

INNOVATION MODEL PORTFOLIO

John Eade

President and Director of Portfolio Strategies



The Case for Innovation

Innovation may be hard to define. But to borrow from former U.S. Supreme Court Justice Potter Stewart, you know it when you see it.

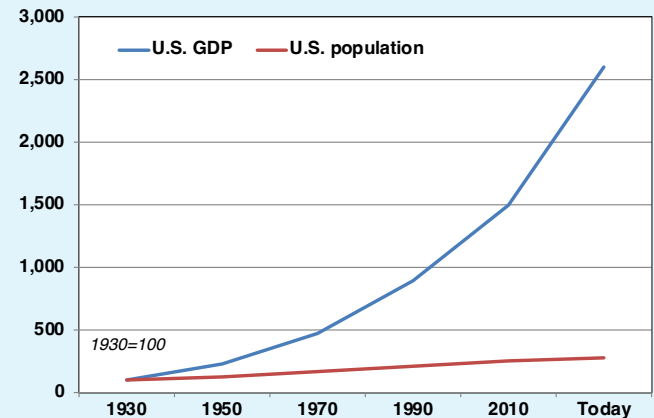
The United States economy is full of innovation. It has to be. Manufacturing industries that dominated the economy decades ago – textiles, televisions, even automobiles to a large degree – have moved overseas, where labor and materials costs are lower. Yet the U.S. economy, even during the pandemic and the recent period of high inflation, has expanded to record levels.

If U.S. corporations weren't innovating, creating new products (such as AI and vaccines) and services (such as Zoom calls and Netflix), as well as moving into new markets (clean energy, rare drugs), the domestic economy would not be growing, and capital would not be flooding into the country.

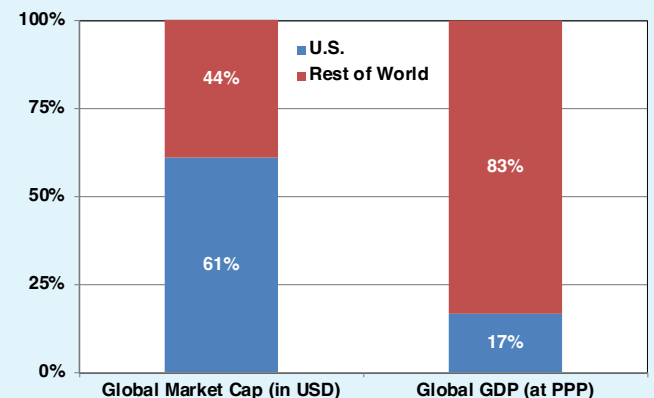
A couple of statistics should help illustrate our point. Consider that U.S. GDP was approximately \$1 trillion in 1930 but was almost \$28 trillion at the end of 2023. That's growth of almost 30-times. Meanwhile, the U.S. population has grown less than three-times during that time span, to 332 million from 120 million. The delta between GDP growth and population growth has been driven, in large part, by innovation. In addition, the value of listed corporations on U.S. stock exchanges at the end of 1H24 was approximately \$55 trillion, according to SIFMA, representing 61% of global equity market capitalization, while U.S. GDP represented only 16% of global GDP in purchasing power parity terms.

The current high level of the U.S. dollar relative to currencies around the world attests to the confidence that global investors have in the durable and innovative U.S. economy.

THE IMPACT OF INNOVATION



US VS. THE WORLD





Adding Capital Allocation to the Equation

Innovation not only helps companies grow, but also reduces risks to their revenue and profit streams from regulators, tax authorities and rivals.

But innovation alone isn't always sufficient for investment success. We think well-managed companies also need to focus on the sustainability of cash flows and the return of capital to shareholders.



"In the past, innovative companies paid little attention to capital allocation and shareholder-friendly practices, which were seen as a sign of stodginess," said Jim Kelleher, CFA, director of research at Argus. "But in the current economy, innovative companies use capital allocation, including dividend growth and share repurchases, to express confidence in the sustainability of their cash flows. These are the same cash flows that fund future R&D and innovation."



"The U.S. economy's ability to innovate is critical to our country's future prosperity. And at Argus, we think that future is bright," concluded John Eade, president of Argus.

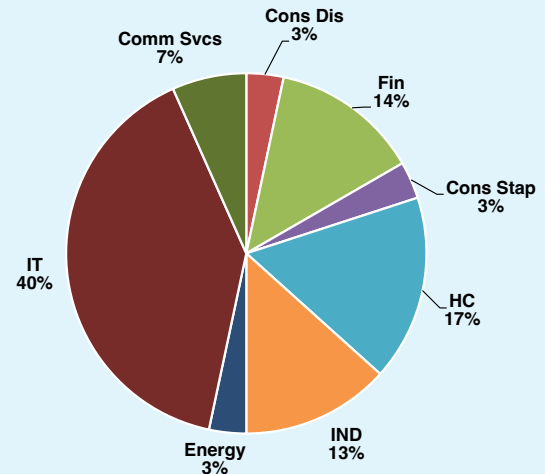
Focusing on the key themes of innovation and income-generation, Argus has identified approximately 30 companies within its universe of coverage that have been combined to form a diversified "innovators" portfolio.

Most of the companies in the portfolio, which is sponsored by Smart Trust Inc. as the Argus Modern Innovators Unit Investment Trust and is available as a Separately Managed Account (SMA), are mature companies rather than start-ups. These companies cultivate a culture of innovation, in many cases stretching back decades, and regularly devote their R&D budgets and a portion of their engineers' time to "blue-sky" thinking.

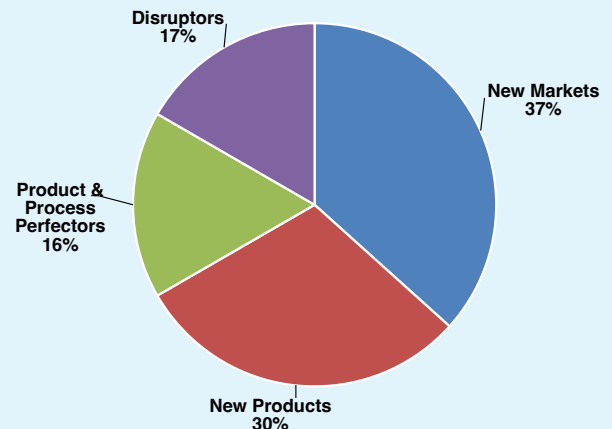
At Argus, a 90-year-old independent research firm that has innovated a time or two in its long history, we have focused on four types of innovative companies to build the portfolio:

First to Market
New Product Specialists
Product & Process Perfectors
Industry Disruptors

PORTFOLIO SECTOR DISTRIBUTION



INNOVATORS THEME DISTRIBUTION



On the following pages, we provide details of the complete portfolio as well as examples of portfolio companies in each category.



Argus Innovation Model Portfolio

Symbol	SecurityName	Sector	Category	Recent Price	Market CAP (MIL)	Yield	Fcst5Yr EPS Gwth Rate	PEGY
GOOGL	Alphabet Inc	Communication Services	Disruptor	\$165	\$967,555	0.5%	17%	1.3
META	Meta Platforms Inc	Communication Services	Disruptor	\$582	\$1,271,534	0.3%	16%	1.7
AMZN	Amazon.com Inc.	Consumer Discretionary	Disruptor	\$190	\$1,991,009	0.0%	11%	3.8
* LEN	Lennar Corp.	Consumer Discretionary	New Markets	\$174	\$41,450	1.2%	9%	1.3
* RCL	Royal Caribbean Group	Consumer Discretionary	Product & Process Perfector	\$203	\$52,346	0.8%	14%	1.2
COST	Costco Wholesale Corp	Consumer Staples	Disruptor	\$893	\$395,882	0.5%	12%	4.2
* TRGP	Targa Resources Corp	Energy	New Markets	\$165	\$36,174	1.8%	20%	1.4
* BLK	Blackrock Inc.	Financial	New Markets	\$1,001	\$148,248	2.0%	16%	1.5
SCHW	Charles Schwab Corp.	Financial	Disruptor	\$71	\$126,110	1.4%	12%	1.9
* JPM	JPMorgan Chase & Co.	Financial	Product & Process Perfector	\$224	\$637,658	2.2%	10%	1.3
SPGI	S&P Global Inc	Financial	New Markets	\$514	\$164,429	0.7%	10%	3.5
V	Visa Inc	Financial	New Markets	\$285	\$475,726	0.7%	20%	1.4
BSX	Boston Scientific Corp.	Healthcare	New Products	\$88	\$129,606	0.0%	11%	3.3
ISRG	Intuitive Surgical Inc	Healthcare	New Products	\$518	\$184,323	0.0%	12%	6.3
LLY	Lilly(Eli) & Co	Healthcare	New Products	\$909	\$864,080	0.6%	15%	3.7
SYK	Stryker Corp.	Healthcare	New Products	\$342	\$130,140	0.9%	11%	2.6
AXON	Axon Enterprise Inc	Industrials	New Products	\$450	\$33,979	0.0%	20%	4.5
ODFL	Old Dominion Freight Line, Inc	Industrials	Product & Process Perfector	\$200	\$42,763	0.5%	10%	3.3
PWR	Quanta Services, Inc.	Industrials	New Markets	\$313	\$46,110	0.1%	20%	1.8
URI	United Rentals, Inc.	Industrials	Product & Process Perfector	\$847	\$56,048	0.8%	10%	1.9
ADBE	Adobe Inc	Technology	New Products	\$493	\$217,067	0.0%	13%	2.1
ADI	Analog Devices Inc.	Technology	New Products	\$225	\$111,522	1.6%	12%	2.9
AAPL	Apple Inc	Technology	Product & Process Perfector	\$236	\$3,586,048	0.4%	13%	2.8
AMAT	Applied Materials Inc.	Technology	New Markets	\$183	\$150,866	0.9%	11%	1.9
ANET	Arista Networks Inc	Technology	New Markets	\$397	\$124,580	0.0%	14%	3.3
NVDA	NVIDIA Corp	Technology	New Markets	\$144	\$3,522,263	0.0%	14%	3.7
ORCL	Oracle Corp.	Technology	Product & Process Perfector	\$175	\$485,795	0.9%	8%	3.5
PANW	Palo Alto Networks Inc	Technology	New Markets	\$376	\$122,458	0.0%	19%	3.2
CRM	Salesforce Inc	Technology	New Products	\$288	\$275,643	0.6%	16%	1.8
NOW	ServiceNow Inc	Technology	New Products	\$918	\$189,098	0.0%	21%	3.0

* new holding in portfolio.
prices as of October 23,2024.



First to Market

BLACKROCK

BlackRock Inc.

- BlackRock provides investment management, risk management, and advisory services for institutional and retail clients worldwide.
- The company is a leader in the investment industry shift to passive investing from active investing.
- Indeed, iShares is a global leader in ETFs, with funds in multiple asset classes and \$3.9 trillion in ETF assets under management as of September 30, 2024.
- The BLK shares have outperformed the peer group (ETF IYF) over the past one-year and five-year periods.

LENNAR

Lennar Corp.

- This is a new holding in our portfolio.
- Lennar, based in Miami, is one of the two largest builders of homes.
- The company focuses on affordable entry level (28% of closings) and step-up (68%) homes. The average selling price is \$446,000.
- We are bullish on the long-term outlook for affordable housing. We continue to believe that demand for affordable homes exceeds supply by perhaps two million to four million homes.
- The LEN shares have outperformed the peer group (ETF IYC) over the past one- and five-year periods.



Nvidia Corp.

- Nvidia, based in Santa Clara, California, is a visual computing company with worldwide operations and markets.
- Nvidia's blockbuster GPU Technology Conference in March 2023 cemented the company's leadership in the fast-developing world of generative AI.
- The emergence of ChatGPT, Google Bard, and numerous other platforms has heightened the focus on potential winners in the AI market.
- Nvidia, which is building on already strong gains in the AI space, appears uncommonly well-positioned in this burgeoning market.
- NVDA's earnings have grown at a compound annual rate of 67% over the past five years.



TARGA

Targa Resources Corp.

- This is a new holding in our portfolio.
- Targa Resources is vertically integrated as it gathers, processes, transports, and sells natural gas, natural gas liquids, and crude oil.
- Many of its assets are located in some of the United States' most productive oil and gas formations (Anadarko Basin, Bakken Shale, Permian Basin) and are connected with important NGL facilities.
- More than three-fourths of the company's gross margins are derived from fees. As such, Targa is largely immune to volatile commodity prices.



New Product Specialists



Axon Enterprise Inc.

- The company is a leader in providing hardware and cloud-based software solutions for law enforcement.
- The company's innovations over the years have included TASER energy weapons, body-worn cameras, and digital evidence management software.
- Axon is bundling its products with software solutions supporting resource management.
- The company continues to grow its research and development footprint
- Earnings over the past five years have grown at a compound annual rate of 45%.



Boston Scientific Corp.

- Boston Scientific is a developer, manufacturer, and marketer of medical devices used in a range of interventional medical specialties.
- Recent growth has been driven by demand for Agent, a new drug-coated balloon for coronary arteries.
- In the pipeline, the company is working on its Farapulse Pulsed Field Ablation (PFA) system, EMBOLD Soft and Packing Coils for peripheral embolization, and a new software program that can provide clinicians with actionable data for treating people with Parkinson's disease or essential tremor.
- The BSX shares have a record of outperformance versus the broad market and the industry over the past year.



ServiceNow Inc.

- ServiceNow provides cloud-based software-as-a-service management applications to automate and track workflows across the enterprise.
- The company provides value to customers by making their IT services more manageable and productive, thus lowering the total cost of ownership.
- As business processes become more data-application-centric, data workflow management -- ServiceNow's specialty -- becomes even more critical to its enterprise customers.
- Earnings over the past five years have grown at a compound annual rate of 33%.



Stryker Corp.

- Stryker manufactures and markets medical devices, primarily in the orthopedic arena.
- The company continues to launch new products on established brand platforms.
- To expand the Mako robotics surgical franchise, Stryker plans to launch the Mako spine and the Mako shoulder this year. These orthopedic devices would use the same Mako robot that currently supports hip and knee replacement surgeries, with a software upgrade and a different attachment. This has the advantage of a smaller capital investment for hospitals seeking spine and shoulder surgery capabilities.
- The company's operating margin in the 24%-25% range is comfortably above the peer group average.



Product & Process Perfectioners



Apple Inc.

- Apple manufactures smartphones, tablets, PCs, software, and peripherals for a worldwide customer base.
- Its products include Mac desktop and mobile PCs, iPhone, iPad, Apple Watch, and various consumer products, including AirPods, Beats headphones, and Apple TV.
- None of these products was the first entrants in their categories.
- However, Apple has become one of the most valuable companies in the world (\$3.5 trillion market cap) through innovative design, packaging, product development, and even through its simplified corporate organization, which helps the company manage through tremendous technological change and industry upheaval.

JPMORGAN CHASE & CO.

JPMorgan Chase & Co.

- This is a new holding in our portfolio.
- JPMorgan Chase is one of world's largest diversified banking firms.
- The company operates a leading global corporate and investment bank and is the second-largest mortgage originator in the United States. JPMorgan Chase also operates a large retail-banking network and is a leading credit card issuer.
- JPM has boosted its dividend 19% over the past year. The current yield is 2.2%.



ROYAL CARIBBEAN

Royal Caribbean Cruises Ltd.

- This is a new holding in our portfolio.
- Royal Caribbean is the owner and operator of various global cruise vacation brands. It also has a portfolio of land-based vacation experiences.
- We think that high cruise occupancy in 2Q24 (108%) suggests continued strong demand and is likely to result in stronger-than-anticipated revenue and earnings.
- We also look for margins to strengthen and expect new ships to launch over the next 12 months.



United Rentals Inc.

- United Rentals is the largest rental equipment company in the world, with a store network nearly three-times the size of any other provider, and locations in 49 states and all Canadian provinces.
- United Rentals uses Fleet Productivity to measure the decisions made by managers in support of growth and returns. Fleet Productivity aggregates, in one metric, the impact of changes in rates, utilization, and mix on owned-equipment rental revenue. In 4Q, Fleet Productivity rose 6% year over year.
- Reflecting the company's focus on productivity, ROIC was 13.6% for the 12 months ended 12/31/23. Over the past year, ROIC has exceeded the company's current weighted-average cost of capital of 11.0%.



Industry Disruptors

Alphabet

Alphabet Inc.

- Alphabet disrupts by selling an interlocking and interdependent suite of products and services that increase in value via additional purchase.
- The company maintains the largest online index of websites accessible through automated search technology and generates revenue through online advertising.
- We see Alphabet as one of the Technology sector's leaders, as it has come to dominate new developments in mobile, public cloud, and big data analytics, as well as emerging areas such as artificial intelligence and virtual/augmented reality.
- The company's robust and consistent growth in ad revenue is evidence that it continues to navigate the paradigm shift from desktop search to mobile.



Charles Schwab Corp.

- Charles Schwab is a leading provider of financial services.
- Schwab has disrupted the brokerage industry since its early days (decades ago) as a discount broker.
- Over the years, the company has moved into adjacent verticals such as wealth management, banking, money management, and financial advisory services to individual investors and independent investment advisors.
- The company now has 35 million active brokerage accounts and approximately \$10 trillion in client assets.



Costco Wholesale Corp.

- Costco has disrupted the retail sector.
- The company operates almost 800 big-box discount stores in the U.S., Canada, Mexico, the United Kingdom, Japan, Taiwan, Korea, Australia, Spain, Iceland, and France.
- We believe that Costco's financial strength and ability to deliver exceptional value to consumers are key differentiators for the stock in the current environment.
- While Amazon is a threat to every retailer, we like Costco based on its low prices and efficient operations. While Amazon offers the world's biggest selection, Costco sells a smaller, curated selection of items that enables it to save money for customers and make a reasonable profit.
- The COST stock has a five-year record of outperformance versus its consumer services peer group.



Meta Platforms Inc.

- Meta operates the world's largest family of social networking websites, including the flagship Facebook site, Instagram, Facebook Messenger, WhatsApp, and Reels.
- The company's next direction has long been the Metaverse.
- The company's primary investments in the near term will likely be in artificial intelligence and in the integration of AI into its products.
- These investments are expected to drive compound annual EPS growth of 24% over the next five years.

Disclaimer

Argus Research Co. (ARC) is an independent investment research provider whose parent company, Argus Investors' Counsel, Inc. (AIC), is registered with the U.S. Securities and Exchange Commission. Argus Investors' Counsel is a subsidiary of The Argus Research Group, Inc. Neither The Argus Research Group nor any affiliate is a member of the FINRA or the SIPC. Argus Research is not a registered broker dealer and does not have investment banking operations. The Argus trademark, service mark and logo are the intellectual property of The Argus Research Group, Inc. The information contained in this research report is produced and copyrighted by Argus Research Co., and any unauthorized use, duplication, redistribution or disclosure is prohibited by law and can result in prosecution. The content of this report may be derived from Argus research reports, notes, or analyses. The opinions and information contained herein have been obtained or derived from sources believed to be reliable, but Argus makes no representation as to their timeliness, accuracy or completeness or for their fitness for any particular purpose. In addition, this content is not prepared subject to Canadian disclosure requirements. This report is not an offer to sell or a solicitation of an offer to buy any security. The information and material presented in this report are for general information only and do not specifically address individual investment objectives, financial situations or the particular needs of any specific person who may receive this report. Investing in any security or investment strategies discussed may not be suitable for you and it is recommended that you consult an independent investment advisor. Nothing in this report constitutes individual investment, legal or tax advice. Argus may issue or may have issued other reports that are inconsistent with or may reach different conclusions than those represented in this report, and all opinions are reflective of judgments made on the original date of publication. Argus is under no obligation to ensure that other reports are brought to the attention of any recipient of this report. Argus shall accept no liability for any loss arising from the use of this report, nor shall Argus treat all recipients of this report as customers simply by virtue of their receipt of this material. Investments involve risk and an investor may incur either profits or losses. Past performance should not be taken as an indication or guarantee of future performance. Argus has provided independent research since 1934. Argus officers, employees, agents and/or affiliates may have positions in stocks discussed in this report. No Argus officers, employees, agents and/or affiliates may serve as officers or directors of covered companies, or may own more than one percent of a covered company's stock. Argus Investors' Counsel (AIC), a portfolio management business based in New York, NY, is a customer of Argus Research Co. (ARC), also based in New York. Argus Investors' Counsel pays Argus Research Co. for research used in the management of the AIC core equity strategy and model portfolio and UIT products, and has the same access to Argus Research Co. reports as other customers. However, clients and prospective clients should note that Argus Investors' Counsel and Argus Research Co., as units of The Argus Research Group, have certain employees in common, including those with both research and portfolio management responsibilities, and that Argus Research Co. employees participate in the management and marketing of the AIC core equity strategy and UIT and model portfolio products. Recipients of the Research reports in Singapore should contact the Intermediary of the Research Reports in respect to any matters arising from, or in connection with, the analysis of the report. Where the recipient is not an accredited, expert or institutional investor as defined by the Securities and Futures Act, the Intermediary accepts legal responsibility for the contents of Research Reports in respect of such recipient in accordance with applicable law. When reports are distributed by Intermediaries in Singapore, the Intermediary, and not Argus Research, is solely responsible for ensuring that the recipients of the Research Reports understand the information contained in the Research Reports and that such information is suitable based on the customer's profile and investment objectives.

