First Quarter 2018 Commentary **Carol M. Lippman, CFA**

Tough Environment for Quality, Active Management

From Strategas Charts of the Week March 2, 2018: *"Performance starting to get more concentrated; the "average" stock is underperforming—Value Line arithmetic index and relative to S&P500. About one-third of the companies in the Russell 2000 have failed to earn a profit in the past 12 months. Such figures are normally only apparent in recessions. Easy money has allowed quite a few weak hands to remain in the game, making it difficult for good companies to gain share. This is also tough on the active manager tasked with distinguishing between strong companies and weak ones."*

According to the February 3, 2018 *The Economist* article, *"Powell position; could higher interest rates spoil America's economic boom?": "On (Monday) January 29th the ten-year Treasury yield reached 2.7%, the highest since early 2014. The prospect of tighter money caused stock markets to sneeze. On January 30th the S&P 500 fell by 1.1%, its biggest decline since August, before recovering a tiny bit the next day. With unemployment low and tax cuts pending, investors are wondering whether inflation and interest rates might soon surge."*

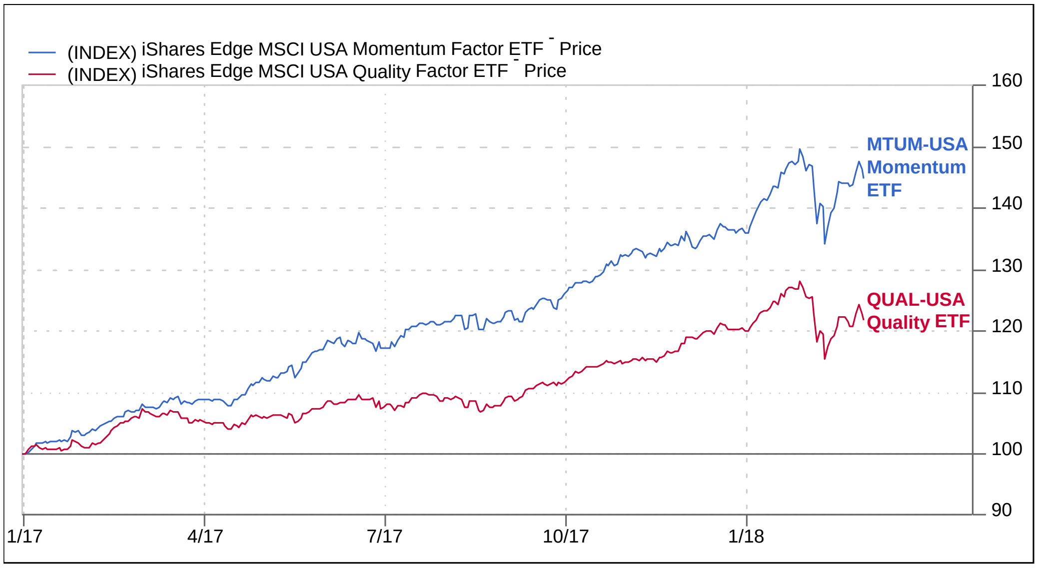
Until the stock markets sneezed, the strong, one-way-up, complacent, momentum-driven stock market persisted—a difficult environment for a generally conservative, high-quality strategy such as ours.

From January 23, 2018 Instinet Technical Analysis morning e-mail: *"Further, as Ryan Detrick of LPL Financial reminds us,* ***the SPX now has gone 395 days closing within 5% of an all-time high.*** *Surprise, surprise, that's now the longest in history*

Overextended...Overdue… Overdone. Each adjective has been uttered over and over again - even before the last three weeks - and it just hasn't mattered. ***Overbought continues to stay overbought."***

To further illustrate this point, a look at baskets of stocks grouped by two factors (through ETFs), Quality and Momentum, indicates how drastically price momentum was a driver of market returns for more than a year, from the beginning of 2017 through February 28, 2018:

Graph #1



Source: FactSet

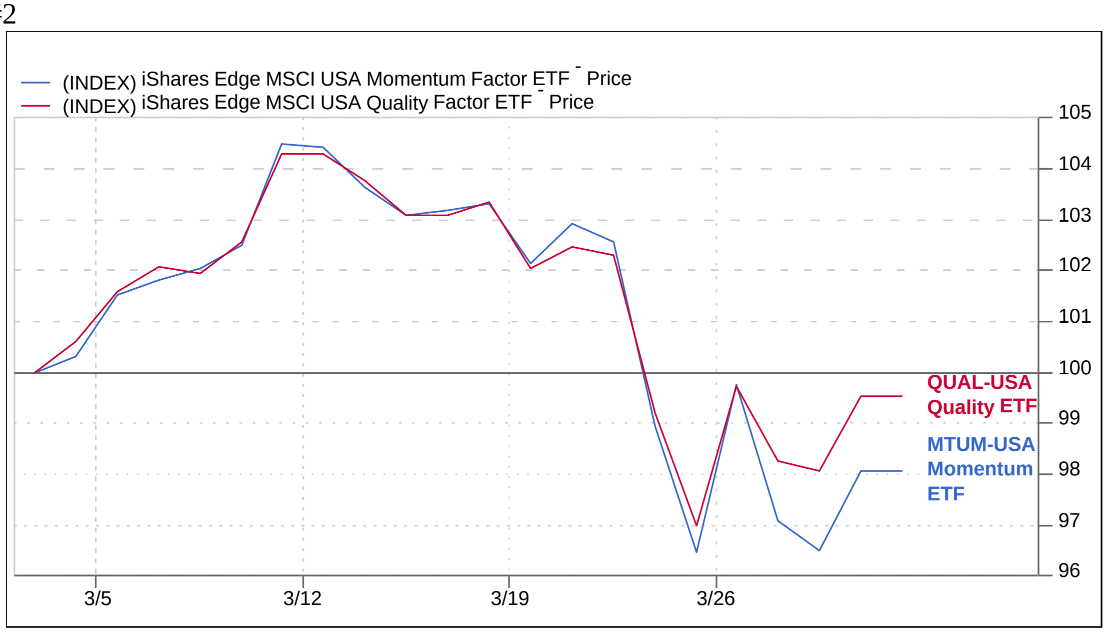
<u>The Return of Volatility</u>

From the February 6, 2018 Ned Davis Digest: *"Over 118 years of market data told us that the recent period of low volatility was both unusual and bound to end. On Friday (February 2, 2018), the S&P 500 ended its longest streak on record without a 3% correction. On Monday, the benchmark fell 5% below its high for the first time since Brexit, the second-longest such run on record."*
Clissold, Ed. Volatility Surges. Now What? Ned Davis Research, February 6, 2018.

Some readers may not find The Return of Volatility as entertaining as "The Return of the Jedi" or "The Return of the Pink Panther," or so many other sequels. We, however, welcome volatility's return because it reinforces, once again, the power of rising dividends to cushion the fall in bad markets.

In the month of March 2018, the momentum/quality trend reversed:

Graph #2



Source: FactSet

Table #1 below shows that in the volatile month of March 2018, both of our Dearborn Partners Rising Dividend separately managed account portfolios outperformed the S&P 500 benchmark. Until March, however, as the first FactSet graph above shows, the generally momentum-driven market in the first two months of the first quarter outpaced portfolios characterized by quality, such as ours. In other words, for the balance of the first quarter of 2018, our portfolios underperformed the benchmark.

Table #1 Dearborn Partners Separately Managed Accounts (SMAs)	3/29/2018 (Gross of Fees) MTD	 QTD/YTD
S&P 500	-2.54%	-0.76%
Dearborn Core Rising Dividend (CRD)	-0.44%	-1.66%
Dearborn High & Rising Dividend (HRD)	-0.17%	-3.71%
MTD: Month To Date QTD: Quarter To Date YTD: Year To Date		

"Big Down Days" Update

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. This update shows that on days when the S&P 500 has declined 1% or more, roughly 90% of the time, our two Rising Dividend SMA portfolios have outperformed, i.e., declined less than the broad market.

Big down days from inception (September 30, 2011) through March 31, 2018:

Total Days	1,643	
Total "Big Down Days" (down more than 1%)	141	
Total days that the Core Rising Dividend SMA ("CRD") outperformed the S&P 500 on "Big Down Days"	129	91.5%
Total days that the High & Rising Dividend SMA ("HRD") outperformed the S&P 500 on "Big Down Days"	125	88.7%

How Did We Do?

Here are the performance results of our two Dearborn Partners Rising Dividend 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 March 31, 2018.

Total Returns Annualized (%) as of March 31, 2018

	1- year		3- year		5- year		Since Inception (9/30/11)	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Core Rising Dividend SMA	10.4	8.7	8.3	6.6	10.6	8.9	13.4	11.6
High & Rising Dividend SMA	6.8	5.2	8.1	6.5	10.2	8.5	13.1	11.5
S&P 500	14		10.8		13.3		16.4	

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 March 31, 2018 in each of:

	Current Yield	Cumulative Income*
Core Rising Dividend SMA	2.4%	$51,261
High & Rising Dividend SMA	3.1%	$66,806
S&P 500	1.9%	$46,625

**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 March 31, 2018.*

Dividend Increases

Core Rising Dividend SMA portfolio:
In the first quarter of 2018, 18 of the 49 companies in our Core Rising Dividend SMA portfolio announced 19 dividend increases averaging about 13.4% more than those particular companies paid a year before their latest dividend increase announcement date. One company in this portfolio announced two dividend increases in the quarter.

High & Rising Dividend SMA portfolio:
In our High & Rising Dividend SMA portfolio, 12 of the 25 companies in the portfolio announced 13 dividend increases averaging about 8.5% more than those particular companies paid a year before their latest dividend increase announcement date. One company in this portfolio announced two dividend increases in the quarter.

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. As shown in the latter part of this past quarter, we further believe that rising dividends offer the potential to reduce vulnerability in challenging markets.

At long last, the stock market has shown some cracks. A few largely non-dividend-paying stocks that have led the market for an incredibly long time have finally proven not to be invincible after all. Although past performance cannot assure future results, we believe that the solid companies in our portfolios are likely to not only survive long term, but continue to pay dividends with the potential to increase with regularity. Successful investing typically requires patience. Every company in our portfolios pays us while we patiently hold.

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

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

	Core Rising	High & Rising	CPI*
2012	13.00%	9.60%	1.90%
2013	12.20%	8.70%	1.70%
2014	12.20%	7.40%	1.60%
2015	9.70%	7.50%	2.10%
2016	8.00%	6.50%	2.10%
2017	7.80%	5.80%	1.70%
Q12018	13.40%	8.50%	1.80%

** Core Consumer Price Index for All Urban Consumers Unadjusted 12-month Percent Change. First quarter (Q1) 2018 CPI through February.*

Source: https://www.bls.gov/news.release/cpi.nr0.htm

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

Disclaimer:

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.

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