



CAMPBELL NEWMAN

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LARGE CAP DIVIDEND GROWTH 2Q 2023 COMMENTARY

MARKET OVERVIEW

While the S&P 500 Index recovered to its February 2022 level of 4,400 in the quarter, market participation remained narrow with the largest of the Large Caps serving as the primary drivers of the S&P 500's 8.74% return. The S&P 500's nine largest constituents (Apple, Microsoft, Amazon, Nvidia, Alphabet Class A & C, Tesla, Meta and Berkshire Hathaway) have grown to account for just under 30% of the S&P 500's total market capitalization as of June 30. With an average return in the quarter of 24.27%, these stocks contributed roughly two-thirds (6 percentage points) of the Index's 8.74% return. (See page 4 for table with details.) Further, their performance is in stark contrast to the S&P 500's equal-weighted return of 3.88% which, again, highlights the market's selectivity.

Not only were these mega-caps seen as safe havens on the heels of March's bank failures, but the majority of them also

benefited from news during the quarter regarding potentially broad commercial applications for Generative AI (Berkshire Hathaway may appear out of place with this group but, remember, it owns over 916 million shares of Apple -- worth almost \$178 billion or ~23% of its market cap.). Other notable bright spots include spending on travel/leisure and housing, which points to a resilient consumer, despite the Fed's ongoing hawkish stance and its May rate increase to 5.00%-5.25%.

It follows that the S&P 500's outperforming sectors were Information Technology, Consumer Discretionary and Communication Services, with quarterly returns of 17.22%, 14.57% and 13.07%, respectively. None of the other sectors outperformed the Index. Utilities (-2.52%) and Energy (-0.89%) posted the only negative quarterly sector returns.



PORTFOLIO REVIEW

The Campbell Newman Large Cap Dividend Growth portfolio modestly outperformed its S&P 500 benchmark with a gross of fees return of 9.15% (8.98% net of fees) compared to 8.74%.

Stock selection in Health Care was the greatest positive contributor to relative performance, adding 138 bps due to the portfolio sector return of 11.92% vs. the benchmark's 2.96%. Stock selection in Financials (10.02% portfolio vs. 5.36% Index) contributed another 62 bps relative. The portfolio's overweight to the best performing sector, Information Technology, contributed 55 bps relative, while a lack of exposure in Consumer Staples (0.45% return) added 60 bps. As bottom-up stock pickers, portfolio sector weights are a reflection of where the team has identified the best risk/return opportunities within its disciplined stock selection methodology.

The greatest detractor to relative performance (115 bps) was stock selection in Information Technology, with a portfolio return of 13.73% vs. 17.22% for the benchmark. The relative underperformance was focused in the Semiconductor industry, which had a 15.02% return compared to the Index's 23.63%. Stock selection in the Industrials cost another 51 bps due to the portfolio's return of 2.21% vs. 6.27%. With the strength in housing and autos, more cyclical names were in favor during the quarter while the portfolio's positioning in this sector has leaned toward the more defensive or consistent growers.

TOP CONTRIBUTORS

Broadcom, Inc. (AVGO) delivered solid fiscal 3Q 2023 results across its core semiconductor end markets. Customer AI initiatives drove strong order and design activity for its networking and custom AI chips. Currently, AI-based shipments represent about 15% of semiconductor revenues and could grow to 25% of semiconductor revenues next fiscal year, positioning Broadcom as the 2nd largest AI semiconductor supplier.

Apple, Inc. (AAPL) fiscal 2Q 2023 results exceeded expectations due to stronger-than-expected iPhone 14 sales. Product sales in key emerging markets continued to show

strong momentum as well, with sales in India, Indonesia, and Turkey doubling year-over-year. The Services business also exhibited strong growth in the quarter.

KLA Corp. (KLAC) reported better-than-expected fiscal 3Q 2023 results and June quarter outlook. KLA is set up well to outperform this year, on the strength of its resilient services business bolstered by its dominant share position in process control.

BOTTOM CONTRIBUTORS

Crown Castle, Inc. (CCI) stock was pressured by another sharp rise in interest rates during the quarter as the Fed raised rates in May and signaled the likelihood of further increases in the second half of the year at their June meeting. REIT stocks typically underperform during periods of rising rates. Additionally, the company noted the first half of the year is likely to be stronger than the second half. Recall, we trimmed the position in February on an expectation of slower growth due to elevated customer churn from T-Mobile.

Similar to CCI, **American Tower Corp. (AMT)** also underperformed from the sharp rise in interest rates during the quarter. Separately, AMT reported better-than-expected 1Q 2023 financials results and provided encouraging comments on expectations for growth in 2024. While 2023 growth is facing headwinds due to higher interest rates and foreign exchange, we continue to like AMT's future growth prospects as 5G deployments drive strong leasing activity.

Texas Instruments, Inc. (TXN) reported a slight 1Q revenue and EPS beat, reflecting stable industrial and auto trends with continued weakness from enterprise and consumer markets. These dynamics are likely to persist into the June quarter resulting in flat guidance which is below current consensus estimates. Despite a difficult environment (11% year-over-year sales decline), the company continues to execute well and maintain strong earnings power. The company remains committed to returning all free cash flow to shareholders as it returned \$1.2 billion in dividends and buybacks in 1Q 2023.



PORTFOLIO POSITIONING

The portfolio's basic framework changed little in the quarter. Due to its exceptionally strong performance, it was necessary to trim Broadcom (AVGO) on two separate occasions (up 40% YTD at the end of May and up 58% YTD in mid-June) because its portfolio weight exceeded the 5% maximum* position size. Part of the proceeds from these sales was used to increase the Accenture (ACN) position size from roughly 2% to 3%. The team continues to find the greatest number of attractive longer-term investments in Information Technology (35.1% portfolio weight), Health Care (15.1%), Financials (13.6%), Industrials (11.8%), Consumer Discretionary (6.1%) and Energy (5.1%). The lack of exposure to Utilities and Consumer Staples is the result of the team's thorough research.

As noted, the market's strength was narrow in the quarter. It was also largely driven by multiple expansion. There are nascent signs of improving market breadth, but it is too soon to tell if it will persist. Taken together, the S&P 500 constituent companies are expected to report a year-over-year earnings decline of -7.2% for 2Q. Earnings are forecast to turn positive in 3Q with growth of 0.3%, followed by 7.8% in the fourth quarter. For 2024, analysts are projecting earnings growth of 12.4%. After almost 12 months of relentless downward estimate revisions, the projected return of earnings growth may lend the much-needed support to a broadening of market breadth.

*or the holding's S&P 500 weight, if greater

TOP AND BOTTOM ABSOLUTE CONTRIBUTORS

2Q 2023 TOP CONTRIBUTORS

	WEIGHT	RETURN (NET)	IMPACT (NET)
Broadcom, Inc.	4.53%	35.93%	161 bps
Apple, Inc.	5.84	17.78	101
KLA Corp.	4.52	21.91	100
Eli Lilly & Co.	3.08	36.91	100
Microsoft Corp.	5.06	18.37	92

2Q 2023 BOTTOM CONTRIBUTORS

	WEIGHT	RETURN (NET)	IMPACT (NET)
Crown Castle, Inc.	0.69%	-13.70%	-12 bps
American Tower Corp.	2.54	-3.61	-11
Texas Instruments, Inc.	2.87	-2.50	-11
Analog Devices, Inc.	4.15	-0.76	-10
Deere & Co.	1.59	-1.56	-5

PERFORMANCE

	2Q 2023	YTD 2023	1 YEAR	5 YEARS	10 YEARS
Representative Account (Gross)	9.15%	12.84%	22.23%	13.29%	13.54%
Representative Account (Net)	8.98	12.48	21.47	12.57	12.82
S&P 500 Index	8.74	16.89	19.59	12.31	12.86

Returns greater than 1 year are annualized.



LARGEST S&P 500 CONSTITUENTS 2Q STATISTICS

COMPANY	% S&P 500 WEIGHT (END OF QTR)	2Q 2023 % RETURN	PERCENTAGE POINT CONTRIBUTION TO S&P 500 RETURN	SECTOR
Apple	7.67	17.79	1.29	Information Technology
Microsoft	6.78	18.38	1.22	Information Technology
Amazon	3.10	26.21	0.73	Consumer Discretionary
NVIDIA	2.73	52.31	1.08	Information Technology
Alphabet Class A	1.93	15.40	0.31	Communication Services
Tesla	1.88	26.18	0.41	Consumer Discretionary
Meta Platforms	1.70	35.41	0.51	Communication Services
Alphabet Class C	1.69	16.32	0.28	Communication Services
Berkshire Hathaway Class B	1.65	10.44	0.17	Financials
Totals	29.13		6.00	
Average		24.27		
S&P 500		8.74		
S&P 500 Equal Weighted		3.88		

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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