LARGE CAP DIVIDEND GROWTH
2Q 2020 COMMENTARY

MARKET OVERVIEW

The S&P 500 recouped most of its pandemic-induced decline with a 20.54% 2Q return, bringing YTD performance to -3.08%. The quarter began with stocks at deeply oversold levels following a 33.29% decline in the S&P 500 over just 23 trading days from February 19 to March 23. Concurrently, we saw several developments supportive of a rally:

- The rapid and massive fiscal and monetary policy responses initiated in March helped dampen the impact of the steep economic contraction, thus avoiding the worst-case economic scenarios.
- The topic of discussion shifted from shutting down to reopening the economy.
- The news flow regarding COVID-19 improved, including a better understanding of the risks, more effective treatments, and progress toward a vaccine. It also became evident that worse-case predictions were unlikely.
- The incredibly quick and smoother-than-expected transition to work-from-home and other online commerce made possible by technology surprised many.

The broad market rallied but there was wide dispersion between returns. Among styles, Growth trounced Value across market caps as pantry stocking came to an end. For example, the Russell 1000 Growth (R1000G) delivered a 27.84% return vs. the Russell 1000 Value's (R1000V) 14.29%. S&P 500 sector performance also showed major differences. Consumer Discretionary (32.86% return) and Information Technology (30.53%) were the two top sectors, reflecting how investors envisioned the way forward. The bottom two were Utilities (2.73%) and Consumer Staples (8.12%). Note: YTD, only Consumer Discretionary and Information Technology have positive returns at 7.23% and 14.95%, respectively.

Additionally, dividend increases have declined in 2020 while cuts and suspensions have increased due to the operating environment. Among S&P 500 constituents, there have been 161 dividend increases YTD vs. 355 last year and 41 companies have suspended their dividend vs. 32 total suspensions in 2008-2009. (S&P Dow Jones Indices)

PORTFOLIO REVIEW

The Campbell Newman Large Cap Dividend Growth composite slightly underperformed the S&P 500 during the quarter's exceptional rebound. With the investment philosophy "a company's dividend policy is tangible evidence of management's confidence in future earnings growth," the strategy invests in a high conviction portfolio of 25-35 stocks with consistent annual dividend increases and a meaningful current yield and is designed to outperform over a market cycle at lower levels of risk through upside participation/downside protection. The quarter's performance is expected given the magnitude of the rally and the impact of a handful of mega-cap, non-dividend payers on the Index.

Sector allocation accounted for the relative underperformance, while stock selection was neutral. Recall that the portfolio is built through bottom-up stock picking so sector allocations reflect where the team has identified the best risk/return opportunities within the strategy's parameters. The greatest positive impacts to relative performance during the quarter were: An overweight to Information Technology (added 120 bps of relative performance), underweights to Consumer Staples (96 bps) and Utilities (63 bps) and stock selection in Consumer Discretionary (77 bps) and Real Estate (35 bps). The greatest negative impacts to relative performance were: Stock selection in Industrials cost 118 bps, an average cash balance of 3.90% detracted 108 bps, and an overweight to Health Care cost 50 bps.

TOP CONTRIBUTORS

Due to the resiliency of its product line, **Apple, Inc. (AAPL)** was able to manage through the COVID-19 impaired environment. Better-than-expected momentum in iPhone sales, underappreciated strength in iPad and Mac sales due to work-from-home (WFH) and online learning, and continued strength in services all contributed to the strength during the quarter.

Lowe's Companies, Inc. (LOW) has remained open during the pandemic due to its essential business classification. As WFH proliferated and, with little else to do, home improvement spending benefited from a wallet share shift in consumer spending. Additionally, the generous unemployment insurance benefits associated with the fiscal stimulus response to the pandemic served to accelerate this shift.

Microsoft Corp. (MSFT) posted strong fiscal third quarter results, topping the high-end of management's original guidance. Fiscal fourth quarter guidance incorporated a more dire economic outlook, yet management still forecast high single-digit / low double-digit revenue growth. As a result of this strong performance, it is clear MSFT has achieved mission critical status amongst its client base.

BOTTOM CONTRIBUTORS

Raytheon Co. (RTN) stock reacted negatively to its pending merger (closed April 3rd) with United Technologies Corp. (UTX). While RTN's defense businesses have remained stable, UTX's exposure to commercial aerospace is seen as a liability in the current environment. We believe the combined company, Raytheon Technologies (RTX), should manage through this difficult period to emerge as a leading global supplier to the military and commercial aerospace industries.

Recall that **Truist Financial Corp. (TFC)** was the result of a merger between portfolio holdings, BB&T Corp. & SunTrust. Unfortunately, given the extreme change in the interest rate and business environments, we see the beneficial effects of the merger lessening and their timing delayed. At the same time, TFC will likely need to take greater reserves. As a result, the holding was sold.

Merck & Co., Inc. (MRK) lowered its full-year guidance by approximately 8% due to COVID-19 and foreign exchange related issues. Roughly two-thirds of MRK's pharmaceuticals are physician administered and, as doctor office visits declined due to the pandemic, sales were negatively impacted. We believe this impact should be short-lived as the economy emerges from the pandemic malaise.

PORTFOLIO POSITIONING

The portfolio's positioning changed modestly in the quarter with turnover of 6.33%. Notably, the sole Communication Services holding was sold in early May because the company suspended its dividend, triggering one of the strategy's sell disciplines. One new stock was added in Information Technology. The portfolio remains overweighted to Information Technology, Health Care, Industrials and Real Estate due to the constituent companies' strong bottom-up fundamentals. The portfolio continues to be underweighted to Consumer Staples, Energy and Utilities as the team has not been able to identify compelling issues at attractive valuations in these spaces.

TOP AND BOTTOM ABSOLUTE CONTRIBUTORS

2Q 2020 TOP CONTRIBUTORS	WEIGHT	RETURN	IMPACT
Apple, Inc.	4.57%	43.84%	186 bps
Lowe's Companies, Inc.	3.65	57.81	180
Microsoft Corp.	5.33	29.39	154
Analog Devices, Inc.	3.32	37.32	113
Texas Instruments, Inc.	4.15	27.84	110

2Q 2020 BOTTOM CONTRIBUTORS	WEIGHT	RETURN	IMPACT
Raytheon Co.	0.12%	-10.82%	-29 bps
Truist Financial Corp.	0.43	-3.70	-10
Merck & Co., Inc.	2.44	1.30	3
Broadcom, Inc.	0.06	1.90	4
Northrop Grumman Corp.	3.02	2.07	6

LARGE CAP DIVIDEND GROWTH COMPOSITE PERFORMANCE NOTES:

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