DEARBORN
PARTNERS

<u>**Second Quarter 2021 Commentary**</u> **Carol M. Lippman, CFA**

Returns

Since 1925, the compounded total return of common stocks as measured by the Standard & Poor's 500 composite index has averaged about 10% per year.[1] The S&P 500 index closed out year 2020 at 3,756.07. At the end of the first quarter on March 31, 2021, the S&P 500 index closed at 3,972.89, a 5.8% increase in price. With dividends, the first quarter total return of the broad market index was 6.2%. The S&P 500 ended the second quarter on June 30, 2021 at 4,297.50, an 8.2% increase in price for the quarter and a 14.4% increase in price for the first half of this year. With dividends, the first half 2021 total return of the S&P 500 was 15.3%. In other words, in only six months, the broad market's total return has far exceeded—by 50%—the average annual total return that the stock market has achieved over the past nine and one-half decades.

Zero commission trading (even for fractional shares), government stimulus money, chat rooms where hot tips are shared, and very low interest rates that entice the use of margin have injected huge amounts of liquidity into equity markets, including the SPAC (Special Purpose Acquisition Companies) and cryptocurrency phenomena. Such stock market enthusiasm reinforces the importance, in our opinion, of staying invested in the market. The Dearborn Partners Investment Team remains committed, however, to investing only in stocks of businesses with known operations, most of which are mature, having been around and thriving for decades. We refuse to take a chance on vehicles established to maybe someday invest in something or for which there is no foundational value.

If one is fortunate enough to have adequate or excess savings, the beauty of a diversified portfolio is that it is possible for one to place money in various areas. If one wants to dabble in what may be considered the excitement of the unknown, that person can count on Dearborn to maintain the discipline of investing—truly investing, not speculating—in portfolios comprising stocks of established, high quality, financially solid companies, thereby providing a ballast to portfolios and an offset to any speculation. Although there is always uncertainty about the future, we believe an investment based on a solid fundamental foundation—as opposed to trying to ride the latest chat room trends—stands a better chance of helping to build wealth over the long term.

What About Inflation?

From Strategas Research's note on June 11, 2021:

> In the last week, we have received a notable increase in questions from equity investors about the proper way to structure portfolios if inflation turns out to be a more permanent affliction than we think. In this regard, we believe investors should start to think about their equity portfolio in terms of duration, in much the same way they might think about their holdings of fixed income. That is to say, higher inflation accompanied by higher long-term interest rates should prompt investors to seek out equities with shorter durations <u>**where cash flows are returned to investors – through dividends**</u> (emphasis added) or share repurchases – more quickly. This strategy is far less risky than holding stocks whose values are tied largely to their terminal values where an increase in the discount rate has a direct and immediate impact on a company's present value.[2]

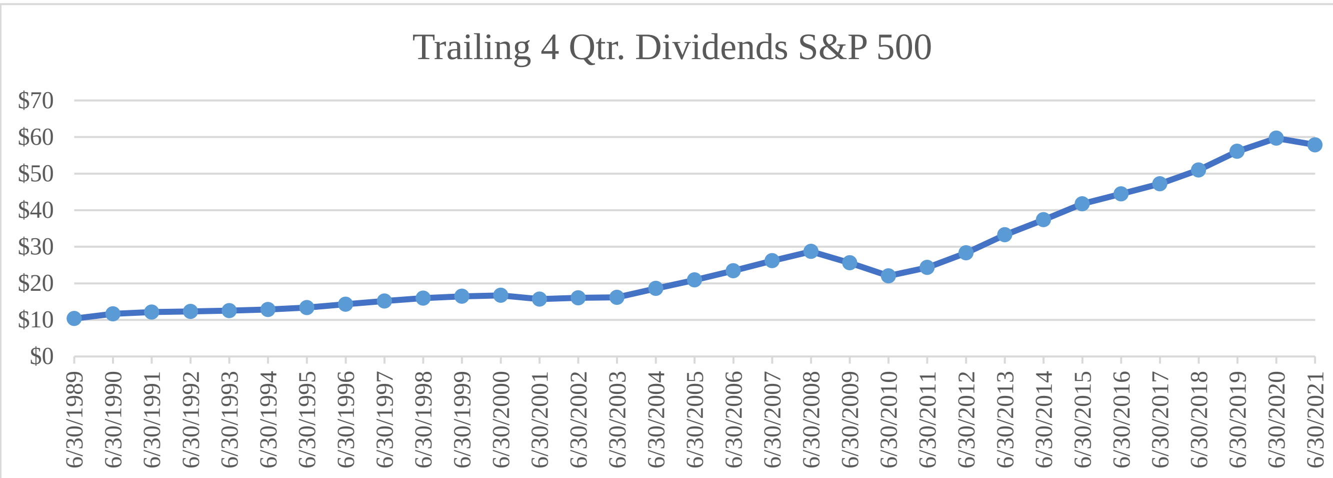
We at Dearborn Partners do not make predictions about inflation, the level or direction of interest rates, or other economic measures. We just search intently for companies that not only pay dividends but that we think are capable of consistently increasing dividends to help investors keep ahead of the rising costs of living—also known as

[1] Stocks, Bonds, Bills, and Inflation® (SBBI®): 2020 Summary Edition. Duff & Phelps, Morningstar, CFA Institute.
[2] Investment Strategy Viewpoint, Strategas Securities, LLC, June 11, 2021.

inflation. As managers of portfolios consisting of stocks of companies that pay dividends and with the potential for dividend growth, we like Strategas' advice.

Dividends

According to S&P Dow Jones Indices S&P 500 Quarterly Data[3], the trailing four-quarter aggregate value of dividends paid by companies in the S&P 500 through the second quarter of 2021 has been negative year-over-year for the first time since 2010 after the Great Financial Crisis of 2007-2008.



Source: S&P Dow Jones Indices

Dividends paid by companies in Dearborn Partners Rising Dividend Portfolios, on the other hand, have continued to increase year over year.

Dividend Growth: Core Rising Dividend SMA portfolio

In the second quarter of year 2021, 10 of the 49 companies in this portfolio announced 10 dividend increases averaging about 8.2% more than those companies paid a year earlier. In the first half of year 2021, 27 of the 49 companies in our Core Rising Dividend portfolio announced 30 dividend increases averaging about 10.2% more than those companies paid a year earlier. No companies in our Core Rising Dividend portfolio have cut or suspended dividends so far this year.

As an illustration of the exceptional quality of companies we select for our portfolios, T. Rowe Price, a global investment management company with $1.6 trillion in assets under management as of May 31, 2021, (and no long-term debt) declared a special cash dividend of $3.00 per share, payable July 7, 2021 to shareholders of record as of June 25, 2021. In February 2021 when T. Rowe Price announced a 20% dividend increase to $1.08 per quarter, that marked the 35th consecutive year since the firm's initial public offering that the company has increased its regular annual dividend. The company last declared a special dividend (of $2.00 per share) in 2015.

Dividend Growth: High & Rising Dividend SMA portfolio

In the second quarter of year 2021, 3 of the 25 companies in the portfolio announced 3 dividend increases averaging about 2.1% more than those companies paid a year earlier. In the first half of this year, 13 of 25 companies in our High & Rising Dividend portfolio announced 14 dividend increases averaging about 5.6% more than those companies paid as dividends a year earlier. No companies in our High & Rising Dividend portfolio have cut or suspended their dividends so far this year.

[3] https://www.spglobal.com/spdji/en/indices/equity/sp-500/#overview

Cumulative Income Summary

Here is the cumulative gross (before fees) dividend income generated by the companies in both of our Dearborn Partners Rising Dividend Separately Managed Account (SMA) Portfolios from an initial $200,000 investment on September 30, 2011 (the inception date of our SMA portfolios) through June 30, 2021:

	Average Current Yield	Cumulative Income*
Core Rising Dividend SMA	1.8%	$90,089
High & Rising Dividend SMA	2.9%	$118,998
S&P 500	1.4%	$79,633

**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, 2021.*

The table above shows that the average yield of both of our Rising Dividend SMA portfolios at the end of the second quarter of year 2021 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.

Dearborn Partners' Rising Dividend Philosophy

The Dearborn Partners Rising Dividend investment team works very hard to try to find companies that we consider capable of increasing dividends at rates that help investors keep ahead of the rising costs of living throughout any kind of environment—economic, interest rate, political, social, taxation, unprecedented pandemics, severe weather, etc. Some of the eleven sectors into which Standard & Poor's divides the marketplace are more economically sensitive than others. From every sector, however, we look for what we consider to be the most defensive—i.e., consumers patronize their products or services in tough economic times as well as good times—and now the most essential businesses with strong balance sheets, high barriers to entry, and solid management. As we know, companies don't grow overnight; growth takes years and investors must be patient. We insist that every company pays dividends. In fact, we insist that the dividends represent a prudent percentage of earnings and cash flow so that the companies can reinvest most of the cash generated for future growth of revenues, cash flow, earnings, and dividends. Historically, stock prices move as the earnings of the underlying company move. If the earnings and dividends can march upward over time, so should the stock prices and provide attractive total returns over the long term. We think our strategy of paying investors while waiting, and consistently getting pay raises through dividend increases should, we hope, give investors the fortitude to stay invested throughout any environment.

The lens through which we examine every company in our portfolios and those that may be candidates for our portfolios is: do they possess the ability to not only pay a dividend but increase the dividend consistently over time. **Our view is: A dividend is tangible evidence of a company's health; a rising dividend telegraphs a company's strength.**

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. That we concentrate so intently on including in our portfolios companies that offer the potential to continuously pay and increase dividends we hope will enable you to get invested and stay invested in our equity portfolios throughout the volatility and in any environment. 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 after vaccines have been widely disseminated.

The Dearborn Partners Investment Team,
Carol, Mike, Pete, Matt, and Jack

Research assistance provided by Jackson Finks, CFA

Dearborn Partners Rising Dividend Separately Managed Account Average Calendar Dividend Increases

	Core Rising	High & Rising	CPI*
2021 YTD	10.1%	5.6%	3.8%
2020	7.6%	5.9%	1.6%
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) 2021 CPI through May. Updated June 10, 2021.*

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 10, 2021.

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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