



CAMPBELL NEWMAN

MARCH 31, 2019



LARGE CAP DIVIDEND GROWTH

1Q 2019 COMMENTARY

MARKET OVERVIEW

The U.S. stock market entered 2019 a bit battered but in rally mode. The prior quarter's brutal sell-off resulted in multi-year lows in valuations amid deeply oversold conditions, laying the foundation for the S&P 500's 13.65% return. This was the Index's best quarterly performance since the 15.61% produced in 3Q 2009 and its highest 1Q return of this 10-year old bull market.

The yield curve remained fairly flat during the quarter, although points of inversion were evident toward the front end. Despite this, we believe one of the market's greatest worries was relieved

on January 4 when Fed Chair Powell stated that the FOMC would abandon its previously outlined "dot plot" Fed Funds rate increases in favor of greater patience and data-driven decision making. Further relief to the macro picture came on February 24 when the Trump Administration announced an indefinite delay to its March 1 tariff increase deadline. Additionally, the generally positive tone of earnings reports added to the rally's progress. According to FactSet, 4Q 2018 earnings were up 13.4% compared to the year earlier period. About 70% of earnings reports exceeded estimates with the

biggest surprises coming from Energy, Communication Services and Consumer Discretionary.

Considering the length of this bull market, the broad breadth of the recent rally is especially noteworthy. For example, all 11 S&P 500 sectors recorded positive quarterly returns while five sectors had performance >15%: Information Technology (19.86%), Real Estate (17.53%), Industrials (17.20%), Energy (16.43%) and Consumer Discretionary (15.73%).



PORTFOLIO REVIEW

The Large Cap Dividend Growth portfolio outperformed its S&P 500 benchmark in the quarter. The greatest positive impact (81 bps) to relative performance was the portfolio's overweight to the Index's top-performing sector, Information Technology (19.86% return). It's important to note that the portfolio's sector weights are largely an outgrowth of the strategy's bottom-up stock selection process and are indicative of where the team has identified the most attractive issues.

The Information Technology sector also provided the portfolio's greatest detractor from relative performance due to stock selection. Despite the portfolio's strong 18.26% return in this sector, its 160 bps performance lag cost 55 bps.

Stock selection in the Health Care sector contributed 47 bps of relative return, with a portfolio sector return of 8.80% vs. 6.59% for the Index sector. Stock selection in the Real Estate sector added 30 bps to relative return, with a 24.57% return vs. 17.53% for the Index sector.

The other meaningful detractors from relative performance were: Stock selection in the Consumer Discretionary sector cost 27 bps, with a 12.57% portfolio sector return compared to 15.73% for the Index sector, and an overweight to the underperforming Health Care sector cost 36 bps.

The team remains constructive and believes stocks can continue to grind higher over time, driven by earnings growth in what should continue to be a relatively low interest rate environment. Current estimates call for the S&P 500's earnings to grow by approximately 3% in 2019, with the lower year-over-year increase due primarily to the positive impact of tax reform on 2018 earnings growth and the expectation the Energy and Materials sectors will see a decline in earnings in 2019. In 2020, preliminary estimates call for earnings to increase by another 7%.

TOP CONTRIBUTORS

Cisco Systems, Inc. (CSCO) performed favorably due to its fiscal second quarter results and third quarter outlook, which were both modestly above expectations. These results were impressive due to their resiliency in the face of persistent concerns relative to economic growth during the quarter.

American Tower Corp. (AMT) reported better-than-expected fiscal fourth quarter results. The company continues

to benefit from an increased demand for network infrastructure. Additionally, AMT's settlement with India telecom carrier Tata Group continued to be well received by investors.

Analog Devices, Inc. (ADI) reported a 10% year-over-year revenue increase in its core markets of Automotive, Industrial and Communications Infrastructure, representing the 8th consecutive quarter of double-digit Y/Y growth. Additionally, its prior quarter earnings results topped the midpoint of management's guidance.

BOTTOM CONTRIBUTORS

Amgen Inc. (AMGN) reacted negatively to generally positive fourth quarter results. Unfortunately, revenue growth was surprisingly driven by legacy products, Sensipar and Neulasta, whose long-term growth profiles are in decline due to their loss of patent exclusivity. Additionally, the company's 2019 revenue growth guidance of -3% to -8% missed consensus estimates. We are hopeful that AMGN will be able to eventually generate revenue growth from its new product cycle, growing pipeline and/or acquisitions.

UnitedHealth Group (UNH) was negatively affected by issues circulating in the market, such as a Health and Human Services proposal to lower prescription drug prices and out-of-pocket costs by encouraging manufacturers to pass discounts directly onto patients instead of distributors and health plans. Occasionally, discussions of potential changes to healthcare policy emanate out of Washington D.C. causing confusion and dislocation in the market over the short-term. We believe UNH is well suited to manage through such episodes by virtue of its diversified business model, strong track record and experienced management team.

Walt Disney Co. (DIS) failed to participate in the market rally despite delivering generally positive F4Q results. The market appears to be waiting for more clarity on the impact of the Fox asset purchase and more importantly the move towards a direct-to-consumer (DTC) content delivery strategy. We have confidence that DIS will be able to successfully navigate the transition from being one of the most prolific creators of family entertainment to a global DTC content creation and delivery company.



PORTFOLIO POSITIONING

The Large Cap Dividend Growth portfolio's composition changed little in the quarter, with turnover of less than 3%. Eli Lilly & Co. (LLY) was added to the portfolio, while the position sizes of Merck & Company, Inc. (MRK) and Boeing Co. (BA) were increased. The Apple, Inc. (AAPL) holding was trimmed, as was the SunTrust Banks, Inc. (STI) position following the announcement the bank was going to merge

with BB&T Corp. (BBT), another portfolio holding. The portfolio's emphasis remains in Information Technology with a 34.90% weighting (but among a diverse set of 10 holdings), Healthcare (22.28%), Industrials (12.35%), Consumer Discretionary (8.76%) and Financials (7.66%). The portfolio continues to be underweighted to Consumer Staples, Energy and Utilities.

TOP AND BOTTOM ABSOLUTE CONTRIBUTORS

1Q 2019 TOP CONTRIBUTORS

	WEIGHT	RETURN	IMPACT
Cisco Systems, Inc.	4.66%	25.51%	115 bps
American Tower Corp.	4.50	24.57	109
Analog Devices, Inc.	4.37	23.26	95
Stryker Corp.	3.08	26.34	77
Accenture PLC	3.10	24.83	75

1Q 2019 BOTTOM CONTRIBUTORS

	WEIGHT	RETURN	IMPACT
Amgen, Inc.	2.36%	-1.63%	-4 bps
UnitedHealth Group	4.53	-0.40	-2
Walt Disney Co.	1.84	1.26	2
Marathon Petroleum Corp.	1.58	2.33	4
Eastman Chemical Co.	1.87	4.64	9

LARGE CAP DIVIDEND GROWTH COMPOSITE PERFORMANCE NOTES:

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