DEARBORN

PARTNERS

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

Good Quality and Patience Still Work

For much of the last two years, FANG stocks (Facebook, Amazon, Netflix, Google (now called Alphabet) dominated a significant percentage of the return of the S&P 500 benchmark. The FANG are large capitalization stocks whose companies pay no dividends. Although other dividend and equity income managers may own FANG stocks, Dearborn does not because they do not meet our stringent criteria for paying and consistently increasing dividends. Instead, we own several mid-sized, dividend-paying technology companies that have continued to perform particularly well. In late July, privacy and antitrust concerns hit shares of Facebook and Google, as well as other technology and communication companies. Some of the once seemingly invincible FANG stocks finally developed some cracks, thereby allowing shares of good quality companies to again show their worth. The result is that in the latest quarter and year, our Dearborn Rising Dividend portfolios have had an opportunity to outperform the benchmark.

Third Quarter 2018 Total Returns (%) as of September 30, 2018[1]

	Gross	Net
Core Rising Dividend SMA	9.6	9.2
High and Rising Dividend SMA	7.5	7.1
S&P 500[2]	7.7	

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

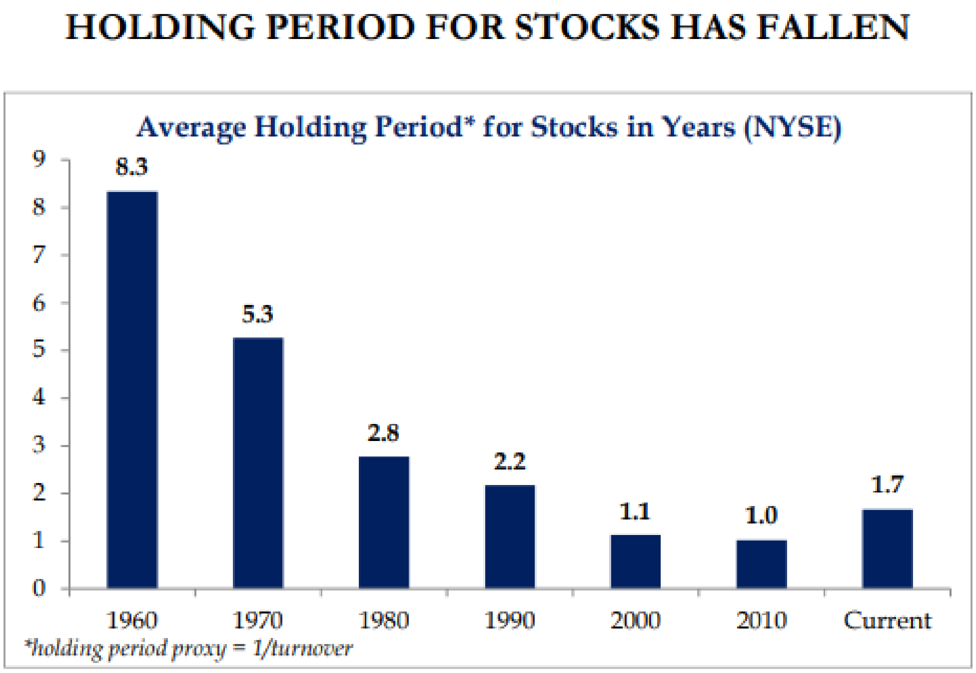
	Year-to-Date		1- year		3- year		5- year		Since Inception (9/30/11)	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Core Rising Dividend SMA	11.6	10.3	18.8	16.9	15.3	13.4	12.3	10.5	14.4	12.6
High & Rising Dividend SMA	8.0	6.7	13.2	11.4	14.7	12.9	12.4	10.8	14.0	12.3
S&P 500	10.6		17.9		17.3		14.0		16.9	

[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] 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.

The Typical Investor Has Become Too Impatient

At Dearborn, we contend that it is important to stay invested, patiently, for many years. However, few investors adhere to such a strategy, unfortunately. According to the illustration below from Strategas Research Partners, in the 1960s, the average period for holding stocks was more than 8 years. By 2010, the holding period dropped to one year. As of the beginning of this year, the average holding period is back up a bit closer to two years, but still a long way below where it should be, in our opinion. When one owns stock, one owns a piece of a company. Companies don't grow overnight; it takes time. Dearborn's philosophy is that investors—not traders, but investors—who aspire to participate in the potential growth of companies, should be holding on to stocks for at least five years or more, on average. The typical investor has become too impatient.



Source: Strategas Research Partners

Our strategy emphasizes finding companies with the potential to increase dividends with regularity. Most companies that increase dividends do so only once a year. So, for investors to receive the quarterly dividends and the annual dividend increases, patience is necessary. The dividend increase messages we send and post to our website each time a company in our separately managed accounts announces a dividend increase are designed to keep us informed about the company's outlook for continued growth in the business and in the dividend. It is our hope that such communication will help keep investors in the market, participating and with greater patience for many years.

GICS Sector Reconfigurations

Effective September 28, 2018, the GICS (Global Industry Classification Standard) Telecommunication Services sector was renamed Communication Services. Dow Jones Standard & Poor's explains that the sector has been expanded to reflect the evolving way that people communicate and access information. Media companies are no longer part of Consumer Discretionary and instead fall within Communication Services. Home entertainment and internet companies have moved from Information Technology to the newly named sector. The revisions are intended to more fully encompass companies that focus on communication infrastructure (internet, broadband, cellular, broadcast, cable, and land lines) and content (information, advertising, entertainment, news, and social media).

Here is how the S&P 500 sector weightings have changed:

Standard & Poor's 500 Sectors' Market Capitalization (%)

Sector	Before Reconfiguration	After Reconfiguration
Telecommunication Services	1.9%	
Communication Services		10.0%
Consumer Discretionary	12.9%	10.0%
Information Technology	26.5%	20.0%

Source: Ned Davis Research September 12, 2018 "Communicating the Impact of Upcoming Sector Changes on Your ETFs"

Although many sector funds must change, these sector reconfigurations will not affect our Dearborn Partners Rising Dividend Portfolios. Of the top 20 holdings of the new Communication Services sector, very few pay dividends and most that do pay dividends do not meet our criteria for what we consider to be consistent dividend growth potential. Therefore, at this point, AT&T and Verizon remain the only companies in the newly configured sector that qualify for Dearborn Rising Dividend portfolios.

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 September 30, 2018 in each of:

	Average Current Yield	Cumulative Income*
Core Rising Dividend SMA	2.2%	$57,044
High & Rising Dividend SMA	3.0%	$74,426
S&P 500	1.8%	$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 September 30, 2018.*

Dividend Increases

Core Rising Dividend SMA portfolio:

In the third quarter of 2018, 12 of the 49 companies in our Core Rising Dividend SMA portfolio announced 12 dividend increases averaging about 14.8% more than those particular companies paid a year before their latest dividend increase announcement date.

High & Rising Dividend SMA portfolio:

In our High & Rising Dividend SMA portfolio, 7 of the 25 companies in the portfolio announced 7 dividend increases averaging about 8.1% more than those particular companies paid a year before their latest dividend increase announcement date.

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.

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.

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

Dearborn Partners Rising Dividend Separately Managed Account
Average Calendar 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%
2017	7.8%	5.8%	1.7%
YTD2018	13.5%	8.7%	2.2%

** Core Consumer Price Index for All Urban Consumers Unadjusted 12-month Percent Change. Year to Date (YTD) 2018 CPI through August.*

Source: U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers: All Items Less Food and Energy [CPILFENS], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/CPILFENS September 27, 2018.

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. There is no assurance that any Rising Dividend portfolio company will increase its dividend, or not reduce its dividend, or not have a significant decrease in its stock price. Dividend yield is one component of performance and should not be the only consideration for investment.