LARGE CAP DIVIDEND GROWTH

1Q 2022 COMMENTARY

MARKET OVERVIEW

The quarter was defined by a volatile, headline-driven environment in which the S&P 500 recorded a -4.60% total return. This was its first negative quarterly performance since the onset of the pandemic in 1Q 2020. Stocks started the quarter by selling off by roughly 13% from 2022's all-time highs through March 8, before staging an almost 9% comeback in what many have termed a low-quality rally.

Fueling the downturn was the Fed's signaling of a significantly more hawkish monetary policy to curb inflation, which rose to 7.9% in February, up from January's 7.5%. Indications are for 0.50% increases to the Fed Funds target rate in both May and June, following the 0.25% increase to 0.25%-0.50% on March 16. Consequently, the 10-Year U.S. Treasury closed the quarter at 2.32% after starting it at 1.52% and the yield curve flattened substantially as the 2-Year U.S. Treasury yield rose to 2.28% from 0.73% at the beginning of the year. The 10-Year's rise caused the average 30-year fixed-rate mortgage rate to increase by approximately 50%, from 3.11% to 4.67%, in the quarter.

Adding to volatility was the lead up to Russia's invasion of Ukraine on February 24 and then the multiple false starts in peace negotiations, as was watching the great humanitarian crisis unfold real time and fears of broader global conflict. The war in Europe laid bare the fragility of the world's energy complex and the real-world consequences of the rapidity of the implementation of the green agenda, as the price of oil spiked to $119/bbl on March 8 from $75 at year-end. In the near-term, the war has broadened and further complicated supply chain issues while calling into question the longer-term impacts on global alliances and trade.

There were few places to hide in the quarter other than Energy, which had a 39.03% return. Utilities was the only other sector with a positive return at 4.77%. Consumer Staples (-1.01%), Financials (-1.48%), Industrials (-2.36%), Materials (-2.37%) and Healthcare (-2.58%) outperformed the Index, while the underperformers were Communication Services (-11.92%), Consumer Discretionary (-9.03%), Information Technology (-8.36%) and Real Estate (-6.22%).

PORTFOLIO REVIEW

The Large Cap Dividend Growth portfolio underperformed the S&P 500 in 1Q 2022. As would be expected by the portfolio's high-quality bias, due to its strict dividend growth criteria, it outperformed during the quarter's downdraft but did not keep pace during the March rally--primarily due to strength of lower-quality issues off of the lows. Sector allocation accounted for 2/3rds of the relative lag with stock selection costing the remainder.

Stock selection in the Industrials provided the greatest positive impact on relative performance at 96 bps, with performance of 8.01% vs. -2.36% for the Index, due to the portfolio's exposure to stocks operating in the less cyclical defense industry. In Communication Services, a relative underweight along with superior stock selection (-6.49% performance vs. -11.92% for the Index sector) added a total of 68 bps to relative return. Stock selection in the Information Technology sector added 37 bps of relative return with performance of -7.54% vs. -8.36% for the benchmark sector, while stock picking in Health Care added another 32 bps, with a return of -0.15% compared to -2.58% for the bogey's sector.

The portfolio's underperformance can be largely explained by stock selection in the Consumer Discretionary and Financials sectors, which cost 111 and 75 bps, respectively.

- The portfolio's Consumer Discretionary sector had a -23.60% return, vs. -9.03% for the benchmark sector, driven by its exposure to two home improvement retailers.

- The Financials recorded a -7.69% return compared to the benchmark's -1.48% performance. Four out of the five sector holdings underperformed as interest rates rose, but the yield curve flattened.

TOP CONTRIBUTORS

Raytheon Technologies Corp. (RTX) was a beneficiary of the rally in defense stocks spurred by Russia's invasion of Ukraine. With military sales accounting for approximately 50% of total revenues, RTX stands to benefit from the building support for increases in defense budgets here and with our allies.

Northrop Grumman Corp. (NOC), a pure play defense contractor, also participated in the defense stock rally driven by the conflict in Ukraine. The potential for upward pressure on defense budgets should be beneficial to NOC.

ConocoPhillips (COP) announced it is increasing its 2022 total return of capital target from $7.0 billion to $8.0 billion in keeping with the move higher in the price of oil. The energy sector led the market in the quarter as the price of oil rose by 34% to $100.28 per barrel, driven in part by the war in Ukraine.

BOTTOM CONTRIBUTORS

Lowe's Companies, Inc. (LOW) posted strong fiscal 4Q 2022 results with earnings ahead of consensus driven by 5.1% comparable store sales. Despite this operational strength, the stock underperformed over concerns of an eventual sales deceleration due to the lapping of stimulus payments and DIY share of wallet normalization, along with uncertainty due to rising mortgage rates. We believe the company will be able to manage through this period of uncertainty and note the stock's valuation is attractive at 13.9x fiscal year 2024 consensus estimate, a 15% discount to its 20-year median multiple.

The Home Depot, Inc. (HD) posted solid fiscal 4Q 2022 results with earnings ahead of consensus driven by domestic comparable store sales of 7.6% though margins were slightly impacted due to mix and supply chain issues. Management's conservatism in its fiscal year 2023 guidance came as a disappointment to investors. Sentiment toward home improvement stocks turned negative in the quarter. While recognizing the easy comps are behind them, the high housing turnover during the past several years should provide a long-tailed spending trend in home improvement, that we believe has been overly discounted.

TE Connectivity Ltd. (TEL) reported fiscal 1Q 2022 results driven by strong organic growth in its Industrial and Communication Solutions units. While results were stronger than expected, component order trends moderated in the Transportation division, leading to concerns of inventories building ahead of demand trends. We believe these concerns are overblown as order rates should recover over the next few quarters as inventories are depleted near-term.

PORTFOLIO POSITIONING

The portfolio's positioning remained much the same in the quarter with turnover of less than 2%. The most important change was the purchase of ConocoPhillips (COP), which gave the portfolio exposure to the Energy sector as it had previously had none.

The team believes stocks can continue to grind higher over time. But in the near-term, it is clear the Federal Reserve is determined to drain some of the excess liquidity in the system during 2022, especially as inflation continues to run hot. Conditions like these should favor higher quality over lower quality and dividend growth over high yield but could create a volatile backdrop as the market absorbs the Fed's attempts to cool the economy.

TOP AND BOTTOM ABSOLUTE CONTRIBUTORS

1Q 2022 TOP CONTRIBUTORS	WEIGHT	RETURN	IMPACT
Raytheon Technologies Corp.	4.51%	15.69%	60 bps
Northrop Grumman Corp.	2.55	15.97	36
ConocoPhillips	1.44	10.95	21
Merck & Co., Inc.	1.63	7.96	12
Eli Lilly & Co.	1.91	4.06	8

1Q 2022 BOTTOM CONTRIBUTORS	WEIGHT	RETURN	IMPACT
Lowe's Companies, Inc.	4.56%	-21.52%	-105 bps
The Home Depot, Inc.	2.31	-27.44	-71
TE Connectivity Ltd.	3.61	-18.51	-70
KLA Corp.	4.08	-14.63	-64
Microsoft Corp.	5.96	-8.13	-51

LARGE CAP DIVIDEND GROWTH COMPOSITE PERFORMANCE NOTES:

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