DEARBORN

PARTNERS

Second Quarter 2019 Commentary | **Carol M. Lippman, CFA**

The Premise for Our Strategy

An objective of our Dearborn Partners Rising Dividend 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.

Sometimes we are asked why we hold so many stocks in our portfolios: 49 stocks in our Core Rising Dividend separately managed account (SMA) portfolio and 25 stocks in our High & Rising Dividend SMA portfolio. Our Rising Dividend portfolios have representation from all 11 sectors into which Standard & Poor's divides the marketplace. Proper diversification with stocks of high-quality companies can help modify downside risk, i.e., reduce vulnerability, and enhance results in both challenging and favorable market environments.

A few largely non-dividend-paying stocks have continued to lead the market for an incredibly long time. Nonetheless, 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.

How Did We Do?

It has been a good year for our Dearborn Partners Rising Dividend strategy, in our opinion. The total returns (price movement plus dividends, gross before fees) of both of our Dearborn Partners Rising Dividend SMA portfolios outperformed the benchmark S&P 500 in the second quarter and first half (year-to-date) of 2019, as well as the one-year period ended June 30, 2019.

Second Quarter 2019 Total Returns (%) as of June 30, 2019[1]

	Gross	Net
Core Rising Dividend SMA	5.1	4.7
High and Rising Dividend SMA	6.1	5.4
S&P 500[2]	4.3	

Total Returns Annualized (%) as of June 30, 2019

	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	19.1	18.2	17.4	15.6	12.1	10.3	11.1	9.3	14.0	12.1
High & Rising Dividend SMA	20.2	18.4	20.7	17.8	11.5	9.3	11.6	9.5	14.1	12.4
S&P 500	18.5		10.4		14.2		10.7		15.5	

[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.

Please keep in mind that over the past nine decades, the average **annual** total return for the S&P 500 has been about 10%. In **six months** to have generated roughly 20% is quite extraordinary. We think our portfolios generated what we consider to be respectable returns and our gross returns have outperformed the benchmark.

"Big Down Days" Update

The jury is still out as to if all the monetary accommodation will get the economy closer to the Federal Reserve's inflation target, but clearly it is helping asset prices. The day after Fed Chairman Jerome Powell reported on June 19, 2019 that the Committee might cut interest rates at its next meeting if the economy's outlook does not improve, the three major U.S. stock indexes hit new highs. The 10-year U.S. Treasury bond yield dropped below 2%. Anticipation of a Fed Funds rate cut at its July meeting helped fuel repeated new stock market highs until the end of the second quarter. We believe that this reinforces the importance of being invested and staying invested in stocks. If and when general economic growth ever does soften, then it is our view that it is important to hold stocks of companies that offer the potential to increase dividends at healthy growth rates.

On the few days when the broad market was especially nervous, our portfolios generally exhibited less nervousness. 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. In the second quarter of 2019, the broad market declined 1% or more four times. Both Dearborn Partners SMA portfolios declined less than 1% on each of those four days. Since inception through June 30, 2019, the S&P 500 declined 1% or more on 169 days, or 8.7% of the 1,953 trading days during this period. Here is an update.

Big down days from inception (September 30, 2011) through June 30, 2019:

Total Days	1,953	
Total “Big Down Days” (down more than 1%)	169	
Total days that the Core Rising Dividend SMA (“CRD”) outperformed the S&P 500 on “Big Down Days”	154	91.1%
Total days that the High & Rising Dividend SMA (“HRD”) outperformed the S&P 500 on “Big Down Days”	150	88.8%

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 June 30, 2019 in each of:

	Average Current Yield	Cumulative Income*
Core Rising Dividend SMA	2.3%	$65,467
High & Rising Dividend SMA	3.0%	$85,398
S&P 500	1.9%	$58,855

**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 June 30, 2019.*

Dividend Increases

Core Rising Dividend SMA portfolio:

In the second quarter of 2019, 12 of the 49 companies in our Core Rising Dividend SMA portfolio announced 12 dividend increases averaging about 6.7% more than those particular companies paid a year before their latest dividend increase announcement date.

In the first half of 2019, 26 of the 49 companies in our Core Rising Dividend SMA portfolio announced 30 dividend increases averaging about 9.6% more than those particular companies paid a year earlier. One company has already announced three dividend increases this year. Two companies have already announced two dividend increases this year.

High & Rising Dividend SMA portfolio:

In our High & Rising Dividend SMA portfolio, 4 of the 25 companies in the portfolio announced 4 dividend increases averaging about 5.1% more than those particular companies paid a year before their latest dividend increase announcement date.

In the first half of 2019, 11 of the 25 companies in our High & Rising Dividend SMA portfolio announced 14 dividend increases averaging about 6.4% more than those particular companies paid a year earlier. One company has already announced three dividend increases this year, and another company has already announced two dividend increases this year.

No companies in our portfolios have decreased their dividends so far this year.

Thank you for your continued interest in our Dearborn Partners Rising Dividend Strategy. We are grateful for your partnership.

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%
2018	13.3%	9.5%	2.2%
YTD 2019	9.6%	6.4%	2.0%
** Core Consumer Price Index for All Urban Consumers Unadjusted 12-month Percent Change. Year to Date (YTD) 2019 CPI through May.*			

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 June 12, 2019.

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.

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