LARGE CAP DIVIDEND GROWTH

4Q 2023 COMMENTARY

MARKET OVERVIEW

The S&P 500 recorded an 11.69% return in 4Q to produce a 26.29% return for the full year -- an almost unimaginable outcome at the beginning of 2023 when the consensus called for an imminent recession.

Most notable in 4Q was the broadening of market participation, which had been very narrow since March when the AI-centric mega-cap “Magnificent Seven” began driving performance. As interest rates began to decline from their October 19 peak (10-year Treasury at 4.99%, closing the year at 3.88%) due to inflation numbers consistently in the mid-to-low 3s, a more dovish-sounding Fed and talk of a soft landing, the laggards came to life and participation broadened meaningfully. The Small Cap indices, across styles, had the quarter’s top returns in the 15%-16% range, while Growth generally outperformed Value yet again.

Examining the S&P 500’s sector performance, Real Estate had the highest return of 18.85%, undoubtedly helped by the decline in interest rates. Information Technology remained a top-performing sector with a 17.18% return. Also besting the benchmark were Financials (14.03%), Industrials (13.23%) and Consumer Discretionary (12.42%). Consistent with the better market participation, 10 of the Index’s 11 sectors recorded positive returns in 4Q, with Energy posting the only negative (-6.93%) as the price of WTI oil dropped by about 20% from approximately $90/bbl to almost $72/bbl.

PORTFOLIO REVIEW

The Campbell Newman Large Cap Dividend Growth portfolio’s 10.89% gross of fees return (10.72% net of fees) underperformed the S&P 500’s 11.69% return.

The three greatest contributions to relative performance were:

1.) Stock selection in Health Care added 36 bps. Five of the portfolio's six sector holdings outperformed, led by Abbott Labs (ABT, 14.29% return) and Zoetis (ZTS, 13.72%), producing an 8.67% return vs. the benchmark's 6.41%.

2.) The portfolio's roughly 20% overweight to the outperforming Information Technology sector added 25 bps.

3.) Both of the Energy holdings, ConocoPhillips (COP, -2.64% return) and EOG Resources (EOG, -2.80%) outperformed, driving the portfolio's -2.70% return vs. the -6.93% for the benchmark and adding 29 bps.

The three greatest detractors to relative performance were:

1.) An average cash balance of 5.38% cost 61 bps.

2.) Stock selection in Consumer Discretionary cost 37 bps (7.49% portfolio return vs. 12.42% for the benchmark). Genuine Parts (GPC, -3.39% return) accounted for the majority of the lag as its U.S. auto business was weaker than expected in 3Q, which we view as an inventory in-stock issue that will be resolved.

3.) Stock selection in Communication Services detracted 35 bps. The portfolio's only sector holding, Comcast (CMCS.A), had a -0.45% return vs. 10.98% for the S&P sector, due to investors focusing on a disappointing subscriber outlook. The team continues to see a path for accelerating earnings growth with results driven by six key areas: its connectivity businesses, residential broadband, wireless and business services connectivity, theme parks, streaming and premium content in its studios, while at the same time it views the stock's valuation favorably.

TOP CONTRIBUTORS

Broadcom, Inc. (AVGO) delivered solid fiscal 4Q 2023 results across its core semiconductor end markets and issued a solid fiscal year 2024 outlook. Customer artificial intelligence (AI) initiatives continue to drive strong order and design activity for its networking and custom AI chips. After an elongated regulatory review, the company closed on its acquisition of VMware, a mission critical software provider. The company also raised its dividend by 14%.

KLA Corp. (KLAC) reported better-than-expected fiscal 1Q 2024 results and December quarter outlook continuing its string of outperformance. Considering KLA's market leadership in some of the most critical and fastest growing segments such as process control and advanced packaging, management is driving strong earnings power demonstrating its resiliency in a down wafer equipment market.

Microsoft Corp. (MSFT) delivered better-than-expected fiscal 1Q 2024 results with fiscal 2Q guidance ahead of consensus. Azure revenue was up 28% and fiscal 2Q guidance was for 26-27% growth, both of which were better than feared. MSFT's beat and positive guidance demonstrates the resiliency of the business even in a challenging environment. AI is also a key focus for Microsoft. At its developer conference, it made several announcements of Generative AI across its ecosystem and reinforced the view it will lead the paradigm shift in enterprise technology.

BOTTOM CONTRIBUTORS

ConocoPhillips (COP) announced a 14% increase in its quarterly ordinary dividend, consistent with COP's long-term commitment to a top quartile dividend growth rate within the S&P 500. The company has now returned $8.5 billion to shareholders YTD through a combination of ordinary dividends, special dividends and buybacks and is on track to achieve its $11 billion guidance for 2023. The macro picture is admittedly more mixed, as the stock was negatively impact by the approximately 20% decline in oil prices in the quartered as investors worried about global oil demand following weak data from the U.S. and Asia.

Cisco Systems, Inc. (CSCO) reported a mixed fiscal 1Q 2024 earnings result, beating estimates but significantly lowering fiscal year 2024 guidance. Following a three-quarter period of strong product deliveries as supply chain constraints eased, enterprise customers have shifted to product deployments and slowed new orders, something Cisco had limited visibility into. Nonetheless, management has incorporated a high degree of conservatism into the outlook, thus we see limited risk of further downward revisions. Coupled with multiple long-term demand tailwinds (security and AI) and an undemanding valuation at the current price, we're giving Cisco another chance.

Hershey Foods Corp. (HSY) stock has been buffeted by persistent inflation in two of its largest inputs, cocoa and sugar. Positively, sugar prices have recently rolled over though cocoa prices remain historically high. HSY tailwinds include the benefits of increased confectionary capacity and Dot's Pretzel distribution to meet customer demand as well as some pricing carryover from the previous year.

PORTFOLIO POSITIONING

Portfolio turnover was 1.7% in the quarter and 11.4% for the full year. Three trades were made in 4Q: The roughly 0.50% position of Crown Castle (CCI) was exited over the concern that the dividend was not safe due to higher levels of interest expense and customer churn. Next, the Broadcom (AVGO) holding was trimmed as exceptional outperformance caused its position size to breach the strategy's 5% risk management maximum. Finally, the team took advantage of a roughly 10% correction in AJ Gallagher's (AJG) stock price to add to the position.

While the Fed may be finished with Fed funds rate increases for this cycle, the team believes part of the 4Q rally was based upon the unlikely scenario that rapid interest rate cuts will occur in 2024 at the same time the economy remains in growth mode. It's more likely that cuts would be made in response to economic duress.

This scenario continues to favor stock selection which focuses on earnings growth and predictability, which promotes shareholder-friendly dividend growth, as well as valuation discipline. The portfolio's positioning reflects the team's best risk/return opportunities within its methodical stock selection process. As of 12/31/23, Information Technology had the highest exposure at 35.2%, followed by Financials (15.0%), Health Care (15.0%), Industrials (9.3%), Consumer Discretionary (7.3%) and Energy (5.4%). Taken together, Communication Services, Real Estate, Materials and Consumer Staples accounted for 8.1% of the portfolio while there were no Utilities holdings.

TOP AND BOTTOM ABSOLUTE CONTRIBUTORS

4Q 2023 TOP CONTRIBUTORS	WEIGHT	RETURN (NET)	IMPACT (NET)
Broadcom, Inc.	4.42%	35.00%	142 bps
KLA Corp.	4.67	27.07	119
Microsoft Corp.	5.48	19.33	105
Apple, Inc.	5.89	12.59	76
American Tower Corp.	2.33	33.66	73

4Q 2023 BOTTOM CONTRIBUTORS	WEIGHT	RETURN (NET)	IMPACT (NET)
ConocoPhillips	3.77%	-2.64%	-15 bps
Cisco Systems, Inc.	1.74	-5.34	-11
Hershey Foods Corp.	1.33	-6.25	-10
EOG Resources, Inc.	2.06	-2.80	-8
Genuine Parts Co.	1.38	-3.39	-6

PERFORMANCE

	4Q 2023	2023	5 YEARS	10 YEARS
Representative Account (Gross)	10.89%	19.43%	16.16%	12.53%
Representative Account (Net)	10.72	18.67	15.42	11.82
S&P 500 Index	11.69	26.29	15.69	12.03

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. Portfolio holdings returns are presented net of management fees. 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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