

# DEARBORN PARTNERS

Dear Investors,

Thank you for your continued interest in the Dearborn Partners Multi-Asset Separately Managed Account (SMA).

The end of the third quarter (September 30, 2018) marked the first full year of performance for the Dearborn Partners Multi-Asset SMA. Here are our results:

## **Third Quarter 2018 Total Returns (%) as of September 30, 2018<sup>1</sup>**

	<u>Gross</u>	<u>Net</u>
Multi Asset	4.4	4.2
Blended Index <sup>2</sup>	4.3	
Bloomberg Barclay's Intermediate Credit Index	0.9	
S&P 500 <sup>3</sup>	7.7	

## **Total Returns Annualized (%) as of September 30, 2018**

	<u>Year-to- Date</u>		<u>1- year</u>	
	<u>Gross</u>	<u>Net</u>	<u>Gross</u>	<u>Net</u>
Multi Asset	5.4	4.9	9.9	9.1
Blended Index	4.2		7.9	
Bloomberg Barclay's Intermediate Credit Index	-1.6		-2.1	
S&P 500	10.6		17.9	

<sup>1</sup> 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 is 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 will vary.

<sup>2</sup> Blended index is an equal weighted average of the performance of the S&P 500 and Bloomberg Barclays U.S.

Intermediate Credit Total Return (TR) Index Value.

<sup>3</sup> 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.

We made several changes in the third quarter of 2018:

- Added to our position in Casey’s General Stores (CASY). CASY operates more than 2,000 convenience stores in the Midwest and continues to open new stores. We view the business as relatively “internet proof,” possessing excellent branding, and on a path to continued earnings growth.
- Bought Thor Industries (THO). Thor, based in Elkhart, IN is the world’s largest recreational vehicle manufacturer with brands such as Airstream, Keystone, and Jayco.
- Added to our position in TPG Specialty Lending (TSLX). TSLX is a business development company (BDC) making 3-5 year bank loans to small and mid-sized United States-based companies. We continue to trust management’s ability to underwrite a conservative loan portfolio.
- Trimmed RLI Corp (RLI). RLI Corp (based in Peoria, IL) is a small specialty insurer, focused on niche property, casualty, and surety markets. In our view, RLI continues to have excellent underwriting. We trimmed our position simply because the stock had performed so well, and we redeployed the assets elsewhere in the portfolio.
- Sold CMS Energy (CMS). We sold CMS, a solid Michigan-based utility, as we decided to lessen our allocation to utilities in favor of equities with what we believe to have faster dividend-growth potential.
- Sold Hershey Company (HSY). We sold HSY, the iconic candy-maker, because we did not like the strategic direction the company is taking in making large acquisitions into the snacking market. Our concern is that they are deviating too far from their core business.
- Sold Kohl’s Corp (KSS). In our view, the market had miscategorized Menomonee Falls, WI-based Kohl’s Corp as yet another struggling mall-based department store, therefore assigning it a very low valuation. We saw the company as a much more unique and well-run retailer – with off-mall locations and a growing athletic apparel business – and undeserving of such a low valuation. Our thesis played out. We decided to stop fighting market sentiment and increased volatility and took profits to redeploy into other higher conviction ideas within the portfolio.

Below is a list of the companies within our Dearborn Partners Multi-Asset SMA that announced dividend increases in the third quarter of 2018:

Company	Ticker	Percent Change*	Date of Increase Announcement	New Amount	Old Amount
Illinois Tool Works Inc.	ITW	28.21%	8/3/2018	\$1.00	\$0.78
U.S. Bancorp	USB	23.33%	09/18/2018	\$0.37	\$0.30
Carter's, Inc.	CRI	21.62%	08/16/2018	\$0.45	\$0.37
Toro Company	TTC	14.29%	09/18/2018	\$0.20	\$0.175
Cisco Systems, Inc.	CSCO	13.79%	09/20/2018	\$0.33	\$0.29
Williams Companies, Inc.	WMB	13.33%	08/15/2018	\$0.34	\$0.30
Casey's General Stores, Inc.	CASY	11.54%	09/10/2018	\$0.29	\$0.26
ONEOK, Inc.	OKE	10.74%	7/25/2018	\$0.83	\$0.75
McCormick & Company, Incorporated	MKC	10.64%	09/25/2018	\$0.52	\$0.47

\*The percentage change of dividend payments reflects the new dividend rate compared with the similar payment made in the prior year.

Lamar Advertising Company Class A	LAMR	9.64%	08/22/2018	\$0.91	\$0.83
STORE Capital Corporation	STOR	6.45%	9/11/2018	\$0.33	\$0.31
RLI Corp.	RLI	4.76%	08/15/2018	\$0.22	\$0.21
Verizon Communications, Inc.	VZ	2.12%	9/6/2018	\$0.60	\$0.59
People's United Financial, Inc.	PBCT	1.45%	07/19/2018	\$0.175	\$0.1725
<b>AVERAGE INCREASE</b>		<b>12.3%</b>			

Our investment philosophy remains unchanged. The Dearborn Multi-Asset SMA seeks to provide attractive current income with the potential for growth in income. The portfolio diversifies across various asset classes—stocks of companies with dividend growth potential, fixed income, preferreds, Master Limited Partnerships, Business Development Companies, and Real Estate Investment Trusts. We maintain the view that holding a significant number of companies with the ability (and willingness) to potentially pay – and, importantly, raise – dividends each year is one of the most prudent uses of capital for our Dearborn Multi-Asset SMA.

If you would like a copy of our one-page handout with additional details on the Dearborn Partners Multi-Asset SMA, please contact Katie Wolford, our Internal Wholesaler, at [kwolford@dearbornpartners.com](mailto:kwolford@dearbornpartners.com) or (312) 795-5330.

As always, if you have any questions or comments, please feel free to contact anyone here at Dearborn Partners. Our main line is (312) 795-1000.

Enjoy the fall weather!

Sincerely,

Peter Deakos, CFA

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