

Baird Recommended Portfolio

Recent changes: EOG, HUM, LUV, RS, STZ, VICI, XOM

We made several trades to reposition into higher-conviction ideas and reduced concentration risk within Energy.

PWM Equity Research team

Baird Private Wealth Management

September 19, 2022

We recently made the following changes in the Baird Recommended Portfolio:

- Initiated a position in **Humana (HUM)** at 1.5%
- Initiated a position in **VICI Properties (VICI)** at 1.5%
- Initiated a position in **Exxon Mobil (XOM)** at 1.5%
- Increased our position in **Southwest Airlines (LUV)** to 1.5%
- Decreased our position in **EOG Resources (EOG)** to 2.0%
- Sold our position in **Reliance Steel & Aluminum (RS)**
- Sold our position in **Constellation Brands (STZ)**

We started a new position in **Humana (HUM)**. We like the Managed Care industry for its sustainable defensive earnings growth. Within Managed Care, Humana focuses on the higher-growth Medicare Advantage market, where consumers continue to shift from traditional Medicare fee-for-service to the tailored plans offered by commercial providers. These products shift spending towards wellness and management of chronic conditions to prevent higher costs associated with emergency room visits and hospital stays. This is better for patients/consumers, for overall Medicare program spending, and for companies like Humana that generally become more profitable with size and scale advantages over time.

We added new position in **VICI Properties (VICI)**. Since the start of the year, VICI has been added to the S&P 500, attained an investment-grade credit rating, and closed multiple real estate deals. Management continues to see a long run-way of availability for future deals in casino real estate with the potential to continue to expand into other verticals, such as the recently announced Purchase and Sale agreement of Cabot Citrus Farms. We believe the credit upgrade should allow the company to lock in more reasonable debt financing for additional deals, in turn providing a more attractive cash flow outlook.

We initiated a position in **Exxon Mobil (XOM)**, adding more diversified sector exposure, with Refining, Chemical and Liquefied Natural Gas (LNG) assets in addition to exciting Upstream growth in Guyana and in the Permian Basin (Texas). The company has greatly strengthened its balance sheet, improved returns on capital, and trades at an attractive valuation.

We increased our position in **Southwest Airlines (LUV)** as airlines continue to benefit from recovering travel numbers following the significant slowdown in travel during the pandemic. We continue to view Southwest as a best-in-class operator given the company's industry-leading profitability and the multitude of growth drivers and profitability initiatives. Lastly, we note Southwest's strong balance sheet should position the company well when management resumes the dividend and share repurchases; these capital allocation actions could happen as early as Q4.

We trimmed our position in **EOG Resources (EOG)** to fund the aforementioned purchase of Exxon Mobil. EOG Resources has performed well this year, but we are trimming the position to reduce its stock-specific risk in the portfolio. While we continue to like the Energy sector, we reduced our Overweight position by ~0.5%.

We sold our position in **Reliance Steel & Aluminum (RS)** as we see risk that demand for steel and other commodities will continue to moderate as the risk of recession looms. Additionally, while Reliance Steel has benefited from a strong pricing upcycle, we expect pricing conditions to moderate further from peak, pressuring the company's ability to grow earnings. Ultimately, we believe it is the right time in the cycle to reallocate capital away from cyclical, commodity-oriented names into companies with more defensive characteristics and/or company-specific growth drivers.

We also sold our position in **Constellation Brands (STZ)**. We believe management has made capital allocation missteps in recent years, including the investments in Ballast Point, Canopy Growth, an unsuccessful brewery construction project, and untimely share repurchases. Additionally, capital investments in facilities that operate in unfavorable regulatory jurisdictions have proved problematic. While we remain constructive on Constellation's growth opportunities in the beer business, results in the wine & spirits segments have generally lagged investor expectations. We see more compelling risk/reward in other investment ideas.

As a result of these trades, our cash balance declined ~0.5%.

Contact your Baird Financial Advisor for more information.

APPENDIX – IMPORTANT DISCLOSURES

Research reports on the companies identified in this report are provided by Baird, Credit Suisse, and/or S&P Capital IQ, and are available to clients through their Baird Financial Advisor. This report does not provide recipients with information or advice that is sufficient on which to base an investment decision. This report does not take into account the specific investment objectives, financial situation or need of any particular client and may not be suitable for all types of investors. Recipients should consider the contents of this report as a single factor in making an investment decision. Additional fundamental and other analyses would be required to make an investment decision about any individual security identified in this report.

Investment Recommendations: The goal of the Baird Recommended Portfolio is to focus on high-quality companies with strong fundamental characteristics and management teams, attractive growth prospects, and reasonable price-appreciation expectations. The Portfolio is derived using a top-down approach starting with the macroeconomic and market outlooks, and industry sector weightings are taken into account. The Recommended Portfolio is intended as a long-term investment strategy.

There are no guarantees that any of the recommended stocks' share prices will increase and there is risk in any investment, including the potential for loss of principal.

The performance of the individual stocks in the portfolio does not reflect the deduction of advisory fees, brokerage or other commissions, and any other expenses that would be inherent with actual investing. Fees would have a negative effect on the performance of the portfolio. The model results do not reflect actual trading and they therefore may not reflect the impact that material economic and market factors might have had on the investment decision making had actual money been managed.

At least one of the analysts involved in the preparation of these materials has an ownership stake in the following companies: CRM

Disclaimers

This is not a complete analysis of every material fact regarding any company, industry or security. The opinions expressed here reflect our judgment at this date and are subject to change. The information has been obtained from sources we consider to be reliable, but we cannot guarantee the accuracy.

ADDITIONAL INFORMATION ON COMPANIES MENTIONED HEREIN IS AVAILABLE UPON REQUEST

Baird is exempt from the requirement to hold an Australian financial services license. Baird is regulated by the United States Securities and Exchange Commission, FINRA, and other self-regulatory organizations and those laws and regulations may differ from Australian laws. This report has been prepared in accordance with the laws and regulations governing United States broker-dealers and not Australian laws.

Copyright 2022 Robert W. Baird & Co. Incorporated.

UK disclosure requirements for the purpose of distributing this research into the UK and other countries for which Robert W Baird Limited holds an ISD passport.

This report is for distribution into the United Kingdom only to persons who fall within Article 19 or Article 49(2) of the Financial Services and Markets Act 2000 (financial promotion) order 2001 being persons who are investment professionals and may not be distributed to private clients. Issued in the United Kingdom by Robert W. Baird Limited, which has an office at Finsbury Circus House, 15 Finsbury Circus, London EC2M 7EB, and is a company authorized and regulated by the Financial Conduct Authority. For the purposes of the Financial Conduct Authority requirements, this investment research report is classified as objective.

Robert W. Baird Limited ("RWBL") is exempt from the requirement to hold an Australian financial services license. RWBL is regulated by the Financial Conduct Authority ("FCA") under UK laws and those laws may differ from Australian laws. This document has been prepared in accordance with FCA requirements and not Australian laws.