CHARTWELL INVESTMENT PARTNERS

Chartwell Strategies Current Outlook and Investment Strategy

"A nation that forgets its past has no future."

-Winston Churchill

Summary

- *Stock market indices moved sideways during the third quarter as investors sought to take profits from gains in the first half of the year. Large cap stocks did somewhat better than small and mid-cap value, which moved modestly to the downside.*

- *The Chartwell Balanced and Growth Composites outperformed their respective benchmarks, while the Dividend Equity Composite lagged its benchmark by a small margin.*

- *COVID-19 and supply chain issues are reducing the momentum of the recovery, however, with the belief that these problems are receding, our portfolios are positioned to benefit from a potential continuation of the economic expansion.*

- *Two major bills have been introduced in the Congress which, if passed, could add to the inflationary pressures experienced in the past twelve-months. Uncertainties created by these proposed spending and tax bills may keep the financial markets in a holding pattern until more clarity becomes available.*

Background

After the generous gains recorded in the first half of 2021, the equity markets stalled in the third quarter. The Dow Jones Industrial Average, Standard & Poor's 500 Index, NASDAQ and Russell 2000 showed mixed results with changes of -1.46%, 0.58%, -0.22% and -4.36%, respectively. The loss of stock market momentum can be attributed to several factors including: the increase in domestic COVID cases from a low point reached in late June and early July, the introduction of two separate trillion-dollar spending bills by Congress (discussed below), and supply chain problems. Of additional concern is the rise in inflation that appears to be more embedded within the economy, than a transitory phenomenon.

Given the severity of these and other matters, such as the disorganized withdrawal from Afghanistan and illegal immigration crisis at the Texas border, the stock market's performance has been resilient.

In this country, the pandemic began in March 2020. The incidence of new daily cases peaked over nine-months later on January 8, 2021, when over 300,000 Americans were purported to have contracted the virus. Daily new cases declined to a minimal amount until early July when they began to rise sharply. As shown in Figure 1 on the next page, daily new cases peaked a second time, over two-months ago, on August 27th, when 196,834 new cases were reported. This number has now receded to about 80,000 new cases as the month of October draws to a close. Some in the medical community believe that another major outbreak of COVID-19 may be unlikely due to "herd immunity."

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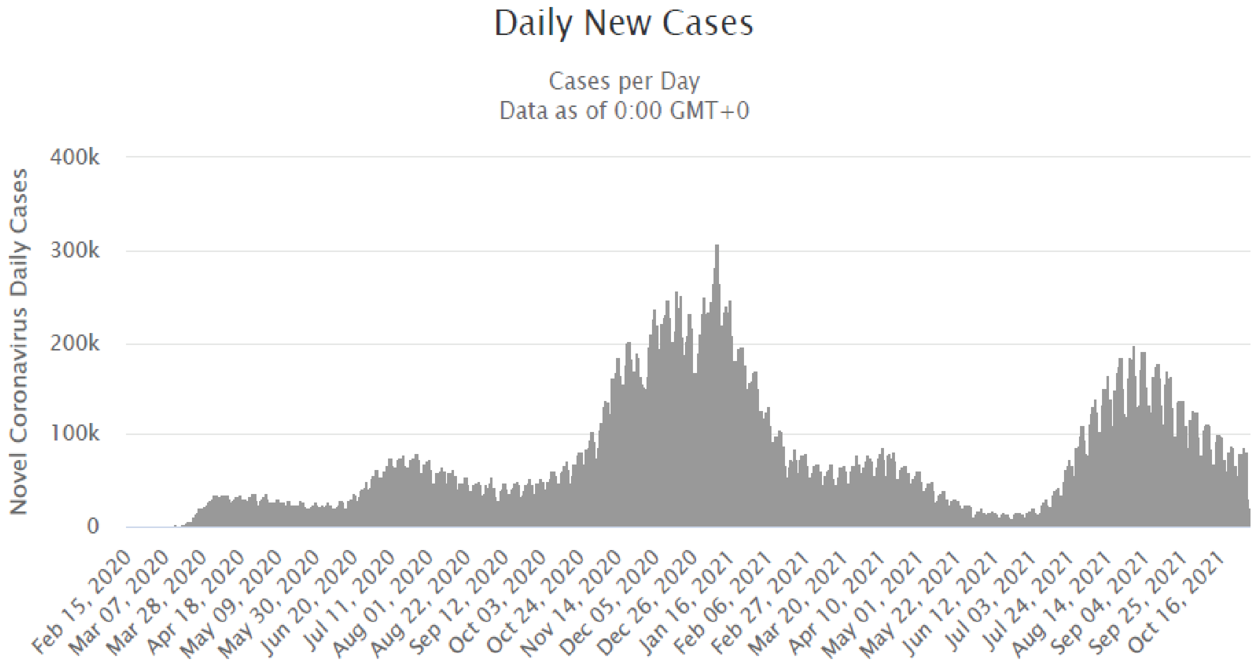

Figure 1. DESPITE THE APPEARANCE OF THE COVID DELTA VARIANT, DAILY NEW CASES WERE TRENDING TO A MANAGEABLE LEVEL
Source: WORLDOMETERS.INFO

Similarly, the number of daily deaths, underwent a pattern of peaks and valleys as illustrated in Figure 2 below. Due to the experience that doctors have gained from treating patients earlier in the pandemic and the effective therapeutic treatments developed in recent months, the survivability rate from the virus has been improving as inferred by the steep decline in daily deaths.

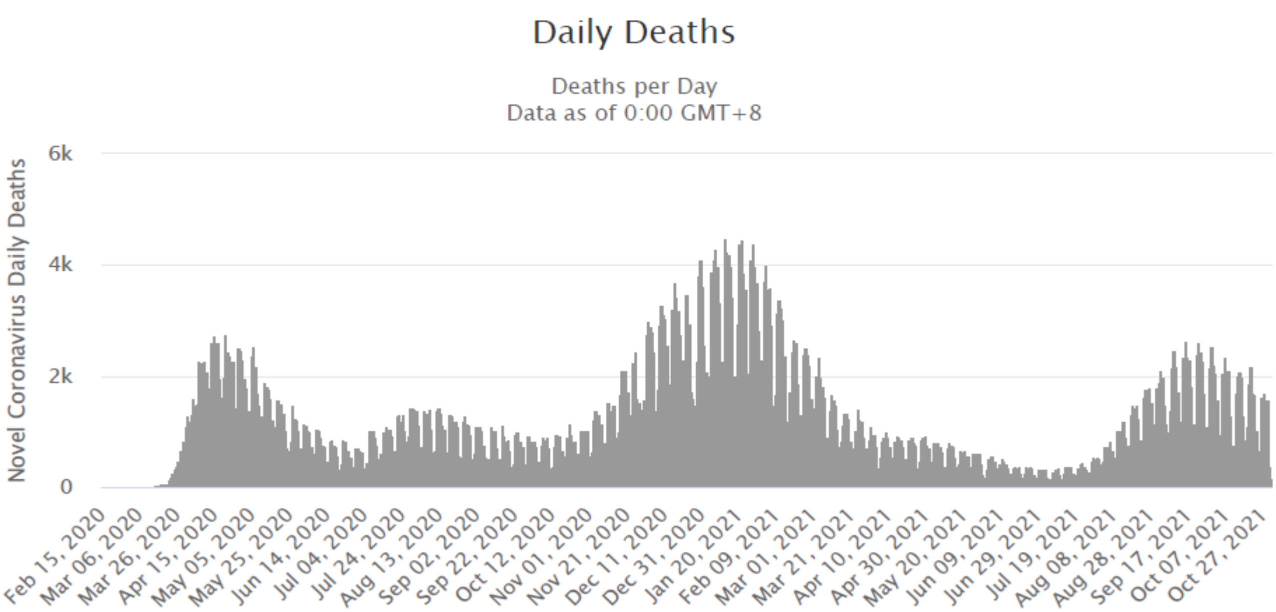

Figure 2. DAILY DEATHS ARE TRENDED LOWER, SUGGESTING THE EFFECTS OF THE COVID DELTA VARIANT WERE DIMINISHING
Source: WORLDOMETERS.INFO

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The impact from COVID upon the economy was devastating, but after a brief recession, the economic rebound was impressive. Unfortunately, several COVID related issues have interfered with the economy's strong trajectory including: the emergence of the Delta variant; excessive federal stimulus payments that have encouraged people to temporarily drop-out of the workforce; supply chain problems and the imposition of "mask mandates" by individual states and, potentially, the federal government. Unfortunately, it cannot be unequivocally assumed that the pandemic will no longer be a headwind to economic growth.

The direction of the stock market is inextricably linked to corporate earnings and so far, companies have reported solid year-over-year increases in their third quarter revenue and earnings results. However, we believe the fate of the proposed infrastructure bill ($1.2 trillion in size) and the reconciliation bill ($3.5 trillion in size) are likely to have a major impact on the direction of the equity and fixed income markets. Taken together these bills are described by the Administration as transformative and are aimed, in part, to redistribute the income and wealth within our population more evenly. In our opinion, it is not an exaggeration to characterize this proposed legislation as an experiment.

Due to the business shutdowns caused by the pandemic, the federal government has already spent a huge amount of money to keep people healthy and safe. According to the official website of the U.S. government, USASPENDING.gov, through August 31, 2021, $3.4 trillion had been spent with another $0.5 trillion in remaining obligations. Coupled with labor and supply shortages, this spending resulted in an inflation rate of 5.4 percent, over the past 12 months, which is expected to rise to 6.1 percent by year-end. This is the highest rate of inflation experienced in this country since 1990. In our view, any additional federal deficit funding can be expected to exacerbate this situation. However, the Administration claims that the cost of these spending bills will be paid for by taxing corporations and those earning in excess of $400,000 per year. We think the uncertainty surrounding this proposed legislation, which has not been completely written at the time of this writing, will hold the financial markets hostage until clarity is achieved.

Current Strategy

As stated in previous paragraphs, supply chain disruptions and the Covid Delta variant created headwinds to the strong economic recovery; moreover, the political wrangling over the "Build Back Better" infrastructure and tax package contributed to the anxiety felt by investors. The uncertainty affected economically sensitive sectors like Industrials and Materials the most, while firming interest rates boosted stocks in the financial sector. The Chartwell Growth Composite -1.01% handily outpaced the primary benchmark Russell 2000 Value's return -2.98% and was right in line with the Russell Midcap Value return of -1.01%. The Chartwell Balanced Composite was down 0.66%, as compared to -1.83% for its blended benchmark. Finally, our Dividend Equity Composite -3.6% fell short of the return of their benchmark, the Russell 1000 Value -0.78%.

The three best performers in the Growth and Balanced accounts were: Hill-Rom Holdings (HRC, 1.5%), up 32.2%, Horizon Therapeutics (HZNP, 4.2%), up 17.0%, and Vonage Holdings (VG, 3.3%), up 11.9%. Hill-Rom jumped on the news of being acquired by Baxter International. As the stock was trading close to the deal value, we trimmed part of the position and are likely to exit completely by year-end. Horizon's strong 2021 performance continued in the third quarter, with ongoing sales momentum in their key drugs. Vonage stock has done well as they near the end of the company's shift from consumer-focused to a business communication provider. The three worst performers in the Growth and Balanced accounts were: Foot Locker (FL, 2.3%), down 25.7%, Western Digital (WDC, 2.3%), down 20.7%, and Micron Technology (MU, 3.1%), down 16.4%. After a very strong run through May of this year, Foot Locker came under pressure when they cited supply-chain disruptions in Vietnam that could have a longer "knock-on effect." Western Digital suffered a similar fate – strong performance through May, then weakness through Q3; in this case, pricing and demand concerns in both their memory and hard-disk-drive businesses were the culprits. Micron, like Foot Locker, posted a good quarter, but predicted a weak forecast for the November quarter, as supply chain driven shipment weakness led to soft near-term memory pricing (similar to Western Digital).

In the Dividend Equity accounts, the three best performers were: Healthcare Trust of America (HTA, 0%), up 11.1%, Lincoln National (LNC, 2.7%), up 10.2%, and Exelon (EXC, 3.0%), up 10.0%. HTA's upward move was due, in part, to its strong quarterly performance as well as speculation that they could be purchased after the resignation of their CEO (we sold the stock during the quarter). Lincoln is a beneficiary of higher interest rates that also posted a good earnings report. EXC was aided by new legislation in Illinois for nuclear subsidies. The three worst-performing stocks in the Dividend Equity accounts were: Las Vegas Sands (LVS, 1.6%), down 30.5%, Foot Locker (FL, 2.1%), down 25.7%, and Pulte Group (PHM, 2.5%), down 15.6%. LVS continues to be hampered by Covid-related restrictions (and regulatory hurdles) and, thus, slower recoveries in their casinos in both Macau and Singapore. While these delays have been frustrating, we still believe that this stock will eventually recover, given their scale, market positioning, and strong balance sheet. Foot Locker was discussed in the paragraph above. Pulte, and other housing stocks, took a breather after very strong moves earlier in the year. Pulte pre-announced earnings and guided lower on second-half 2021 deliveries, due to supply chain issues. Once these issues are resolved, we believe the company may benefit from pent-up demand and ongoing low housing supply – boosting pricing power and profit margins.

**The numbers in parentheses following each company mentioned reflect the percentage of the portfolio's net assets comprised of such securities as of 09/30/2021. Holdings are subject to change. A full listing of portfolio holdings is available upon request.*

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Trades were relatively light in the Growth & Balanced accounts. One new purchase was a REIT, Federal Realty Investment Trust (FRT, 2.0%); this was a replacement for the sale of Healthcare Trust of America. FRT is a recognized leader in the ownership, operation, and redevelopment of high-quality, retail-based properties located primarily in major coastal markets from Washington, D. C. to Boston as well as San Francisco and Los Angeles. Leasing demand is rebounding and could potentially be back to prior-peak levels of net operating income by 2023. Apparel maker Hanesbrands (HBI, 1.9%) was another addition to the portfolio - one that has been on our watchlist for some time. Based on a new leadership team with improved strategies, HBI can be considered as a turnaround story. The company has a headwind of high cotton prices currently, but we are impressed with their market-share capture of late and their re-investment in their brands, primarily Hanes and Champion. Other purchases in the quarter were opportunistic adds to existing holdings: Winnebago (WGO, 2.7%); Micron Tech (MU, 3.1%); NCR Corp. (NCR, 2.5%), and CF Industries (CF, 2.8%). Full-position sales (besides HTA) were: Methode Electronics, where we took advantage of a strong run to consolidate our holdings in Tech, and Dollar Tree, after disappointing earnings highlighted some fundamental issues that we think could persist. Partial sales were done in Hill-Rom Holdings (HRC, 1.5%) after the announcement of the sale to Baxter, and Horizon Therapeutics (HZNP, 4.2%) taking some gains in what has become a large position, through appreciation.

Trades in the Dividend Equity accounts included a new purchase of Hanesbrands (HBI, 1.9%), covered above. We also added on weakness to advertiser Omnicom Group (OMC, 2.6%) and Pulte Group (discussed above). ExxonMobil (XOM, 3.3%) – a new purchase during Q2 -- was also added to, as a means to increase the overall energy weighting. Healthcare Trust of America was sold in full (as per Growth & Balanced accounts), and Exelon was trimmed after it moved up (as noted in top performers above).

Even though they didn't outperform for the full quarter, small and medium-sized stocks did well from mid-August through quarter-end. Higher interest rates along with the waning of the Delta variant buoyed value stocks over their growth counterparts. Valuation is currently in our favor. According to Credit Suisse, value stocks trade at a 10.7 price to earnings ("PE") discount to their growth counterparts, and small stocks are 5.1 PE points less-expensive than large-cap stocks. Our portfolio positioning also leans toward the re-opening of the economy, and although supply chain issues have been a "speed-bump" along the path, we think the demand side of the equation – which appears quite solid – could eventually prevail.

Chartwell News

We hope everyone is doing well and had an enjoyable summer! As you were informed, on October 20th, an announcement was made that Chartwell's parent bank, TriState Capital Holdings (TSC), was acquired by Raymond James Financial (RJF). We expect the deal to close by April 2022. Upon the close, Chartwell will become an affiliate of RJF's asset management firm, Carillon Tower Advisers. As an affiliate, Chartwell will continue to operate independently, and there will be no changes to your investment and client services teams. This transition will be seamless for our clients. Under Carillon Tower, we will continue to work hard, looking for great companies to invest in and service our clients. However, should you have any questions on the transaction or your account, we welcome any requests for in-person meetings and/or conference calls.

For our retirement clients, please ensure that you satisfy your Required Mandatory Distribution ("RMD"), before year-end. If you have any questions on the RMD, please contact us at the numbers referenced below. In closing, as we head into year-end, on behalf of Chartwell Investments we wish all our clients and their families a wonderful holiday season! If you have any questions regarding your account, or want to discuss changes in your investment objective, please don't hesitate to call Mike Magee (610.407.4867) or Pete Schofield (610.407.4858).

*The Chartwell Growth Strategy Composite includes all fully discretionary, fee-paying equity accounts with a growth objective whose asset size is $300,000 or greater at the beginning of the measurement period. For individual bond holdings the fee is 5/8 of 1% and for bond mutual funds, including exchange traded funds, the fee is 3/8 of 1%. The fee for these accounts is negotiable.

*The Chartwell Balanced Strategy Composite includes all fully discretionary, fee-paying accounts with a balance between growth and income as a principal objective whose asset size is $300,000 or greater at the beginning of the measurement period. For individual bond holdings the fee is 5/8 of 1% and for bond mutual funds, including exchange traded funds, the fee is 3/8 of 1%. The fee for these accounts is negotiable.

The composites do not include accounts where total cash flows exceed 10% of the account's value during any quarterly period or accounts holding securities purchased by anyone other than the Advisor. No accounts using leverage or short positions are included in the composites. An individual client's account may have performed better or worse than the composites' returns presented above. The composites contain taxable and non-taxable accounts. The returns are before taxes and net of all advisory fees and commission charges. The net performance results for each composite are presented after deducting the actual fee charged to each account in the composite based on the management fee schedule in the Firm's Brochure or the fee negotiated between the account holder and Chartwell. Returns include the reinvestment of dividends and interest (total return). Returns for other Chartwell composites are available upon request.

As of 09/30/2021 Chartwell managed $11.5 billion in assets, $10.75 billion as advisor and $774 million as sub-advisor. During the most recent quarter, the Chartwell Growth Strategy Composite consisted of 4 accounts which represented 5.3% of total Chartwell Strategy Individually Managed Accounts and 0.1% of total Chartwell assets. During the most recent quarter, the Chartwell Balanced Strategy Composite consisted of 16 accounts which represented 32.9% of total Chartwell Strategy Individually Managed Accounts and 0.3% of total Chartwell assets. The Chartwell Growth Dividend Strategy Composite consisted of 5 accounts which represent 3.0% of total Chartwell Strategy Individually Managed Accounts and less than 0.0% of total Chartwell assets.

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