



CAMPBELL NEWMAN

JUNE 30, 2024

LARGE CAP DIVIDEND GROWTH 2Q 2024 COMMENTARY

MARKET OVERVIEW

The S&P 500 recorded 2Q performance of 4.28% but market participation remained narrow as investors maintained their AI-centric focus. The selectivity, favoring Large Cap Growth, can be seen in the differing quarterly returns of the Russell Top 200 Growth Index of 10.03% and the S&P 500 Equal Weight Index of -2.63%. In this environment, three S&P 500 sectors outperformed, with Information Technology the standout (13.79% return), followed by Communication Services (9.38%) and Utilities (4.43%), which rallied as investors looked to capitalize on the growing power needs driven by AI. Among the eight underperforming sectors, six recorded negative returns with Materials (-4.47%), Industrials (-2.87%) and Energy (-2.45%) the worst laggards.

As a consequence of the narrow leadership, the market-weighted indices have become more top-heavy. By quarter end, the three largest stocks in the S&P 500, Microsoft (7.28%

weighting), Apple (6.66%) and Nvidia (6.63%), accounted for 20% of the Index's market capitalization, and the 10 largest stocks grew to over 37%. Although concentration like this is unprecedented, these top 10 stocks account for 31% of the S&P 500's earnings (Source: Strategas), along with, arguably, better-than-average growth prospects.

Economic signals were mixed in the quarter. Despite the ongoing 2-10 Treasury yield curve inversion (since July 2022, the longest on record), the Fed Funds target rate was left unchanged in the quarter at 5.25%-5.50% because the inflation rate has stubbornly stayed around 3.3% at the same time unemployment has hovered around 4.0%. Expectations regarding the pace and degree of interest rate cuts in 2024 continue to be pushed out. In December 2023, 15 of 19 FOMC participants expected two or more 25 bps rate cuts in 2024, with the most extreme view expecting total cuts of 150 bps,



while only one participant expected the rate to stay the same. As of June 2024, four participants expect no change to the policy, seven project a 25 bps cut and eight expect two 25 bps cuts.

PORTFOLIO REVIEW

The Campbell Newman Large Cap Dividend Growth strategy underperformed its S&P 500 benchmark with a return of 2.02% (1.85% net of fees) vs. 4.28%.

The three greatest contributors to relative performance were:

- 1.) An overweight to the best performing Information Technology sector added 36 bps.
- 2.) A lack of exposure to the Index's worst performing sector, Materials, added 21 bps.
- 3.) Stock selection in the Industrials sector added 17 bps as the portfolio outperformed with a -1.27% return vs. -2.87% for the benchmark sector.

The three greatest detractors to relative performance were:

- 1.) Stock selection in the Consumer Discretionary sector cost 96 bps, with a portfolio sector return of -11.59% vs. 0.63% for the benchmark sector.
- 2.) Stock selection in Information Technology cost 78 bps (11.72% portfolio return vs. 13.79% benchmark).
- 3.) Stock selection in the Communication Services sector cost 45 bps, due to the portfolio's -9.00% sector return compared to 9.38% for the bogey.

Portfolio turnover was 4.35% in 2Q. Jacobs Solutions (J) was purchased in April using the proceeds from the sale of American Tower (AMT). In May, the team trimmed Honeywell (HON) in favor of adding to Jacobs and animal health company Zoetis (ZTS). Finally, Broadcom (AVGO) and KLA Corp. (KLAC) were trimmed as exceptional outperformance caused their position size to breach the strategy's 5% risk-management maximum. The proceeds were used to increase Abbvie's (ABBV) weight.

TOP CONTRIBUTORS

Apple, Inc. (AAPL) held its Worldwide Developers Conference in June where on display was a comprehensive

adoption of Artificial Intelligence models across key functions and applications. This initiative is expected to kick off an aggressive iPhone replacement cycle this year with the launch of the iPhone 16.

Broadcom, Inc. (AVGO) delivered better-than-expected fiscal 2Q 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.

KLA Corp. (KLAC) delivered strong 1Q results, with revenue, gross margin and earnings above consensus on broad-based strength across all three business segments: 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.

BOTTOM CONTRIBUTORS

Lowe's Companies, Inc. (LOW) reported better-than-expected revenue and earnings during the quarter, but underperformed as the consumer in the housing retail sector continues to be challenged. After a couple of strong years of investing in the home, the consumer is currently delaying bigger ticket projects. However, Pro customers have proven resilient with healthy backlogs and growth is set to improve in the second half with easing comps in the DIY business. Ultimately, we continue to believe the fundamental long-term drivers of home improvement demand remain in place.

ConocoPhillips (COP) reported an in-line quarter with production growth of 6.1%. Additionally, in late May, COP announced the acquisition of Marathon Oil (MRO) for approximately \$22.5 billion in an all-stock transaction. Conoco expects the deal to be accretive to earnings, cash flow and return of capital per share. Additionally, the company committed to increasing its shareholder returns with an expected 34% increase in the dividend in 4Q 2024 and share buybacks of \$7 billion in the first year post close, with a target of greater than \$20 billion over three years.



Accenture plc (ACN) reported a challenging fiscal 3Q 2024 earnings result with revenue growth of negative 1% and earnings growth of negative 2%. Management noted customers continue to prioritize large-scale transformations, which convert to revenue more slowly, while smaller, discretionary projects are being limited. However, bookings continue to be strong with big deals expected to convert to revenue over the coming quarters. Additionally, while still small, the company placed over \$900 million of GenAI bookings in the quarter, nearly doubling the amount it had booked in the previous two quarters combined.

two percentage points from last quarter due to the strong performance. Health Care remained the second largest weight at 19.5%, while Financials and Industrials accounted for 14.7% and 11.4%, respectively. Consumer Discretionary (6.6%), is underweighted relative, while Energy (5.0%) is slightly overweighted. While the last Real Estate holding was exited in the quarter, the portfolio continues to have small holdings in Communication Services (2.2%) and Consumer Staples (1.1%). The portfolio's sector weights are primarily a residual of the team's bottom-up stock selection, reflective of where they see the best risk/return opportunities when applying the strategy's methodology.

PORTFOLIO POSITIONING

Information Technology remained the portfolio's largest absolute sector weight at 35.1% at quarter end, up almost

TOP AND BOTTOM ABSOLUTE CONTRIBUTORS

2Q 2024 TOP CONTRIBUTORS	WEIGHT	RETURN (NET)	IMPACT (NET)
Apple, Inc.	5.31%	22.98%	115 bps
Broadcom, Inc.	4.87	21.52	97
KLA Corp.	4.94	18.25	84
Analog Devices, Inc.	4.08	15.86	61
Eli Lilly & Co.	3.12	16.56	49

2Q 2024 BOTTOM CONTRIBUTORS	WEIGHT	RETURN (NET)	IMPACT (NET)
Lowe's Companies, Inc.	3.81%	-13.06%	-57 bps
ConocoPhillips	3.48	-9.57	-39
Accenture plc	2.51	-12.12	-37
American Tower Corp.	0.36	-12.05	-28
Mastercard, Inc.	2.98	-8.27	-27

PERFORMANCE

	2Q 2024	YTD 2024	1 YEAR	5 YEARS	10 YEARS
Representative Account (Gross)	2.02%	9.05%	15.41%	13.81%	12.84%
Representative Account (Net)	1.85	8.69	14.68	13.09	12.13
S&P 500 Index	4.28	15.29	24.56	15.05	12.86

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.

DGC0630-01