DEARBORN PARTNERS

First Quarter 2022 Commentary Carol M. Lippman, CFA

Let's Keep Our Seatbelts Fastened

Day-to-day volatility in reaction to reports about the status of inflation, economic growth expectations, the war or negotiations between Ukraine and Russia reinforce for us the importance of staying the course. How can one successfully and consistently trade in and out when the market moves up and down one percent or more from day to day? We believe that our generally conservative, high-quality strategy that pays us dividends—historically and potentially rising dividends—as we patiently stay invested in our portfolios allows us to participate in the long-term wealth-building potential traditionally offered by the common stocks of great businesses. When markets decline 10% or more, it is frequently human nature to fear permanent loss of investment value and succumb to the temptation to sell equity holdings. Figure #1, an examination of seven of the market's biggest declines—as measured by the total returns of the Standard & Poor's (S&P) 500—since the 1980s shows that a year after nearly each big selloff, the market recovered enough to more than offset the previous drop in value. The cumulative compounded total return from the trough after Black Monday (12/4/1987) through March 31, 2022 has been 1,923.2%, 9.2% annualized.

Figure #1: One-Year Returns After Big Market Selloffs

Dates of S&P's biggest declines	**Black Monday** 8/25/87 - 12/4/87	**Gulf War** 7/16/90 - 10/11/90	**Asia Monetary Crisis** 7/17/98 - 8/31/98	**Tech Bubble** 3/27/00 - 10/9/02	**Financial Crisis** 10/9/07 - 3/9/09	**Trade War** 10/3/18 - 12/24/18	**COVID-19 Selloff** 2/20/20 - 3/23/20
S&P 500	-33.5%	-19.9%	-19.3%	-49.0%	-56.8%	-19.6%	-33.7%
Next 12 months	**21.4%**	**29.1%**	**37.9%**	**33.7%**	**68.6%**	**37.1%**	**74.8%**

Source: FactSet. Total returns (stock price change plus dividends) of S&P 500 Index.

Past performance cannot assure future results. It is not possible to invest directly in an index.

War and Peace

In every Dearborn Partners Rising Dividend Strategy Commentary, we have written the following:

> 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.

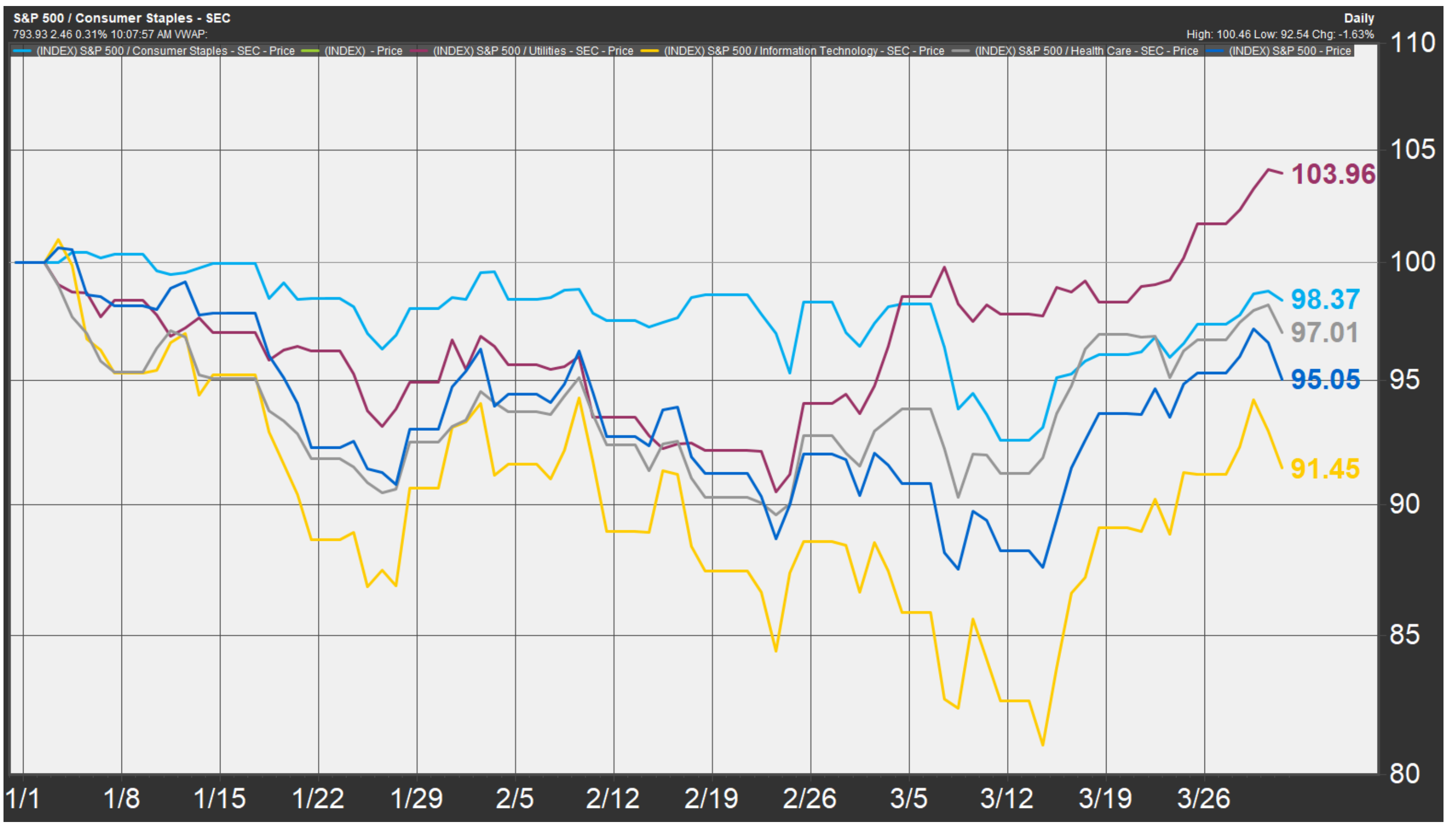
Since Russia invaded Ukraine, we now need to add "war and peace" to the list of environments throughout which we strive to find companies capable of increasing dividends. Reactions to this war are causing, and will likely continue to cause, ripple effects throughout many sectors, industries, and companies. As we write this Commentary, so far, companies in our separately managed account portfolios (SMAs) have continued to increase their dividends on schedule and in line with, or better than, expectations. Please see the Dividend Growth sections below.

In these tragic circumstances, it helps, perhaps, that our SMA portfolios have significant weightings to domestic businesses. Of the total 49 companies in our Dearborn Partners Core Rising Dividend SMA, 12 companies, representing about 20% of the portfolio's weighting, conduct business entirely in the United States. Eight of the companies in our Dearborn Partners High & Rising Dividend SMA, representing about 30% of the portfolio's weighting, conduct business entirely in the U.S. Of the remaining companies in both portfolios with more global operations, foreign sales account for the minority—an average of roughly one-third of total sales.

Revisiting Defensive Sectors' Performance

We also emphasize defensive companies in our portfolios: businesses that provide products and/or services that people patronize in any kind of environment. We think it is ironic that in our last Commentary we showed how poorly the stocks had been performing the past couple of years of typically defensive sectors such as Consumer Staples, Utilities, and Health Care. Since Russia invaded Ukraine—as much as we lament this tragedy—investors have fled to safety as these sectors tend to offer more stability and have held up better than some of the lower quality, higher risk stocks that dominated the broad market's performance for much of the time since early 2020. The FactSet graph in Figure #2 below shows that the stock prices of the defensive sectors held up better in the first quarter of 2022. This graph starts each line at $100 on January 1, 2022. By March 31, 2022, the value of the Utilities sector (the dark red line) was $103.96, the value of the Consumer Staples sector (the light blue line) was $98.37, the value of the Health Care sector (grey line) was $97.01. All three of these defensive sectors held up better than the broad market as measured by the S&P 500 (the dark blue line) with a value of $95.05 at the end of the first quarter, and the Information Technology sector (the yellow line) with a value of $91.45 at the end of the quarter.

Figure #2 Defensive Sectors, Information Technology Sector, and S&P 500 January 1-March 31, 2022



Source: FactSet

Time for Dividends to Contribute Again?

The first two years of this decade, the components of investment returns skewed significantly away from dividends in ways unlike any other time since such data have been collected. Each decade since the 1930s, according to the table below in Figure #3 from Strategas Research, contributions from dividends have averaged 87.8% and dividends as a percentage of total returns averaged 59.4%. Each decade prior to the 2020s, dividends accounted for double-digit contributions to both categories. In 2020 and 2021, however, the dividend contribution to total returns was only 4.8% and dividends accounted for only 9.6% of total investment returns. Small wonder, then, that many dividend strategies failed to keep up with benchmarks the past few years. If one ascribes to the philosophy of reversion to the mean, however, an argument can be made that it's time for dividends to resume contributing to equity investments' total returns.

Figure #3: Contribution of Dividends to Total Returns

Dividend Contribution to Total Return (TR)

Decade	Price Pct. Change	Dividend Contribution	Total Return	Dividends Pct of TR	Avg Payout Ratio
1930s	-41.9%	56.0%	14.1%	100.0	90.1
1940s	34.5%	100.1%	134.6%	74.4	59.4
1950s	257.3%	180.3%	437.7%	41.2	54.6
1960s	53.7%	54.2%	107.9%	50.2	56.0
1970s	17.2%	59.1%	76.4%	77.4	45.5
1980s	227.4%	143.1%	370.5%	38.6	48.6
1990s	315.7%	115.7%	431.5%	26.8	47.6
2000s	-24.1%	15.0%	-9.1%	100.0	35.3
2010s	189.7%	66.9%	256.7%	26.1	35.2
2020s	45.4%	4.8%	50.2%	9.6	39.5
Average	**114.4%**	**87.8%**	**202.2%**	**59.4**	**52.5**

Source: Strategas Research

Dividend Growth: Core Rising Dividend SMA portfolio

In the first quarter of 2022, 20 of the 49 companies in our Core Rising Dividend portfolio announced 20 dividend increases averaging about 13.9% more than those companies paid a year earlier. One company declared a special $1.00 cash dividend. One company announced a dividend increase after only one quarter, and another company announced a dividend increase after only three quarters. No companies in our Core Rising Dividend portfolio have cut or suspended dividends so far in 2022.

Dividend Growth: High & Rising Dividend SMA portfolio

In first quarter of 2022, 12 of 25 companies in our High & Rising Dividend portfolio announced 12 dividend increases averaging about 9.4% more than those companies paid as dividends a year earlier. One company announced a dividend increase after only one quarter. No companies in our High & Rising Dividend portfolio have cut or suspended their dividends so far in 2022.

A primary objective of our strategy is to help investors outpace the rising costs of living by way of dividend growth in excess of the historic 3% average annual rate of inflation as measured by the Consumer Price Index. We have no control over stock prices, however. Since the fourth quarter of 2021 on days when the market finally turned more defensive, the high-quality companies with strong dividend growth have helped our portfolios hold up better. Although past performance cannot assure future results, it is our hope that the generally conservative, high quality, defensive tilt of our portfolios—consistently paying us potentially rising dividends while we patiently wait—will help investors participate in the long-term wealth building potential offered by common stocks. We believe that stock market participation is critical. Risk reduction along the way is even more important, in our opinion. We view a well-diversified portfolio as helping long-term investors participate while potentially modifying risk.

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 March 31, 2022:

	Average Current Yield	Cumulative Income*
Core Rising Dividend SMA	1.8%	$99,831
High & Rising Dividend SMA	3.0%	$133,366
S&P 500	1.4%	$88,010

**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, 2022.*

The table above shows that the average yield of both of our Rising Dividend SMA portfolios at the end of the first quarter of 2022 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, war, peace, 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.

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

Dearborn Partners Rising Dividend Separately Managed Account Average Calendar Dividend Increases

	Core Rising	**High & Rising**	**CPI***
YTD 2022	13.9%	9.4%	4.0%
2021	9.9%	6.3%	3.4%
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 for 12 months ending February 2022 Updated March 10, 2022. YTD = Year to Date*

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 March 10, 2022.

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. This commentary presents general views on the securities markets and should not be construed as financial or investment advice on any subject matter. This commentary may not be redistributed without Dearborn's written consent. Some of the information herein has been obtained from third party sources. We believe such information is reliable, but we have not in each case verified its accuracy or completeness. All securities investing involves risks, and this commentary is not intended to address such risks. Dearborn may make securities recommendations to clients that are inconsistent with the views herein. Any opinions herein are as of the date of this report and are subject to change without notice. Dearborn Partners L.L.C. is an investment adviser registered under the Investment Advisers Act of 1940, as amended. Registration does not imply a certain level of skill or training.