20 YEARS OF DIVIDEND GROWTH

We are grateful and proud that twenty years ago, in April 2003, a brave client seeded our untested Large Cap Dividend Growth strategy with $1 million from his IRA.

Leonard “Bud” Campbell

Conceived in the shadow of the brutal 2000-2003 bear market that followed the bursting of the late-1990s dot-com bubble, Dividend Growth grew out of our discussions with clients. They told us they liked working with us and believed in what we did as a high-quality growth stock manager. However, they also said they wanted higher levels of current income and lower levels of volatility from their portfolios.

This caused us to research what dividends have meant to total return and how they help dampen volatility. As important, this work led us to appreciate the powerful signaling effect of a company’s dividend policy, as stated in our Dividend Growth investment philosophy: A company’s dividend policy is tangible evidence of management’s confidence in future earnings growth.

Looking back, it’s somewhat of a miracle that we developed Dividend Growth. Recall that the conventional wisdom of the time was that companies only paid a dividend if they had nothing better to do with the cash, implying that dividends were for dead-end companies only. Fortunately, we were not bound by conventional wisdom because one of our founders, Bud Campbell, counseled us otherwise. He would say, “Look at what they do with the dividend. They are telling you something about the prospects for their business.” This wisdom, along with an article in the January/February 2003 Financial Analysts’ Journal by Robert D. Arnott and Clifford S. Asness titled, “Surprise! Higher Dividends = Higher Earnings Growth” helped us understand that companies that pay meaningful dividends and increase them year-after-year need to be disciplined allocators of shareholders’ capital to promote consistent earnings growth and fund the dividend, rather than acting as empire builders, only out to enrich themselves.

Dividend strategies became more popular over the years as investors began to look to stocks for income in an environment where yield was hard to come by. However, for a boutique investment firm like ours, growing our client base required great patience as well as conviction. We built assets on an account-by-account basis so that, today, Dividend Growth is Campbell Newman’s flagship strategy with over $2 billion in assets under advisement as of 5/31/23.

A total return, long-only equity strategy, designed to participate on the upside, protect on the downside and provide higher than average current yield with growing streams of income over time, Dividend Growth has stood the test of time. Thank you to the earliest adopters for your faith in us. We are grateful to all our clients, advisors and consultants who placed their trust in us. We are proud that the tight-knit team who conceived of the Dividend Growth strategy is the same team that has successfully managed it all these years, through a multitude of different market environments, using our disciplined, bottom-up stock selection methodology. We also recognize the instrumental contributions made by our dedicated operations and trading associates, who serve our clients’ needs day-in and day-out.

We now look to the next 20 years. We often talk around here about the things we can control and those we can’t. We can’t control the markets, but we can control what is in client portfolios.

We pledge to continue to manage Dividend Growth portfolios -- during what are sure to be tumultuous times -- adhering to our philosophy, stock selection and risk-control disciplines, while working to continue to learn and improve. We also note that Dividend Growth remains as relevant today as it was 20 years ago, in part because the tailwind of the secular decline in interest rates is behind us. Consequently, returns will likely be tougher to come by in the years ahead, again making stock selection, valuation and hard-wired sell disciplines and true dividend growth all the more valuable.