First Quarter 2020 Commentary **Carol M. Lippman, CFA**

First, we hope that everyone who is reading this Commentary and their loved ones are virus free and doing as well as possible. Together we can and will get through this and come out stronger on the other side.

We are living through challenging times. So far, there is no known cure or vaccine for this novel coronavirus. Therefore, containment—i.e., limiting contact with others—is considered the most prudent course of action. It is too soon to know what the effects will be on corporate profits and the economy as both business and discretionary travel, as well as group gatherings, are suspended for an undetermined period. Because of this virtually unprecedented uncertainty, some companies are suspending and withholding their guidance for the upcoming quarter, and some for the rest of the year. In other words, although stocks are considered part of the Leading Economic Indicators because they historically anticipate fundamental developments several months in advance, in this environment of uncertainty for unknown duration, fundamental analysis of most businesses is virtually impossible. True to stocks' anticipatory nature as well as their aversion to uncertainty, market action since the peak on February 12, 2020 has been to sell first and get the facts later—maybe.

An argument can be made that coming after the longest bull market and economic expansion on record in the U.S. and without a single 20% pullback in more than a decade, this correction is overdue. Another argument can be made that this century, volatility was too benign for too long. From January 1, 2000 through March 31, 2020 volatility as measured by the CBOE Volatility Index (VIX) averaged 17.1%. Volatility was below that 51% of the time. The first three years of this century, after the stock market bubble burst, daily volatility averaged 25%. Then, during the 2008-2009 financial crisis, average volatility spiked to 51%. After that, the decade from January 1, 2010 through December 31, 2019 was relatively calmer. The VIX averaged only 15.3%, and 66% of the time, average volatility was below 15.3%. Since the market peak on February 21, 2020, however, the VIX has averaged 54.5%!

Trading activity is exacerbated by preset algorithms for large institutional orders and by the popularity of "passive investing" in index or exchange traded funds (ETFs). If nervous investors demand redemptions or leveraged investors must raise funds to meet margin calls, then the ETF managers must sell every stock in the fund to raise the money to meet the redemptions. Likewise, algorithms and those who "buy the dips" create similar problems on the upside. As ever more renditions of ETFs have proliferated over the past several years, some market experts have warned about the ramifications of "everyone trying to bail out at once." During the complacent, strong up markets of the past several years, few people heeded the caution. Now we are witnessing the effects firsthand day by day. Some of the one-day moves in stocks—even historically defensive, high quality, low beta stocks—have been breathtaking.

The good news about our Dearborn Partners Rising Dividend portfolios is that we can patiently sit and hold on to the stocks of what we believe are financially solid companies. When we selected what we consider to be these great businesses for our portfolios, each one met the stringent disciplines we have established so that we could have a high degree of confidence that each would not only pay us dividends but also raise their dividends year after year over time.

Dearborn Partners' Rising Dividend Philosophy—Even in Tough Times

Certainly, the Dearborn Partners Rising Dividend Investment Team did not predict this novel coronavirus. What we on the Investment Team have always done, however, is to try to the best of our ability to include in our portfolios only companies that we consider to be of the highest quality, financial soundness and defensiveness—in other words, companies with products and/or services that people patronize in both good times and difficult times, and possess the financial wherewithal and solid management to survive even the tough times.

Let's take a moment to review why we have emphasized a company's dividend growth potential. Many companies that initiate a dividend view it as a commitment to be paid in perpetuity, because we have all seen what typically has happened to the stock price of a company that has announced a reduction or suspension of its dividend. Furthermore, a widely accepted method of determining the value of a stock is to calculate the present value of all future dividends. We believe that dividends—when paid according to the strict disciplines that we require—represent tangible evidence that companies are operating profitably and soundly. We believe that companies telegraph their strength and growth potential by way of their commitment to declaring, paying and increasing their dividends.

It is our hope that owning portfolios consisting of companies that demonstrate their high quality by increasing their dividends will help give you the courage to get in the market and stay in the market throughout all the swings, wild as they may be, for as long as they may persist. The long-term trend of stocks of good quality companies has been up and we firmly believe that over time this long-term upward trend will continue.

Think of the pent-up demand being created during this forced containment period. For example, I'm certainly ready to get out of the house to actually **sit down and eat in a restaurant a meal that someone else cooks and cleans up!** Aren't you? We understand the challenges of staying invested in a market that drops in great leaps. But on many days, the market has risen sharply. If you get out, when do you get back in to benefit from the pent-up demand that is just over the valley?

Your Dearborn Partners Rising Dividend Investment Team has redoubled its efforts in scrutinizing the dividend security and growth potential of every company in these portfolios. We plan to continue sending you "good news notifications" when the companies announce dividend increases.

The Power of Rising Dividends Has Cushioned the Fall of Stock Prices in Tough Markets

How Did We Do This Time?

Here are the total returns (price movement plus dividends, gross before fees) of both of our Dearborn Partners Rising Dividend SMA portfolios for the first quarter of 2020.

First Quarter 2020 Total Returns (%) as of March 31, 2020[1]

	Gross	Net
Core Rising Dividend SMA	-18.1	-18.4
High and Rising Dividend SMA	-21.9	-22.2
S&P 500[2]	-19.6	

Total Returns Annualized (%) as of March 31, 2020

	1-year		3-year		5-year		Since Inception (09/30/2011)	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Core Rising Dividend SMA	-5.5	-6.9	6.4	4.8	6.8	5.1	11.3	9.5
High and Rising Dividend SMA	-9.9	-11.2	4.3	2.7	6.1	4.5	10.7	9.1
S&P 500[2]	-7.0		5.1		6.7		12.5	

[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.

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 March 31, 2020 in each of:

	Average Current Yield	Cumulative Income*
Core Rising Dividend SMA	2.6%	$74,303
High & Rising Dividend SMA	3.8%	$97,153
S&P 500	2.3%	$66,868

**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 March 31, 2020.*

The table above shows that the average yield of both of our Rising Dividend SMA portfolios at the end of the first quarter of year 2020 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.

Dividend Increases

Core Rising Dividend SMA portfolio:

In the first quarter of 2020, 16 of the 49 companies in our Core Rising Dividend SMA portfolio announced 17 dividend increases. The average of these increases is about 9.1% more than those particular companies paid a year earlier.

High & Rising Dividend SMA portfolio:

In our High & Rising Dividend SMA portfolio, 11 of the 25 companies in the portfolio announced 12 dividend increases in the first quarter. The average of these increases is about 6.9% more than those particular companies paid a year earlier.

Typically, companies that raise their dividend announce an increase after four consecutive quarters of paying the same dividend rate. One company that is included in both of our Dearborn Rising Dividend portfolio announced a dividend increase in mid-January 2020 and again in mid-March.

We are truly grateful that you are taking this journey with us and hope that you will patiently stay with us for many years to come. We promise to continue to work hard to try to bring you lots of rising dividends. We plan to continue to keep the lines of communication open with you. We firmly believe that together we will get through this crisis and uncertainty and come out stronger on the other side.

The Dearborn Partners Investment Team

Carol, Mike, Pete, Matt, and Jack

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*
YTD 2020	9.10%	6.90%	2.10%
2019	9.60%	8.20%	2.30%
2018	13.30%	9.50%	2.20%
2017	7.80%	5.80%	1.70%
2016	8.00%	6.50%	2.10%
2015	9.70%	7.50%	2.10%
2014	12.20%	7.40%	1.60%
2013	12.20%	8.70%	1.70%
2012	13.00%	9.60%	1.90%

** Core Consumer Price Index for All Urban Consumers Unadjusted 12-month Percent Change. Year to Date (YTD) 2020 CPI through March, Updated April 10, 2020.*

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 April 10, 2020.

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.

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