LARGE CAP DIVIDEND GROWTH
1Q 2025 COMMENTARY

MARKET OVERVIEW

The S&P 500 recorded 1Q 2025 performance of -4.27% following back-to-back years of >25% returns amidst a backdrop of "greater uncertainty." DeepSeek's January 27th announcement that it had developed a cost-efficient, high-performance open-source large language model called into question the conventional thinking regarding the necessary spending for an AI buildout, which had been seen as a key growth driver. Additionally, not only did the potential imposition of a broad swath of tariffs on imports take center stage but there was no clarity regarding timing, scale or products affected.

As a result, the market rotated away from the narrow mega-cap group that led the 2023-2024 rally with what were formerly the strongest Index sectors, Information Technology and Communication Services, reporting among the weakest 1Q performances at -12.64% and -6.22%, respectively. Concurrently, market participation broadened with the equal-weighted S&P 500 down only 0.61%, as seven of 11 Index sectors recorded positive returns, as shown in Table 1 on page 2.

The status quo also saw upheaval geopolitically, with renewed fighting in the Middle East and the changing positions of the U.S. regarding Ukraine and NATO.

Given the uncertainties, confidence waned in 1Q. Among consumers, the personal saving rate crept up to 4.6% in February versus 3.3% in December, implying people are saving rather than consuming because they expect a rougher road ahead. Yet, people remain employed (February unemployment rate of 4.1%, up only 0.2% vs. a year ago) and personal income has been rising (February +0.8%, January +0.7%). Among businesses, it appears some activity may have been pulled forward to get ahead of tariffs while other decisions are being delayed, awaiting more clarity.

TABLE 1: 1Q 2025 SECTOR RETURNS & AVERAGE WEIGHT

SECTOR	% RETURN	AVERAGE % WEIGHT
Energy	10.19	3.30
Health Care	6.54	10.58
Consumer Staples	5.23	5.66
Utilities	4.94	2.39
Real Estate	3.57	2.13
Financials	3.53	14.06
Materials	2.76	1.96
Industrials	-0.19	8.33
S&P 500 - Equal Weighted	-0.61	
S&P 500 - Market Weighted	-4.27	
Communication Services	-6.22	9.55
Information Technology	-12.64	31.23
Consumer Discretionary	-13.76	10.81

Source: S&P Global and S&P Capital IQ

PORTFOLIO REVIEW

During this time of market turbulence, the Dividend Growth portfolio held up with a gross-of-fees return of -0.63% (net-of-fees -0.79%) compared to the S&P 500's -4.27%.

With its emphasis on companies with recurring revenue streams, the Financials sector was an especially bright spot, recording a portfolio sector return of 9.72% vs. 3.53% for the S&P sector. Led by insurance broker AJ Gallagher (AJG, 21.86% performance), stock selection added 124 bps relative, while the portfolio's relative overweight to this outperforming sector added another 46 bps.

Stock selection in the Information Technology sector added 114 bps to relative performance, with a portfolio sector return of -9.37% vs. -12.64% for the S&P sector. Eight of the portfolio's 10 Tech holdings outperformed, led by KLA Corp.'s (KLAC) 8.12% performance. Broadcom (AVGO, -27.57%) was the worst laggard, likely the result of profit-taking in the more tenuous environment, following its >100% returns in both 2023 and 2024.

Overweights to the outperforming Financials and Health Care sectors added a total of 119 bps of relative return, while underweights to the underperforming Communication Services and Consumer Discretionary sectors added an additional 69 bps of relative return.

The greatest detractors from relative performance in the quarter were: 1.) The portfolio's underweighted positions in the outperforming Consumer Staples and Energy sectors, which cost a total of 74 bps, and 2.) Stock selection in the Energy and Industrials sectors, which cost a total of 53 bps.

TOP CONTRIBUTORS

Arthur J. Gallagher & Co. (AJG) delivered another quarter of consistency in 4Q 2024 with 12% revenue growth and earnings growth of 15% that exceeded analysts' expectations. Late in 1Q 2025, management's update call indicated that revenue growth was trending above their previous guidance despite the large AssuredPartners acquisition closing being pushed to the second half of the year.

AbbVie, Inc. (ABBV) reported a strong quarter with 22% revenue growth from all products except Humira, which lost patent protection in 2023. That was an acceleration over the previous quarter and continues to support management's outlook for high single-digit revenue growth through the end of the decade. We continue to be positive about the stock with Humira becoming a much smaller headwind, combined with strong growth from other products.

Intercontinental Exchange, Inc. (ICE) recent quarter highlighted the diversity of their business model with all three segments delivering positive growth, led by Exchanges at +9% as their leadership in global energy (oil, natural gas, and environmental) and interest-rate products continue to drive growth. Management also raised synergy guidance from the closed Black Knight acquisition and now expects to begin repurchasing shares again after building up the balance sheet post the deal.

BOTTOM CONTRIBUTORS

Broadcom, Inc. (AVGO) reported fiscal 1Q 2025 revenue of $14.90 billion and earnings per share of $1.60, up 25% and 45% from a year ago, respectively. Despite these strong results, the stock fell victim to the technology sector's sell-off in the quarter, driven by a mix of external pressures (tariffs and macroeconomic uncertainty), internal challenges (competition in AI and valuation concerns) and profit-taking after years of strong performance. While these factors create short-term headwinds for the sector, we believe that AVGO with its expanding AI customer exposure, and significant non-AI semiconductor and software businesses, can continue to drive growth.

Apple, Inc. (AAPL) reported slightly better-than-expected fiscal 1Q 2025 results driven by strong Mac, iPad and Service sales, while the most focused-on category, iPhone, tracked slightly softer than expectations. Guidance for low single-digit growth in fiscal 2Q 2025 matched investor expectations. The company announced delays for several highly anticipated AI-driven functionalities, including significant enhancements to Siri, pushing their release to 2026 instead of the originally planned 2025 timeline. We remain optimistic about Apple's long-term prospects, citing progress in other areas like international expansion and hardware innovation.

Microsoft Corp. (MSFT) results for fiscal 1Q 2025 comfortably exceeded expectations, despite incremental foreign-exchange headwinds. Though, the focus coming out of the quarter was on Azure where weaker-than-expected non-AI trends pushed growth to the low-end of the forecast 31-32% range. Non-AI Azure headwinds were attributed to execution challenges that are being addressed but will linger through the year. On the other hand, Azure AI Services continued to be a bright spot, with revenue growth of 157%, significantly ahead of expectations, despite ongoing supply constraints that are now seen normalizing by the end of year.

PORTFOLIO POSITIONING

As the quarter drew to a close, the market was in a state of major volatility due to the many uncertainties surrounding tariff policies. This situation brings to mind a quote by Napoleon Bonaparte: “A genius is the man who can do the average thing when everyone else around him is losing his mind.”

It’s impossible to know exactly what is going to unfold in the days ahead. However, it’s essential to stay calm and adhere to our time-tested investment philosophy and process that focuses on quality, dividend growth and earnings visibility.

While turnover ticked up slightly in the quarter to 10.37%, the portfolio’s composition did not change significantly with Information Technology, Financials, Health Care and Industrials continuing to represent the largest absolute sector weights at 32.9%, 21.9%, 18.5% and 12.6%, respectively, at quarter end. For the first time in many years, a Utilities stock was added to the portfolio, taking that exposure to 2.5% while the only Communication Services position was sold. Energy was reduced from 4.3% to 1.8% and Consumer Discretionary was also reduced, from 5.8% to 3.6%. Materials exposure was basically unchanged at 1.7%. There were no holdings in the Real Estate and Consumer Staples sectors. The portfolio’s sector weights are a product of the team’s bottom-up stock selection, reflective of where they see the best risk/return opportunities when applying the strategy’s methodology.

TOP AND BOTTOM ABSOLUTE CONTRIBUTORS

1Q 2025 TOP CONTRIBUTORS	WEIGHT	RETURN (NET)	IMPACT (NET)
Arthur J. Gallagher & Co.	4.48%	21.86%	85 bps
AbbVie, Inc.	3.19	19.03	50
Intercontinental Exchange, Inc.	3.62	16.08	49
Visa, Inc.	3.91	11.07	38
RTX Corp.	2.69	15.05	37

1Q 2025 BOTTOM CONTRIBUTORS	WEIGHT	RETURN (NET)	IMPACT (NET)
Broadcom, Inc.	4.29%	-27.57%	-123 bps
Apple, Inc.	6.06	-11.21	-77
Microsoft Corp.	5.14	-10.77	-55
Emerson Electric Co.	3.16	-11.16	-36
Cognizant Technology Solutions Corp.	1.10	-14.30	-33

PERFORMANCE

	1Q 2025	1 YEAR	5 YEARS	10 YEARS
Representative Account (Gross)	-0.63%	5.98%	17.55%	12.30%
Representative Account (Net)	-0.79	5.31	16.82	11.59
S&P 500 Index	-4.27	8.25	18.59	12.50

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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