DEARBORN

PARTNERS

Year End 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 defensive 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. We believe that this diversification across and within the sectors helps accomplish these objectives.

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, in our opinion. Successful investing typically requires patience. Every company in our portfolios pays us while we patiently hold.

How Did We Do?

We think that year 2019 was a very good year for our Dearborn Partners Rising Dividend strategy. The original research that formed the basis for this strategy revealed the power of rising dividends to cushion the fall of stock prices in challenging markets and to participate in strong markets, but likely not outperform. We believe that our portfolios' lower betas—averaging 20% to 30% below the beta of the broad market as measured by the S&P 500—reinforce our stated objectives of striving to provide relatively low-risk, all-equity investments to generally conservative investors who need or like income and attractive total returns. (The S&P 500 has an average beta of 1.0. An average beta less than 1.0 represents generally less volatility than the broad market. An average beta greater than 1.0 represents greater volatility.)

According to Ned Davis Research, over the past nine decades, the average **annual** total return for the S&P 500 has been about 11.8%. In year 2019, the S&P 500's total return was 31.5%. The ten largest stocks in the index accounted for about one-third (32%) of that return. Our Dearborn Partners Core Rising Dividend portfolio holds only two of those stocks; our High & Rising Dividend portfolio holds only one. Considering that our portfolios performed about as well as the benchmark but with significantly lower volatility, yes, we think it was a very good year for our strategy.

Here are the total returns (price movement plus dividends, gross before fees) of both of our Dearborn Partners Rising Dividend SMA portfolios for the fourth quarter and full year 2019.

Fourth Quarter 2019 Total Returns (%) as of December 31, 2019[1]

	Gross	Net
Core Rising Dividend SMA	5.9	5.5
High and Rising Dividend SMA	4.3	3.9
S&P 500[2]	9.1	

[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.

Total Returns Annualized (%) as of December 31, 2019

	1- year		3- year		5- year		Since Inception (9/30/11)	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Core Rising Dividend SMA	30.87	28.90	14.93	13.16	11.50	9.77	14.34	12.50
High & Rising Dividend SMA	30.09	28.13	14.29	12.53	11.37	9.70	14.37	12.70
S&P 500	31.49		15.27		11.70		15.96	

Cumulative Income Summary

Here is the cumulative gross (before fees) dividend income generated by the companies in both of our Dearborn Partners Rising Dividend Portfolios from an initial $200,000 investment on September 30, 2011 (the inception date of our SMA portfolios) through December 31, 2019 in each of:

	Average Current Yield	Cumulative Income*
Core Rising Dividend SMA	2.2%	$71,406
High & Rising Dividend SMA	3.0%	$92,885
S&P 500	1.8%	$64,160

**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 December 31, 2019.*

The table above shows that the average yield of both of our Rising Dividend SMA portfolios at year-end 2019 exceeded the average yield of the S&P 500. As a result of their above average yields, lower volatility, and generally conservative features, our portfolios may appeal to some generally risk-averse investors who are in search of yields greater than those offered by both long-term bonds and the broad market. We thought we would also look at how many stocks in these portfolios ended the year with yields above the 1.91% yield at which the 10-year U.S. Treasury bond ended the year. At the market close on December 31, 2019, 20 of the 25, or 80% of the stocks in our High & Rising Dividend SMA portfolio had current yields above the 1.91% yield on the 10-year U.S. Treasury bond. In our Core Rising Dividend SMA portfolio, 27, or 55%, of the 49 stocks had a current yield above the U.S. benchmark long bond's yield at the end of the year. We recognize, of course, that stocks are generally riskier than U.S. government bonds with the full faith and credit backing of the U.S. Treasury. Nonetheless, our portfolios pay investors attractive income. Furthermore, all the dividend increases paid by the companies in our portfolios help investors not only keep up with, but also outpace, inflation.

Dividend Increases

The dividend growth in 2019 of the companies in the S&P Composite was not as robust as the dividend growth that the companies in our Dearborn Rising Dividend portfolios generated. According to FactSet Data Service, the S&P 500 paid dividends in 2019 that averaged 7.4% more than the dividends paid in 2018. What follows is the dividend growth record of the companies in our two SMA portfolios. No companies in our portfolios decreased their dividends in 2019.

Core Rising Dividend SMA portfolio:

In the fourth quarter of 2019, 15 of the 49 companies in our Core Rising Dividend SMA portfolio announced 15 dividend increases averaging about 10.1% more than those particular companies paid a year before their latest dividend increase announcement date. In all of 2019, 48 of the 49 companies in our Core Rising Dividend SMA portfolio announced 59 dividend increases averaging about 9.6% more than those particular companies paid a year earlier.

High & Rising Dividend SMA portfolio:

In our High & Rising Dividend SMA portfolio, 8 of the 25 companies in the portfolio announced 8 dividend increases in the fourth quarter averaging about 8.6% more than those particular companies paid a year before their latest dividend increase announcement date. In all of 2019, 22 of the 25 companies in our High & Rising Dividend SMA portfolio announced 28 dividend increases averaging about 8.2% more than those particular companies paid a year earlier.

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*
2019	9.6%	8.2%	2.3%
2018	13.3%	9.5%	2.2%
2017	7.8%	5.8%	1.7%
2016	8.0%	6.5%	2.1%
2015	9.7%	7.5%	2.1%
2014	12.2%	7.4%	1.6%
2013	12.2%	8.7%	1.7%
2012	13.0%	9.6%	1.9%

** Core Consumer Price Index for All Urban Consumers Unadjusted 12-month Percent Change. Year to Date (YTD) 2019 CPI through November.*

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 Dec. 11, 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. Dividend yield is one component of performance and should not be the only consideration for investment.

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