

# D E A R B O R N

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# P A R T N E R S

Dear Investors,

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

## **Second Quarter of 2022 Thoughts**

At the end of the second quarter of 2022, our asset allocation stood at 64% equity, 35% fixed income, and 1% cash. Our allocation at the end of the first quarter of 2022 was 69% equity, 26% fixed income, and 5% cash. Over the course of the quarter, we reduced our equity exposure by 5% and invested those equity proceeds, and existing cash, into fixed income.

In both instances—using cash from stock sales and existing cash—we invested the majority into short-term fixed income. Investing proceeds into “short-term” fixed income is important to note. Short-term fixed income securities, in our view, allow our investors to attain attractive current yield but not be overly exposed to interest rate risk. Interest rate risk is the risk that rising rates—like we are seeing from the Federal Reserve to fight inflation—will hurt the value of fixed income securities. Recall that there is a teeter-totter relationship between fixed income (bonds) and interest rates: as interest rates rise, bond prices decline. Investing in short-term bonds—e.g., bonds with maturities less than 2 years—should allow investors to gain yield but not be highly exposed to swings in interest rates.

Inflation is one of the most prominent risks facing investors in financial markets and is having a real negative impact on many American households. Dearborn Partners, in our view, is well-positioned for inflation. At the heart of what we do as a firm is find quality companies—those with durable competitive advantages and an ability to grow and innovate—with the ability to raise dividends over the long term. Companies that pay attractive yields combined with the ability raise their annual dividend year-over-year allow investors the potential to outpace the rising cost of living, i.e., inflation.

As we noted in the first quarter, we view this period in financial history as quite unique. Since the early 1980s, 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.

While these are unique and somewhat unusual times in financial markets, our confidence in the U.S. businesses we own in this portfolio remains. 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 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 June 30, 2022, the yield on the Dearborn Partners Multi-Asset SMA was 4.0%. We are constantly evaluating 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 June 30, 2022, the bellwether 60/40 portfolio benchmark yields 2.95%<sup>1</sup>.

### Second 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 June 30, 2022:

|                                     | <b>Quarter<br/>To Date</b> | <b>Year<br/>To Date</b> | <b>Latest 1<br/>Year</b> | <b>Latest 3<br/>Year*</b> | <b>Inception<br/>To Date*</b> |
|-------------------------------------|----------------------------|-------------------------|--------------------------|---------------------------|-------------------------------|
| Multi-Asset (Gross)                 | -9.8%                      | -13.9%                  | -7.3%                    | 2.1%                      | 4.7%                          |
| Multi-Asset (Net)                   | -10.1%                     | -14.4%                  | -8.3%                    | 0.9%                      | 3.7%                          |
| Blended Index <sup>2</sup>          | -11.7%                     | -16.0%                  | -10.3%                   | 6.3%                      | 6.9%                          |
| Fixed Income                        | -4.9%                      | -10.1%                  | -10.4%                   | -0.6%                     | 1.0%                          |
| S & P 500 Total Return <sup>3</sup> | -16.1%                     | -20.0%                  | -10.6%                   | 10.6%                     | 10.9%                         |

*\*Annualized Performance*

<sup>1</sup> 60% of S&P 500 Index yield (1.70% x 60% = 1.02%) + 40% of Bloomberg Barclays US Intermediate Term Corporate Credit Index yield (4.83% x 40% = 1.93%), or 1.02% + 1.93% = 2.95%.

<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>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.

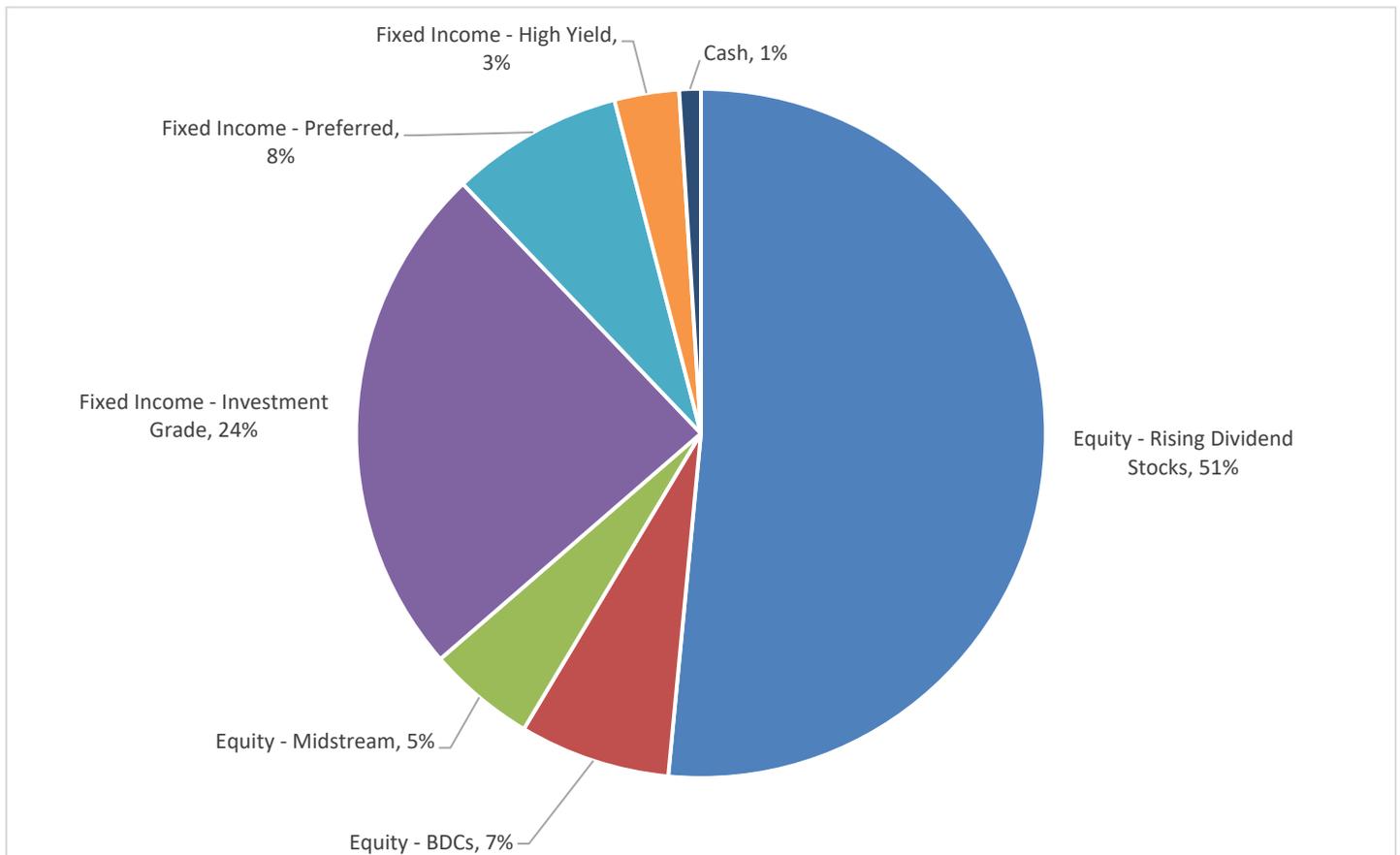
We maintain the view that diversification across and within various asset classes can help moderate portfolio risk. Holding a significant number of companies with the ability (and willingness) to pay and raise dividends over time is, we believe, one of the most prudent uses of capital for our Dearborn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

## Quarter-End Asset Allocation Mix

The Dearborn Multi-Asset SMA official asset mix as of June 30, 2022, was 64% equity, 35% fixed income, and 1% cash. However, within the equity portion, we view approximately 12% 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 52% equity, 47% fixed income (and “fixed income-like”), and 1% 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: 34 stocks, 9 ETFs (exchange traded funds), 1 cash position. (Also, see pie graph below.)

- 64% Equity
  - 51% Traditional dividend-growing equity.
    - These are 30 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.
  - 7% Business Development Companies (BDCs).
  - 5% Midstream pipelines.
- 35% Fixed Income
  - 24% Investment-grade bonds (Corporate, Government).
  - 8% Preferred securities.
  - 3% High yield bonds.
- 1% Cash



## Dividend Increases

Here are the companies within our Dearborn Partners Multi-Asset SMA that announced dividend increases or special dividends in the second 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 |
|---|--------|----------------|-------------------------------|-----------------|-----------------|------------------------------|
| Casey's General Stores, Inc.                | CASY   | 11.8%          | 6/7/2022                      | 0.38            | 0.34            | 23                           |
| Medtronic Plc                               | MDT    | 7.9%           | 5/26/2022                     | 0.68            | 0.63            | 45                           |
| Deere & Company                             | DE     | 7.6%           | 5/25/2022                     | 1.13            | 1.05            | 2                            |
| Pioneer Natural Resources Company           | PXD    | Special        | 5/4/2022                      | 7.38            | -               | -                            |
| Sixth Street Specialty Lending, Inc.        | TSLX   | Special        | 5/3/2022                      | 0.04            | -               | -                            |
| Main Street Capital Corporation             | MAIN   | Special        | 5/3/2022                      | 0.075           | -               | -                            |
| Paychex, Inc.                               | PAYX   | 19.7%          | 4/29/2022                     | 0.79            | 0.66            | 12                           |
| Apple Inc.                                  | AAPL   | 4.5%           | 4/28/2022                     | 0.23            | 0.22            | 10                           |
| International Business Machines Corporation | IBM    | 0.6%           | 4/26/2022                     | 1.65            | 1.64            | 27                           |
| Agree Realty Corporation                    | ADC    | 3.1%           | 4/12/2022                     | 0.234           | 0.227           | 9                            |

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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