

# D E A R B O R N P A R T N E R S

Dear Investors,

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

Our Fourth Quarter 2019 (October 1 - December 31, 2019), Full-Year 2019, and Since Inception performance is included below:

### Total Returns (%) as of December 31, 2019<sup>1</sup>

|   | <u>Fourth Quarter</u> |            | <u>Full-Year 2019</u> |            | <u>Since Inception,<br/>Annualized<br/>(9/30/2017)</u> |            |
|---|-----------------------|------------|-----------------------|------------|--|------------|
|   | <u>2019</u>           |            |                       |            |  |            |
|   | <u>Gross</u>          | <u>Net</u> | <u>Gross</u>          | <u>Net</u> | <u>Gross</u>   | <u>Net</u> |
| Multi Asset   | 4.0                   | 3.7        | 22.8                  | 21.8       | 10.6   | 9.78       |
| Blended Index <sup>2</sup>                          | 5.8                   |            | 21.9                  |            | 9.6  |            |
| Bloomberg Barclay's<br>Intermediate Credit<br>Index | 1.0                   |            | 10.6                  |            | 4.2  |            |
| S&P 500 <sup>3</sup>                                | 9.1                   |            | 31.5                  |            | 13.9   |            |

As in previous quarters, our goal with this letter is to provide transparency to our investors. Thus, the letter is divided into three segments to help describe the quarter:

- 1) Big Picture,
- 2) Trade Details, and
- 3) Dividend Increases.

<sup>1</sup> 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.

<sup>2</sup> As of 12/31/2019, the Blended Index is 60% S&P 500 and 40% Bloomberg Barclays U.S. Intermediate Credit TR Index Value. Prior to 3/31/2019, the benchmark was an equal weighted (50/50) average of the performance of the S&P 500 and Bloomberg Barclays U.S. Intermediate Credit TR Index Value.

<sup>3</sup> 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.

## 1) Big Picture

Big picture, we continue to like the balance and diversity we have in the portfolio. While we can “go anywhere” with the portfolio investments, we view the portfolio as a higher yielding alternative to a traditional 60/40 (60% stock / 40% bond) portfolio. As such, we want our investors to feel a level of comfort holding this portfolio over the long term.

Officially, as of 12/31/2019, the Dearborn Multi-Asset SMA asset mix was 68% equity, 30% fixed income, and 2% cash. However, we view approximately 11% of the portfolio as fixed income alternatives - namely pipeline companies and Business Development Companies. Therefore, unofficially, we view the portfolio asset mix more as a 57% equity, 41% fixed income (and “fixed income-like”), and 2% cash.

Here is the portfolio breakdown (totals may not sum due to rounding) at quarter end: 32 stocks, 15 ETFs (exchange traded funds), 1 cash position.

- 68% Equity
  - 52% Traditional dividend-growing equity.
    - These are 26 individual stocks of companies that we expect to raise dividends year after year. These businesses – ***remember, we view owning stocks as owning businesses over the long term*** - provide the expected dividend growth and total return potential over long periods of time.
  - 6% Business Development Companies (BDCs). (2 individual stocks.)
  - 5% Midstream pipelines. (2 pipeline stock holdings and 1 pipeline ETF.)
  - 5% Real Estate Investment Trusts (REITs). (2 individual stocks.)
- 30% Fixed Income
  - 12% Bond ladder.
    - The bond ladder encompasses 9 individual defined-maturity ETFs. Like a bond, these ETFs will mature in the stated maturity year. The bond ladder spans from 2020 to 2028. Years 2020, 2022 and 2024 are high yield bonds. Years 2021, 2023, 2025, 2026, 2027, and 2028 are investment grade bonds.
  - 7% Investment grade bonds. (2 ETFs in addition to investment grade ETFs in bond ladder.)
  - 7% Preferred securities. (2 ETFs.)
  - 2% Mortgage-backed securities. (1 ETF.)
- 2% Cash

## 2) Trade Details

We made three trades in the portfolio during the fourth quarter.

- Purchased Tractor Supply Company (TSCO). Brentwood, TN-based Tractor Supply operates 1,814 Tractor Supply stores and 176 Petsense pet specialty stores. Tractor Supply is focused on a niche customer – the rural lifestyle consumer, recreational farmer, recreational rancher – usually found just outside of suburban areas and throughout rural areas. We find Tractor Supply to be a trusted and authentic retailer to this niche, yet growing, rural marketplace. Tractor Supply benefits from scale (the largest rural lifestyle retailer in the United States), an authentic brand, and vast new store opening opportunities (opportunity for 2,500 total Tractor Supply stores in United States, from 1,814 currently).

Tractor Supply began paying a dividend in 2010 and has raised its dividend for nine consecutive years. At year end, TSCO's dividend yield was 1.5%.

- Trimmed Sherwin-Williams (SHW). We trimmed our position in Sherwin-Williams to fund our purchase of Tractor Supply. At year end, SHW's dividend yield was 0.8%.
- Sold Cognizant Technology (CTSH). We sold our position in Cognizant Technology to fund our purchase of Tractor Supply. After a surprisingly weak first quarter 2019 report from Cognizant, we thought the long-term risk and rewards favored owning Tractor Supply. At year end, CTSH yielded 1.3%.

### 3) Dividend Increases

Here are the companies within our Dearborn Partners Multi-Asset SMA that announced dividend increases in the fourth quarter of 2019, listed in reverse order by date, beginning with the most recent announcement:

| Company               | Ticker | Percent Change* | Date of Increase Announcement | New Amount | Old Amount | Consecutive Annual Increases |
|-----------------------|--------|-----------------|-------------------------------|------------|------------|------------------------------|
| Toro Co               | TTC    | 11.1%           | 12/3/2019                     | \$0.25     | \$0.23     | 10                           |
| Spire Inc             | SR     | 5.1%            | 11/14/2019                    | \$0.62     | \$0.59     | 17                           |
| Lancaster Colony Corp | LANC   | 7.7%            | 11/13/2019                    | \$0.70     | \$0.65     | 57                           |
| Snap-On               | SNA    | 13.7%           | 11/8/2019                     | \$1.08     | \$0.95     | 10                           |
| Oneok Inc             | OKE    | 7.0%            | 10/23/2019                    | \$0.92     | \$0.86     | 18                           |
| Tallgrass Energy LP   | TGE    | 7.8%            | 10/10/2019                    | \$0.55     | \$0.51     | 4                            |
| Average:              |        | 8.7%            |                               |            |            |                              |

\*The percentage change of dividend payments reflects the new dividend rate compared with the similar payment made in the prior year.

Our investment philosophy remains unchanged. The Dearborn Multi-Asset SMA portfolio seeks to provide attractive current income with the potential for growth in income over the long term. The portfolio is diversified across various asset classes—stocks of companies with dividend growth potential, investment grade fixed income, high yield fixed income, mortgage-backed fixed income, preferreds, midstream pipeline companies, 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 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 me or our Internal Wholesalers, Katie Wolford ([kwolford@dearbornpartners.com](mailto:kwolford@dearbornpartners.com)) / (312) 795-5330) and Gabe Szymarek ([gszymarek@dearbornpartners.com](mailto:gszymarek@dearbornpartners.com)) / (312) 795-5338).

Sincerely,

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## **Disclaimer**

*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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