



Market Volatility Update Dated (2/24/20)

Background:

During times of greater volatility, it is important to share insight on the current analytical work as it relates to the potential impact of the Coronavirus on the Sabal Dividend Growth (SDG) portfolio in addition to the on-going weekly monitoring and research activities taking place.

Market Environment:

- Last year, the economic cycle crossed a significant threshold by becoming the longest expansion on record, which signaled the stability and durability of the U.S. economy. The S&P surged by touching all-time highs with below-normal market volatility. However, due to growing concerns over the global impact of the Coronavirus, the low volatility regime changed dramatically over the last week.
- The ongoing outbreak of the Coronavirus is not only an unfolding human story, but one that has economic and financial implications. It's the latter that has global financial markets on edge. Nobody knows how this story will play out and what the ultimate human and economic toll will look like. We are in the process of assessing the impact on our strategy and the Sabal Dividend Growth Portfolio.

Investment Strategy Group Action Plan:

The focus areas of our Investment Strategy Group given the current situation includes the following activities:

1. Reconfirm investment themes and examine the business models of each SDG stock against the backdrop of a scenario where the Coronavirus lasts longer and has a deeper impact than investors anticipate.
2. Examine shorter-term pressure points of the companies held in the SDG portfolio.
3. Review specific issues that could alter the longer-term framework for each company we hold in the SDG portfolio.

Short-Term Focus Issues:

- **Demand Issues:** The economic and financial implications of the expanding Coronavirus are unknown at this point. Consumer behavior and corporate decision-making activity will inevitably be impacted as the situation continues to unfold. A key question we need to answer about each company in our portfolio is "Has the demand for the product and services of this company simply been delayed or

permanently destroyed?” The answer will have a direct impact on the expectations about holding the stock going forward.

- **Valuation Levels:** If investors lower their expectations of future earnings growth or earnings risk increases, then a corresponding downward adjustment in stock valuation could follow. The answer to “How much are we willing to pay per Dollar of earnings?” is always important, but is even more critical during periods of market stress when investors are re-calibrating their expectations. We will continue to monitor and assess the holdings in the portfolio with elevated valuations relative to their historic norms.

Longer-Term Focus Issues:

- **Business Model Impairment:** We must determine if the fundamental business model of each SDG portfolio company remains intact or if it has been impaired by the unfolding Coronavirus epidemic. The outcome of this analysis will determine the suitability of a given stock in the strategy.
- **Weak Balance Sheets:** Companies with weak balance sheets can find themselves challenged when attempting to service debt levels during periods of falling demand. We are examining the financial ratios of the SDG holdings to determine each company’s financial flexibility in the event the outbreak lasts longer than expected.
- **Capital Allocation Decisions:** Companies have limited resources that they must allocate between growth of their dividend, debt reduction, share repurchasing, M&A and strategic investments in their businesses. During periods of economic stress, management teams are forced to make difficult decisions on how to allocate their resources. We remain focused on companies with dividend growth and any sign of a change in dividend policy will cause us to view the company in a different light.

Going Forward:

- During periods of heightened volatility and uncertainty, investors should re-confirm their goals and objectives, revisit the ability and willingness to incur risk across their investments, and re-evaluate asset allocation targets to ensure they are appropriately invested.
- The SDG strategy remains focused on solid, predictable cash flows from high-quality dividend-paying stocks. The portfolio’s income continues to grow even during periods where stock prices fluctuate.
- We will continue to strategically re-position the Sabal Dividend Growth Portfolio as the volatility profile of the market plays out. We are prepared to make any necessary changes in the Sabal Dividend Growth portfolio that we believe will protect our clients’ underlying capital from the inherent risks in the market.

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