

DEARBORN PARTNERS

Dearborn Partners Multi-Asset Separately Managed Account Portfolio

What is it? The Dearborn Partners Multi-Asset Separately Managed Account Portfolio seeks attractive current income and potential growth of income. The portfolio will normally hold 30 to 50 securities. The portfolio invests across a wide array of both equity and fixed income (a “go anywhere” strategy). Income potential, income growth potential, and total return potential are weighed against asset specific risks and company specific risks. Dearborn Partners will shift the investment mix depending upon their assessment of risks, yield and total return potential available across asset classes and companies. At 1/15/19, the weighted average duration¹ on fixed income was 5.62 years and the current yield² on the overall portfolio was 3.99%.

Why invest in a portfolio that generates income? After all, many of the most popular stocks currently generate no income. For various reasons, today’s investors need and/or desire income. Income is what we use to pay bills, gas up our cars, eat out at restaurants, or buy gifts for loved ones. Regular and increasing income can even provide a sense of security. A major reason that an investor needs income is to fund purchases in retirement. Transitioning from working and receiving income from a paycheck to retiring and living off investment income is a major life transition that can often be stressful.

“What is the yield on the portfolio?” is a common question investors ask.

To help investors who need and desire potentially more income than that offered from a generally conservative all-equity rising dividend portfolio, Dearborn Partners launched the Dearborn Partners Multi-Asset Separately Managed Account (SMA) in 2017. In our view, there are three primary objectives for investors in the Dearborn Multi-Asset SMA:

1. Above average income
2. Growth of income (approximately mid-single digit growth)
3. Ability to “go anywhere” to prudently invest among asset choices

It all starts with great companies! At Dearborn Partners, we advocate owning high quality companies that offer the potential to increase income and total returns over the long term. We believe this is an appropriate investment strategy for both retirees and younger savers. In this way, investors are likely to have an income source offering the potential to outpace the rising costs of purchases over time (For example, in 1988 a first-class postage stamp cost \$0.25; in 2018 that stamp costs \$0.50—a 2.3% average compounded annual growth rate.). At the same time, we expect these high quality companies will be reinvesting profits back into their businesses, improving productivity, and thus potentially increasing investors’ net worth over time.

The Dearborn Multi-Asset SMA portfolio managers invest in three “*buckets*”:

- *Bucket A:* Traditional equity investments. As mentioned above, Dearborn is steeped in the tradition of investing in the stocks of companies with the ability to increase dividends over the long term. The Dearborn Multi-Asset SMA is anchored in rising dividend companies because we look to such great companies to drive the portfolio’s growing income over time. This Multi-Asset SMA portfolio, however, can include stocks of companies that may not possess the same anticipated dividend growth consistency or potential as those considered for the other Dearborn Partners Rising Dividend portfolios.
- *Bucket B:* Traditional fixed income assets. Traditional fixed income assets—including government bonds, mortgages, corporate bonds, and preferred stock—provide dependable income and, historically, have lessened portfolio volatility, especially in recessionary periods.
- *Bucket C:* Non-traditional income-generating assets. Non-traditional income assets, including Master Limited Partnerships (MLPs) and Business Development Companies (BDCs), are used primarily to enhance the income of

¹ **Duration** is a measure of the sensitivity of the price – the value of principal – of a fixed-income investment to change in interest rates. Duration is expressed as a number of years.

² **Yield** is the weighted average yield of the entire portfolio including cash holdings.

the portfolio. We invest in MLP securities that generate no schedule K-1s or Unrelated Business Taxable Income (UBTI).

We're long-term, prudent investors. While we can “go anywhere” to find attractive investment opportunities, we attempt to do so only in a prudent manner. We see no value in stretching for high yields in ways that could unduly cause significant downside risk to principal. Ultimately, we strive to help investors meet their goals by looking for income distributions combined with dividend growth potential designed to equate to attractive portfolio total returns.

Keeping diversified! Finally, these groups (buckets) of investments historically tend to ebb and flow in opposite directions from one another—a goal of prudent diversification, a proven way of moderating downside risk. It is our opinion that such excellent diversification allows the Dearborn Partners Multi-Asset SMA Portfolio to be an appropriate consideration for investors either on a stand-alone basis or in conjunction with other Dearborn Partners Rising Dividend strategies.

Disclosure:

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