

# DEARBORN PARTNERS

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Dear Investors,

Thank you for your continued interest in the Dearborn Partners Multi-Asset Separately Managed Account (SMA). We appreciate your trust and continue to work diligently to prudently manage the portfolio for you.

## **Quarter Ended March 31, 2025**

At quarter end, the Dearborn Multi-Asset SMA was invested in 64% equities, 34% fixed income, and 2% cash. This allocation compares to 64% equities, 33% fixed income, and 3% cash at the end of the fourth quarter.

During the first quarter of 2025, we made minimal changes to the portfolio. We used cash to purchase additional bonds, and we trimmed the stock of a company in the Financials sector and re-allocated it to a stock of a company in the Materials sector.

At quarter end, the portfolio had a yield of 3.5%. This compares with a benchmark portfolio yield of 2.8%.

## **Tariffs Require Management Innovation**

While not directly affecting the first quarter, early in the second quarter, tariff announcements have roiled stock and bond markets. The tariffs' effects on U.S.-based companies' supply chains are creating high levels of uncertainty. Markets dislike uncertainty and there is plenty of uncertainty to go around. Will companies pay the tariffs or pass them on to consumers? Will consumers pay increased prices for the same products or change their buying behavior? What will be the final tariff rates? How long will it take for U.S.-based companies to effectively change their supply chains, should they decide to do so? Candidly, many of the answers to these questions are unknowable. As investors in well-run companies, we rely on management to navigate these challenges.

Notably, we remain confident in the ability of management teams to handle these challenges. Our long-term bullishness on primarily U.S.-based equity ownership is based on our underlying belief in U.S.-based innovation. We expect company management teams to successfully innovate and navigate these challenging times.

## **Investing Requires Patience**

Investing can be difficult at times due to our emotional, not rational, reactions to outside factors. When I was a child, I was often told "patience is a virtue." This advice applies well to our current investing environment. Allow for some patience as companies navigate the tariffs. Of course, other notable human virtues include prudence, justice, fortitude, and temperance. Of those, investors could use a little fortitude (courage) and temperance (self-control) when dealing with their investments as of late. Keep a long-term perspective. As your trusted asset manager, we will attempt to manage the portfolio with prudence.

## **Fundamental Reason We Believe in Stock Ownership Over the Long Term**

We are bullish on owning American-based companies over the long term. Why? In a word, innovation. In our view, innovation allows great companies to prosper in any environment—interest rate, political, economic—over the long term. We see innovation in two primary forms: (1) innovation driving cost productivity, and (2) top-line, or sales innovation—new products, new services, new technologies—harness new positions in the minds of consumers. Sales growth plus cost productivity drive the flywheel of corporate profitability. Over long periods of time, companies tend to be valued by their earnings and cash flow. Stocks of companies with potentially growing

streams of cash flow are typically rewarded advantageously compared with the fixed stream of cash flow provided by, and implied in the name of, fixed income or bonds. In our view, investors need to participate in the growth potential of stocks over the long term.

## 5-Year Bond Ladder

Generating attractive income is important to investors in the Dearborn Partners Multi-Asset SMA. As we said above, at quarter end, our portfolio's current yield was 3.5%, higher than that of our benchmark's 2.8% current yield. We utilize a five-year bond ladder strategy using defined-maturity exchange-traded funds (ETFs) which currently mature at the end of 2025, 2026, 2027, 2028, and 2029. We believe using bond securities with defined maturity dates to be an advantageous way to participate in this higher interest rate environment.

## Big Picture

The Dearborn Partners Multi-Asset SMA is a portfolio built on balance and diversification. While we can “go anywhere” with our investments, we view the portfolio as a higher yielding alternative to what is currently available from a traditional 60/40 (60% equity / 40% bond) portfolio. We want our investors to feel a level of comfort holding this portfolio over the long term. The Dearborn Multi-Asset SMA portfolio seeks to provide attractive current income with the potential for growth in income over the long term. The portfolio is diversified across various asset classes. Owning companies with the ability (and willingness) to pay and raise dividends over time is, we believe, one of the most prudent uses of capital for our Dearborn Multi-Asset SMA.

## Portfolio Overview & Benchmark as of 3/31/25

<u>Dearborn Partners Multi-Asset SMA</u>	<u>Position Size</u>	<u>Duration (years)</u>	<u>Yield</u>	<u>Beta</u>
<b><u>Equity</u></b>				
Traditional Rising Dividend Equities	56.9%		2.0%	0.72
Business Development Companies	7.5%		7.9%	0.61
<b><u>Fixed Income</u></b>				
Corporate & Government Bonds	16.8%	7.9	5.1%	0.20
Five-year Corporate Bond Ladder	6.0%	2.0	4.6%	0.08
Preferred	10.9%	2.8	6.6%	0.23

Weighted Average - Equity	64.4%	--	2.6%	0.71
Weighted Average - Fixed Income	35.6%	5.2	5.5%	0.18
Weighted Average - Overall Portfolio	100.0%	1.7	3.5%	0.52

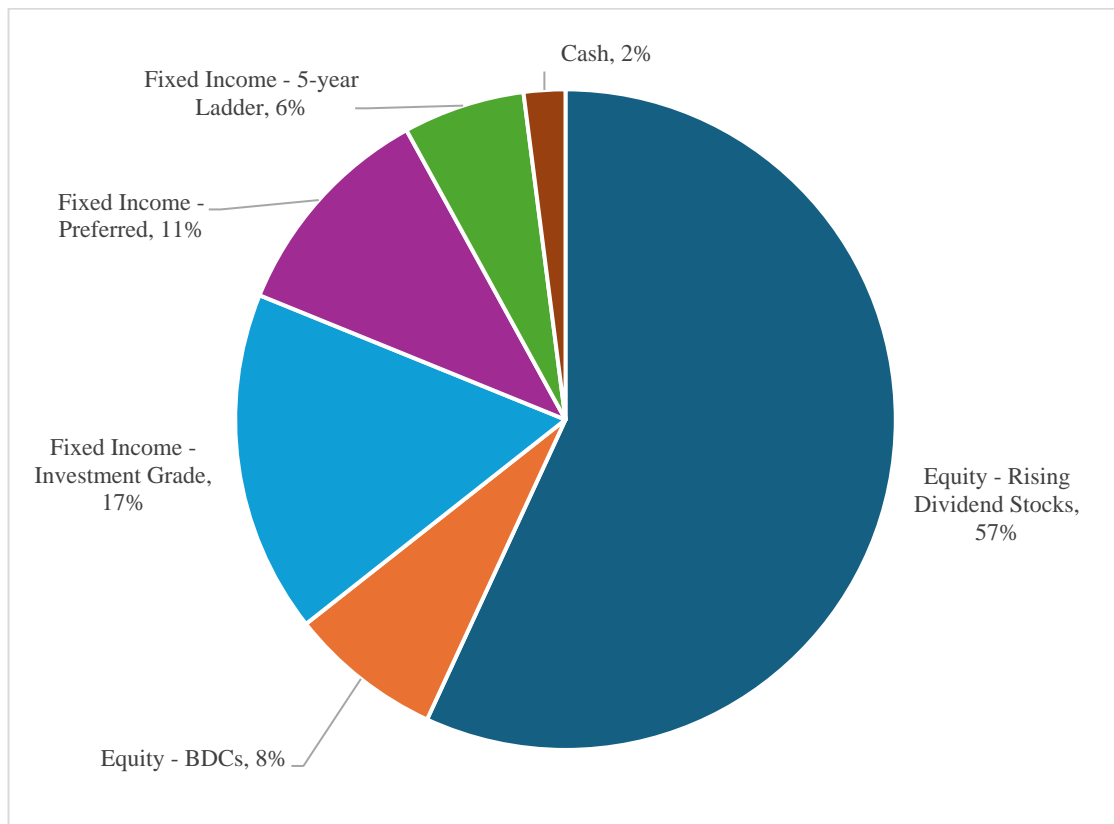
Sources: FactSet, Bloomberg. Duration and yield represent duration-to-worst and yield-to-worst. Beta above is for illustrative purposes using 2-year historical beta calculation based on the current portfolio holdings and is not equivalent to the actual historical beta performance of the portfolio. Cash is included as part of the Fixed Income allocation.

<u>60/40 Benchmark Portfolio</u>	<u>Position Size</u>	<u>Duration (years)</u>	<u>Yield</u>	<u>Beta</u>
Equity (SPDR S&P 500 - SPY)	60.0%	--	1.4%	0.99
Fixed Income (iShares Core U.S. Aggregate Bond ETF - AGG)	40.0%	6.1	4.8%	0.13
Weighted Average - Overall 60/40 Benchmark Portfolio	100.0%	2.5	2.8%	0.65

## Quarter-End Asset Allocation Mix

The Dearborn Multi-Asset SMA held 47 securities and 1 cash position as of 3/31/25.

- 64% Equity (percentages may not add due to rounding)
  - 57% Traditional dividend-growing equity.
    - The portfolio holds 31 individual stocks of companies expected to raise dividends year after year. These businesses—we view owning stocks as owning businesses—provide the expected dividend growth and/or total return potential over long periods of time.
  - 8% Business Development Companies (BDCs).
    - The portfolio holds 3 BDCs.
- 34% Fixed Income
  - 17% Investment-grade bonds (corporate and government).
    - The portfolio holds 6 investment-grade ETFs.
  - 11% Preferred securities.
    - The portfolio holds 2 preferred ETFs.
  - 6% Investment-grade 5-year bond ladder.
    - The portfolio holds 5 defined-maturity corporate bond ETFs.
- 2% Cash



## Dividend Increases

Below are the companies within our Multi-Asset SMA that announced quarterly dividend increases or special dividends in the first quarter of 2025:

Company	Ticker	Date of Increase Announcement	New Amount	Old Amount	Percent Change	Consecutive Annual Increases
Fastenal Company	FAST	1/16/2025	\$0.43	\$0.390	10.26%	26
ONEOK, Inc.	OKE	1/22/2025	\$1.03	\$0.990	4.04%	3
Williams Cos Inc	WMB	1/28/2025	\$0.50	\$0.475	5.26%	9
Capital Southwest Corporation	CSWC	2/3/2025	\$0.06	--	special	--
Tractor Supply Company	TSCO	2/13/2025	\$0.23	\$0.22	4.55%	16
Watsco, Inc.	WSO	2/18/2025	\$3.00	\$2.70	11.11%	51
Analog Devices Inc	ADI	2/18/2025	\$0.99	\$0.92	7.61%	21
Sherwin-Williams Co	SHW	2/19/2025	\$0.790	\$0.715	10.49%	47
Wal-Mart Stores	WMT	2/20/2025	\$0.24	\$0.21	13.25%	52
Home Depot Inc	HD	2/25/2025	\$2.30	\$2.25	2.22%	16
Main Street Capital Corporation	MAIN	2/28/2025	\$0.300	--	special	--

\*The percentage change of dividend payments reflects the new dividend rate compared with the similar payment made in the prior year.

If you have any questions, comments, or would like additional details, please reach out to us at any time.

Sincerely,

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