



DECEMBER 31, 2019

CAMPBELL NEWMAN



LARGE CAP DIVIDEND GROWTH

4Q 2019 COMMENTARY

MARKET OVERVIEW

The market looked through the political tumult of the third-ever Presidential impeachment and expectations for lackluster 2019 earnings growth (FactSet estimates for S&P 500: -1.4% for 4Q and 0.3% for 2019) and to an accommodative Fed again growing its balance sheet (in an economy with 3.5% unemployment), building optimism regarding a China trade deal and expectations of 9%+ S&P 500 earnings growth in 2020. This allowed the Index to deliver three consecutive months of positive performance resulting in a quarterly return of 9.07% and a full-year 2019 return of 31.49%.

Only three of 11 S&P 500 sectors outperformed in the quarter. Information Technology was the top quarterly performer for the third time in 2019. Its 14.39% return,

fueled by strength in Hardware (29.60% return) and Semiconductors & Equipment (18.77%), narrowly beat Health Care's 14.37% return.

However, the Health Care sector was bouncing back from its poor 3Q performance of -2.25%, which was negatively impacted by the rollout of a number of the Presidential candidate's health care proposals. The Financials sector also recorded a double-digit return at 10.47%, with Banks as the strongest industry group (15.36% return) due to better-than-feared 3Q earnings results, a steepening of the yield curve and improved expectations for 4Q and 2020 results. While the other eight sectors underperformed the benchmark's return, only Real Estate posted a negative return at -0.54%.



PORTFOLIO REVIEW

Campbell Newman's Large Cap Dividend Growth composite underperformed the S&P 500's strong quarterly return. This strategy is designed to participate on the upside and protect on the downside, with the goal of outperforming over a market cycle at lower levels of volatility by investing exclusively in stocks with a history of consistent dividend increases.

Overall, stock selection had a negative impact to relative performance (-382 bps) while sector allocation was positive (117 bps). Sector weights are a by-product of the strategy's bottom-up stock selection process within a diversification framework of maximum position size and relative sector weight risk controls. Sector allocations reflect where the team has identified the best bottom-up risk/return opportunities.

The greatest negative impact was stock selection in the benchmark sector with the highest return at 14.39%, Information Technology (portfolio sector return: 7.84%). Less robust 3Q earnings or weaker short-term outlooks for portfolio holdings hurt although many top benchmark contributors do not meet the strategy's most important minimum investment criteria of five consecutive years of dividend rate increases. Fortunately, a relative overweight to Information Technology helped mitigate the stock selection impact.

Consumer Discretionary stock selection had the second greatest negative impact with a return of -2.03% vs. 4.47% for the benchmark sector. Stock selection in the Industrials sector had the third greatest negative impact, with a 1.11% return vs. 5.53% for the bogey's sector.

No exposure to two of the benchmark's weakest sectors, Consumer Staples and Utilities, added roughly 70 bps.

TOP CONTRIBUTORS

UnitedHealth Group (UNH) reacted positively to strong 3Q results and raised 4Q guidance. As well, the Analyst Day held late in the quarter highlighted the company's strong fundamental backdrop. The adverse political backdrop that dogged the healthcare industry during the year moderated as Democrat presidential hopefuls walked back some of their more aggressive healthcare proposals.

JPMorgan Chase & Co. (JPM) reported better-than-feared 3Q results broadly driven by fixed-income trading, investment banking, mortgage and net interest income. In general, the industry appears in good shape as growth in loans, securities and deposits remained strong.

Apple, Inc. (AAPL) stock benefited from strong F4Q results (FY end: 9/30) which exhibited better-than-expected iPhone and services revenue. The company also expressed confidence in this momentum carrying into the F1Q ending December 2019.

BOTTOM CONTRIBUTORS

Boeing, Inc. (BA) stock continued to be negatively impacted by the issues surrounding its 737 Max aircraft. The stock was eventually sold late in the quarter due to the Board's decision not to raise its annual dividend rate thus triggering one of the strategy's sell disciplines.

Hasbro, Inc. (HAS) experienced a major disruption in its order trends and supply chain due to the trade war with China during the 3rd quarter that surprised investors. Our thoughts are that these issues should not linger long-term or affect the company's future as it expands upon its brand blueprint strategy with its owned intellectual property.

Home Depot, Inc. (HD) F3Q sales were below management expectations due to the timing of benefits associated with some strategic investments. While revenue guidance for the balance of the fiscal year was brought down, earnings guidance was reaffirmed. Our thoughts are that the quarter's sales miss is more a function of timing rather than a slowdown of industry trends and, as a result, expect the company to exhibit improved results in FY21.



PORTFOLIO POSITIONING

With portfolio turnover of 2.47% in the quarter, positioning changed little since September. 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. The portfolio's

emphasis remains in Information Technology with a 35.5% weighting (but among a diverse set of 11 holdings), Healthcare (18.7%), Financial (10.4%) and Industrials (10.3%). The portfolio continues to be underweighted to Consumer Staples, Energy and Utilities.

TOP AND BOTTOM ABSOLUTE CONTRIBUTORS

4Q 2019 TOP CONTRIBUTORS	WEIGHT	RETURN	IMPACT
UnitedHealth Group	3.96%	35.78%	120 bps
JPMorgan Chase & Co.	4.63	19.30	83
Apple, Inc.	2.76	31.50	77
Microsoft Corp.	4.08	13.81	54
Raytheon Co.	3.59	12.49	42

4Q 2019 BOTTOM CONTRIBUTORS	WEIGHT	RETURN	IMPACT
Boeing Co.	2.52%	-13.42%	-43 bps
Hasbro, Inc.	3.26	-10.39	-39
Home Depot, Inc.	2.19	-5.30	-12
Cisco Systems, Inc.	3.84	-2.21	-9
Stryker Corp.	3.06	-2.67	-9

LARGE CAP DIVIDEND GROWTH COMPOSITE PERFORMANCE NOTES:

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