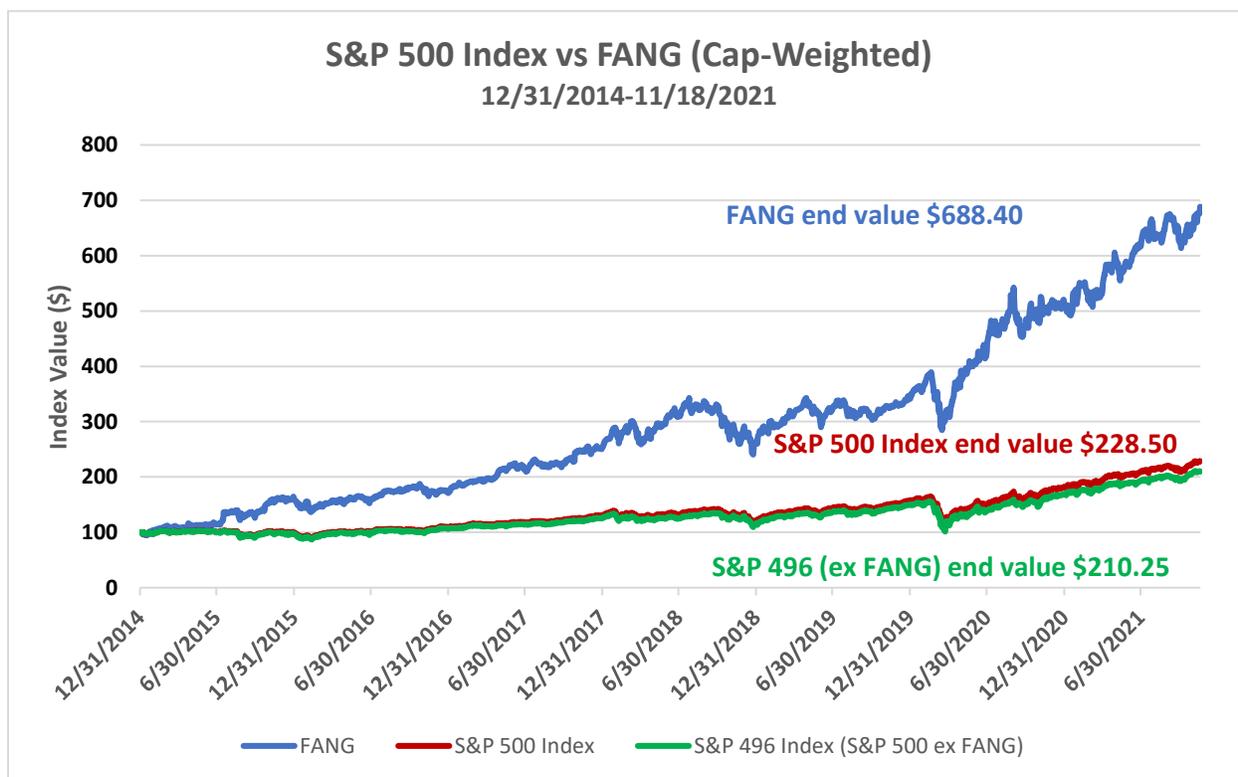


Return and Risk Go Hand In Hand

As shown in the graph from Ned Davis Research in Figure #1, from the beginning of 2015 until the end of 2021, four of the largest stocks by market capitalization—Facebook (ticker META), Amazon (AMZN), Netflix (NFLX), and Alphabet (GOOGL), dubbed the acronym “FANG”—generated significant returns. From December 31, 2014 through November 18, 2021, a \$100 initial investment in the FANG stocks grew almost seven-fold to \$688.40. These businesses and stocks did well for several years, and most really benefitted from the stay-at-home environment brought on by COVID. During that same 2015 through November 18, 2021 period, the values of the S&P 500 broad market index and the S&P 496 without FANG ended about one-third as much: \$228.50 and \$210.82, respectively.

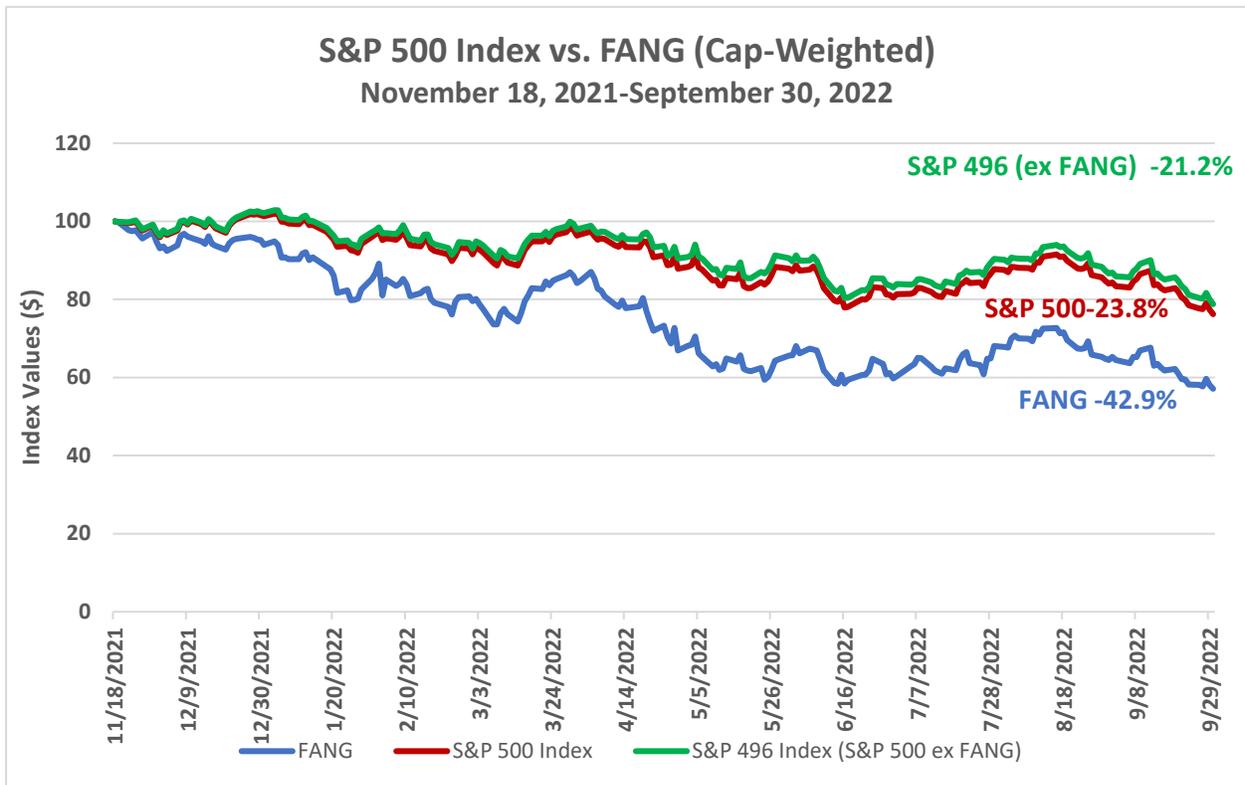
Figure #1: Four Stocks Accounted for Outsized Stock Market Returns Until Late 2021



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By late in 2021, as some normalcy returned to everyday living, the allure of FANG stocks receded. From the peak for the FANG stocks on November 18, 2021 through 9/30/2022, as seen in Figure #2, FANG stocks dropped -42.9%, the S&P 500 declined -23.8%, and the 496 companies in the S&P 500 without the four FANG stocks fell the least, -21.2%.

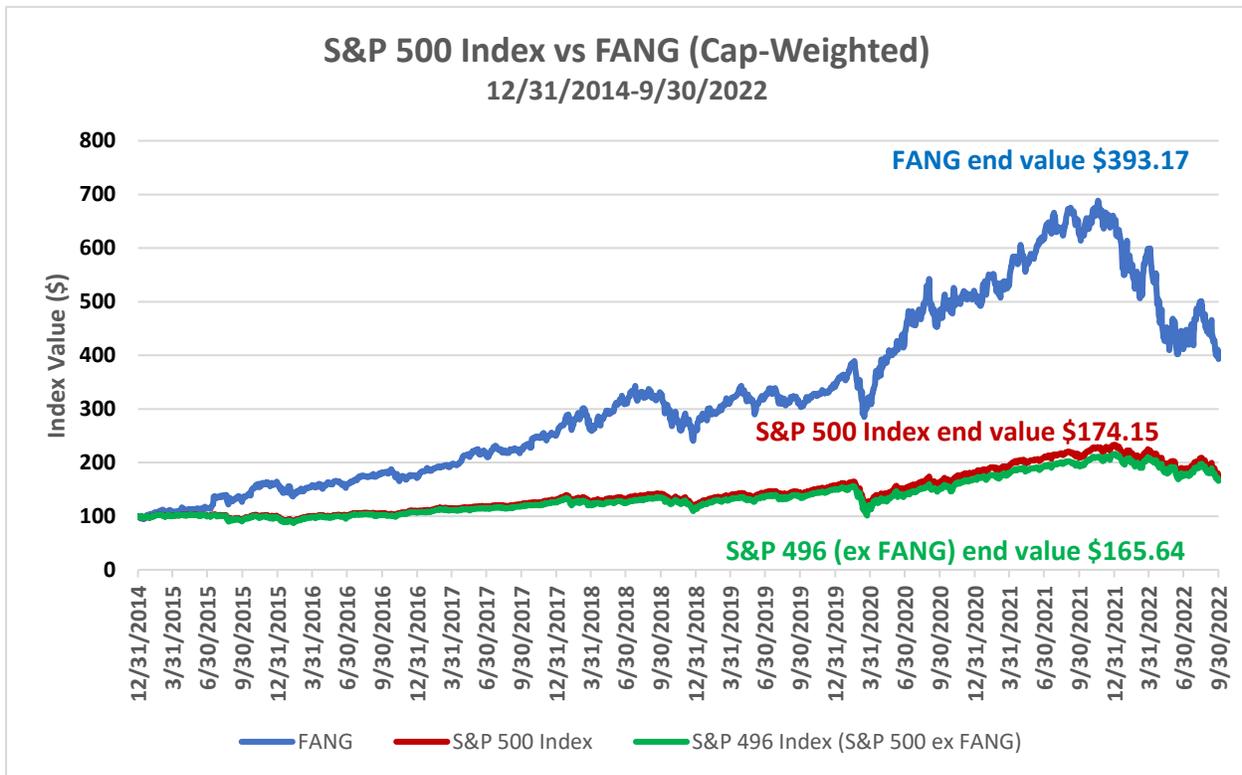
Figure #2: FANG (capitalization weighted) S&P 500 November 18, 2021-September 30, 2022



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From the last day of 2014 through the end of the third quarter of 2022, FANG stocks still outperformed the S&P 500, both with and without the FANG stocks as seen in Figure #3. However, it is likely that not everyone who invested in FANG stocks purchased them that long ago. Anyone who purchased the FANG stocks after COVID emerged early in 2020 and still held them at the end of the third quarter of 2022 likely barely has a gain. Anyone who purchased FANG stocks in 2021 and still owns them, is likely sitting with a loss.

Figure #3: FANG (capitalization weighted) S&P 500 December 31, 2014-September 30, 2022



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When you lose a lot, you have to work very hard to get back to even. The bigger the loss, the more difficult it is to recover. To get back to even after losing 15% in value requires roughly an 18% gain. After losing 35% in value, an investor must gain nearly 54% to break even. And a 50% loss requires a 100% gain to recover. The table in Figure #4 shows this. For those who may be interested, the Appendix at the end of this Commentary details the math involved.

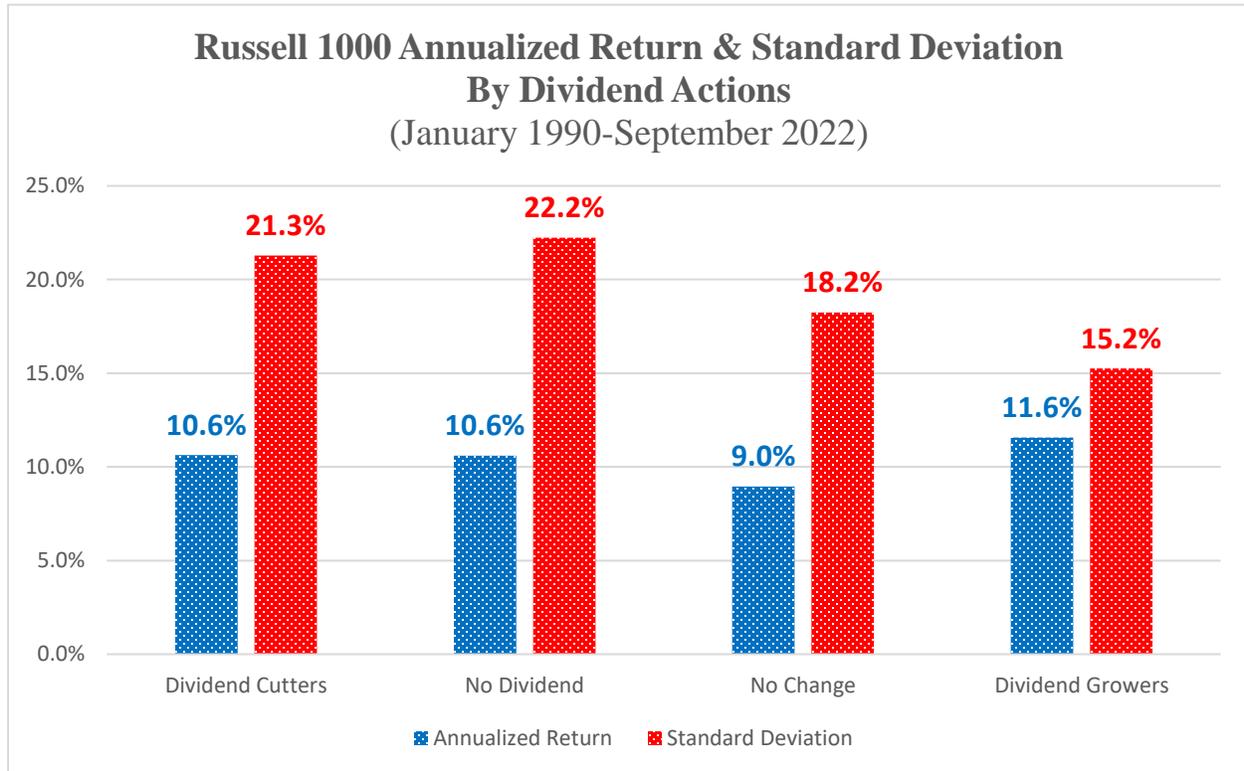
Figure #4: Gain Needed to Recoup a Loss

Gain Necessary to Recoup a Loss	
<u>Loss Generated</u>	<u>Gain Necessary</u>
10%	11%
15%	17.65%
20%	25%
35%	54%
50%	100%

What If You Don't Like a Lot of Volatility?

Strategas Research has examined the performance of stocks in the Russell 1000 Index by dividend policy. Their work shows that over the last 30-plus years, stocks of companies that have consistently increased their dividends—they call them Dividend Growers, the bars all the way on the right in Figure #5 below—have had better returns, 11.6% annualized (the blue bar) than any of these other categories and with less volatility, as measured by standard deviation (the red bar).

Figure #5: Returns and Volatility by Dividend Policy



Source: Strategas Securities, LLC—Investment Strategy

We think it has always made sense to diversify portfolios with a strategy that emphasizes investing in high quality companies with the potential to increase dividends with consistency. Now in 2022 that markets have become more volatile and challenging, we think it makes a great deal of sense. Our strategy emphasizes companies that pay out a prudent portion of earnings as dividends, plowing the bulk of their earnings back into their business to assure future growth of revenues, cash flow, earnings, and dividends. We look for companies with a commitment to increasing dividends as earnings grow. Although past performance cannot assure future results, our view is that if companies can consistently increase earnings and dividends, over time, stock prices should move higher as well, and provide attractive total returns. 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 of stocks of high-quality companies as helping long-term investors participate while potentially modifying risk.

Here are some details about the dividend increases announced by the companies in our separately managed account (SMA) in the third quarter and first nine months of this year.

Dividend Growth: Core Rising Dividend SMA portfolio

In the third quarter of 2022, 9 of the 49 companies in our Core Rising Dividend portfolio announced 9 dividend increases averaging about 10.2% more than those companies paid a year earlier. In the first nine months of 2022, 33 of the 49 companies in this portfolio announced 35 dividend increases averaging about 12.4% more than those companies paid a year earlier. One company declared a special \$1.50 cash dividend in the third quarter, its third special dividend declared this year. One company announced three dividend increases, each after only one quarter, and two companies announced dividend increases after only three quarters. No companies in our Core Rising Dividend portfolio have cut or suspended dividends so far in 2022.

Cumulative Income Summary

Here is the cumulative gross (before fees) dividend income generated by the companies in our Dearborn Partners Core Rising Dividend SMA Portfolio from an initial \$200,000 investment on September 30, 2011 (the inception date of our SMA portfolio) through September 30, 2022:

	Average Current Yield	Cumulative Income*
Core Rising Dividend SMA	2.1%	\$107,139
S&P 500	1.8%	\$93,895

**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 September 30, 2022.*

The table above shows that the average yield of our Core Rising Dividend SMA portfolio at the end of the first nine months of 2022 exceeded the average yield of the S&P 500. As a result of its above average yield, lower volatility, and generally conservative features, our portfolio may appeal to some generally risk-averse investors who are in search of yields greater than those offered by the broad market.

Investment Principles: A Reminder

Ben Carlson, CFA, is a portfolio manager at Ritholtz Wealth Management. He writes a blog called “A Wealth of Common Sense.” On September 5, 2017, he posted “36 Obvious Investment Truths.” This is fairly simple, and some would say obvious, advice on the equity markets, but sometimes investors need to be reminded of the simple and obvious. We like to remind ourselves of the following obvious investment truths on a regular basis.

Here we excerpt some of the 36 Obvious Investment Truths:

- The stock market goes up and down.
- If you need to spend your money in a relatively short period of time it doesn’t belong in the stock market.
- No investor is right all the time.
- No investment strategy can outperform at all times.
- If you invest in index funds you cannot outperform the market.

- There is no known signal that can consistently get you out right before the market falls and get you back in right before it rises again.
- The best investment process is the one that fits your personality enough to allow you to see it through any market environment.
- Compound interest is amazing, but it takes a really long time to work.
- For buy and hold to truly work you must do both when markets are falling.
- Don't be surprised when we have bear markets or recessions. Everything is cyclical.

Source: Ben Carlson, CFA "A Wealth of Common Sense" blog.

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	CPI*
YTD 2022	12.4%	6.3%
2021	9.9%	5.5%
2020	7.6%	1.6%
2019	9.6%	2.3%
2018	13.3%	2.2%
2017	7.8%	1.7%
2016	8.0%	2.1%
2015	9.7%	2.1%
2014	12.2%	1.6%
2013	12.2%	1.7%
2012	13.0%	1.9%

** Core Consumer Price Index for All Urban Consumers Unadjusted 12-month Percent Change for 12 months ending August 2022 Updated September 13, 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> September 13, 2022.

Appendix: Mathematics of Gain Necessary to Recoup a Loss

<u>Starting Value</u>	<u>Loss (%)</u>	<u>Loss (\$)</u>	<u>Ending Value</u>	
\$100	10%	\$10	\$90	
Math:		$100 \times 0.10 = \$10$	$100 - \$10 = \90	
<u>Starting Value</u>	<u>Gain (%)</u>	<u>Gain (\$)</u>	<u>Ending Value</u>	
\$90	10%	\$9	\$99	Not back to Starting Value
Math:		$90 \times 0.10 = \$9$	$90 + \$9 = \99	
	11.11%	\$10	\$100	Back to Starting Value
		$90 \times 0.1111 = \$10$	$90 + \$10 = \100	
<u>Starting Value</u>	<u>Loss (%)</u>	<u>Loss (\$)</u>	<u>Ending Value</u>	
\$100	15%	\$15	\$85	
Math:		$100 \times 0.15 = \$15$	$100 - \$15 = \85	
<u>Starting Value</u>	<u>Gain (%)</u>	<u>Gain (\$)</u>	<u>Ending Value</u>	
\$85	15%	\$12.75	\$97.75	Not back to Starting Value
Math:		$85 \times 0.15 = \$12.75$	$85 + \$12.75 = \97.75	
	17.65%	\$15	\$100	Back to Starting Value
		$85 \times 0.1765 = \$15$	$85 + \$15 = \100	
<u>Starting Value</u>	<u>Loss (%)</u>	<u>Loss (\$)</u>	<u>Ending Value</u>	
\$100	20%	\$20	\$80	
Math:		$100 \times 0.20 = \$20$	$100 - \$20 = \80	
<u>Starting Value</u>	<u>Gain (%)</u>	<u>Gain (\$)</u>	<u>Ending Value</u>	
\$80	20%	\$16	\$96	Not back to Starting Value
		$80 \times 0.20 = \$16$	$80 + \$16 = \96	
	25%	\$20	\$100	Back to Starting Value
		$80 \times 0.25 = \$20$	$80 + \$20 = \100	
<u>Starting Value</u>	<u>Loss (%)</u>	<u>Loss (\$)</u>	<u>Ending Value</u>	
\$100	35%	\$35	\$65	
Math:		$100 \times 0.35 = \$35$	$100 - \$35 = \65	
<u>Starting Value</u>	<u>Gain (%)</u>	<u>Gain (\$)</u>	<u>Ending Value</u>	
\$65	35%	\$23	\$88	Not back to Starting Value
Math:		$65 \times 0.35 = \$22.75$	$65 + \$22.75 = \87.75	
	54%	\$35	\$100	Back to Starting Value
		$65 \times 0.54 = \$35$	$65 + \$35 = \100	
<u>Starting Value</u>	<u>Loss (%)</u>	<u>Loss (\$)</u>	<u>Ending Value</u>	
\$100	50%	\$50	\$50	
Math:		$100 \times 0.50 = \$50$	$100 - \$50 = \50	
<u>Starting Value</u>	<u>Gain (%)</u>	<u>Gain (\$)</u>	<u>Ending Value</u>	
\$50	50%	\$25	\$75	Not back to Starting Value
Math:		$50 \times 0.50 = \$25$	$50 + \$25 = \75	
	100%	\$50	\$100	Back to Starting Value
		$50 \times 1.00 = \$50$	$50 + \$50 = \100	

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.