LARGE CAP DIVIDEND GROWTH

1Q 2023 COMMENTARY

MARKET OVERVIEW

Led by a handful of mega-cap stocks, the S&P 500 managed to produce a 7.50% return during a tumultuous quarter. January brought a return of the "risk on" mentality. The promise of the mass application of artificial intelligence through ChatGPT ignited the market's imagination, fueling the S&P 500's 6.28% monthly performance. Then, February's mood turned somber, with the S&P 500 recording a -2.44% return. This was as the Fed continued ratcheting up interest rates at a pace and magnitude not seen in 40 years (+450 bps in less than one year!), causing greater movement of bank deposits into higher yield-bearing instruments. Concurrently, ongoing cost pressures brought fewer positive surprises during earnings season, thus casting doubts on the vitality of earnings growth and valuations, while the yield curve's steepening inversion also pointed to trouble ahead. Finally, despite the second and third largest bank collapses in U.S. history during March, the S&P 500 was up 2.19%. The rally from the mid-March lows was fueled by the liquidity injected into the financial system to prevent contagion from Silicon Valley Bank's (SVB) failure and a "flight to quality" into mostly mega-cap tech stocks.

The upheaval caused varied quarterly returns among market segments. Large Caps generally outperformed Small Caps by style and Growth outperformed Value across market capitalizations by wide margins. For example, the Russell 1000 Growth's 14.37% return bested its Value counterpart by over 1,300 bps. It follows that among S&P 500 sector returns, the top performers were Information Technology (24.10% return), Communication Services (20.49%) and Consumer Discretionary (16.79%). Conversely, four sectors reported negative performance, Energy (-4.67%), Health Care (-4.38%), Financials (-3.36%) and Utilities (-3.24%).

PORTFOLIO REVIEW

The Campbell Newman Large Cap Dividend Growth portfolio underperformed its S&P 500 benchmark with a gross of fees return of 3.38% (3.21% net of fees) compared to 7.50%. Stock selection accounted for the relative lag as sector allocation was a positive contributor.

The greatest positive contributor (127 bps) to relative performance was the portfolio's 33% overweight to the best performing sector, Information Technology. Stock Selection in the Financials* sector added 86 bps relative due to the portfolio's return of 3.22% vs. the benchmark sector's -3.36%. Importantly, the portfolio's exposure to the banking industry was reduced by more than 2/3rds over the past 15 months and was comprised of only a 1.80% position in Region's Financial (RF) when the banking issues emerged. Finally, stock selection the Health Care added 50 bps with performance of -1.21% vs. -4.38% for the benchmark sector.

The greatest detractor (-240 bps) from relative performance was stock selection in Information Technology due to the portfolio sector's 15.91% return vs. 24.10% for the benchmark sector. Stock selection in Industrials cost another 158 bps with a portfolio sector return of -8.10% vs. 3.05%. Stock selection in Consumer Discretionary detracted 113 bps because the portfolio's sector underperformed the benchmark's at -1.51% vs. 16.79%.

TOP CONTRIBUTORS

Apple, Inc. (AAPL) reported softer-than-anticipated fiscal 1Q 2023 results due to numerous headwinds including foreign exchange pressure, supply constraints out of China and broader economic challenges. Regardless, big tech stocks such as Apple benefited from several tailwinds in the quarter. Turmoil in the banking sector had investors focused on the information technology sector's strong balance sheets and revenue streams that were seen as durable even in the event of an economic downturn.

Microsoft Corp. (MSFT) reported better-than-feared fiscal 2Q 2023 results but offered a softer 3Q guide and cautious commentary, which served as a reminder to temper expectations for better software demand trends anytime soon. That said, big tech stocks such as Microsoft benefited from turmoil in the banking sector as investors awarded them safe-haven status due to their strong balance sheets and durable revenue streams. Microsoft also announced it was incorporating new artificial intelligence features into its broad suite of products which helped sentiment.

Analog Devices, Inc. (ADI) once again reported strong financial results during the quarter, marking eight consecutive quarters of record revenue. Nearly three-quarters of revenue comes from industrial and automotive end markets which continue to be strong, both delivering over 25% revenue growth in the quarter. Management expects to deliver elevated revenue growth over the coming years driven by the continued increase of semiconductor content in industrial and automotive applications.

BOTTOM CONTRIBUTORS

ConocoPhillips (COP) stock was negatively impacted from the retreat in oil prices due to heightened recession fears and banking turmoil. Oil prices declined from $80 per barrel at the beginning of the year to $67 mid-March before rebounding to $74.37 at quarter's end. Oil companies are increasingly focused on returning excess capital to shareholders instead of reinvesting those dollars into new projects. We believe these reduced levels of reinvestment are inadvertently supportive of a higher-than-expected oil price level over time.

Northrop Grumman Corp. (NOC), a pure play defense contractor, reported an in-line quarter with a 2023 outlook modestly below prior forecast due to profit margin pressure. The headwinds are due to both a tight labor market as well as inflationary pressures and supply chain disruptions. The company expects improvement in margins throughout the year as some of these pressures ease. NOC remains well positioned to benefit from its embedded growth on B-21, Sentinel (Ground Based Strategic Deterrent) and Space programs.

Honeywell International, Inc. (HON), a diversified technology and manufacturing company, reported a solid 4Q EPS of $2.52 and gave guidance for 2023 EPS growth of 8% to 10%, in-line with expectations. The only negative in the quarter was the announcement CEO Darius Adamczyk will retire after seven years in the role. Vimal Kapur will succeed him and has spent 34 years at the company, working with Adamczyk for 11 years. We expect a smooth transition and no change in the long-term financial target of 10% earnings growth.

PORTFOLIO POSITIONING

With the Fed's aggressive interest rate increases over the past year, our experience told us it was only a matter of time before something important broke in the Financials sector. Unfortunately, we did not know where or when the breakdown would happen. However, our focus on dividend growth and quality have again helped the portfolio navigate difficult times without the need for significant changes, as seen in portfolio turnover of 4.47% in the quarter and 9.10% over the past 12 months.

As such, the basic framework of the portfolio changed little in the quarter. The position size of Deere & Co (DE), EOG Resources (EOG) and Air Products & Chemicals (APD) were increased, while one new holding, insurance brokerage company, AJ Gallagher (AJG), was added. Three large, successful technology holdings were pared back, Apple, Microsoft and Broadcom (AVGO), while the portfolio's sole holding in the bank industry, Regions Financial (RF), was sold.

Built through bottom-up stock selection, with sector weights reflective of where the team has identified the best risk/return, in what it expects to be, a volatile, back and forth environment. The portfolio continues to emphasize Information Technology (34.4% weight), Health Care (14.7%), Financials* (13.4%) and Industrials (12.5%) in absolute terms. The team has been building the position in Energy over the past year to just under 5.4% from 0%.

*During the quarter, GICS moved portfolio holdings Visa (V, 3.4% holding) and Mastercard (MA, 2.9% holding) from the Information Technology sector to the Financials sector. The attribution analysis and portfolio sector weights presented in this report are as if V & MA were in the Financials sector since 12/31/22.

TOP AND BOTTOM ABSOLUTE CONTRIBUTORS

1Q 2023 TOP CONTRIBUTORS	WEIGHT	RETURN (NET)	IMPACT (NET)
Apple, Inc.	5.23%	27.10%	123 bps
Microsoft Corp.	4.37	20.51	78
Analog Devices, Inc.	4.17	20.79	78
Broadcom, Inc.	4.69	15.56	69
Stryker Corp.	3.82	17.06	61

1Q 2023 BOTTOM CONTRIBUTORS	WEIGHT	RETURN (NET)	IMPACT (NET)
ConocoPhillips	3.79%	-15.03%	-62 bps
Northrop Grumman Corp.	2.92	-15.06	-52
Honeywell International, Inc.	3.50	-10.36	-41
UnitedHealth Group	3.21	-10.55	-39
Regions Financial Corp.	1.70	-16.55	-32

PERFORMANCE

	1Q 2023	1 YEAR	5 YEARS	10 YEARS
Representative Account (Gross)	3.38%	-1.02%	11.70%	12.62%
Representative Account (Net)	3.21	-1.64	10.99	11.90
S&P 500 Index	7.50	-7.73	11.19	12.24

Returns greater than 1 year are annualized.

IMPORTANT DISCLOSURES:

Past performance is not indicative of future results. All investments involve risk, including possible loss of principal. There is no guarantee investment objectives will be met. Gross returns are presented before deducting management fees (and custodian fees) and include the reinvestment of all income. Net returns are presented after deducting management fees (and custodian fees) and include the reinvestment of all income. Performance returns are calculated using a time-weighted formula with appropriate adjustments for cash flows, and include all dividends and interest, accrued income, and realized and unrealized gains or losses. Indexes are unmanaged and do not incur fees or expenses. It is not possible to invest directly in an index. Portfolio sector weights reflect a representative account and are subject to change without notice. Sector returns are presented net of management fees. It should not be assumed that an investment in the sectors listed were, or will be, profitable. Portfolio holdings reflect a representative account and are subject to change. Other accounts within the strategy may have different holdings. Portfolio holdings should not be considered a recommendation to buy, hold or sell securities. Current and future portfolio holdings are subject to risk. Past performance does not guarantee future results. The future performance of any specific investment should not be assumed to be profitable or equal to past results. The performance of the holdings discussed above may have been the result of unique market circumstances that are no longer relevant. The holdings identified above do not represent all of the securities purchased, sold or recommended. Securities mentioned should not be construed as recommendation for purchase or sale. Portfolio transactions should not be considered a recommendation to buy, hold or sell securities.

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