

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

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Dear Investors,

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

## **First Quarter of 2022 Thoughts**

At the end of the first quarter of 2022, our asset allocation stood at 69% equity, 26% fixed income, and 5% cash. Our allocation at the end of the fourth quarter of 2021 was 74% equity, 24% fixed income, and 2% cash. Over the course of the quarter, we reduced portfolio risk by selling several individual stock positions and using proceeds to add to fixed income and cash.

We view this period in financial history as quite unique. Since the early 1980's, fixed-income holdings (bonds) have usually offered ballast to diversified portfolios. I.e., if equities (stocks) sold off, investors seeking more safety frequently bought bonds, driving up bond prices. However, we are currently seeing interest rates rise—as interest rates rise, bond prices decline—which does not help stabilize portfolios if stock and bond markets are weak concurrently. In fact, the bond benchmark (Bloomberg Barclays U.S. Intermediate Term Corporate Credit Index) used in the Multi-Asset SMA declined more than the S&P 500 in the first quarter (bonds down -5.5% vs stocks down -4.6%).

Although as of more than four decades these are unique and somewhat unusual times in financial markets, our faith in the U.S. businesses we own in this portfolio remains unfazed. We continue to see the companies we own as capable of increasing earnings and increasing dividends through the utilization of their competitive advantages and incremental productivity. Over time, stock prices should follow earnings and cash flow generated by these companies.

We look forward to investing the cash in the portfolio in either stocks—our favored long-term choice—or fixed income, depending upon what is most attractive in the coming year. It is a positive that rising interest rates are creating more attractive income returns. We will continue to monitor investments across the investment spectrum—both equity and fixed income—to find the most attractive uses of capital for the Multi-Asset SMA.

As we do almost every quarter, we like to reiterate our long-term investment philosophy: Over the long term, our bias within the Multi-Asset SMA is to weight more to stocks versus bonds relative to our 60/40 benchmark. We view stocks as having an ability to earn attractive total returns beyond the rate of inflation over the long term. We equate owning stocks to owning businesses and we like to do so for the long term. Quality businesses can innovate and retain pricing power in almost any environment and maintain excellent uses of capital.

We think the Dearborn Partners Multi-Asset SMA, a balanced portfolio containing various asset classes, is well-positioned for the macroeconomic and microeconomic uncertainties of our current environment.

## **Dearborn Partners Multi-Asset SMA**

On March 31, 2022, the yield on the Dearborn Partners Multi-Asset SMA was 3.1%. We are constantly weighing the risk and reward of asset classes and sectors. However, our over-arching strategy is to anchor the Multi-Asset SMA in equities offering attractive current yields, many of which also offer dividend growth potential.

On the equity side, we conduct bottom-up research on companies (analyze corporate filings, talk to management, visit companies, consult third parties, etc.) looking for opportunities in Real Estate, Utilities, Consumer Staples,

Communications Services, Industrials, Financials, Consumer Discretionary, Health Care, Information Technology, Energy, and Materials companies.

On the fixed income side (including both bonds and dividend-paying but not necessarily dividend-growing equities), we continue to weigh our best use of capital amongst Corporate Credit, Government Credit, Treasuries, Midstream Equity, Business Development Companies, Bank Loans, High-Yield Credit, and Preferred Stock.

### What is the yield of this portfolio's benchmark?

As the benchmark for our Dearborn Multi-Asset portfolio, we use what historically has been considered a bellwether asset allocation strategy: an asset allocation of 60% stocks and 40% bonds. Principal growth and dividend income could be provided by the 60% allocation to stocks, while portfolio stability and interest income could be provided by the 40% allocation to bonds. As of March 31, 2022, the bellwether 60/40 portfolio benchmark yields 2.26%<sup>1</sup>.

### First Quarter 2022 Performance

As a reminder, the Dearborn Multi-Asset benchmark is a blended benchmark, consisting of 60% S&P 500 and 40% Investment Grade Corporate Bonds.

Here is our performance for the period ended March 31, 2022:

	<b>Quarter To Date</b>	<b>Year To Date</b>	<b>Latest 1 Year</b>	<b>Latest 3 Year*</b>	<b>Inception To Date*</b>
Multi-Asset (Gross)	-4.5%	-4.5%	8.2%	6.9%	7.4%
Multi-Asset (Net)	-4.8%	-4.8%	7.0%	5.7%	6.4%
Blended Index <sup>2</sup>	-4.9%	-4.9%	7.7%	12.3%	10.3%
Bloomberg Barclays U.S. Intermediate Credit TR Index Value <sup>3</sup>	-5.5%	-5.5%	-3.7%	2.2%	2.1%
S & P 500 Total Return <sup>4</sup>	-4.6%	-4.6%	15.7%	18.9%	16.0%

*\*Annualized Performance*

<sup>1</sup> 60% of S&P 500 Index yield (1.37% x 60% = 0.82%) + 40% of Bloomberg Barclays US Intermediate Term Corporate Credit Index yield (3.61% x 40% = 1.44%), or 0.82% + 1.44% = 2.26%.

<sup>2</sup> Blended index is an equal weighted average of the performance of the S&P 500 and Bloomberg Barclays U.S. Intermediate Credit TR Index Value through 03/31/19. After 03/31/19, the benchmark is 60% S&P 500 and 40% Bloomberg Barclays U.S. Intermediate Credit TR Index Value. Inception date is 09/30/2017.

<sup>3</sup> Source: Bloomberg Index Services Limited. BLOOMBERG® is a trademark and service mark of Bloomberg Finance L.P. and its affiliates (collectively "Bloomberg"). Bloomberg or Bloomberg's licensors own all proprietary rights in the Bloomberg Indices. Bloomberg does not approve or endorse this material or guarantee the accuracy or completeness of any information herein, nor does Bloomberg make any warranty, express or implied, as to the results to be obtained therefrom, and, to the maximum extent allowed by law, Bloomberg shall not have any liability or responsibility for injury or damages arising in connection therewith.

<sup>4</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.

## Big Picture

The Dearborn Partners Multi-Asset SMA is a portfolio built on balance and diversity. While we can “go anywhere” with our investments, we view the portfolio as a higher yielding alternative to what is currently available from a traditional 60/40 (60% stock / 40% bond) portfolio. We want our investors to feel a level of comfort holding this portfolio over the long term.

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.

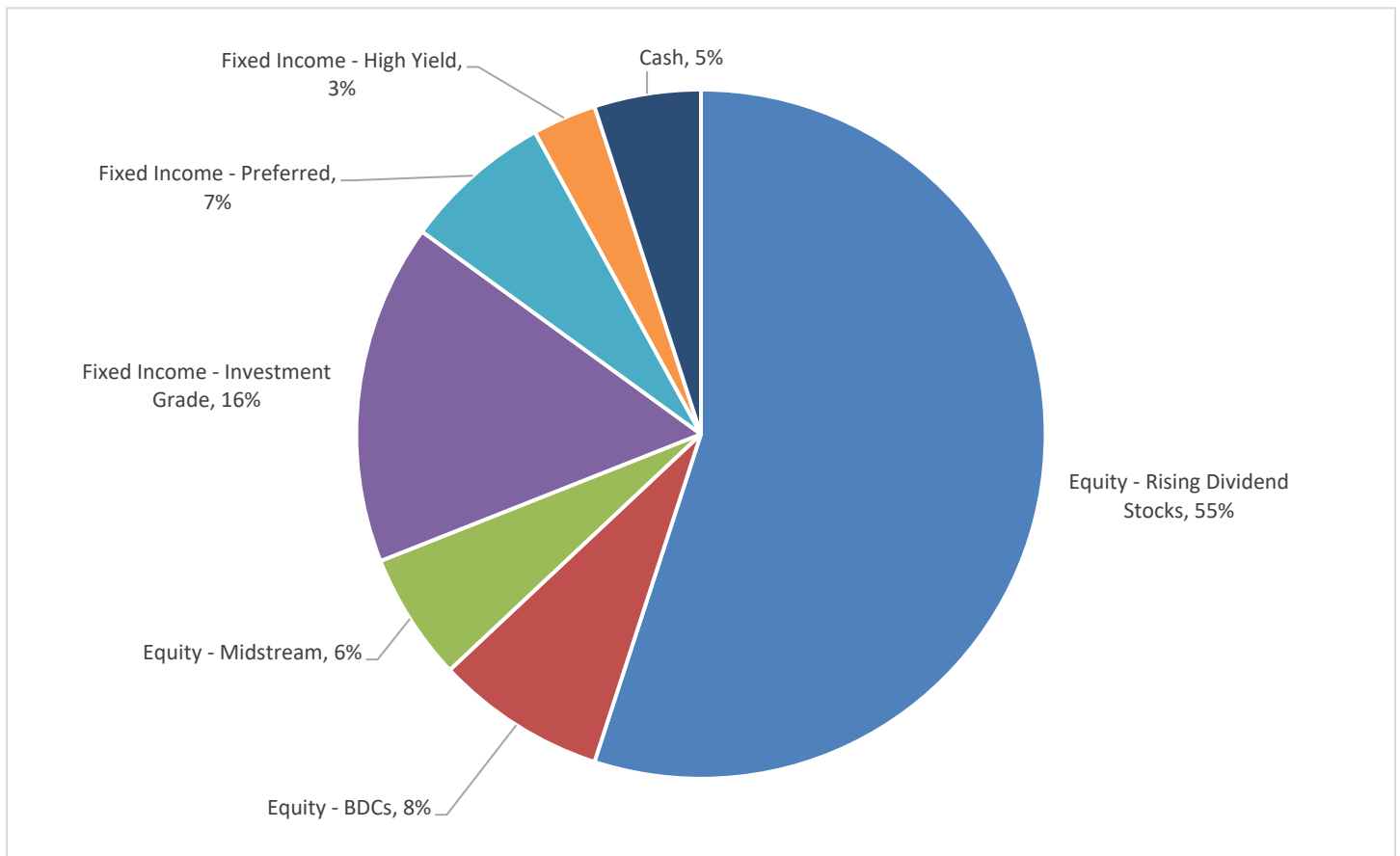
We maintain the view that diversification across and within various asset classes can help moderate portfolio risk. Holding a significant number of companies with the ability (and willingness) to pay and raise dividends over time is, we believe, one of the most prudent uses of capital for our Dearborn Multi-Asset SMA.

## Quarter-End Asset Allocation Mix

The Dearborn Multi-Asset SMA official asset mix as of March 31, 2022, was 69% equity, 26% fixed income, and 5% cash. However, within the equity portion, we view approximately 14% of the portfolio as fixed income alternatives, namely Midstream Pipeline Companies and Business Development Companies. Therefore, unofficially, we view the portfolio asset mix more as 55% equity, 40% fixed income (and “fixed income-like”), and 5% cash. (Totals may not sum to 100% due to rounding.)

Here is the portfolio breakdown (totals may not sum to 100% due to rounding) at quarter end: 36 stocks, 7 ETFs (exchange traded funds), 1 cash position. (Also, see pie graph below.)

- 69% Equity
  - 55% Traditional dividend-growing equity.
    - These are 32 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.
  - 8% Business Development Companies (BDCs).
  - 6% Midstream pipelines.
- 26% Fixed Income
  - 16% Investment-grade bonds (Corporate, Government).
  - 7% Preferred securities.
  - 3% High yield bonds.
- 5% Cash



## Dividend Increases

Here are the companies within our Dearborn Partners Multi-Asset SMA that announced dividend increases or special dividends in the first quarter of 2022, listed in reverse order by date, beginning with the most recent announcement:

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

Company	Ticker	Percent Change	Date of Increase Announcement	New Amount	Old Amount	Consecutive Annual Increases
Dollar General Corporation	DG	31.0%	3/17/2022	\$0.55	\$0.42	7
Main Street Capital Corp	MAIN	Special	2/24/2022	\$0.075		
Home Depot, Inc.	HD	15.2%	2/22/2022	\$1.90	\$1.65	13
NextEra Energy, Inc.	NEE	10.4%	2/18/2022	\$0.43	0.385	28
Sixth Street Specialty Lending, Inc.	TSLX	Special	2/17/2022	\$0.11		
Cisco Systems, Inc.	CSCO	2.7%	2/16/2022	\$0.38	\$0.37	11
The Sherwin-Williams Company	SHW	9.1%	2/16/2022	\$0.60	\$0.55	43
Equinix	EQIX	8.0%	2/16/2022	\$3.10	\$2.87	7
Jack Henry & Associates, Inc.	JKHY	6.5%	2/14/2022	\$0.49	\$0.46	33
Watsco, Inc.	WSO	12.8%	2/10/2022	\$2.20	\$1.95	48

BCE Inc.	BCE	5.1%	2/3/2022	\$0.92	\$0.88	18
Williams Companies, Inc	WMB	3.7%	2/1/2022	\$0.43	\$0.41	5
Tractor Supply Company	TSCO	76.9%	1/27/2022	\$0.92	\$0.52	13
Kimberly-Clark Corporation	KMB	1.8%	1/26/2022	\$1.16	\$1.14	50
ONE Gas, Inc.	OGS	6.9%	1/18/2022	\$0.62	\$0.58	8
Fastenal Company	FAST	10.7%	1/18/2022	\$0.31	\$0.28	23
STAG Industrial, Inc.	STAG	0.7%	1/10/2022	\$0.1217	\$0.1208	9

Average 13.4%

If you would like any additional details on the Dearborn Partners Multi-Asset SMA, please contact me directly or contact our Internal Wholesaler, Evan Bindas ([ebindas@dearbornpartners.com](mailto:ebindas@dearbornpartners.com), 312-795-5338).

Sincerely,

Peter Deakos, CFA

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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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