D E A R B O R N

P A R T N E R S

Year End 2018 Commentary **Peter J. Deakos, CFA**

Dear Investors,

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

Our fourth quarter (December 31, 2018) and full year 2018 performance is included below:

Fourth Quarter 2018 Total Returns (%) as of December 31, 2018[1]

	Gross	Net
Multi Asset	-7.0	-7.2
Blended Index[2]	-6.7	
Bloomberg Barclay's Intermediate Credit Index	0.3	
S&P 500[3]	-13.5	

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

	2018		Since Inception on 09/30/17	
	Gross	Net	Gross	Net
Multi Asset	-1.9	-2.7	1.8	1.0
Blended Index	-2.8		0.5	
Bloomberg Barclay's Intermediate Credit Index	-1.7		-1.0	
S&P 500	-4.4		1.6	

We made quite a few portfolio changes in the fourth quarter of 2018, more than usual for one quarter. Some were new stock ideas, but we also repositioned part of our midstream energy exposure from one entity (partnerships held in exchange traded funds) to another (individually held corporations). We explain below:

[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 will vary.
[2] Blended index is an equal weighted average of the performance of the S&P 500 and Bloomberg Barclays U.S. Intermediate Credit TR Index Value.
[3] 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.

- Bought VF Corp (VFC). We have been long-time fans of Greensboro, NC-based VF Corp and its stable of brands such as North Face, Vans, and Timberland. The company's brands are authentic, and we believe this resonates with consumers. We are encouraged by the upcoming spinoff of its jeans business and note the company has raised its dividend for 46 consecutive years.
- Bought The Toro Company (TTC). While consumers may recognize Bloomington, MN-based Toro's residential lawn equipment, the majority (74%) of Toro's sales are through professional markets like turf management, golf, and construction. The company has leading market share driving strong replacement demand but also boasts an innovative product pipeline enabling organic growth. With very little debt, the company has strong returns on invested capital, and has raised its dividend for 9 consecutive years.
- Bought Medtronic PLC (MDT). MDT, based in Dublin, Ireland, is one the world's largest medical technology companies. The company's device-based therapies and services include implantable heart devices, heart valves, surgical hardware, spine treatments, brain therapies, and diabetes management. The company has raised its dividend for 41 consecutive years.
- Bought Apple Inc. (AAPL). Cupertino, CA-based Apple sells iPhones, iPads, Macs, services, and other products across the globe. We see AAPL having several advantages: a strong brand, a culture of innovation, massive scale, and a reluctance of users to switch out of the Apple ecosystem. Given the ubiquity of iPhones, AAPL is in some ways a consumer staple company as well as a technology company. AAPL has increased its dividend for 6 consecutive years.
- Bought FlexShares Disciplined Duration MBS Fund (MBSD). Overall, we like mortgages as an asset class within our Multi-Asset portfolio because they offer fixed income diversification and a high-quality income stream. Mortgages, in our view, have improved since the housing crisis due to better underwriting and higher required down payments. MBSD is an exchange traded fund (ETF) following a passive, rules-based, fixed-rate, Agency-backed (by Ginnie Mae, Fannie Mae, or Freddie Mac), MBS (mortgage backed security) index. A key factor for mortgages is prepayment volatility, which can alter the duration of an MBS – e.g. a homeowner is more likely to refinance (prepay) their mortgages if rates go down but hold their mortgage if rates rise. To mitigate this natural duration risk, the ETF is rebalanced monthly to keep the duration between 3.25 and 4.25 years.
- Sold iShares iBonds Dec 2018 Term Corporate ETF (IBDH). IBDH is a defined maturity exchange traded fund (ETF), i.e. the ETF holds a basket of individual bonds that matured in December 2018. Thus, unlike a perpetual bond ETF, this bond ETF – like an actual bond – has a defined maturity date (December 15, 2018). We sold this ETF during the fourth quarter to fund other purchases.
- Sold People's United Financial Preferred (PBCTP). Like IBDH, we sold this preferred stock to fund the stock purchases mentioned above as well as to diversify our fixed income holdings by adding mortgage exposure. Notably, the portfolio still owns the common stock of People's United Financial (PBCT), a conservatively run bank, in our view.
- Trimmed McCormick & Company (MKC) and added to Sherwin-Williams Company (SHW). Hunt Valley, MD-based McCormick and Cleveland, OH-based Sherwin-Williams remain two of our

favored long-term holdings. Both companies are well focused in their respective fields – flavors and paints. We trimmed our position in McCormick due to strong stock price performance pushing the company closer to our estimate of intrinsic value and added to our position in Sherwin-Williams due to weaker stock price performance.

- Sold Carter's Inc. (CRI). We sold our position in Carter's Inc, the baby and children's apparel maker. We had traditionally favored the less-discretionary purchase patterns of parents with babies and young children – i.e., kids grow and need new clothes – combined with Carter's well-known brands. However, unexpected weakness in the latter half of 2018 caused us to question whether we are seeing the start of longer-term weakness in Carter's business. Perhaps the brand message is becoming too extended and not resonating the way it has in the past. Thus, we reallocated our capital to what we view as better opportunities.
- Sold Global X MLP ETF (MLPA). Midstream energy pipeline companies initially went public as master limited partnerships (MLPs), which avoided the double taxation of corporations, but were required to adhere to other rules, including issuing Schedule K-1 tax statements to investors. Several years ago, a few issuers structured exchange traded funds (ETFs) that replaced the K-1s with the Form-1099 issued by corporations as the tax statements for their distributions. Traditionally, in order to avoid the K-1 tax statements, we have favored participating in the midstream energy pipeline business by owning MLP ETFs. Since oil collapsed from over $100 per barrel in mid-2014 to under $30 per barrel in early 2016, however, an increasing number of well-run midstream pipeline companies have gone public or have reorganized as corporations that issue traditional 1099s to investors.

  We have owned the Global X MLP ETF (MLPA), a diversified way of participating in the midstream pipeline area. This ETF holds more than 20 pipeline companies. Overall, we remain bullish on the midstream pipeline industry, seeing cash flow stability as the industry moves oil, natural gas, and products for a fee. This fee is generally based on volume of product transported, not based on the price of the underlying product. Rather than owning this ETF, however, there are two pipeline companies that we consider to be high quality with solid income and growth potential, Tallgrass Energy LP (TGE) and Equitrans Midstream Corp (ETRN), which have been recently organized as corporations, and that we believe offer better investment potential. As a result, we sold our position in MLPA.
- Bought Tallgrass Energy LP (TGE). Tallgrass (based in Leawood, KS) generates its fee-based cash flow largely from natural gas pipelines (Rocky Mountain Express system – Wyoming to Ohio) and oil pipelines (Pony system - Wyoming to Oklahoma). The company is now a partnership taxed as C-corp and issues a 1099. We have been long-time fans of the management team here and welcomed the opportunity, given the change in tax treatment, to directly invest. Quarterly payouts have increased every quarter since its public offering in 2015.
- Bought Equitrans Midstream Corporation (ETRN). Equitrans (based in Pittsburg, PA) owns natural gas gathering and transportation pipelines in the Appalachian basin (OH, PA, WV). Specifically, the Marcellus and Utica shale contain some of the lowest cost natural reserves, making pipeline projects in this region particularly attractive. The company is a corporation and investor will receive a 1099.

- Bought iShares Treasury Floating Rate Bond ETF (TFLO) and bought SPDR Portfolio Short Term Corp Bond ETF (SPSB). We reinvested remaining cash in these two short-duration bond ETF's. In both cases, we saw attractive rates in shorter term notes – Treasuries and corporate credit – that allows us to earn attractive short-term income, keep funds readily available for redeployment, and reduce overall portfolio volatility.

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

Company	Ticker	Percent Change	Date of Increase Announcement	New Amount	Old Amount
Toro Company	TTC	28.57%	12/06/2018	$0.23	$0.18
Watsco, Inc.	WSO	28.00%	10/25/2018	$1.60	$1.25
Snap-On Incorporated	SNA	15.85%	11/8/2018	$0.95	$0.82
ONEOK, Inc.	OKE	14.77%	10/24/2018	$0.86	$0.75
VF Corporation	VFC	10.87%	10/19/2018	$0.51	$0.46
Lamar Advertising Company Class A	LAMR	10.84%	11/30/2018	$0.92	$0.83
McCormick & Company, Incorporated	MKC	9.62%	11/27/2018	$0.57	$0.52
Lancaster Colony Corporation	LANC	8.33%	11/14/2018	$0.65	$0.60
Spire Inc.	SR	5.33%	11/15/2018	$0.59	$0.56

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 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 any additional details on the Dearborn Partners Multi-Asset SMA, please contact Katie Wolford, our Internal Wholesaler at kwolford@dearbornpartners.com or (312) 795-5330.

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

Enjoy the winter weather, and we'll be back in touch in the spring!

Sincerely,

Peter Deakos, CFA

pdeakos@dearbornpartners.com

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Disclosure:

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