LARGE CAP DIVIDEND GROWTH: WHAT SETS US APART?

A DEEP TEAM WITH A FLAT DECISION-MAKING STRUCTURE

Our investment team consists of three time-tested portfolio managers/analysts, Mary C. Brown, CFA, Rimas M. Milaitis and Jeremy A. Ellis, CFA. The team members have an average of 30 years of experience in bottom-up research, stock selection and portfolio construction and Mary and Rimas have worked together at Campbell Newman for nearly 20 years.

This is the team that created the Dividend Growth strategy, managed it through a multitude of different market environments by adhering to our discipline and built its performance record.

Because the portfolio managers also serve as the product's analysts, nothing is lost in translation between analyst and portfolio manager.

Although we meet formally every Wednesday morning for our Dividend Growth investment meeting, our flat structure allows for us to propose, debate, approve and implement changes to the portfolio at any time.

All changes to the portfolio require a unanimous vote. We respect each other's judgement, and recognize more work needs to be done if one of us is not convinced of a course of action.

We believe Reg FD leveled the playing field so that everyone gets the same information at the same time. It is how the information is processed and used to make decisions that make the difference between success and failure. Accordingly, the investment team at Campbell Newman is distinguished by its independent thought, flat decision-making style and decades of experience in the research and decision-making process, which defines our primary competitive advantage: "Judgement backed by experience."

CAMPBELL NEWMAN

THE LARGE CAP DIVIDEND GROWTH STRATEGY'S INVESTMENT PHILOSOPHY

"A COMPANY'S DIVIDEND POLICY IS TANGIBLE EVIDENCE OF MANAGEMENT'S CONFIDENCE IN FUTURE EARNINGS GROWTH."

We are focused on dividend policy, not yield. We view dividend policy as a signal from management that is more insightful than their verbal or written commentary because it involves a non-retrievable cash payment to shareholders.

We seek companies with growing earnings. We believe that the payment of a meaningful dividend, along with the expectation that it will be increased year after year, imposes an important discipline on management which makes them better allocators of shareholders' capital and promotes more consistent earnings growth over time.

The focus on growth is enforced by two of our quantitative screening criteria:

- A 6% minimum for consensus projected earnings growth rate.
- A 10% minimum trailing 4-quarter ROE.

These criteria eliminate slow/no growth companies from our research universe.

OUR DISCIPLINED INVESTMENT PROCESS INCLUDES SEVERAL UNCOMMON FEATURES

We require five years of consecutive annual dividend increases for a company to be included in our active research universe, except for 2020 when a stable or increased dividend qualifies. Sustaining the dividend during this time of stress is a signal of management's confidence in the business and future earnings growth, and in line with our investment philosophy. In early 2009, we made this same temporary modification to the dividend increase rule.

Our research showed that once a company initiates a dividend, few increase it the following year, and fewer still in the third and fourth years. However, once a company achieves five years of annual dividend increases, the hikes tend to become institutionalized in the capital allocation discussion. Further, it follows that changes in policy raise a flag.

This is a high bar. Only about 4% (~300) of the 7,000 companies in the S&P Capital IQ Research database meet this requirement.

Additionally, the average payout ratio for the portfolio has historically been in the 35% to 40% range, meaning that these companies tend to retain 60% or more of earnings to fund future growth.

We must sell a stock if its dividend is cut. This hard-wired sell discipline goes back to the signaling effect of dividend policy. Something has changed, and regardless of management's rationale or Wall Street's interpretation, the stock is sold as a risk control.

The portfolio has exhibited significantly faster and more consistent dividend growth than the S&P 500 as seen in the table to the right.

DIVIDEND INCREASE HISTORY*

	COMPOSITE+	S&P 500
2004	13.6%	11.8%
2005	14.1	14.3
2006	15.3	12.0
2007	18.7	11.5
2008	12.9	2.4
2009	8.4	-21.1
2010	11.1	1.4
2011	18.0	16.3
2012	14.6	18.3
2013	19.9	12.0
2014	12.2	12.7
2015	14.7	10.0
2016	12.1	5.3
2017	13.5	7.1
2018	15.8	9.8
2019	11.6	8.4
2020	9.9	0.1
2021	11.2	3.7
2022	11.9	10.8
2023	10.0	5.1
2024	9.5	6.4
AVERAGE	**13.3**	**7.5**

*Strategy inception 7/1/03. Stub year 2003 not included.

[+] Represents the Large Cap Dividend Growth Composite

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. Dividends are not guaranteed and a company's future ability to pay dividends may be limited. A company currently paying dividends may cease paying dividends at any time. There is no assurance that dividend-paying stocks will mitigate volatility. Indexes are unmanaged and do not incur fees or expenses. It is not possible to invest directly in an index.

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