



CAMPBELL NEWMAN

MARCH 31, 2024

LARGE CAP DIVIDEND GROWTH 1Q 2024 COMMENTARY

MARKET OVERVIEW

The stock market's positive trends continued into 2024 with the S&P 500 recording a strong 10.56% total return in 1Q. Although the Large Cap Growth style remained in favor, the impact of the "Magnificent 7" diminished and market breadth showed further improvement as the quarter progressed, as seen in new highs for the broad Advance-Decline lines at the end of March. Participation among sectors was broader based, as well. All S&P 500 sectors except Real Estate recorded positive returns in 1Q, and Real Estate just missed with performance of -0.55%.

AI remained a top-performing theme in 1Q with the Communication Services and Information Technology sectors the first and third best S&P 500 performers with returns of 15.83% and 12.76%, respectively. The Energy sector, with a 13.68% return, was the second-best Index performer as oil prices rallied about 18% over the last three months. By

quarter-end, OPEC+ production cuts, strong demand and geopolitical concerns caused U.S. crude futures to rise to \$85/bbl, a level not seen in almost six months. The Financials saw particular strength among Banks, Consumer Finance and Insurance, producing a sector return of 12.46%. The Fed held rates steady again last quarter, while the number of expected 2024 Fed Funds rate cuts decreased and their timing was pushed back (again) due to stronger-than-expected recently reported economic indicators. The last outperforming sector was Industrials, with a 10.98% return, as market participants continued to project accelerating growth for many sector constituents due to infrastructure and reshoring spending expectations.

Real Estate (-0.55% return) and Utilities (4.58%) were the worst sector performers, likely because the 10-Year Treasury yield rose from about 3.85% to 4.30% in the quarter.



PORTFOLIO REVIEW

The Campbell Newman Large Cap Dividend Growth portfolio recorded a 6.89% return (6.72% net of fees) compared to the S&P 500's 10.56% performance. Stock selection in the Information Technology sector was the greatest detractor, costing 247 bps due to a return of 5.57% vs. 12.76% for the benchmark. While this portfolio sector lagged over the past three months, the team's ongoing analysis of each holding does not indicate major changes are warranted or desirable. Additionally, stock selection in Communication Services cost 44 bps (-0.48% portfolio return vs. 15.83%) and an average cash balance of 4.7% cost another 46 bps relative.

Stock selection in Health Care was the greatest positive contributor to relative performance, adding 62 bps due to the portfolio's 13.16% return vs. the benchmark's 8.86%. Lilly (LLY, 33.69% return), Merck (MRK, 21.80%) and Stryker (SYK, 19.76%) were standouts among the seven sector holdings. Stock selection in Consumer Discretionary added 62 bps with all three holdings outperforming the Index sector return of 4.99%: Lowe's (LOW, 15.04%), Genuine Parts (GPC, 12.61%) and Home Depot (HD, 11.35%). Finally, the portfolio's underweight to the underperforming Consumer Discretionary sector added 18 bps relative.

TOP CONTRIBUTORS

KLA Corp. (KLAC) delivered strong 4Q results with revenue, gross margin and earnings above consensus on broad-based strength across all three business segments including services, specialty packaging and process control. Management noted that customer utilization rates have begun to rise, along with overall improvement in supply/demand trends, giving them confidence that demand would rise throughout 2024.

Broadcom, Inc. (AVGO) delivered better-than-expected fiscal 1Q 2024 results and reiterated its outlook on sustained momentum in semiconductors and solid growth in its mission critical software franchise. For its semiconductor business, the company exhibited accelerating demand for its AI solutions which offset core diversified semi-business weakness. On the infrastructure software business, management continues to drive a stable revenue growth profile and is making strong progress on recently acquired VMware integration.

Eli Lilly & Co. (LLY) exhibited 4Q revenues growth of 28%, led by GLP-1 drugs Mounjaro and Zepbound. Further upside is expected as Mounjaro continues to ramp and Zepbound fully launches in 2024. Potential approval of Lilly's Alzheimer's drug, Donanemab, represents another growth opportunity in 2025. While the stock trades at a significant premium to peers, we see unprecedented growth for LLY over the next decade with the company's diabetes/GLP-1 franchise reaching \$50 billion by 2030 and continuing to grow from there.

BOTTOM CONTRIBUTORS

Apple, Inc. (AAPL) reported better-than-expected fiscal 1Q 2024 results. iPhone sales grew 6% while services revenue grew 11% contributing to the moderate upside to revenue and margins. Total sales were up 2% reversing four quarters of year-over-year declines. However, the fiscal 2Q 2024 outlook did not carry the momentum over with management guiding to a 5% decline year-over-year. Greater China's revenue decline of 13% was worse than expected and will likely drive more concerns into the rest of 2024. While AAPL delivered acceptable results and guidance given the tough macro-economic backdrop, we continue to favor its long-term growth potential and unchallenged market positioning.

Air Products & Chemicals (APD) reported a disappointing quarter with results below expectations both in terms of revenues and earnings. Additionally, management lowered guidance for the year despite it only being the company's fiscal 1Q. Continued weakness from China was a major source of underperformance in the quarter. Separately, multiple important project completion dates were delayed, including the Canada project that could impact 2025 earnings. Given these changes, the ability to achieve the goal of double-digit earnings growth over the next year or two is doubtful and thus the position was sold during the quarter.

American Tower Corp. (AMT) underperformed during the quarter as interest rates once again rose considerably following a significant fall in the previous quarter. With the economy remaining resilient, the market expectations for interest rate cuts by the Federal Reserve have been pushed back, and thus interest rates rose. REIT stocks typically underperform during periods of rising rates.



PORTFOLIO POSITIONING

Portfolio turnover was 4.85% in the quarter and 11.32% over the last 12 months. Two new positions were purchased, industrial automation and software company Emerson Electric (EMR) and pharmaceutical manufacturer Abbvie (ABBV), with the funds provided by the sales of defense contractor Northrup Grumman (NOC) and industrial gases company Air Products and Chemicals (APD). Further, the Broadcom and KLA Corp. holdings were trimmed as exceptional outperformance caused their position size to breach the strategy's 5% risk-management maximum.

Information Technology remained the portfolio's largest absolute sector weight at 33.3% at quarter end, down about two percentage points from year-end due to the two required

position-size trims. Health Care remained the second largest absolute weight, increasing from 15.0% to 17.8%, primarily due to the addition of ABBV. The Financials and Industrials sectors are also overweighted relative, accounting for 15.1% and 9.8% of the portfolio, respectively. Consumer Discretionary, with a 7.7% portfolio weight is underweighted relative, while Energy (5.5% weight) is slightly overweighted relative. While the only Materials holding was exited in the quarter, the portfolio continues to have small holdings in Communication Services (2.5%), Real Estate (2.2%) and Consumer Staples (1.2%). Sector weights are a product of the team's disciplined bottom-up stock selection methodology and reflect where it is finding the best risk/return opportunities.

TOP AND BOTTOM ABSOLUTE CONTRIBUTORS

1Q 2024 TOP CONTRIBUTORS	WEIGHT	RETURN (NET)	IMPACT (NET)
KLA Corp.	4.82%	20.43%	94 bps
Broadcom, Inc.	4.76	19.22	88
Eli Lilly & Co.	2.84	33.69	83
Stryker Corp.	4.10	19.76	76
Merck & Co., Inc.	3.40	21.80	69

1Q 2024 BOTTOM CONTRIBUTORS	WEIGHT	RETURN (NET)	IMPACT (NET)
Apple, Inc.	5.32%	-10.83%	-63 bps
Air Products & Chemicals, Inc.	0.68	-21.34	-38
American Tower Corp.	2.26	-8.47	-23
Zoetis, Inc.	1.18	-14.07	-18
UnitedHealth Group	2.80	-5.66	-17

PERFORMANCE

	1Q 2024	1 YEAR	5 YEARS	10 YEARS
Representative Account (Gross)	6.89%	23.48%	14.68%	12.98%
Representative Account (Net)	6.72	22.70	13.95	12.26
S&P 500 Index	10.56	29.88	15.05	12.96

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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