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Second Quarter 2017 Commentary **Carol M. Lippman, CFA**

Dearborn Partners Included Among Financial Times 300 Top U.S. Registered Investment Advisors

The *Financial Times* recently issued its fourth edition of the FT 300's top U.S. registered investment advisers (RIAs), which assesses RIAs on desirable traits for investors. For the second consecutive year, Dearborn Partners is included. The *Financial Times'* methodology is a quantifiable and objective analysis of RIAs with at least $300 million assets under management (AUM) reported to the U.S. Securities and Exchange Commission (SEC). RIAs had no subjective input. Areas of consideration include adviser AUM, asset growth, the company's age, industry certifications of key employees, SEC compliance record, and online accessibility.

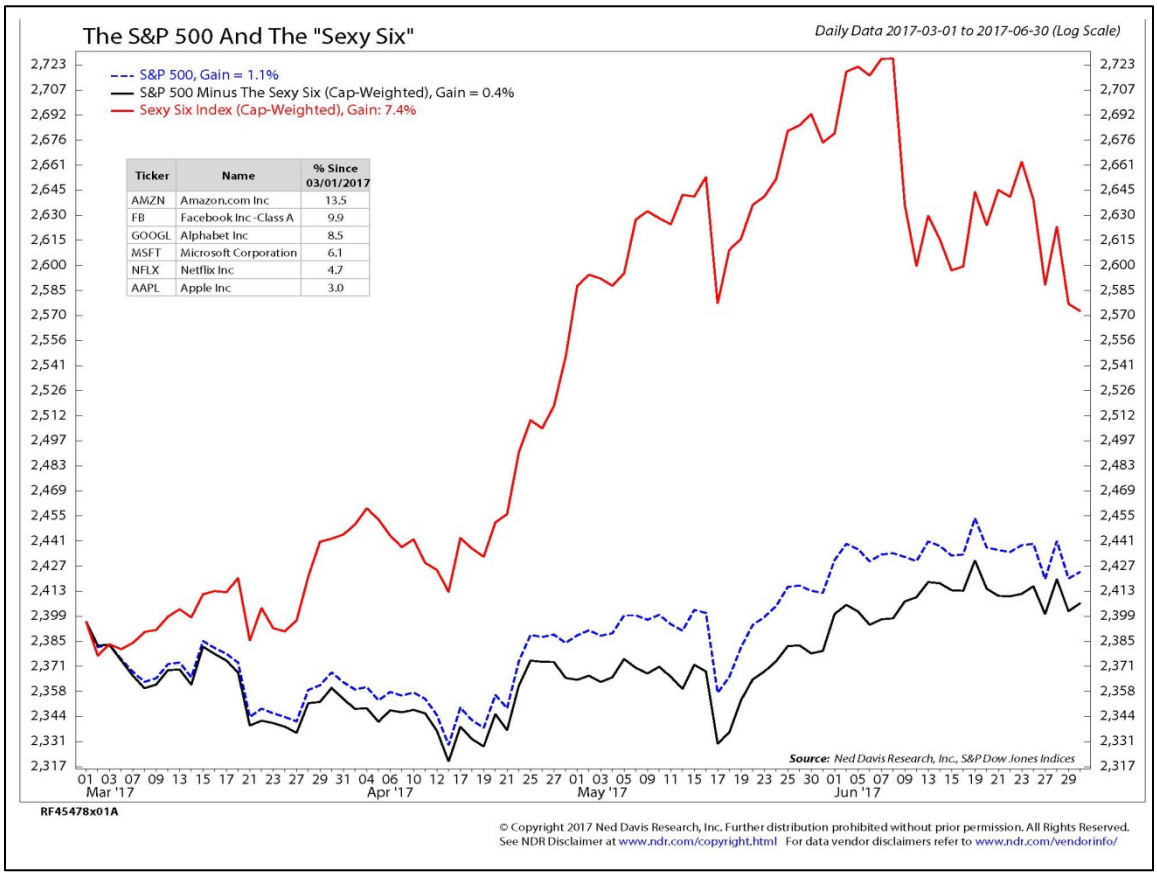
Click here to view the FT 300.

Same Song, Another Verse

In our First Quarter 2017 Commentary, we discussed how a few stocks were responsible for a considerable portion of the broad market's return.

> From July 1, 2016 through March 31, 2017, the 10 stocks that were the largest contributors to the S&P 500 accounted for more than one-third of the benchmark's total return: Apple Inc, Microsoft Corp., Bank Of America Corp., JPMorgan Chase & Co., Amazon.Com Inc., Facebook Inc-A, Citigroup Inc., Wells Fargo & Co., Alphabet Inc-Cl A, Alphabet Inc-Cl C.
>
> Only Apple is included in our Core Rising Dividend portfolio. The other nine are not included in either of our Dearborn Rising Dividend portfolios.

That theme continued in the second quarter. As Ned Davis Research shows in its graph titled "The S&P 500 and the 'Sexy Six,'" from March first through June 30, 2017, six stocks were primarily responsible for the +1.1% gain in the S&P 500 benchmark: Alphabet, Netflix, Amazon.com, Apple, Facebook, and Microsoft. Without these six stocks, the benchmark's return during this period was 0.4%. The average gain of these six stocks alone was +7.4%.



Once again, Apple is the only one of the six that we hold. Microsoft is the only other company among these leaders that pays a dividend; we don't own it. Because the other four do not pay dividends, they do not meet our disciplined criteria for inclusion in our portfolios.

Robert Farrell became an investment legend having spent several decades, beginning in the 1960s, as Chief Market Analyst at Merrill Lynch. Among his most well-known publications was "10 Market Rules to Remember." Here are a few of his rules:

- Markets are strongest when they are broad and weakest when they narrow to a handful of names.
- Excesses in one direction will lead to an opposite excess in the other direction.
- Exponential rapidly rising or falling markets usually go further than you think, but they do not correct by going sideways.
- The public buys the most at the top and the least at the bottom. http://www.pragcap.com/bob-farrells-10-market-rules-to-remember/

The broad market has been amazingly buoyant. According to Instinet.com's May 19, 2017 Technical Analysis report, the S&P 500 has not declined as much as 2% in a week since early September 2016. The last time the benchmark went this long without declining as much as 2% in a week was more than 20 years ago, when the Index went 61 weeks from

November 11, 1994 to January 5, 1996. In past Commentaries we have reviewed that our generally conservative, defensive strategy tends to hold up better than the benchmark on what we call "big down days" when the S&P 500 declined 1% or more. In last quarter's Commentary, we showed that our Core and High & Rising separately managed account ("SMA") portfolios outperformed the broad market on "big down days" about 91% and 87% of the time, respectively. In the second quarter of 2017, the seemingly complacent, one-way-up broad market declined as much as 1% on only one trading day. Here is an update.

"Big down days" from inception through June 30, 2017:

Total Days	1,450	
Total "Big Down Days" (down more than 1%)	128	
Total days that the Core Rising Dividend SMA ("CRD") outperformed the S&P 500 on "Big Down Days"	116	90.6%
Total days that the High & Rising Dividend SMA ("HRD") outperformed the S&P 500 on "Big Down Days"	112	87.5%

We believe it is important to participate in this incredibly long, strong stock market. We believe that owning stocks of good quality companies that pay dividends is a palatable way to participate in the market at all times. Farrell wrote those "10 Market Rules to Remember" as a result of having observed many boom and bust periods in the stock market. His guidance was designed to educate investors and help prepare them for stock market action. History would tell us that these strong upward markets will not last forever, but we have no idea when they will end. Even though leadership remains narrow, we did not own five of the six greatest contributors to the benchmark's return, and we tend to hold up better in challenging markets, which have not occurred for months, we feel that our results in the second quarter were respectable and provide a way to participate at all times.

How Did We Do?

Here are the performance results of our two Dearborn Partners SMAs and the S&P 500 Composite Index ("S&P 500," the benchmark against which we compare our portfolios) for the quarter as well as longer term results through year ended June 30, 2017.

Second Quarter 2017 Total Returns (%) as of June 30, 2017[1]

	Gross	Net
Core Rising Dividend SMA	2.9	2.5
High and Rising Dividend SMA	1.8	1.4
S&P 500[2]	3.1	

Total Returns Annualized (%) as of June 30, 2017

	1- year		3- year		5- year		Since Inception (9/30/11)	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Core Rising Dividend SMA	8.0	6.2	9.0	7.3	12.4	10.6	13.9	12.0
High & Rising Dividend SMA	4.4	2.7	9.0	7.4	12.4	10.8	14.0	12.4
S&P 500	17.9		9.6		14.6		16.7	

A Premise for our Strategy

An objective of our strategy is to reduce vulnerability. Among the ways that we attempt to achieve that objective are to include in our portfolios companies that are in strong financial condition with little or no debt, that we believe are capable of increasing dividends at rates above the historic average annual 3% rate of inflation regardless of the economic environment, and to diversify properly across and within the sectors. We further believe that rising dividends offer the potential to reduce vulnerability in challenging markets.

The broad market has not presented many challenges for nearly a year. It is our experience, however, that markets have not remained complacent and on an uptrend forever. When that trend ends, we believe that the solid companies in our portfolios are likely to not only survive but continue to pay dividends with the potential to increase with regularity.

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[1] Returns are presented on a pure gross and net basis and include the reinvestment of all income. Pure gross returns do not reflect the deduction of any expenses, including trading costs, and are supplemental to net returns. Net of fee performance was calculated using actual fees, which include wrap fees, management fees and trading commissions. The Dearborn management fee schedule is 1.00% on the first $1 million and 0.75% on amounts over $1 million, but actual fees may vary.

[2] The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered to be representative of the U.S. stock market. Inclusion of this index is for illustrative purposes only. Historical performance results for investment indexes generally do not reflect the deduction of transaction and/or custodial charges or the deduction of an investment management fee, the incurrence of which would have the effect of decreasing historical performance results. Economic factors, market conditions, and investment strategies will affect the performance of any portfolio and there are no assurances that it will match or outperform any particular benchmark.

Successful investing typically requires patience. Every company in our portfolios pays us while we patiently hold.

Cumulative Income Summary

Here is the cumulative gross (before fees) dividend income from an initial $200,000 investment on September 30, 2011 (the inception date of our SMA portfolios) through June 30, 2017 in each of:

	Current Yield	Cumulative Income*
Core Rising Dividend SMA	2.5%	$44,258
High & Rising Dividend SMA	3.3%	$57,607
S&P 500	2.0%	$39,928

**The S&P 500 dividend income in the table above is calculated by creating hypothetical investable "share units" by dividing the assumed initial $200,000 investment by the price of the index (1131.42) on September 30, 2011 (the inception date of our Rising Dividend SMA portfolios), resulting in 176.77 share units. The dividends per share unit of the index, provided by S&P Dow Jones Indices, are applied to the calculated units on a quarterly basis. The total represented in the table is the sum of those quarterly dividends per share unit, from December 31, 2011, through June 30, 2017.*

Dividend Increases

In the second quarter of 2017, 11 of the 49 companies in our Core Rising Dividend SMA portfolio announced 11 dividend increases averaging about 5.8% more than those particular companies paid a year before their latest dividend increase announcement date. One company in this portfolio has already announced three dividend increases so far this year.

In our High & Rising Dividend SMA portfolio, 4 of the 25 companies in the portfolio have announced 4 dividend increases averaging about 5.1% more than those particular companies paid a year before their latest dividend increase announcement date. One company in this portfolio has already announced three dividend increases so far this year.

Thank you for your interest in our Dearborn Partners Rising Dividend Strategy.

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Dearborn Partners Rising Dividend Separately Managed Account Portfolios
Average Calendar Year Dividend Increases

	Core Rising	High & Rising	CPI*
2012	13.0%	9.6%	1.9%
2013	12.2%	8.7%	1.7%
2014	12.2%	7.4%	1.6%
2015	9.7%	7.5%	2.1%
2016	8.0%	6.5%	2.1%
H1 2017	6.6%	4.8%	1.7%
** Core Consumer Price Index for All Urban Consumers Unadjusted 12-month Percent Change. First half (H1) 2017 CPI through May.*			

On the date that a company in our SMA portfolios announces a dividend increase, we calculate the percentage difference from the dividend the company paid a year earlier. We are excluding any special or accelerated dividends paid. We then calculate the average of all those year-over-year increases. However, if a company announces a dividend increase more than once a year, we use the average of that company's multiple increases to be considered in the year-over-year comparison.

Past performance is no guarantee of future results. Dividends are not guaranteed and must be authorized by the company's board of directors.

Research assistance provided by Jackson Finks, CFA and Matthew Guttosch.