<u>Third Quarter 2024 Commentary</u> **Carol M. Lippman, CFA**

Inflation and Its Effect on Stocks

During the Global Financial Crisis in 2008-2009, the U.S. Federal Reserve introduced the zero-interest rate environment to attempt to stimulate the economy. The sustained low interest rates contributed to annual inflation rates, as measured by the Consumer Price Index (CPI) of 3.8% or less and Core Consumer Price Index (Core CPI), of 2% or less until 2020. Core CPI strips out food and energy, whose prices tend to fluctuate more widely and more frequently. (To compare then with now, the table at the end of this Commentary shows Core CPI each year since 2012.) Federal Reserve Economic Data on CPI goes back as far as January 1, 1947; Core CPI goes back as far as January 1, 1957. From 1947 through 2007, CPI averaged 3.8%. From 1957 through 2007, Core CPI averaged 4.1%. After Covid emerged early in 2020 and shut down much of the economy, supply chain challenges as well as stimulus provided to help consumers recover drove CPI to average 7.2% by year-end 2021 and 6.4% by year-end 2022. Core CPI averaged 5.5% by year-end 2021 and 6.0% by year-end 2022. Resolving supply chain difficulties as well as the Federal Reserve's rapid tightening in 2022—increasing the Fed Funds Rate from 0-0.25% to 5.5%—brought CPI down to 3.3% and Core CPI down to 4.0% in 2023. Through August 1, 2024 CPI averaged 2.6% and Core CPI averaged 3.3%. When inflation spiked in 2021 and 2022, analogies were made to the high inflation in the 1970s.

The Arab oil embargo started in October 1973 and ended in January 1974. That drove CPI and Core CPI to 12.1% and 11.5%, respectively. The trends of both measures were similar throughout the 1970s. Inflation calmed down a bit until the Iranian Revolution caused oil prices to rise sharply in 1979 and early 1980. Of course, the Vietnam War was going on this entire time. Figure #1 shows the rates of inflation each year in the 1970s and into the 1980s. You can see that the median rates of inflation in Figure #1 were more than 8%, significantly greater than any time this decade or century.

Figure #1: Inflation in the 1970s to early 1980s

	CPI	Core CPI
1973	8.94%	5.16%
1974	12.10%	11.51%
1975	7.13%	6.88%
1976	5.04%	6.08%
1977	6.68%	6.41%
1978	8.99%	8.56%
1979	13.25%	11.97%
1980	12.35%	11.34%
1981	8.91%	9.25%
Median:	8.94%	8.56%

Source: U.S. Bureau of labor Statistics, Consumer Price Index for All Urban Consumers: All Items in U.S. [CPI], All Items Less Food and Energy [Core CPI]; retrieved from FRED, Federal Reserve Bank of St. Louis, https://fred.stlouisfed.org/series/CPILFENS August 14, 2024.

We have been asked how stocks performed during the high inflation period from 1973 through 1981. Fortunately, Ned Davis Research's database goes back to January 31, 1973. Ned Davis categorizes stocks by dividend policy: Dividend Growers & Initiators, Dividend Payers with No Change in Dividends, stocks of Non-Dividend Paying Companies, and

Dividend Cutters & Eliminators. Ned Davis shows the total returns (stock price movement plus dividends) for these categories in comparison with an equal-weighted S&P 500 index as a benchmark. Figure #2 shows the portfolio performance statistics from January 31, 1973 through December 31, 1981.

Figure #2: Total Returns by Dividend Policy January 31, 1973- December 31, 1981

Portfolio Performance Statistics Analysis Dates: 1973-01-31 - 1981-12-31		
Portfolio	Gain/Annum %	Growth of $100
Dividend Growers & Initiators	7.9	197.7
S&P 500 Geometric Equal-Weighted Total Return	6.4	174.1
Dividend Payers w/No Change in Dividends	5.6	162.7
Non-Dividend Paying Stocks	2.2	121.8
Dividend Cutters & Eliminators	-2.7	78.1

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Inasmuch as the compounded annual total return of common stocks since 1925 has averaged 10%, Figure #2 shows that stocks' returns in the high inflation period of the 1970s generally lagged the historic average. Dividend Growers, however, provided the best total returns during this high inflation period.

It might be instructive to look at how these same categories by Dividend Policy performed each decade.

Figure #3: Total Returns by Dividend Policy December 31, 1979- December 31, 1989

Portfolio Performance Statistics Analysis Dates: 1979-12-31 - 1989-12-31		
Portfolio	**Gain/Annum %**	**Growth of $100**
Dividend Growers & Initiators	**18.5**	**545.2**
S&P 500 Geometric Equal-Weighted Total Return	**15.2**	**412.7**
Dividend Payers w/No Change in Dividends	**13.4**	**351.3**
Non-Dividend Paying Stocks	**9.1**	**238.6**
Dividend Cutters & Eliminators	**8.7**	**229.7**

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The great secular bull market began in August 1982. Figure #3 shows that the equal-weighted S&P 500 returned an average 15.2% per year in the 1980s, significantly greater than the 100-year average 10% annual return since 1925. But Dividend Growers did even better: +18.5%.

Figure #4: Total Returns by Dividend Policy December 31, 1989- December 31, 1999

Portfolio Performance Statistics Analysis Dates: 1989-12-31 - 1999-12-31		
Portfolio	Gain/Annum %	Growth of $100
Dividend Growers & Initiators	12.3	317.8
S&P 500 Geometric Equal-Weighted Total Return	10.3	266.4
Dividend Payers w/No Change in Dividends	8.7	229.6
Non-Dividend Paying Stocks	9.3	243.9
Dividend Cutters & Eliminators	5.4	168.5

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The secular bull market was still going strong in the 1990s, culminating in the dot.com bubble and concentrated markets dominated by about 15 stocks—most of which paid no dividends—in 1998 and 1999. Nonetheless, in Figure #4, Dividend Growers generated the best returns.

Figure #5: Total Returns by Dividend Policy December 31, 1999- December 31, 2009

Portfolio Performance Statistics Analysis Dates: 1999-12-31 - 2009-12-31		
Portfolio	Gain/Annum %	Growth of $100
Dividend Growers & Initiators	2.8	132.4
Dividend Payers w/No Change in Dividends	-0.2	97.5
S&P 500 Geometric Equal-Weighted Total Return	-1.8	83.7
Non-Dividend Paying Stocks	-7.2	47.4
Dividend Cutters & Eliminators	-13.1	24.5

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The dot.com bubble burst in April 2000 resulting in three consecutive negative years for most stocks. Then the Global Financial Crisis hit in 2008-2009. Many investors lost significant amounts of money **twice** in the first decade of this century. Notice in Figure #5 that Dividend Growers were the only category with positive returns in what some have called The Lost Decade.

Figure #6: Total Returns by Dividend Policy December 31, 2009- December 31, 2019

Portfolio Performance Statistics Analysis Dates: 2009-12-31 - 2019-12-31		
Portfolio	Gain/Annum %	Growth of $100
Dividend Growers & Initiators	12.5	325.6
S&P 500 Geometric Equal-Weighted Total Return	10.9	282
Dividend Payers w/No Change in Dividends	7.5	205.5
Non-Dividend Paying Stocks	8.8	231.8
Dividend Cutters & Eliminators	-1.1	89.7

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Markets improved from 2010 through 2019. In 2013, four stocks dominated the capitalization-weighted S&P 500's returns. The acronym FANG was created to reference strong gains by Facebook (now Meta), Amazon, Netflix, Google (parent company Alphabet). None of those companies paid dividends at the time. Earlier this year, Meta and Google declared dividends for the first time.

Figure #6 shows that Dividend Growers are still at the top with the best performance. Notice that the Dividend Cutters and Eliminators have been the worst performers in each table. This supports why we work so hard to avoid owning stocks of companies that may cut or omit their dividend. One of our disciplines is to remove a company for which we question its ability to **increase** its dividend with regularity. Then, if the security of the dividend becomes a question, we have already exited.

Ned Davis uses the equal-weighted S&P 500 in these comparisons. In April 2003, Invesco started an Equal Weight S&P 500 exchange traded fund (ETF), ticker RSP. Figure #7 shows the market capitalization-weighted S&P 500, SPX the blue line, and the equal-weighted S&P 500, RSP the red line, since RSP's inception. For most of the past two decades, the equal-weighted S&P 500 has outperformed the cap-weighted S&P 500. So, when we have seen Ned Davis' Dividend Growers outpacing the Equal-Weighted S&P 500 in all these tables, the Dividend Growers have surpassed the tougher-to-beat index.

Figure #7: Equal-Weighted (RSP) vs. Cap-Weighted (SPX) S&P 500 Since April 2003

Source: FactSet

Figure #8 shows the total returns of the current decade, the last day of 2019 to the present. This period includes years with significant market concentration from the largest capitalization stocks of a few dominant businesses dubbed The Magnificent 7: Apple, Microsoft, NVIDIA, Amazon, Meta, Alphabet, Tesla. Microsoft, Apple, and NVIDIA are the only Magnificent 7 companies that paid dividends until Meta announced its first dividend in February 2024 and Alphabet announced its first dividend in April 2024. Amazon, Netflix, and Tesla pay no dividends.

Figure #8: Total Returns by Dividend Policy December 31, 2019- July 31, 2024

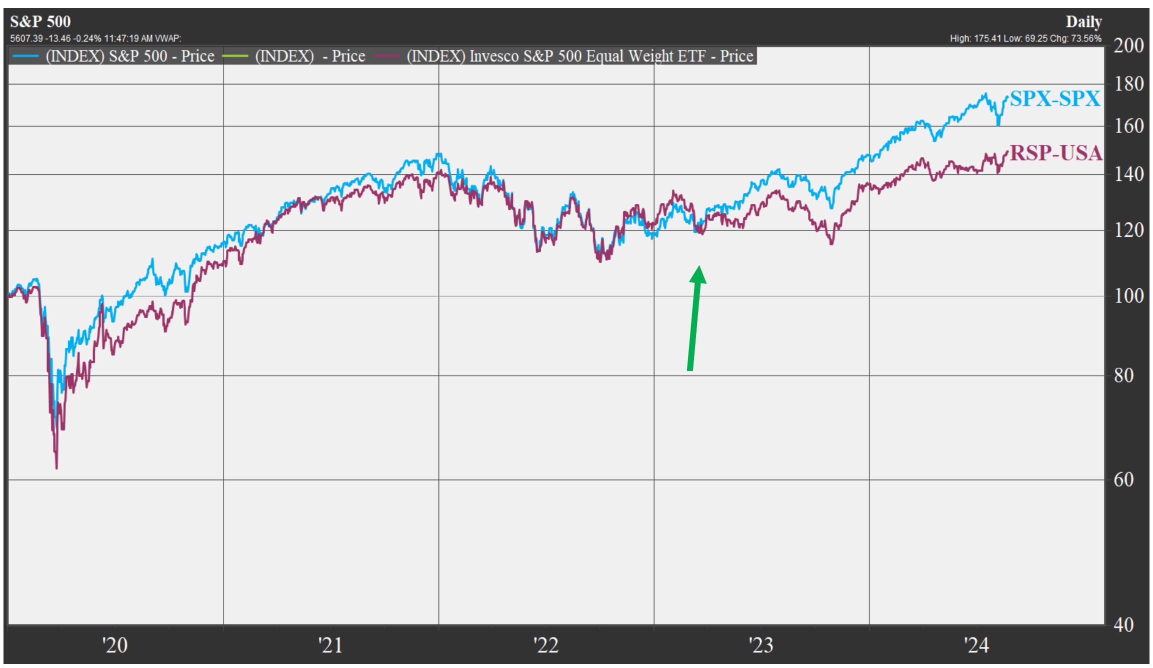
Portfolio Performance Statistics Analysis Dates: 2019-12-31 - 2024-07-31		
Portfolio	**Gain/Annum %**	**Growth of $100**
Dividend Growers & Initiators	**7.7**	**140.3**
S&P 500 Geometric Equal-Weighted Total Return	**6.8**	**135**
Dividend Payers w/No Change in Dividends	**6.5**	**133.7**
Non-Dividend Paying Stocks	**4.1**	**120**
Dividend Cutters & Eliminators	**3.2**	**115.3**

Source:

Figure #8 shows that the returns of the Dividend Growers again outperformed the other categories. The Magnificent 7 made up more than one-third of the market capitalization-weighted S&P 500, so versus the capitalization-weighted S&P 500 so far this decade, the Dividend Growers likely would not compare as favorably.

Figure #9 starts on December 31, 2019 as does the table in Figure #8. Again, the equal-weighted S&P 500 ETF ticker RSP is the red line, the blue line is the market capitalization weighted S&P 500 SPX. Starting in early 2023 (green arrow), the concentrated market led by the Magnificent 7 powered the market capitalization-weighted index above the equal weighted.

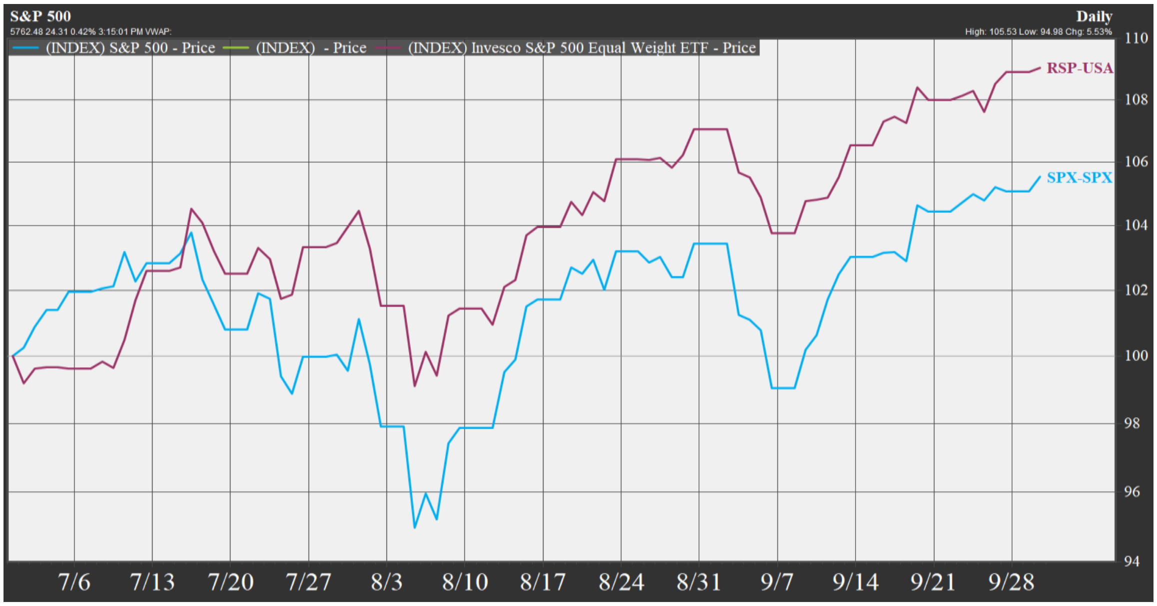
Figure #9: Equal-Weighted (RSP) vs. Cap-Weighted (SPX) S&P 500 Since December 31, 2019



Source: FactSet

This quarter, as Figure #10 shows, that trend has reversed and the red equal-weight S&P 500 RSP is back on top.

Figure #10: Equal-Weighted (RSP) vs. Cap-Weighted (SPX) S&P 500 Since July 1, 2024



Source: FactSet

We think it is fascinating that Ned Davis Research's Dividend Growers have outperformed the other categories by dividend policy in every decade since the early 1970s, even when inflation was very high. This reinforces our premise that for at least a portion of their portfolios, investors should always stay invested in a strategy such as ours that emphasizes owning companies with the potential to increase dividends with regularity rather than trying to time the stock market.

Prudent Investors Stay Patiently Invested in Good Quality Securities at All Times

The Dearborn Partners Rising Dividend Strategy offers a way for investors to get into the stock market and stay in the stock market throughout any environment getting paid while patiently waiting. The Dearborn Partners investment team does not try to time when to get into or out of stocks. We do not make predictions about the direction of markets or interest rates or other macroeconomic factors. We constantly work hard trying to find for our portfolios good quality companies that we consider capable of increasing dividends year after year offering the potential for attractive total returns over time.

We on the Dearborn Partners investment team try to analyze the companies for our portfolios 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.

Dividend Growth Record

The companies in our Dearborn Partners Rising Dividend portfolios have on average continued to increase dividends at rates in accordance with our stated objectives of mid- to high single-digit annual growth. Here are some details about the dividend increases announced by the companies in our separately managed accounts (SMAs) in the third quarter and nine months of 2024.

Dividend Growth: Core Rising Dividend SMA portfolio

In the third quarter of 2024, 13 of the 49 companies in our Core Rising Dividend portfolio announced 13 dividend increases averaging about 11.55% more than those companies paid a year earlier. In the first three quarters of 2024, 33 of 49 companies announced 33 dividend increases, averaging about 9.2% more than these companies paid a year earlier. No companies in this portfolio have reduced or suspended dividends so far this year.

Dividend Growth: High & Rising Dividend SMA portfolio

In the third quarter of 2024, 5 of 25 companies in our High & Rising Dividend portfolio announced 5 dividend increases averaging about 4.76% more than those companies paid as dividends a year earlier. In the first three quarters of 2024, 18 companies announced 21 dividend increases averaging about 5.22% more than these companies paid a year earlier. One company has announced four dividend increases so far this year. No companies in this portfolio have reduced or suspended dividends so far this year.

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 September 30, 2024:

	Average Current Yield	Cumulative Income*
Core Rising Dividend SMA	1.7%	$137,814
High & Rising Dividend SMA	2.9%	$188,593
S&P 500	1.3%	$119,113

**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 September 30, 2024.*

The table above shows that the average yield of both of our Rising Dividend SMA portfolios at the end of the third quarter of 2024 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—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 September 30, 2024, the 6-month U.S. Treasury bill yield was 4.35% down from 5.5% a few weeks ago. 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 further 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 well-diversified portfolios 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 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 Year Dividend Increases[1]

	Core Rising	High & Rising	CPI*
12-Year Average	10.3%	7.5%	2.7%
YTD 2024	9.2%	5.2%	3.3%
2023	8.6%	6.9%	4.0%
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 August 2024 Updated September 11, 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 Sept. 11, 2024.

[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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