DEARBORN PARTNERS

<u>First Quarter 2023 Commentary</u> **Carol M. Lippman, CFA**

Some Facts about Dividends

According to S&P Dow Jones Indices S&P 500 Dividend Payers, in year 2022, 399 or 79.3% of companies in the S&P 500 paid dividends. These dividend payers represented 80.8% of the benchmark's market value. S&P's statistics on this go back to 1980 when 469 or 93.8% of companies in the S&P 500 paid dividends. That year, dividend payers represented 98% of the benchmark's market value. Troughs in the percentage of market value of dividend payers were reached in 1999—the peak of the dot.com bubble—at 74.8% and in 2020 and 2021—Covid emergence years—when dividend payers' market values dropped to 73.3% and 74.8%, respectively. Each year for 18 years between 2002 and 2019, dividend payers' market value as a percentage of the entire benchmark stayed firmly above 80%. If history can be a guide—but, of course, never a guarantee—perhaps we are embarking on another period during which portfolios could benefit from stocks of companies that pay dividends.

For so much of 2020 and 2021, the ten stocks with the largest market capitalization accounted for more than one-quarter of the total market value of the S&P 500 benchmark. In 2020, the ten largest stocks accounted for 27.5% of the market value of the benchmark index. Six of the companies among the top ten that year paid no dividends. In 2021, the ten largest stocks accounted for 29.87% of the market value of the benchmark index. Seven of the companies among the top ten that year paid no dividends. It was frequently difficult, in other words, for dividend strategies to compete with the popular benchmark in 2020 and 2021. Before year 2020, stocks of companies that paid no dividends constituted the minority of the ten largest market capitalization stocks. And in 2022, only three of the companies whose stocks were among the ten largest capitalizations paid no dividends.

Figure #1 below from Strategas Securities shows that since the 1930s, dividends have contributed significantly to stocks' total returns. Over more than nine decades, dividends have averaged just under 60% of the overall total return for the S&P 500. Exceptions were the decades starting in 1990 (known for dot.com stock leadership) and 2010 (when the Federal Reserve's 0%-0.25% Fed Funds Rate and Quantitative Easing provided a "risk on" stock market environment). In the periods in which stocks ended the decade at prices lower than where they started, such as the 1930s and 2000s, dividends accounted for the S&P 500's entire positive total return.

This decade, from the beginning of 2020 through the end of March 2023, the S&P 500's total return was +34.1%. Without dividends, prices were up +27.2%. Dividends contributed only 7.0%, or 20.4% of the decade-to-date's total return, an indication of how strong markets were in 2020 and 2021. When the broad market's price dropped -19.44% in 2022 and the total return was -18%, the $1.44 contribution from dividends accounted for 100% of that year's positive return.

Figure #1: Contribution of Dividends by Decade to S&P 500 Total Returns

Dividend Contribution to Total Return

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	27.2%	7.0%	34.1%	20.4	37.0
Average	**114.4%**	**87.8%**	**202.2%**	**59.4**	**52.5**

2020s through 3/31/2023*

Source: Strategas Securities, LLC—Investment Strategy

According to S&P Dow Jones Indices S&P 500 Issue Indicated Dividend Rate Change, when the novel coronavirus emerged in early 2020 and businesses were categorized as essential or non-essential, a total of 69 non-essential companies in the S&P 500—who couldn't even pay employees, suppliers, or rent—were forced to cut or suspend their dividends: 27 cut and 42 suspended their dividends. Some of those companies have since reinstated and/or resumed raising their dividends. Recently, some relatively high-profile companies have slashed their dividends. During these periods, no companies in our Dearborn Partners Rising Dividend Portfolios cut or suspended dividends. A primary objective of our strategy is to include only companies for which we have a high degree of confidence in their ability to consistently increase dividends throughout any environment.

Drama in Banking

Wednesday March 8, 2023, news started to drip out about serious problems at three banks whose names begin with the letter "S", none of which we had heard of before. The rest of that week, share prices sold off far more than usual for just about every bank and some other stocks in the Financials sector. Nervousness spread throughout the broad market, as well. In our portfolios, we care about only one bank: Glacier Bancorp, Inc. (GBCI).

Until August 2021, we held three conservative, high-quality banks in our Core Rising Dividend SMA portfolio; we held one in our High & Rising Dividend SMA portfolio. The Federal Reserve still maintained its Fed Funds Rate at 0%-0.25%. We were concerned, however, that if the Fed ever started to raise interest rates, given the interest rate sensitivity of banks, we didn't want that much exposure. We sold the one bank from our High & Rising Dividend portfolio, and we sold two banks from our Core Rising Dividend portfolio and retained Glacier. With headquarters in Kalispell, Montana, Glacier is the holding company for 17 community banks up and down the Rocky Mountains area of the western United States from our border with Canada to our border with Mexico. Glacier's bankers provide a high level of personal service to their customers. Glacier considers its deposits to be very "sticky," i.e., unlikely to leave Glacier and move to money center banks where a human being never answers the phone. We consider its balance sheet to be very conservative. As of December 31, 2022, 50% percent of Glacier's investment portfolio consisted of residential mortgage-backed securities (MBS), 37% in federal, state, and local government MBS, and 13% commercial MBS. More than 88% of these securities mature in less than five years.

On Friday March 10, 2023, a news release reported that the Chairman of the Board had purchased 5,000 GBCI shares and the following Monday March 13, a news release reported that the CEO purchased 2,500 shares. These executives know if deposits are leaving or not. We consider this insider buying to be a strong vote of confidence.

We are very glad that only one of the 49 stocks in this portfolio is a bank. We view this as an example of the risk control and diversification we exert as active portfolio managers. If history can be a guide, however, nervousness in the banking industry and the market in general is not likely to fully resolve overnight. It will likely take time and patience. In times such as these, it's a good idea to remember that when we own stock, we own a piece of a company. Over time, stock prices move as the earnings of companies move. The long-term trend of stocks of good quality companies has been up and we believe that over time the trend will be up in the future. If those in charge would implement prudent, disciplined regulations and stick to enforcing them, it would be a lot better for all of us.

Patience Has Typically Been Rewarded

In each of the years 2019, 2020, and 2021, the stock market as measured by the S&P 500 generated strong, double-digit annual returns of +31.5%, +18.4%, and +28.7%, respectively. Many students of the market would say that we were due, if not overdue, for a correction. In 2022, the total return of the S&P 500 was -18%.

Since 1926, there have been 96 years. Figure #2 shows that the broad market as measured by the S&P 500 has seen double-digit negative returns 12 times, including last year, 2022. Fourteen times, the market has declined -10% or less. That means that in 70 of the past 96 years, markets have provided positive returns for investors who have been patient and stayed invested. That's almost three-quarters of the time. The message, as we see it, is: You have to be in there participating at all times. We think we have a strategy of investing in stocks of high-quality companies that makes it palatable for investors to get in the market and stay in the market, getting paid and pay raises while waiting.

Figure #2: Distribution of S&P 500 Total Returns Since 1926

SINCE 1926, THE S&P HAS SEEN DOUBLE-DIGIT NEGATIVE RETURNS 12 TIMES INCLUDING 2022

< -20%	-20% to -10%	-10% to 0%	0 to 10%	10% to 20%	>20%	
6	6	14	14	21	36	
1930	1941	1929	1947	1926	1927	1976
1931	1957	1932	1948	1944	1928	1980
1937	1966	1934	1956	1949	1933	1982
1974	1973	1939	1960	1952	1935	1983
2002	2001	1940	1970	1959	1936	1985
2008	2022	1946	1978	1964	1938	1989
		1953	1984	1965	1942	1991
		1962	1987	1968	1943	1995
		1969	1992	1971	1945	1996
		1977	1994	1972	1950	1997
		1981	2005	1979	1951	1998
		1990	2007	1986	1954	1999
		2000	2011	1988	1955	2003
		2018	2015	1993	1958	2009
				2004	1961	2013
				2006	1963	2017
				2010	1967	2019
				2012	1975	2021
				2014		
				2016		
				2020		

Source: FactSet Data Services

Here are some details about the dividend increases announced by the companies in our separately managed accounts (SMAs) in the first quarter of 2023.

Dividend Growth: Core Rising Dividend SMA portfolio

In the first quarter of 2023, 16 of the 49 companies in our Core Rising Dividend portfolio announced 16 dividend increases averaging about 6.9% more than those companies paid a year earlier. One company declared a special dividend. No companies in our Core Rising Dividend portfolio cut or suspended dividends in the first quarter.

Dividend Growth: High & Rising Dividend SMA portfolio

In the first quarter of 2023, 11 of 25 companies in our High & Rising Dividend portfolio announced 12 dividend increases averaging about 7.1% more than those companies paid as dividends a year earlier. One company announced a dividend increase after only two months and another increase after only one month. No companies in our High & Rising Dividend portfolio cut or suspended their dividends in the first quarter.

Cumulative Income Summary

Here is the cumulative dividend income generated by the shares held in companies in both of our Dearborn Partners Rising Dividend SMA Portfolios from two actual accounts, each with an initial $200,000 investment on September 30, 2011 (the inception date of our SMA portfolios) through March 31, 2023:

	Average Current Yield	Cumulative Income*
Core Rising Dividend SMA	2.1%	$114,489
High & Rising Dividend SMA	3.4%	$154,504
S&P 500	1.7%	$100,070

**The S&P 500 dividend income in the table above is calculated by creating investable "share units" by dividing an actual $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, 2023.*

The table above shows that the average yield of both of our Rising Dividend SMA portfolios at the end of the first quarter of 2023 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 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.

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Dearborn Partners Rising Dividend Separately Managed Account Average Calendar Year Dividend Increases[1]

	Core Rising	High & Rising	CPI*
11-Year Average	10.4%	7.6%	2.6%
YTD 2023	6.9%	7.1%	5.5%
2022	11.8%	8.7%	6.0%
2021	9.9%	6.3%	5.5%
2020	7.6%	5.9%	1.6%
2019	9.6%	8.2%	2.3%
2018	12.9%	8.8%	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 Feb. 2023 Updated Mar. 14, 2023. 11-Year Average represents December 2012-December 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 14, 2023.

[1] 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.

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