CHARTWELL INVESTMENT PARTNERS

Chartwell Strategies Current Outlook and Investment Strategy

"Diligence is the Mother of Good Fortune"
-Miguel de Cervantes,
17th century Spanish novelist

Summary

■ *The year finished with a strong fourth quarter with all major averages registering double digit gains.*

■ *The Chartwell composites also enjoyed a strong fourth quarter, with gains that matched, or exceeded the performance of their reference indices.*

■ *Inflation looms as the major hurdle to further gains in 2022. The FRB, no longer calling inflation transitory, expects to begin raising interest rates and shrinking its balance sheet this year.*

■ *Some popular stocks appear to be overvalued and vulnerable to increases in interest rates. Significant changes in stock allocation and selection may be required as the struggle between the FRB and fiscal policy unfolds.*

Background

The equity markets finished the year on a strong note; in the fourth quarter of 2021, the Dow Jones Industrial Average (DJIA), Standard & Poor's 500 (S&P 500), NASDAQ and Russell 2000 advanced 7.87 percent, 11.02 percent, 8.47 percent, and 2.12 percent, respectively, on total return bases. Despite the appearance of the Omicron variant, investors' hopes were buoyed by the prospect of higher corporate earnings in 2022.

Stock market averages also did well for the twelve-month period, registering impressive double digit percentage gains. The DJIA, S&P 500, NASDAQ and Russell 2000 rose 20.95 percent, 28.68 percent, 22.21 percent, and 14.78 percent, respectively.

In recent years, investors have bid certain glamour stocks to unusually high valuations. At year-end, the S&P 500 reflected this by selling at a price-to-earnings ratio (p/e) of 25.4 (after January's decline in stock prices, the p/e is 23.7) when a range of 15 to 20 times earnings is more typical. This is not a new phenomenon; fifteen years ago, housing related stocks were bid to unreasonably high prices and valuations of high technology stocks reached ridiculous valuations in the late 1990s. In the past few years, low interest rates have encouraged investors to avoid fixed income securities and invest in stocks. This process has resulted in a familiar group of popular stocks, shown in Table 1, that to many investors, now seem to be overvalued. The six stocks shown below comprise 24 percent of the S&P 500's total market capitalization based on the last twelve months of reported earnings and their prices on January 27th, after a month of downward volatility.

STOCK	S&P WEIGHTING	PRICE 1.31.22	P/E
APPLE	7.07%	$173	28.7
MICROSOFT	6.17%	$308	35.4
AMAZON	3.34%	$2,980	58.4
ALPHABET CLASS A	2.14%	$2,696	24.8
ALPHABET CLASS C	1.99%	$2,702	24.8
META PLATFORMS (FACEBOOK)	1.90%	$310	22.2
TESLA	1.83%	$933	191

TABLE 1. WEIGHTING AND VALUATION FOR THE TOP SIX COMPANIES IN THE S&P 500 INDEX
SOURCE: BLOOMBERG

Chartwell Strategies Current Outlook and Investment Strategy

What has changed in January of this year is the increased concern of the Federal Reserve Board (FRB) over inflation. For many months, the FRB has stated that they believed inflation to be a "transitory" phenomenon that is likely to return to normal as the economy returns to its pre-pandemic level. Clearly, this has not been the case; this past January, the Government reported that, in December, prices increased 5.5 percent over the previous December. Inflation is now embedded in basic commodities such as aluminum, copper and lumber, energy prices, the price of most meats and other food products. Moreover, due to the labor shortage, wages have also been spiraling higher as employers compete for workers.

YIELD ON THE TEN YEAR TREASURY BOND

1.1.17-1.31.22

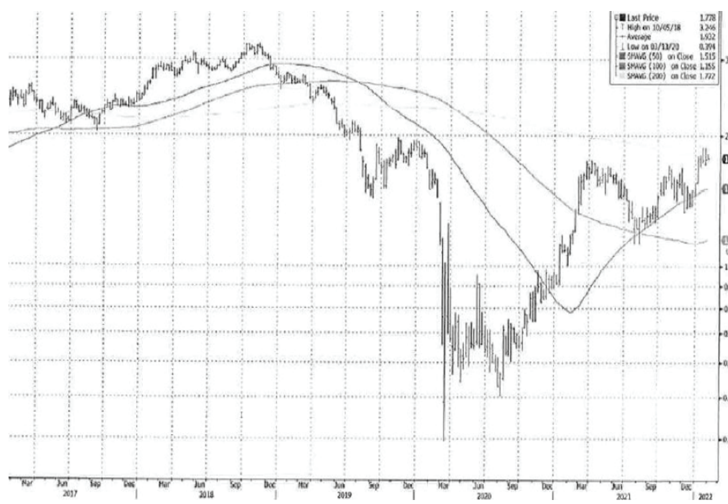

Figure 1. THE YIELD ON THE TEN YEAR TREASURY APPEARS POISED TO RISE
Source: BLOOMBERG

As early as last December, the financial markets began to give the FRB their opinion on inflation as bond prices dropped and the yield on the ten-year Treasury bond rose from 1.34 percent to 1.80 percent, 46 basis points (bp)*, as of today's writing. Figure 1. Illustrates this move in the ten-year Treasury bond which breached an important resistance level of 1.70 percent. This past week FRB chairman, Jerome Powell, stated that the Board has reassessed its position on inflation and no longer considers it to be transitory. In 2022, investors can expect the FRB to begin raising rates and sharply reducing its bond purchases, thus shrinking its balance sheet.

Meanwhile, Congress passed two bills in 2021 which total close to four trillion dollars ($4,000,000,000,000). The first bill, the American Rescue Plan, a $1.9 trillion bill passed last March, is undoubtedly a primary factor in the inflationary pressure that consumers have been experiencing. The second piece of legislation is a bipartisan bill that is referred to as an infrastructure bill, but only one-third of this $1.2 trillion bill can be categorized as infrastructure. This bill became law in August and its full impact on the economy has not yet been felt. However, we believe, as funding from the passage of this bill enters the economy, the struggle against inflation could be exacerbated.

Meanwhile, the Administration's "Build Back Better" bill, which amounts to an expenditure of five trillion dollars over a ten-year period, passed in the House of Representatives, but, failed to pass in the Senate. President Biden has announced his intention to have Congress pass pieces of this legislation in the months to come.

In our opinion, clearly, fiscal policy and the FRB's strategies to reduce inflation and maintain full employment are on a collision course. At risk is the low interest rate environment that the stock market has enjoyed since 2012 when the yield on the ten-year Treasury bond fell below three percent and has remained so, over most of the past ten years. Also at risk is the bull market that began at the peak of the pandemic induced hysteria in March 2020. It is difficult to determine how many times the FRB will need to raise interest rates in order to keep inflation at an acceptable level, or, if the result will terminate the bull market this year. However, the volatility that has been witnessed in January and the weakness in previously invulnerable, high p/e stocks, may possibly continue in the months to follow.

The definition of a basis point is one hundredth of one percent.

Chartwell Strategies Current Outlook and Investment Strategy

Current Strategy

After a lackluster Q3, the economy roared back in Q4, with GDP estimated to have expanded by 6.9% (Atlanta Fed "GDPNow" estimate); and this was even as supply chain disruptions continued and the Delta variant of COVID was overtaken by the Omicron variant. The Chartwell Growth Composite's* performance, +7.18% exceeded the Russell 2000 Value's return of +4.36% and was only modestly short of the Russell Midcap Value return of +8.54%. The Chartwell Balanced Composite was up 4.88%, well ahead of the benchmark's return of +2.75%. Finally, our Dividend Equity Composite (+9.30%) was nicely ahead of the benchmark, the Russell 1000 Value (+7.77%).

For the full year 2021, the Chartwell Growth Composite rose 30.12%, ahead of both the Russell 2000 Value, up 28.27%, and the Russell MidCap Value Index, up 28.34%. The Chartwell Balanced Composite, up 20.63%, exceeded the return of the benchmark's 16.51% gain. Our Dividend Equity Composite gained 23.13%, modestly short of the Russell 1000 Value's +25.16%.

The three best performers for Q4 in the Growth and Balanced accounts were: Micron Technology** (MU, 3.8%), up 31.4%; Vonage (VG, 4.0%), up 29.0%; and CF Industries (CF, 1.9%), up 27.4%. MU, a leader in computer memory chips (DRAMS), rose, in part, because it had done poorly in the prior quarter; more important was that they had a good earnings quarter, pointing to positive demand trends and calling for record revenues in fiscal 2022. Vonage stock jumped on the news of a take-over by Swedish telecom giant Ericsson (this makes 2 take-outs in a row for the portfolio; last quarter was Hill-Rom). CF's business fundamentals continue to strengthen materially. Nitrogen fertilizer is in short supply due to capacity losses in Europe, so forward pricing has firmed by 30-40%. The three worst performers in the Growth and Balanced accounts were: Bloomin' Brands (BLMN 2.1%), down 16.1%; Landec Corp. (LNDC, 0%), down 13.8%; and Fresh Del Monte Produce (FDP, 0%), down 7.8%. Casual-dining company Bloomin' had a reasonably good quarterly report, but their Q4 revenue guidance was 8% below consensus, as they are choosing to not chase marginally profitable (or unprofitable) revenues. Landec, sold during the quarter, continued to struggle with their fresh-salad business (which they announced the sale of, after our exit from the stock). Fresh Del Monte (also sold) was down after another disappointing quarter, and we felt that our original investment thesis was no longer valid.

In the Dividend Equity accounts, the three best performers in Q4 were: Broadcom (AVGO, 2.7%), up 38%; Seagate Technology (STX, 2.4%), up 37.8%; and CF Industries (CF, 1.9%), up 27.4%. Software/semiconductor maker Broadcom had an investor day in addition to their earnings report; they reported a continuing recovery in networking and storage products, and they raised guidance for earnings and dividend payouts. Similarly, Seagate Tech's storage business is seeing very healthy demand, with revenue up 35% in the September quarter. CF is covered above (held in Growth/Balanced and Dividend accounts). The three worst-performing stocks in the Dividend Equity accounts were: Citigroup (C, 1.9%), down 13.3%; AT&T (T, 2.4%), down 7.2%; and Ally Financial (ALLY, 1.9%), down 6.3%. Citi had a mixed earnings report, and the market focused on their guidance for higher costs, even as Wall Street analysts raised future EPS estimates. AT&T had robust wireless subscriber trends, but the market is taking a wait-and-see approach to their shedding of media assets (DIRECTV and Warner Media). We like their "return" to being a core communications business. Consumer finance company Ally Financial was down on investors' cautious view of their acquisition of Fair Square Financial; some thought that buying back their own stock would have been a better use of capital.

We executed several trades in the quarter in the Growth & Balanced accounts. Purchases included Corning, Inc. (GLW, 1.5%); we have owned this stock in the past. They are a producer of specialty glass, primarily for computers and TVs. We took advantage of recent weakness in the TV market to establish a position. Flowers Foods (FLO, 2.3%) makes and distributes several well-known bakery brands (Wonder and "Dave's Killer" bread, Tastykakes). We are impressed with the new management team and think this may be a good defensive holding. Also in the food area, Hain Celestial was purchased (HAIN, 2.2%); their specialty is organic and natural products. Hain has good growth prospects paired with a reasonable valuation. Apollo Global Management (APO, 2.0%) is an alternative asset manager; they have an industry-leading position in "fixed income replacement," with life insurers as a key end market.

**The numbers in parentheses following each company mentioned reflect the percentage of the portfolio's net assets comprised of such securities as of 12/31/2021. Holdings are subject to change. A full listing of portfolio holdings is available upon request.*
***All composites reflect net-of-fee returns.*

CHARTWELL INVESTMENT PARTNERS

Chartwell Strategies Current Outlook and Investment Strategy

Finally, Healthpeak Properties (PEAK, 2.3%) is a REIT, specializing in Life Science and medical office buildings. Other sales included Methode Electronics (MEI); the stock was at the high end of our price expectations, and we wanted to consolidate our holdings in Technology. Hill-Rom Holdings (HRC) was fully exited in conjunction with its takeover by Baxter International (HRC was up 60% for the full year). The two purchases mentioned above in the food industry were partly done in combination with our exit of Fresh Del Monte Produce (FDP) and Landec Corp. (LNDC), covered above in the performance section. After a very strong almost-2-year run post the pandemic, we sold Winnebago (WGO); it had gone from a low of $20.5 to almost $75.

Trades in the Dividend Equity accounts were relatively light. Hanesbrands (HBI, 2.6%) was added to on weakness in the stock; we remain confident in the direction of the company, and we think the stock is very undervalued, trading at about 9x 2022 EPS estimates. Corning (GLW, 1.8%) is covered above – also purchased in Growth & Balanced accounts. A new purchase was IBM Corp. (IBM, 2.0%). This has been a controversial stock for some time, as their revenue growth has been meager (if growing at all) for the last several years. After their purchase of Red Hat and the naming of a new CEO, we think the company's prospects have brightened and they can return to a reasonable growth trajectory. And we believe two other things are in our favor: very low expectations as reflected by a PE of 12.3x (on '22 EPS expectations), and a 4.9% dividend yield as of this writing. On the sell side, all the trades were trims (not eliminations) of current positions after strong near-term moves in the stocks: CF Industries, Intel (INTC, 1.7%), and Seagate Tech.

The resurgence of value stocks relative to growth stocks (within the pond we fish from – medium and small-cap companies) has been a long time coming, and it worked in a big way in 2021 (Russell Midcap Value +28.3% vs. Russell Midcap Growth +12.7%). We think it still has plenty of runway, given the large valuation differential that favors value, as well as the tailwind that should be provided from continuing economic strength. Within our equity portfolios, we are cutting back on some positions that have had outsized returns since the pandemic low (Winnebago, covered above, is an example).

Additionally, we are bringing down the degree of "overweight" that we have had to the Consumer Discretionary sector, as comparisons to '21 earnings results will be difficult this year (in the absence of similar government stimulus). As discussed in the Background section, we presume the most important events for the market in '22 are likely to be the trajectory of inflation and the pace and degree of Fed tightening – either could lead to some re-positioning of your portfolio.

Long-term Performance

For the past twenty-two years we have been rigorously tracking the performance of our Growth and Balanced composites and comparing them with relevant indices on a total return basis, after expenses. Figure 2 on the next page illustrates the results of this ongoing exercise.

Markets tend to vacillate from one year to the next, in terms of the investment style that it favors making it difficult, if not impossible, to reign supreme each year. However, Figure 2 illustrates the power of a long-term, value-oriented investment strategy. Ten-thousand dollars invested in our all-equity composite has now grown to $72,311 over this twenty-two-year period ended 12/31/21, as compared to $62,525 for its reference index, the Russell 2000.

Similarly, our balanced accounts have also performed well. Ten-thousand dollars invested in our balanced composite has now grown to $61,904 as compared to $52,320 for its reference index.

Results are also shown for the S&P 500 Index, which includes stock dividends, but has no expenses. Its long -term performance has underperformed both our growth and balanced strategies. John Bogle, founder of Vanguard, strongly believed that investors were better off investing in stock market indicies, such as the S&P 500, rather than buying individual stocks. By sticking to a sensible value-oriented approach, we are pleased to have been able to outperform the averages over the past twenty-two years.

Comparison of the Change in Value of $10,000 Invested in Chartwell Growth and Balanced Strategy Account Composites
12.31.99-12.31.21

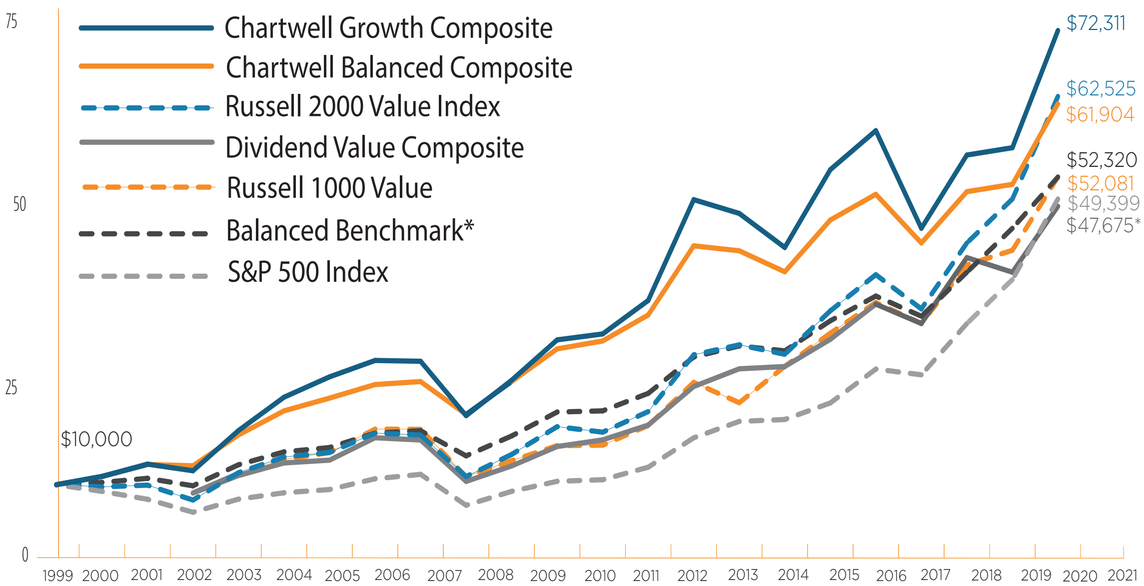

Figure 2. *Source: Chartwell Investment Partners*

All data is as of 12/31/2021.

*The Dividend Value composite incepted on 07/01/2002.

**Effective 03/31/2020, the Russell 2000 Index (Growth Benchmark) changed to the Russell 2000 Value Index, which more closely aligns with the strategy's investments.

Performance results for the Chartwell Growth and Chartwell Balanced strategies include performance results obtained by TKG prior to being acquired by Chartwell in April 2016.

***Growth Benchmark is Russell 2000 Value Index. Balanced Benchmark is 62.5% Russell 2000 Value, 37.5% Citigroup Broad Investment Grade Index. Prior to 4/1/20,the equity index was Russell 2000. The Russell 2000 Value Index refers to a composite of small cap companies located in the United States that also exhibit a value probability. The Russell 2000 Value Index is a subset of the securities found in the Russell 2000 Index.

The S&P 500 measures the performance of market capitalizations of 500 large companies having common stock listed on the NYSE or NASDAQ.

The Russell 1000 Value Index represents approximately 1,000 of the largest companies in the U.S. equity market.

Chartwell News

We hope everyone had a healthy and happy holidays! As we start 2022, we wish everyone the best for the coming year. As previously mentioned, on October 20, 2021 it was announced that the parent company of Chartwell Investment Partners, TriState Capital Holdings (NASDAQ: TSC), has agreed to be acquired by Raymond James Financial, Inc. (NYSE: RJF), a leading diversified financial services company, headquartered in St. Petersburg, FL. We anticipate the deal to close in the 2nd quarter of 2022. Upon the close, Chartwell will continue to operate independently, as an affiliate of Carillon Tower Advisers, the $77 billion asset management subsidiary of Raymond James. There will be no changes to your account management. Your account(s) will not change custodians, investment, or client service personnel. This transaction will be seamless for our clients. However, if you still have questions on the transaction or 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).

Past performance is no guarantee of future performance. Investment involves a risk of loss.

This commentary is for informational purposes only. It is not an offer to buy or sell any security and should not be construed as investment advice. The views in this report were those of the Adviser at the time of writing this report and may not reflect our views on the date this report is first published or anytime thereafter.

*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 12/31/2021 Chartwell managed $11.8 billion in assets, $11.02 billion as advisor and $827 million as sub-advisor. During the most recent quarter, the Chartwell Growth Strategy Composite consisted of 8 accounts which represented 9.6% 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 15 accounts which represented 32.5% 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 3.3% of total Chartwell Strategy Individually Managed Accounts and less than 0.0% of total Chartwell assets.

CHARTWELL
INVESTMENT PARTNERS