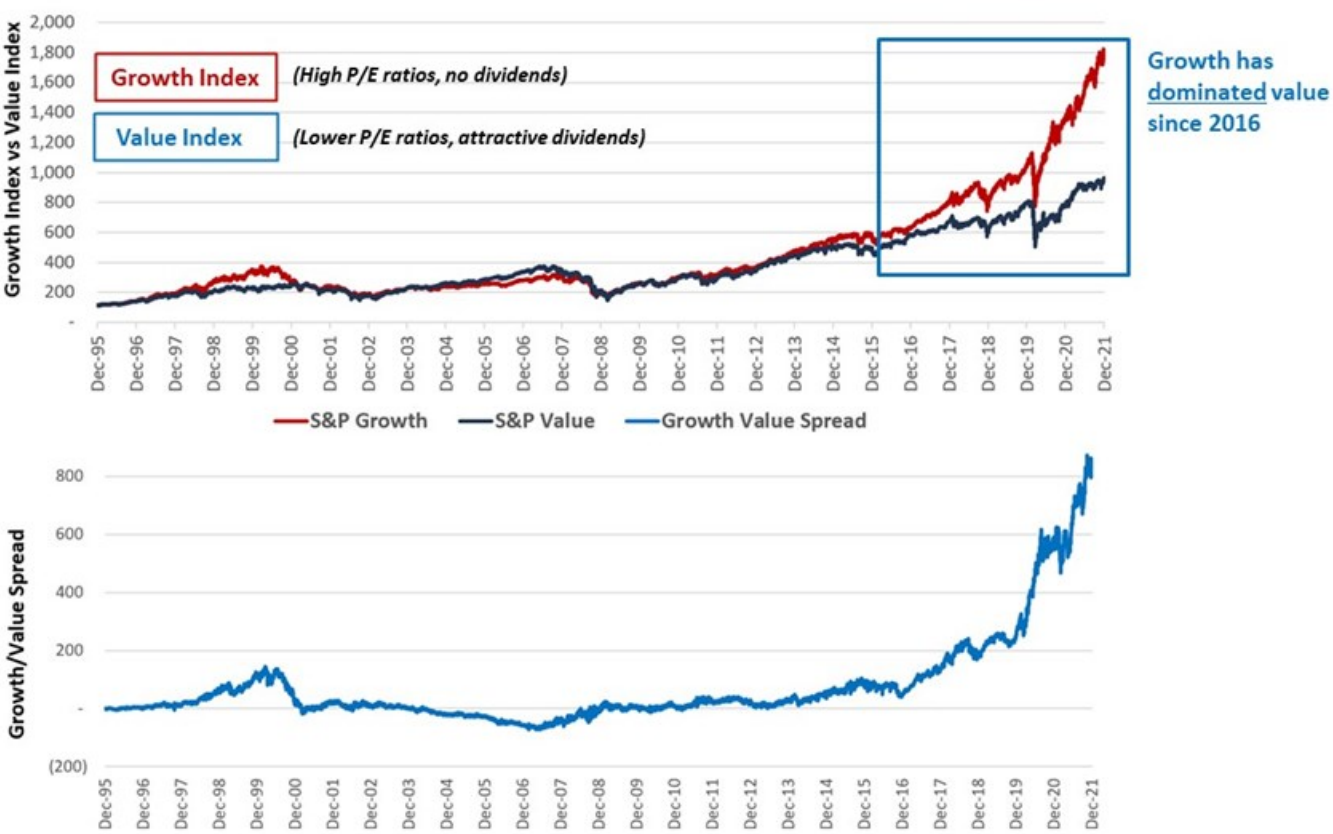
Q4 Covered Call Commentary

December| 2021

Value/Growth Trade-Off In Focus

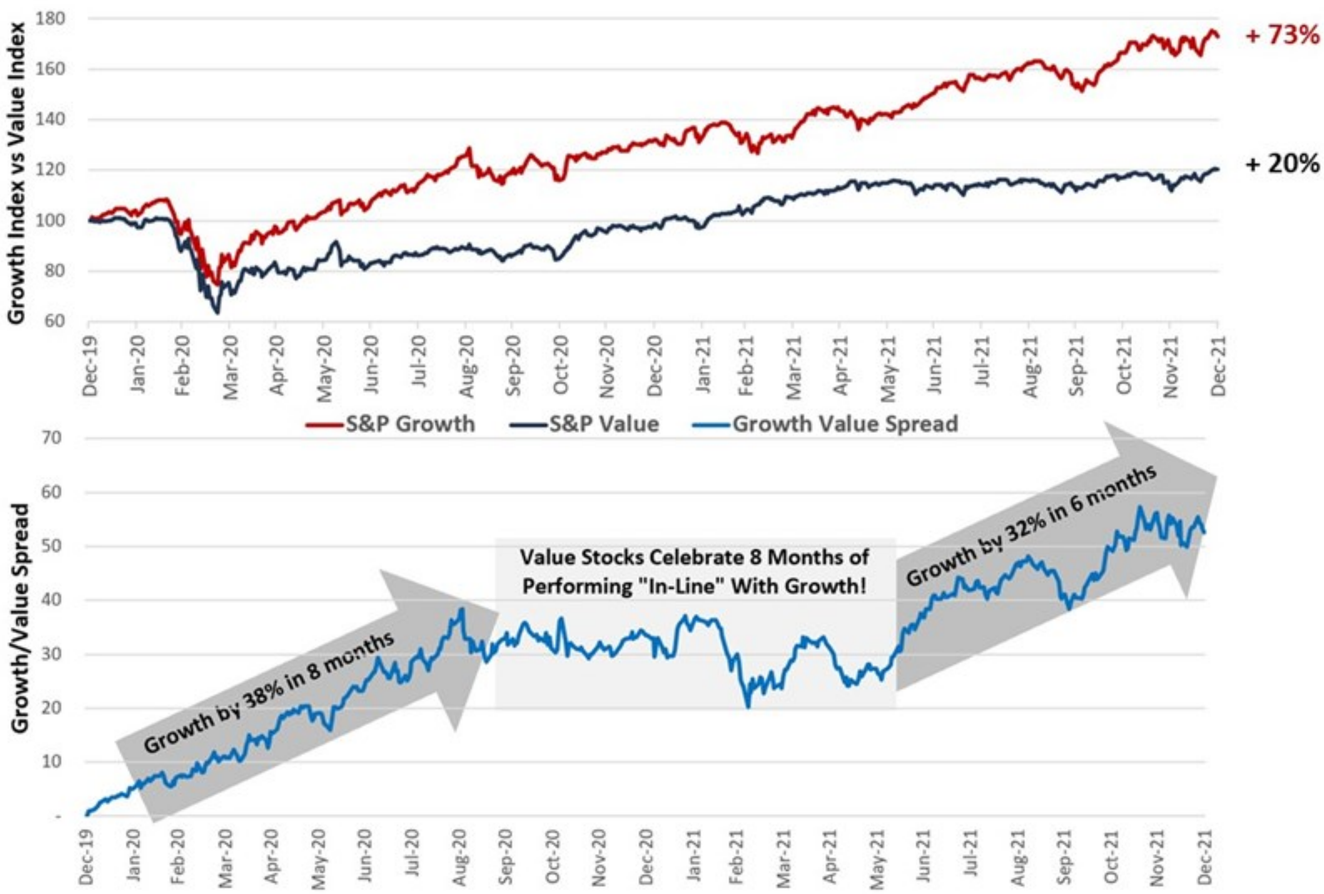
As inflation spikes to levels we haven't seen in 40 years, there is much discussion about valuation. The Growth/Value spread continued its expansion in 2021, with the S&P growth index out-performing the S&P value index by 5.5% in Q4. Growth beat value by 17.6% over the last 9 months of 2021, making for a very difficult environment for income strategies. Big Tech once again drove the S&P's performance for the year. Energy also did very well but represents a very small percentage of the S&P 500 (2.6% versus a combined 39.3% for Tech and Communication Services).

We reflect on the relative performance of value and growth stocks after each quarter end. Income/value investors have had very few things to cheer about over the past 5 years, and growth extended its dominance in 2021. The chart below has been updated through Q4 2021.



This Is Even More Evident Looking At The Past Two Years

This performance gap is even more evident looking at just 2020-2021. Growth out-performed value by 53% (!!) over the past 24 months. Sure, there was a brief period of celebration in the middle, where value performed "in-line" with growth, but Big Tech took off again in May 2021 and never looked back.



Is It Finally Value's Time To Shine?

For investors who believe in valuing companies based on discounted cashflows, higher inflation increases the cost of capital (discount rate), which brings down warranted values. But not all stocks are impacted equally. Stocks with the higher multiples on current profitability (meaning much of their value is based on future growth) will get hit harder.

The Credit Suisse HOLT™ system that we use has a very useful metric in this regard. It's called "Percent Future" and measures the percentage of today's market cap that can be attributed to future growth (business the company does not yet have).

The Percent Future is listed below for the 25 largest stocks in the US. These values range from 24% for a company like Pfizer to over 90% for companies like Tesla and Nvidia.

Name	Symbol	Weight (%)	Sector	Mkt Cap	CFROI FY1	Percent Future	TSR YTD
APPLE INC	AAPL	6.7	Tech	2,885.2	27.8	71.8	33.0
MICROSOFT CORP	MSFT	6.4	Tech	2,502.3	23.6	79.4	50.8
ALPHABET INC	GOOGL	4.3	Comm Svcs	1,946.4	19.1	69.0	67.1
AMAZON.COM INC	AMZN	3.9	Discretionary	1,734.3	8.5	71.7	5.0
TESLA INC	TSLA	2.4	Discretionary	968.5	13.9	90.3	43.0
META PLATFORMS INC	FB	2.0	Comm Svcs	923.0	23.2	65.9	21.0
NVIDIA CORP	NVDA	2.1	Tech	735.6	24.5	90.1	125.3
BERKSHIRE HATHAWAY	BRK.B	1.3	Financials	659.4	3.8	14.7	27.0
UNITEDHEALTH GROUP INC	UNH	1.1	Health Care	465.5	34.3	71.3	42.6
JPMORGAN CHASE & CO	JPM	1.2	Financials	463.1	17.9	40.2	26.1
VISA INC	V	0.8	Tech	461.2	45.6	77.4	0.3
JOHNSON & JOHNSON	JNJ	1.1	Health Care	442.1	16.5	43.5	9.4
HOME DEPOT INC	HD	1.1	Discretionary	426.1	26.6	61.4	51.2
WALMART INC	WMT	0.5	Staples	388.4	11.2	44.1	(1.5)
PROCTER & GAMBLE CO	PG	0.9	Staples	385.5	26.1	72.4	16.9
BANK OF AMERICA CORP	BAC	0.9	Financials	364.9	12.8	35.2	48.9
MASTERCARD INC	MA	0.7	Tech	353.1	44.4	80.2	0.6
PFIZER INC	PFE	0.8	Health Care	334.1	18.9	24.5	66.0
DISNEY (WALT) CO	DIS	0.7	Comm Svcs	276.1	8.8	50.9	(16.2)
NETFLIX INC	NFLX	0.7	Comm Svcs	272.1	13.9	76.4	13.6
BROADCOM INC	AVGO	0.6	Tech	269.9	42.6	75.0	52.9
ADOBE INC	ADBE	0.8	Tech	268.5	40.3	87.5	12.8
NIKE INC -CL B	NKE	0.6	Discretionary	261.1	14.4	76.1	17.7
CISCO SYSTEMS INC	CSCO	0.6	Tech	259.5	23.5	67.8	40.8

We ran some quick sensitivities using the HOLT framework (a sophisticated DCF model) and made some interesting observations. An increase of 100 basis points to the discount rate for Pfizer (the low end of the Percent Future range) brought down warranted value by approximately 14%. An increase of 200 basis points lowered warranted value by 25%. But for Tesla, the results are starker, with warranted values dropping by 25% and 45% under the same two scenarios (100bp and 200bp increases, respectively). Clearly, if rates start marching higher, it will not affect all companies equally.

How Does Our Portfolio Compare To The S&P?

As you might have expected, as an income strategy with a dividend yield more than 2x the market, our portfolio leans heavily towards value. See the multiples below. Our median P/E and Percent Future are substantially lower than those of the S&P 500. We expect to benefit from a shift towards value.

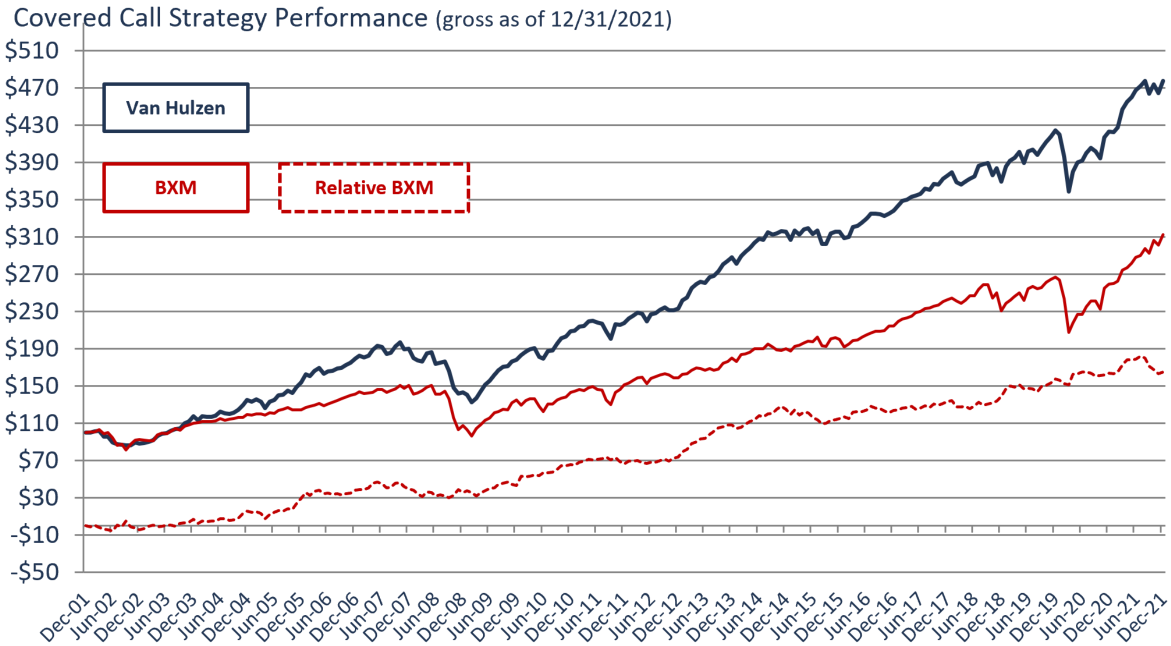
Multiple	Van Hulzen	Top 7 S&P[1]	S&P 500
P/E	19.1	50.8	28.3
EV/EBITDA	14.7	36.1	14.8
% Future*	45.5	71.8	56.4

[1] Top 7 S&P names represent 28% of the index (figures are weighted averages)

[2] % Future is a proprietary HOLT metric that quantifies the percentage of market cap attributed to future growth (business the company does not yet have)

Van Hulzen Covered Call Strategy

The Van Hulzen Covered Call strategy invests in US companies that we consider to have high shareholder yield (dividends and share repurchases) and uses call options with the goal of reducing portfolio volatility and creating incremental income. The goal is a portfolio that has equity exposure while seeking higher than average annual income (target of 6-8% annual), although there is no guarantee that the strategy will achieve its objective, generate profits or avoid losses. Below you will find the graph of the Van Hulzen Covered Call Strategy and the Covered Call Index BXM.



Returns (annualized)*	Dec 2021	3M	6M	YTD	1 Year	3 Years	5 Years	7 Years	10 Years	Inception
Van Hulzen (Gross)	2.8%	3.1%	2.2%	12.8%	12.8%	8.9%	7.2%	6.1%	8.2%	8.1%
Van Hulzen (Net)	2.8%	2.9%	1.9%	12.2%	12.2%	8.3%	6.5%	5.5%	7.5%	7.2%
BXM	3.8%	7.0%	8.4%	20.5%	20.5%	10.7%	7.8%	7.4%	7.5%	5.9%
Difference (Gross-BXM)	-0.9%	-3.9%	-6.2%	-7.6%	-7.6%	-1.7%	-0.7%	-1.2%	0.6%	2.3%

*Inception date : 12/31/2001. Figures greater than one year are annualized. Van Hulzen returns represent actual returns from composite of accounts

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