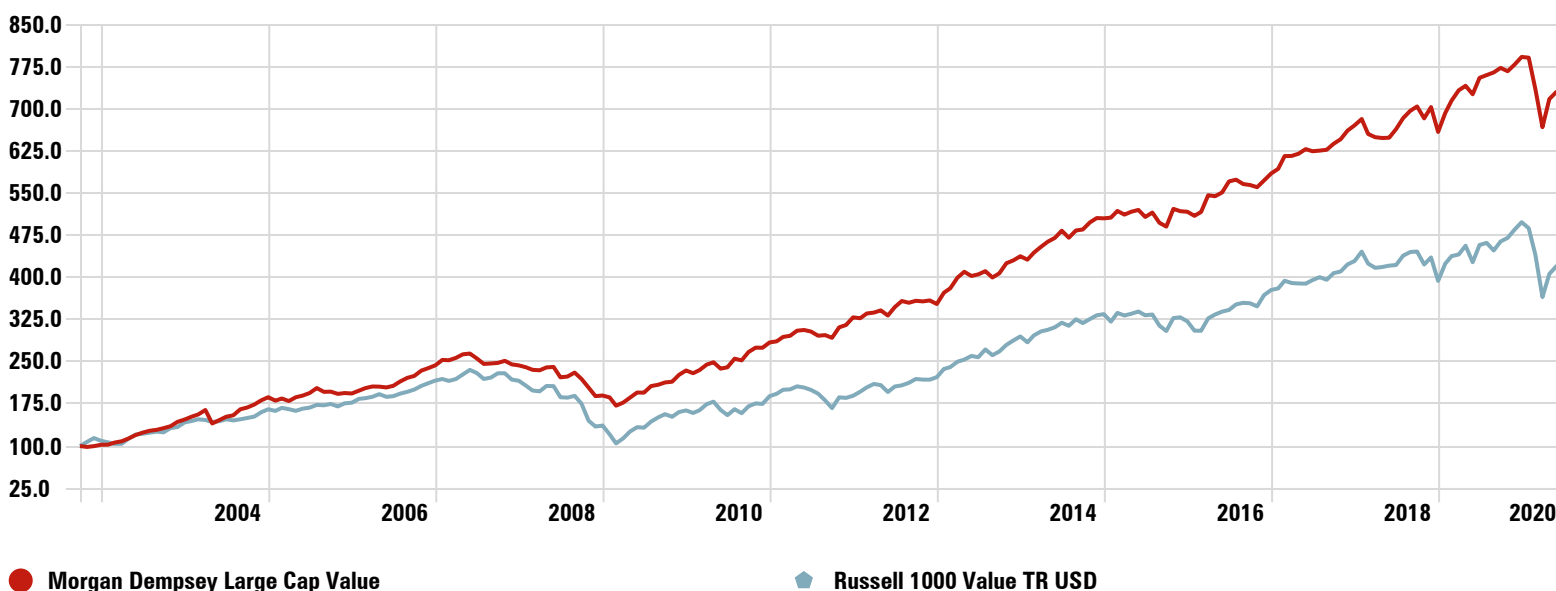
### PERFORMANCE OBJECTIVES & ATTRIBUTES

- Outperform the benchmark on return and risk-adjusted return basis.
- Produce significant & increasing income stream
- Relative downside protection in negative market environments
- Expect weak relative performance during periods when markets are primarily driven by speculation & momentum

## INVESTMENT CUMULATIVE GROWTH

### Investment Growth - Gross of Fees

Time Period: Since Common Inception (10/1/2002) to 6/30/2020



Time Period: Since Common Inception (10/1/2002) to 6/30/2020 Source Data: Monthly Return

	Cumulative Return	Return	Standard Deviation	Sharpe Ratio	Alpha
Morgan Dempsey Large Cap Value	621.56	11.78	10.49	0.99	6.17
Russell 1000 Value TR USD	317.31	8.38	15.03	0.52	0.00

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## LARGE CAP VALUE STRATEGY



### INVESTMENT PROCESS

#### INITIAL SCREEN

- Companies larger than \$5 billion in market capitalization
- Dividend yields that are at least 1% higher than the S&P 500 Index at time of purchase.

#### DIVIDEND QUALITY

- Positive 5-year dividend growth rate **OR** on a path to renewed dividend growth
- Management commitment to the dividend
- Change in dividend policy or strategy

#### FUNDAMENTAL ANALYSIS

*Fundamental analysis includes a variety of quantitative and qualitative issues including but not limited to the following:*

- Business Model: Understand how a company will stay competitive; product/service innovation; solid growth strategy
- Growth Potential: Capital expenditure plans; return on equity; new market expansion
- Free cash flow dividend coverage

#### VALUATION ANALYSIS

*We use a number of valuation parameters against their 5-year average when we consider securities for inclusion. They include the following:*

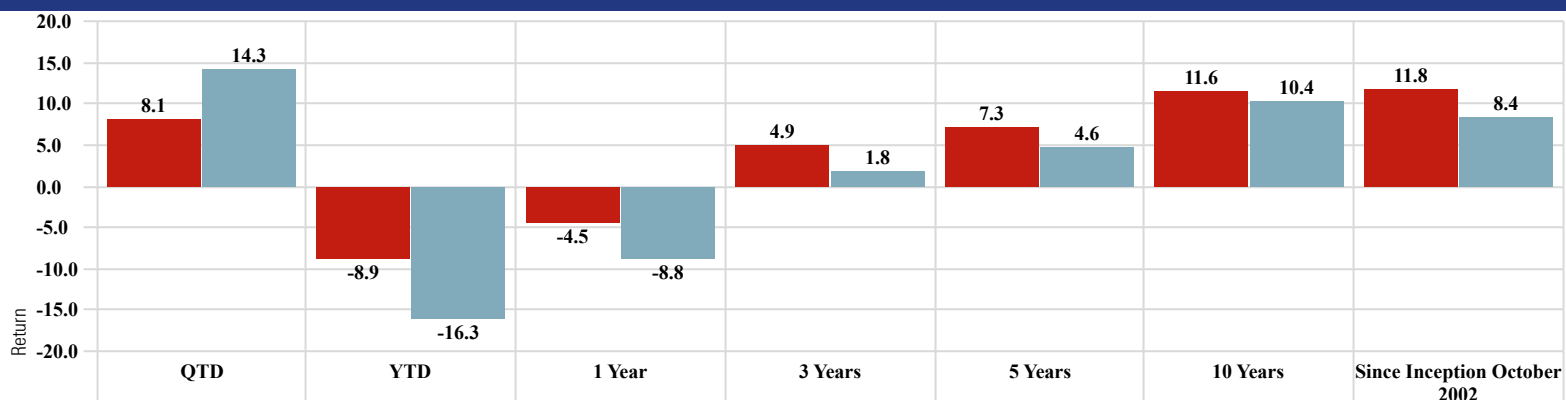
- Dividend yield relative to the 5-year average
- Forward 1-year PE & Price / Free Cash Flow relative to the five year average

#### LONG-TERM CATALYST

*A long term catalyst or transitional strategy needs to be identified that will drive future growth. This needs to be identified for new stock considerations. Catalyst can take the form of new product development, company initiates a shareholder total return strategy with dividends being a focal point, material capital expenditure program that will drive future growth or a restructuring of the company's product portfolio, eliminates non-core brands while becoming more focused on value driven aspects of the business model.*

### ANNUALIZED RETURNS (%)- Gross of Fees - As of June 30, 2020

\* Returns over 1-year are annualized



● Morgan Dempsey Large Cap Value

◆ Russell 1000 Value TR USD

### CALENDAR YEAR RETURNS (%) - Gross of Fees

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Morgan Dempsey Large Cap Value	20.26	-1.76	14.68	13.16	2.32	15.42	24.09	7.22	15.69	21.29	23.46	-22.01	-0.04	25.90
Russell 1000 Value TR USD	26.54	-8.27	13.66	17.34	-3.83	13.45	32.53	17.51	0.39	15.51	19.69	-36.85	-0.17	22.25

\*Past performance is not indicative of future results.

\*All performance in this presentation is illustrated gross of fees.

\*For net-of-fees data see the Investment Performance Disclosure

\*Client returns will be reduced by advisory and other expenses the client may incur. As an example, the effect of investment management fees on the total value of a client's portfolio assuming (a) quarterly fee assessment, (b) \$1,000,000 investment (c) portfolio return of 8% a year, (d) 1% annual investment advisory fee would be \$10,416 in the first year, and cumulative effects of \$59,816 over five-years and \$143,430 over 10-years. Please see ADV Part 2A for additional information regarding fees.

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## LARGE CAP VALUE STRATEGY



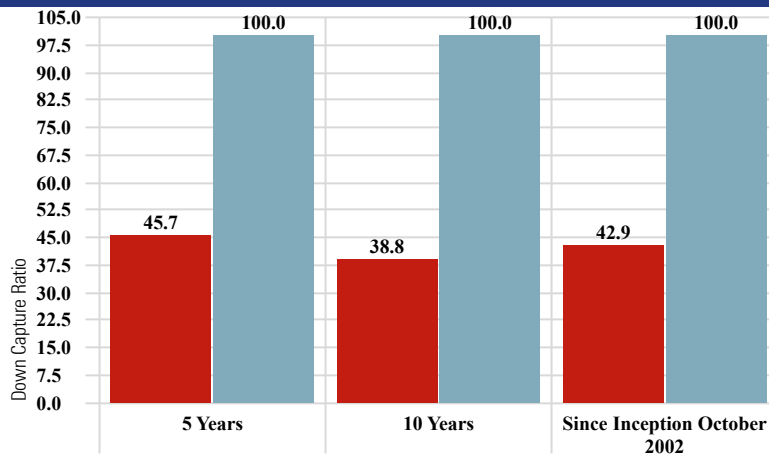
### SECTOR WEIGHTS %

	MDCM Large Value	Russell 1000 Value
Energy %	7.43	5.33
Basic Materials %	0.00	3.90
Industrials %	14.36	12.32
Consumer Discretionary %	3.19	6.91
Consumer Staple %	23.86	8.48
Healthcare %	14.01	14.30
Financial Services %	6.07	18.42
Technology %	7.98	10.15
Communication Services %	6.56	9.42
Utilities %	6.06	5.86
Real Estate %	10.49	4.91

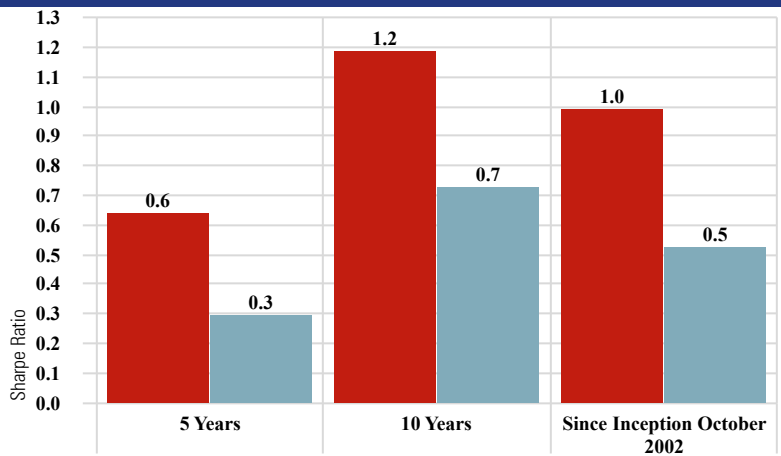
### TOP TEN HOLDINGS

	Market-Cap (mil)	Dividend Yld %	Portfolio Weighting %
Procter & Gamble Co	309,629	2.50	4.04
Crown Castle International Corp	69,818	2.95	3.75
Merck & Co Inc	199,126	3.18	3.47
Target Corp	60,102	2.25	3.30
General Mills Inc	39,337	3.25	3.21
Gilead Sciences Inc	96,311	3.68	3.17
Cisco Systems Inc	198,532	3.27	3.06
Coca-Cola Co	202,719	3.72	2.94
Paychex Inc	26,309	3.38	2.92
Digital Realty Trust Inc	38,449	3.25	2.84

### DOWN CAPTURE RATIO %



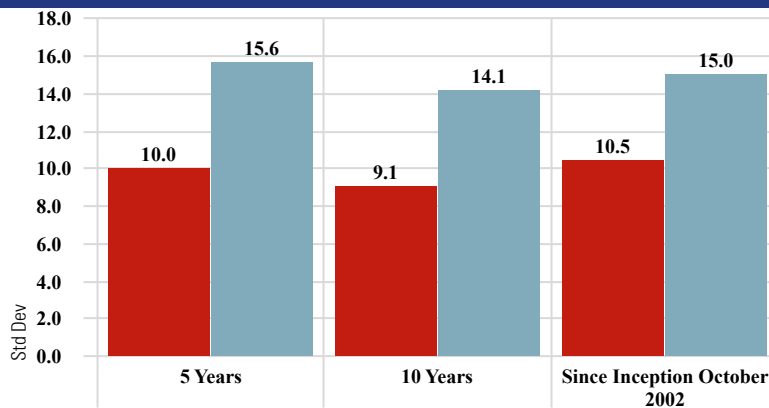
### RISK-ADJUSTED RETURN (Sharpe Ratio)



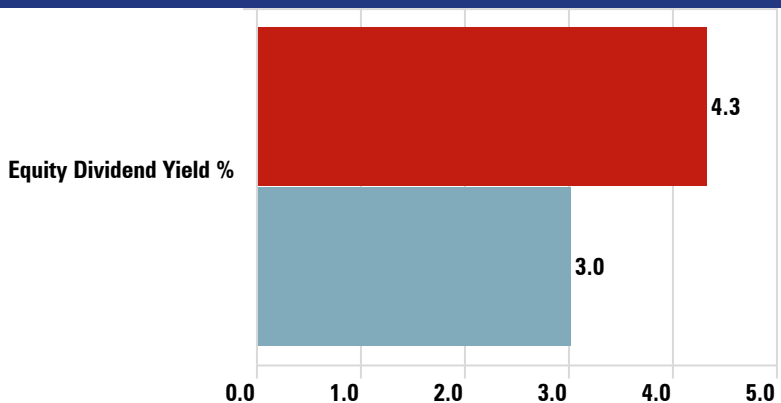
### ● Morgan Dempsey Large Cap Value

### ◆ Russell 1000 Value TR USD

### STANDARD DEVIATION % Risk)



### EQUITY ONLY DIVIDEND YIELD %



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\* The securities identified and described do not represent all of the securities purchased, sold or recommended for client accounts.

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**TERMS & DEFINITIONS**

**Down Capture Ratio:** The down-market capture ratio is a statistical measure of an investment manager's overall performance in down-markets. It is used to evaluate how well an investment manager performed relative to an index during periods when that index has dropped. Example: if a manager has a down-market capture ratio of .55 and the market is down -12%, the manager will be down -6.6% (.55 x -12%).

**Standard Deviation:** Standard deviation is a statistical formula that measures the dispersion of investment returns for a manager relative to the manager's average return. The higher the standard deviation, the more dispersion of returns from the average return. Consequently, managers that have a higher standard deviation of return are considered to have more volatility and risk than a manager who has a lower standard deviation.

**Risk-Adjusted Return:** There are a variety of risk-adjusted return measurements that are used by the investment management and consulting community. Ultimately, they are all directionally answering some version of the following question, "How much return is the investment manager delivering for every unit of risk?" Investors want as much return as they can get for every unit of risk. Morgan Dempsey uses the most common risk-adjusted return measurement called the Sharpe Ratio.

**Sharpe Ratio:** The Sharpe ratio was developed by Nobel laureate William Sharpe and is used to help investors understand the return of an investment compared to its risk. The Sharpe ratio takes the manager's total return, subtracts the cash equivalent return and divides by the standard deviation. When contrasting the Sharpe ratio of two managers, the manager with the higher Sharpe ratio is delivering a better risk-adjusted return for the investor.

**FOR ADDITIONAL INFORMATION:**

Dave Isaacson  
Portfolio Specialist  
disaacson@morgandempsey.com  
Direct Line: 414-928-8702



111 Heritage Reserve, Suite 200  
Menomonee Falls, WI 53051

Office Number: 414-319-1080