DEARBORN PARTNERS

First Quarter 2024 Commentary

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Stock Market Concentration

Ned Davis Research wrote in its March 13, 2024 Hotline: "The top 10 companies by market capitalization account for a near-record 33.2% of the S&P 500, presenting a concentration risk should several face company-specific risks." S&P Dow Jones Indices as of March 28, 2024 lists the Top 10 Constituents by Index Weight: Microsoft Corp, Apple Inc., Nvidia Corp., Amazon.com Inc., Meta Platforms, Inc. Class A, Alphabet Inc. A, Berkshire Hathaway B, Alphabet Inc. C, Eli Lilly & Co., and Broadcom Inc. Four of these pay no dividends. Nvidia has paid $0.04 every quarter since December 2018; its 0.02% current yield is insignificant. Meta paid its first quarterly dividend of $0.50 on March 26, 2024. The remaining four have been paying meaningful dividends for years: Lilly since 1972, Microsoft since 2003, Broadcom since 2010, and Apple since 2012.

Several market strategists have drawn comparisons between the strong stock market lately, led by concentration from a few stocks, with similar trends in the late 1990s. In 1999, the S&P 500's total return was dominated by 10 stocks, none of which paid dividends. (See Appendix)

Figure #1 by Ned Davis Research shows the returns by dividend category from the last day of 1998 through the last day of 1999. The Non-Dividend Paying Stocks had by far the best return.

Figure #1: <u>Performance by Dividend Policy in 1999</u>

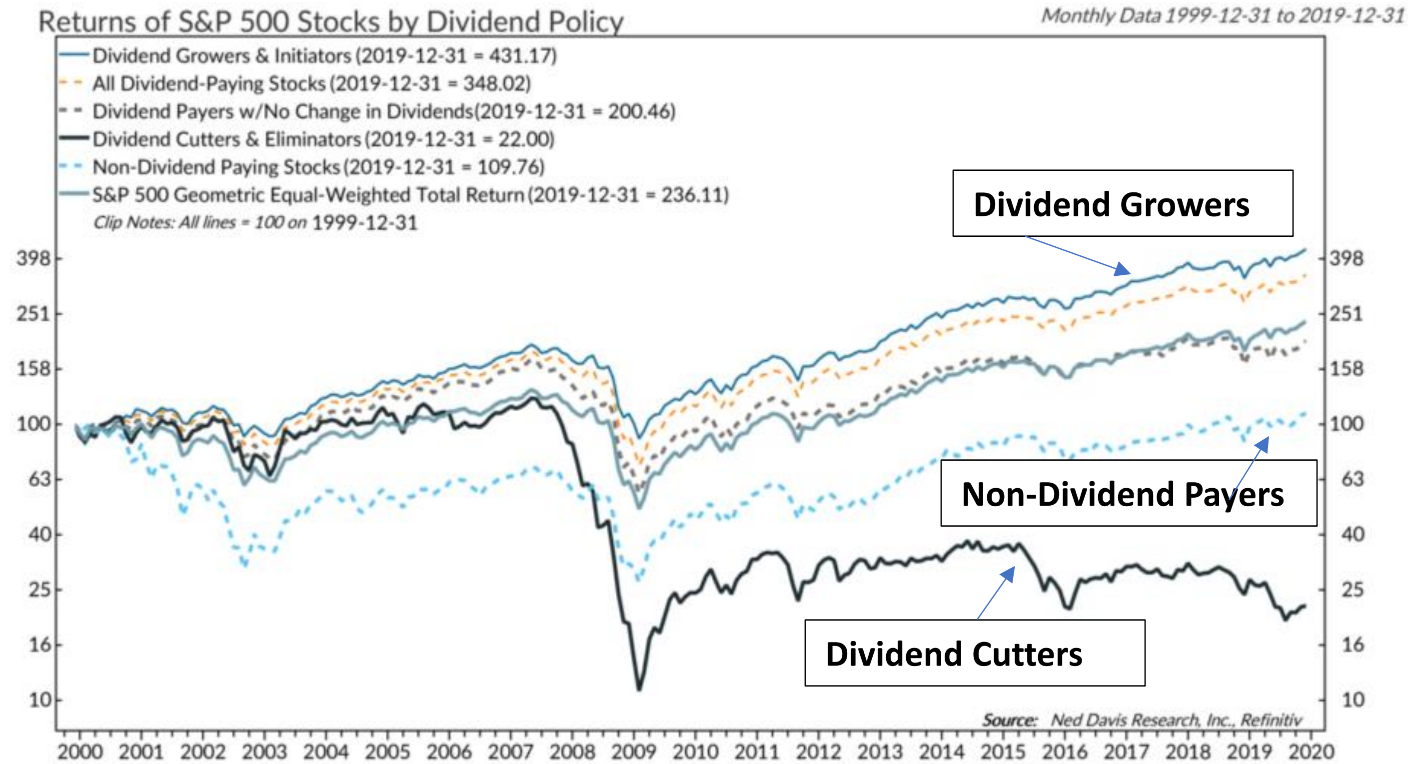
Portfolio Performance Statistics
Analysis Dates: 1998-12-31 - 1999-12-31

Portfolio	Gain/Annum %	Growth of $100
Dividend Growers & Initiators	-4.7	95.3
All Dividend-Paying Stocks	-1.5	98.5
Dividend Payers w/No Change in Dividends	4.3	104.3
Dividend Cutters & Eliminators	-6.9	93.1
Non-Dividend Paying Stocks	28.5	128.5
S&P 500 Geometric Equal-Weighted Total Return	3.4	103.4

The stock market peaked in mid-2000. By the end of 2002, the capitalization-weighted S&P 500 had declined about -37%; the 10 top stocks declined more than 60%. (See Appendix)

Figure #2 shows data beginning at the end of 1999 of the categories by dividend policy into which Ned Davis Research divides the S&P 500. The dotted light blue line in Figure #2 represents the Non-Dividend Paying Stocks. After dropping 60% by the end of 2002, it took 17 years for those stocks to get back to even.

Figure #2: **<u>Returns of S&P 500 by Dividend Policy 1999-2019</u>**



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Notice that the Dividend Cutters & Eliminators had the worst returns during these two decades. This is one reason that we work so hard to put into our portfolio only companies for which we have a high degree of confidence in their ability to consistently increase dividends. If we no longer feel confident about a company's dividend growth potential, we remove the company from our portfolio.

We do not make market predictions. We are not showing this illustration to imply that history may repeat itself. What we do find interesting about Figure #2 is that the solid blue line representing the Dividend Growers was the best performer during the entire period. In the first decade of this century, markets collapsed twice: after the dot.com bubble of the 1990s burst, and in the Great Financial Crisis of 2008 and 2009. Still, the Dividend Growers are on top throughout. Of course, past performance cannot assure future results. This performance reinforces, however, why we believe that investment in our strategy, which emphasizes owning stocks of companies able to increase dividends with consistency and regularity, can allow investors to get in the market and stay in the market at all times.

The companies in our Dearborn Partners Rising Dividend portfolio have on average continued to increase dividends at rates in accordance with our stated objective of mid to high single-digit annual growth. Here are some details about the dividend increases announced by the companies in our separately managed account (SMA) in the first quarter of 2024.

Dividend Growth: Core Rising Dividend SMA portfolio

In the first quarter of 2024, 14 of the 49 companies in our Core Rising Dividend portfolio announced 14 dividend increases averaging about 6.7% more than those companies paid a year earlier. On January 17, 2024, we sold one company that telegraphed that the quarterly dividends it would pay in 2024 would be below the rate it announced in the fourth quarter of 2023. On March 15, 2024, the company confirmed that the dividend payable on April 26, 2024 would be below that paid the previous quarter. Having removed that company from our portfolio before the declaration of that dividend reduction, we are still able to state: No companies in this portfolio have reduced or suspended dividends so far this year.

Update of Performance by Dividend Category

In 2022, when the Federal Reserve attempted to slay inflation by raising its Fed Funds Rate aggressively and quickly, the market capitalization-weighted S&P 500 Index registered the textbook definition of a bear market: down -20%; the total return of the equal-weighted S&P 500 Index, which Ned Davis uses in these studies, declined -14.8%, and non-dividend paying stocks, the worst performing category, were down about 30%, as seen in Figure #3. The top two categories of dividends generally lost less in 2022 than three of the other categories.

Figure #3: 2022 Total Returns by Dividend Category

Portfolio Performance Statistics Analysis Dates: 2021-12-31 - 2022-12-31		
Portfolio	Gain/Annum %	Growth of $100
Dividend Growers & Initiators	-9.3	90.7
All Dividend-Paying Stocks	-9.9	90.1
Dividend Payers w/No Change in Dividends	-14.5	85.5
Dividend Cutters & Eliminators	-7.1	92.9
Non-Dividend Paying Stocks	-29.9	70.1
S&P 500 Geometric Equal-Weighted Total Return	-14.8	85.2

In 2023, as seen in Figure #4, the equal-weighted broad market index's total return was 10.7% and non-dividend payers bounced back a strong +21.6%. Stocks of dividend-paying companies did well, but not as well as the Non-Dividend Payers.

Figure #4: <u>2023 Total Returns by Dividend Category</u>

Portfolio Performance Statistics Analysis Dates: 2022-12-31 - 2023-12-31		
Portfolio	Gain/Annum %	Growth of $100
Dividend Growers & Initiators	8.1	108.1
All Dividend-Paying Stocks	8.6	108.6
Dividend Payers w/No Change in Dividends	14.2	114.2
Dividend Cutters & Eliminators	-1.9	98.1
Non-Dividend Paying Stocks	21.6	121.6
S&P 500 Geometric Equal-Weighted Total Return	10.7	110.7

Source:

Figure #5 shows how these results look cumulatively for all of 2022, 2023, and through the first quarter of 2024. The Dividend Growers' returns were the best. Although the Non-Dividend Payers came roaring back with strong double-digit returns in 2023 as seen in Figure #4, because that category had even stronger double-digit losses in 2022 as seen in Figure #3, the results shown in Figure #5 are still not back to even by the end of the first quarter of 2024.

Figure #5: <u>12/31/2021 Through First Quarter 2024 By Dividend Category</u>

Portfolio Performance Statistics Analysis Dates: 2021-12-31 - 2024-03-31		
Portfolio	Gain/Annum %	Growth of $100
Dividend Growers & Initiators	2.6	106.0
All Dividend-Paying Stocks	2.4	105.5
Dividend Payers w/No Change in Dividends	2.4	105.5
Dividend Cutters & Eliminators	-4.1	91.1
Non-Dividend Paying Stocks	-4.6	89.9
S&P 500 Geometric Equal-Weighted Total Return	0.5	101.2

Source:

What lessons can we draw from this Ned Davis Research by dividend category?

- If investors can lose less money in bad markets, it is not necessary to work as hard to try to recover big losses.
- Slow and steady can win the race.
- Companies with the ability to consistently pay and increase dividends are typically of good quality. Staying invested for many years in well-diversified portfolio of stocks of good quality companies, patiently participating in the market while collecting dividends with the potential to increase with regularity, has generally rewarded investors.

The Dearborn Partners investment team adheres to these time-tested themes. We do not make predictions about the direction of markets or interest rates or other macroeconomic factors. We do not try to time when to get into or out of stocks. We constantly work hard trying to find for our portfolio good quality companies that we consider capable of increasing dividends year after year. We strive to offer a palatable strategy that allows investors to get in the market and stay in the market.

We on the Dearborn Partners investment team try to analyze the companies for our portfolio so well before adding them that we hope to be able to own them "forever." In fact, our average turnover is very low: less than 12% annualized since inception. Sometimes, however, companies lose their disciplines or unforeseen developments change the dividend's position relative to other important fundamentals. Our discipline emphasizes assessing our view of a company's ability to not just maintain a dividend but to be able to increase it with regularity and consistency. We believe that enforcing such a strict criterion provides for removing a company before the security of the dividend becomes a concern.

Cumulative Income Summary

Here is the cumulative dividend income generated by the shares held in companies in our Dearborn Partners Core Rising Dividend SMA Portfolio from an actual account, with an initial $200,000 investment on September 30, 2011 (the inception date of our SMA portfolio) through March 31, 2024:

	Average Current Yield	Cumulative Income*
Core Rising Dividend SMA	1.9%	$130,089
S&P 500	1.4%	$112,580

**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 portfolio), 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, 2024.*

The table above shows that the average yield of our Rising Dividend SMA portfolio at the end of the first quarter of 2024 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.

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—with strong balance sheets, high barriers to entry, and solid management.

It’s true that short-term U.S. Treasury bill yields are finally offering rates that provide decent alternatives to stocks of companies that offer attractive dividend yields. As of March 31, 2024, the 6-month U.S. Treasury bill yield was 5.33%. Since before the Global Financial Crisis in 2008, savers are now no longer being punished and securities with the full faith and credit backing of the United States government can provide decent returns risk free and thus viable diversification to portfolios. Remember, however, that U.S. Treasury instruments offer no growth. The Federal Reserve is signaling that they may cut the Fed Funds Rate at upcoming meetings. If so, when current 6-month bills mature, rolling into the next ones may provide lower yields. We make no market forecasts; instead, we continue to believe that owning a well-diversified portfolio of high-quality companies that offer the potential to consistently increase dividends over time makes sense as a core component of investors’ portfolios.

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 portfolio and those that may be candidates for our portfolio 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 portfolio 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 portfolio 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 Year Dividend Increases[1]

	Core Rising	CPI*
12-Year Average	10.3%	2.7%
YTD 2024	6.7%	3.8%
2023	8.6%	4.0%
2022	11.8%	6.0%
2021	9.9%	5.5%
2020	7.6%	1.6%
2019	9.6%	2.3%
2018	12.9%	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 February 2024 Updated Mar. 12, 2024. YTD=Year to Date. 12-Year Average represents December 2012-December 2023.*

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 12, 2023.

[1] On the date that a company in our SMA portfolio 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.

Appendix: Top 10 Performers in 1999 and Subsequent Three Years' Returns

Company	**Percentage Return (%)**			
	1999	**2000**	**2001**	**2002**
QUALCOMM (QCOM)	2586.99%	-53.34%	-71.33%	-79.34%
VeriSign (VRSN)	1165.01%	-61.15%	-80.08%	-95.80%
F5 Networks (FFIV)	1012.20%	-91.67%	-81.11%	-90.58%
Lam Research (LRCX)	515.51%	-61.01%	-37.56%	-70.96%
Qorvo (QRVO)	473.29%	-19.82%	-43.80%	-78.58%
Biogen (BIIB)	317.53%	92.94%	110.47%	1.28%
Oracle (ORCL)	285.31%	3.74%	-50.71%	-61.45%
Cognizant Technology Solutions (CTSH)	256.94%	-33.56%	-25.02%	32.15%
NetApp (NTAP)	249.73%	54.55%	-47.34%	-75.92%
Juniper Networks (JNPR)	223.81%	122.46%	-66.56%	-88.00%
Average:		**-4.68%**	**-39.30%**	**-60.72%**
SPY (Capitalization-Weighted S&P 500)	**20.28%**	**-9.66%**	**-20.18%**	**-36.91%**

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