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CAMPBELL NEWMAN

LARGE CAP DIVIDEND GROWTH 3Q 2024 COMMENTARY

MARKET OVERVIEW

The U.S. stock market's leadership pivoted and participation broadened during 3Q in anticipation of the September Fed rate cut (50 bps was announced on the 18th) with momentum rotating away from the narrow AI-related megacap focus held since early 2023. Value outperformed Growth as Utilities, Real Estate and Financials were among the strongest sectors across market caps while smaller caps finally attracted greater interest and outperformed large caps across styles.

These trends were reflected in the action of the S&P 500 and its components. The top-heavy market-weighted Index recorded a 5.89% 3Q return but its equal-weighted counterpart posted 9.60% performance, highlighting the strength of smaller caps. This disparity was heavily influenced by the Tech and Communication Services sectors' lagging returns of 1.62% and 1.68%, respectively, which joined Energy (-2.30% return) as the only three underperforming Index sectors.

Conversely, the top outperformers, with double-digit returns, were primarily in interest-rate sensitive sectors, Utilities (19.36% return), Real Estate (17.18%), Financials (10.67%) and Industrials (11.54%).

In conjunction with the Fed's September rate cut, Chairman Powell noted the economy's strength along with the progress made toward achieving the FOMC's dual mandate of maximum employment and stable prices. The 12-month change in the CPI has continued to decline steadily during 2024 from 3.1% in January to 2.5% in August, aided by lower energy prices, and even as shelter continued to experience upward pricing pressure. The unemployment rate basically plateaued in the quarter, at 4.1% in September and June, up from the April 2023 post-pandemic low of 3.4%. The Atlanta Fed's current GDPNow estimate for 3Q stands at 2.5% (compared to GDP growth of 3.0% last quarter and 1.6% in 1Q) while the



S&P 500's estimated earnings growth for 3Q is 4.6%, according to FactSet.

PORTFOLIO REVIEW

The Campbell Newman Large Cap Dividend Growth strategy modestly outperformed for the quarter with a return of 6.41% (6.25% net of fees) vs. 5.89% for the S&P 500.

Stock selection in the Consumer Discretionary sector was the greatest positive contributor, adding 66 bps due to the portfolio's sector return of 18.09% vs. the benchmark's 7.84% and driven by strong performance from Lowe's (LOW, 23.46% return) and Home Depot (HD, 18.43%). Led by Accenture (ACN, 17.01%), stock selection in Information Technology added 58 bps as the portfolio recorded performance of 3.31% vs. the benchmark's 1.62%. Also, an underweight to the underperforming Communication Services sector added 31 bps.

With a portfolio sector return of 8.12% vs. 11.54% for the Index, the Industrials sector was the greatest detractor, costing 39 bps. Even though three of the five sector holdings outperformed, weak quarterly performance from Emerson (EMR, -0.21%) and Honeywell (HON, -2.67%) caused the lag. Finally, the portfolio's underweights to the outperforming Utilities and Real Estate sectors cost 30 bps and 24 bps, respectively.

Portfolio turnover was roughly 1% in 3Q. Cisco Systems (CSCO) was sold over concerns about the company's difficulty to turn its modest sales growth into higher earnings due to the greater-than-expected spending ahead. The proceeds were reinvested in stocks with stronger drivers and attractive valuations, Mastercard (MA) and Intercontinental Exchange (ICE). Additionally, the team added to the TE Connectivity (TEL) holding primarily due to its accelerating growth, the expectations for strong and increasing margins and its valuation at 17x the 2025 estimate.

TOP CONTRIBUTORS

Lowe's Companies, Inc. (LOW) strong stock performance was driven by expectations the Fed will begin to lower rates at its September meeting. The reduction in rates tends to be a positive factor contributing to housing related stock

performance. Longer term, the housing backdrop remains positive considering an aging housing stock, tight housing supply and favorable demographics.

Apple, Inc. (AAPL) announced its long-awaited AI strategy with Apple Intelligence, a suite of artificial intelligence tools, to its products at its annual Worldwide Developers Conference held on June 6th. These new features are widely expected to drive an accelerated upgrade cycle for AI-capable phones starting with the release of the iPhone 16 this Fall.

Intercontinental Exchange, Inc. (ICE) trading volume in 2Q 2024 was better than expected, driven by strong energy, metals and interest-rate derivatives trading. Equity markets were robust. Lower interest rates should benefit its Mortgage Technology business.

BOTTOM CONTRIBUTORS

Merck & Co., Inc. (MRK) results for 2Q 2024 were dampened by lower-than-expected sales of HPV vaccine Gardasil in China. Longer term, Gardasil should be able to attain its fiscal year 2030 \$11.0 billion sales target given global penetration is currently at just 10%. That said, cancer-fighting Keytruda continues to exhibit strong sales and the launch of its pulmonary arterial hypertension drug, Winrevair, is off to a strong start.

KLA Corp. (KLAC) delivered strong fiscal 3Q 2024 results above consensus expectations on strong trends in its core process control and service businesses, signaling the start of a multi-year buildout of advanced node technologies for its foundry, logic and memory customers. Despite this performance, the stock underperformed as market participation broadened during 3Q in anticipation of the Fed pivoting to an easing stance beginning with its September meeting.

ConocoPhillips (COP) reported strong 2Q 2024 financial results driven by better-than-expected production. The stock, though, was weighed down by the 18% decline in oil prices during the quarter. We continue to support our stance on COP stock due to its ability to generate and return solid cash flow to shareholders in dividends (regular and variable) and buybacks.



PORTFOLIO POSITIONING

With the low turnover, sector allocations didn't change much. Information Technology, Health Care, Financials and Industrials remained the portfolio's largest absolute sector weights at 33.8%, 19.4%, 16.8% and 11.7%, respectively, at quarter end, followed by Consumer Discretionary and Energy sectors at 7.3% and 4.4%, respectively. Finally, the portfolio continues to have small holdings in Communication Services (2.2%) and Consumer Staples (1.1%).

The Fed's current dot plot calls for another 50 bps of rate cuts this year and 100 bps in 2025, although the much stronger-than-expected September employment report announced on 10/4 may make these projections a bit aggressive. Corporate earnings growth is expected to be positive with FactSet estimating 2024 S&P 500 earnings growth at 10% to \$241, with 2025 growth accelerating to ~15% for estimated earnings of \$277. Although valuations are above their historical averages, lower rates, good liquidity and the projected mid-teens earnings growth present a positive set up, despite the geopolitical issues outstanding.

TOP AND BOTTOM ABSOLUTE CONTRIBUTORS

3Q 2024 TOP CONTRIBUTORS	WEIGHT	RETURN (NET)	IMPACT (NET)
Lowe's Companies, Inc.	3.81%	23.46%	81 bps
Apple, Inc.	6.02	10.74	64
Intercontinental Exchange, Inc.	3.45	17.67	53
RTX Corp.	2.51	21.33	49
AbbVie, Inc.	3.18	16.19	48

3Q 2024 BOTTOM CONTRIBUTORS	WEIGHT	RETURN (NET)	IMPACT (NET)
Merck & Co, Inc.	3.03%	-7.67%	-25 bps
KLA Corp.	4.57	-5.92	-26
ConocoPhillips	2.99	-7.30	-23
Microsoft Corp.	5.57	-3.56	-22
Honeywell International, Inc.	1.84	-2.67	-7

PERFORMANCE

	3Q 2024	YTD 2024	1 YEAR	5 YEARS	10 YEARS
Representative Account (Gross)	6.41%	16.04%	28.68%	14.42%	13.58%
Representative Account (Net)	6.25	15.49	27.87	13.69	12.86
S&P 500 Index	5.89	22.08	36.35	15.98	13.38

Returns greater than 1 year are annualized.

IMPORTANT DISCLOSURES:

Past performance is not indicative of future results. All investments involve risk, including possible loss of principal. There is no guarantee investment objectives will be met. Gross returns are presented before deducting management fees (and custodian fees) and include the reinvestment of all income. Net returns are presented after deducting management fees (and custodian fees) and include the reinvestment of all income. Performance returns are calculated using a time-weighted formula with appropriate adjustments for cash flows, and include all dividends and interest, accrued income, and realized and unrealized gains or losses. Indexes are unmanaged and do not incur fees or expenses. It is not possible to invest directly in an index. Portfolio sector weights reflect a representative account and are subject to change without notice. Sector returns are presented net of management fees. It should not be assumed that an investment in the sectors listed were, or will be, profitable. Portfolio holdings reflect a representative account and are subject to change. Portfolio holdings returns are presented net of management fees. Other accounts within the strategy may have different holdings. Portfolio holdings should not be considered a recommendation to buy, hold or sell securities. Current and future portfolio holdings are subject to risk. Past performance does not guarantee future results. The future performance of any specific investment should not be assumed to be profitable or equal to past results. The performance of the holdings discussed above may have been the result of unique market circumstances that are no longer relevant. The holdings identified above do not represent all of the securities purchased, sold or recommended. Securities mentioned should not be construed as recommendation for purchase or sale. Portfolio transactions should not be considered a recommendation to buy, hold or sell securities.

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