



CAMPBELL NEWMAN

JUNE 30, 2019



# LARGE CAP DIVIDEND GROWTH

## 2Q 2019 COMMENTARY

### MARKET OVERVIEW

Despite rather volatile monthly performance of 4.05%, -6.35% and 7.05% for April, May and June, respectively, the S&P 500 logged a 4.30% return in the second quarter while hitting new all-time highs in late June. Improved prospects for a trade deal with China and a Fed rate cut(s?) later this year caused stocks to reverse following May's steep 6.35% sell-off and close the quarter on a positive note. The market's breadth was generally strong with all of the major Russell style indices recording positive returns. As a potential sign of weakening market internals, the small and micro-caps underperformed their mid and large-cap counterparts. Across the size spectrum, growth outperformed value in the quarter.

The breadth of the participation within the S&P 500 was broad with 10 of its 11 economic sectors posting positive returns in the quarter. The sectors outperforming the Index return were: Financials at 8.00%, followed by Materials at 6.31%,

Information Technology at 6.06%, Consumer Discretionary at 5.28% and Communication Services at 4.49%. Sectors underperforming the Index but with positive returns were: Consumer Staples at 3.72%, Industrials at 3.57%, Utilities at 3.48%, Real Estate at 2.46% and Health Care at 1.38%. Finally, the Energy sector posted a -2.83% return as oil (WTI) declined by approximately 5% from April 1 to June 30.

### PORTFOLIO REVIEW

The Large Cap Dividend Growth portfolio outperformed its S&P 500 benchmark by 166 bps, gross of fees. Stock selection accounted for most all the positive relative return in this up-and-down period highlighting the benefit of the strategy's dividend growth requirement along with the team's bottom-up research and decision-making methodology.



Taken together, stock selection and an overweighted position in the strong Information Technology sector added over 120 bps of relative performance. The portfolio's sector return of 8.91% outperformed by 285 bps as 6 of the 11 sector holdings bested the benchmark. Noteworthy performance by industry in the portfolio came from Semiconductors (8.04% return vs. 0.52% for the benchmark industry) and Electrical Equipment (19.39% vs. 6.88%).

Stock selection added 50 bps in the Communication Services sector (portfolio sector performance of 14.64% vs. 4.49% for the benchmark sector) and 20 bps in Consumer Discretionary (7.50% vs. 5.28%).

An underweight to the Energy sector added 29 bps to relative return. Note that sector weights are largely a residual of the team's bottom-up methodology, with absolute sector weights a reflection of where the team is finding the most attractive issues within the strategy's parameters.

On the negative side, an overweight to the underperforming Health Care sector detracted 37 bps while an underweight to the top performing Financial sector cost 19 bps.

## TOP CONTRIBUTORS

After a difficult 2018 due to the disruption caused by the Toys "R" Us bankruptcy, the market applauded **Hasbro, Inc.'s (HAS)** 1Q 2019 results that topped analyst expectations. These results provided investors the needed confirmation the company was on its way to recovery.

**Microsoft, Inc. (MSFT)** exhibited strong fiscal 3Q results which were ahead of expectations by most every measure including revenues, earnings and margins. Commercial bookings growth of 34% was the strongest in nearly four years.

**Lockheed Martin Corp. (LMT)** continues to enjoy strong demand for its sophisticated military equipment domestically and internationally. LMT stock reacted positively to strong 1Q results that surpassed analyst expectations by a wide margin and allowed the company to raise its full-year outlook.

## BOTTOM CONTRIBUTORS

**Eli Lilly & Co.'s (LLY)** 1Q results were somewhat mixed with confusing results for type 2 diabetes franchise drug Trulicity. For example, the highly anticipated REWIND study, seeking to measure cardiovascular outcomes during Trulicity treatment, slightly disappointed against heightened expectations. We continue to like the stock due to the combination of its core product growth, growing portfolio of new launches and pipeline assets.

**Lowe's Companies, Inc. (LOW)** reported fiscal 1Q earnings that were well below expectations due to increased inventories, cost pressures and deficient pricing tools. These issues offset positive results on revenue performance as same-store sales came in at 4.2% domestically, far exceeding those of archrival Home Depot (3.0%). We view the turnaround being undertaken by new management positively, as witnessed by the improved sales performance, and acknowledge the inherited supply chain and technology deficiencies management is encountering makes the progress lumpier than desired.

There has been a daily drumbeat of negative news regarding **Boeing Co. (BA)** since the March 10, 2019 Ethiopian Airlines crash. We continue to believe the original investment thesis regarding BA's long-term earnings potential will play out over time despite a reduction in near-term growth expectations due to the 737 MAX's issues.

## PORTFOLIO POSITIONING

With portfolio turnover of 2.8% in the quarter, positioning changed little since March. In April, the position in Walt Disney (DIS) was increased following the company's Analyst Day, which outlined its Disney+ strategy and pricing. Amgen (AMGN), which has not exhibited the earnings growth projected, was selected as a source of funds for the Disney purchase. In June, Analog Devices (ADI) and Microsoft (MSFT), two of the larger Information Technology holdings with strong performance, were trimmed in order to make room for another Tech holding, Corning, Inc. (GLW). The portfolio's emphasis remains in Information Technology with a 35.7% weighting (among a diverse set of 11 holdings), Healthcare (19.0%), Industrials (12.20%) and Consumer Discretionary (8.8%). The portfolio continues to be underweighted to Consumer Staples, Energy and Utilities.

**TOP AND BOTTOM ABSOLUTE CONTRIBUTORS****2Q 2019 TOP CONTRIBUTORS**

	<b>WEIGHT</b>	<b>RETURN</b>	<b>IMPACT</b>
Hasbro, Inc.	3.33%	25.17%	74 bps
Microsoft Corp.	4.67	13.97	66
Lockheed Martin Corp.	3.06	21.85	62
TE Connectivity Ltd.	3.48	19.21	61
Walt Disney Co.	2.81	25.89	51

**2Q 2019 BOTTOM CONTRIBUTORS**

	<b>WEIGHT</b>	<b>RETURN</b>	<b>IMPACT</b>
Eli Lilly & Co.	1.76%	-14.14%	-28 bps
Lowe's Companies, Inc.	3.50	-7.40	-27
Boeing Co.	3.27	-4.01	-14
Raytheon Co.	3.33	-4.00	-14
Amgen, Inc.	0.45	-3.95	-9

**LARGE CAP DIVIDEND GROWTH COMPOSITE PERFORMANCE NOTES:**

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