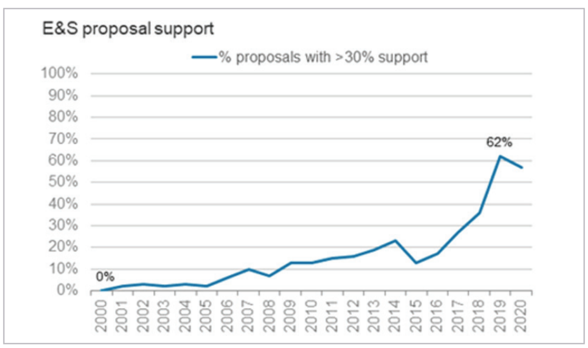
Dividend Growth ESG

"Green-flationary" and Proxy Voting Pressures

The economy continues to digest ongoing fiscal and monetary stimulus combined with strong U.S. consumer spending as we transition to normalcy. Meanwhile, headline inflation spikes higher, sparking significant debate among policy makers and investors over when and how the Federal Reserve will react. Supply chain disruptions and labor shortages are among the inflationary pressures impacting a wide array of industries. The long-term effect these forces will exert on inflation remains to be seen. At the same time, various company leaders and investors voice concerns about additional inflationary pressures driven by the increased focus on ESG-related factors. For example, ESG-oriented firms may prioritize initiatives including more ethical supply chains, sustainable packaging, heightened work-force benefits or carbon footprint reduction. Many of these actions increase near-term costs; however, we believe they may also drive long-term competitive advantages due to several potential outcomes including stronger brand equity among consumers, improvements in employee engagement and talent retention, and more reliable supply chain relationships.



Source: Morgan Stanley, ISS Analytics, Proxy Insight

Among those companies held in the Dividend Growth ESG strategy prioritizing human capital, **Waste Management (WM)** is a notable leader. Along with retaining all frontline employees during the pandemic and fulfilling a 40-hour work week guarantee, the company recently announced new employee benefits including, Your Tomorrow. This program provides U.S. employees and eligible dependents the opportunity to choose from more than 170 fully funded education programs at no cost. Your Tomorrow should further strengthen the company's ability to recruit, reskill and retain talent – a potentially significant performance differentiator given challenges in the current labor market. This upskilling program exemplifies Waste Management's "people-first" approach, which is just one element of its ESG leadership. Beyond this human capital driven initiative, WM has demonstrated a commitment to greener operations via extensive recycling investments and renewable energy projects, as well as an improved governance structure which now features a Chief Sustainability Officer to oversee numerous ESG-related risks and opportunities.

Growing ESG Popularity Materializing Across Energy Sector

Through recent proxy voting seasons, support has grown for shareholder proposals focused on environmental and social issues and policies on information. (See chart, below) Although the Dividend Growth ESG strategy did not hold companies in the Energy sector during 2Q2021, we observed notable proxy contests across Energy companies which further validated shareholders' ability to drive significant operational change. Due to their carbon intensive nature, global oil companies have faced heightened scrutiny among stakeholders as ESG-influenced investing grows in the marketplace. **Exxon Mobil (XOM)**, the 5th largest producer of global greenhouse gas emissions, found itself at the center of an environmentally motivated proxy contest during its May Annual Shareholder Meeting. In the preceding months, a small activist investment firm which owned a nominal 0.02% of XOM's shares outstanding and voting rights, successfully challenged current management and won its "Reenergize Exxon" proxy campaign. The goal is to re-align XOM with sustainable industry trends toward long term decarbonization. Investors also supported shifts in board composition to better oversee the company's newfound objective of addressing climate change concerns.

Other surprising developments included **Chevron (CVX)** investors supporting an advisory proposal to reduce hard-to-measure Scope 3 Greenhouse gas emissions (includes indirect emissions that occur in a company's value chain). Also, **Royal Dutch Shell (RDS)** was ordered by Dutch courts to cut its emissions in a case filed by activist groups. The shareholder proposals at XOM and CVX are notable demonstrations of the increasing ability of investors to utilize their rights to demand change through proxy voting, which for years had been seen as a rubber stamp by current management. Investors are not only demonstrating their power to invoke corporate

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change, their call to directly address climate change represents a secular shift in demands. These events may well serve as a wake-up call for company management teams wishing to avoid highly contested proxy battles. It is important to note that this review is not a recommendation to buy or sell, but rather an inventory of examples that illustrate the focus on ESG issues the strategy seeks to emphasize. If you are interested in learning more about our Dividend Growth ESG strategy, please contact your Bahl & Gaynor Portfolio Manager. For more than 30 years our dedicated team has worked to consistently deliver exceptional service to our clients. We look forward to serving *you*.

Strategy Objectives

1. ESG Integration: Significant improvement in ESG rankings relative to benchmark[1]
2. Income Growth: 2.0% yield; YoY quarterly income growth of +6.9%
3. Downside protection: Top quintile downside capture vs large core peers (S/I) [2, 3, 4]
4. Price appreciation: Competitive risk-adjusted returns through a full-market cycle

1 Source: Sustainalytics 2 Measured against the S&P 500 index 3 Source: PSN, Bahl & Gaynor, 2021 4 Inception: 12/31/2005

Market Recap U.S. equity returns were again positive in 2Q2021, with the record-high S&P 500 index return now exceeding +5% for five consecutive quarters. This magnitude of winning streak is now better than the four quarters strung together in 1995, which ultimately continued for fourteen quarters as the Tech Bubble inflated (source: Instinet). Economic and corporate earnings growth came in strong, yet long-term Treasury yields begin 2H2021 below April levels, driving a decisive factor in leadership change to growth over value and large over small at the end of the quarter. This is yet another humble reminder of the vagaries of leaning too much into consensus. Bahl & Gaynor remains extremely optimistic about our balanced and diversified high-quality exposure and about dividend growth prospects in 2H2021 after a bountiful 1H2021 of increases. Further, with rising market valuations and risk levels, the high-quality orientation of our approach remains well-suited for potential future challenges.

2Q2021 Dividend Increases		
Company	% Increase	Current Yield
American Tower Corporation[1] (AMT)	2.4%	1.9%
Apple Inc. (AAPL)	7.3%	0.6%
Alexandria Real Estate Equities, Inc.[1] (ARE)	2.8%	2.5%
Avery Dennison Corporation (AVY)	9.7%	1.3%
Baxter International Inc. (BAX)	14.3%	1.4%
Medtronic Plc (MDT)	8.6%	2.0%
PepsiCo, Inc. (PEP)	5.1%	2.9%
Procter & Gamble Company (PG)	10.0%	2.6%
Qualcomm Inc (QCOM)	4.6%	1.9%
UnitedHealth Group Incorporated (UNH)	16.0%	1.4%
Union Pacific Corporation (UNP)	10.3%	1.9%

2Q2021 Income Growth Trades Executed	
Initiations	Eliminations
KLA Corp. (KLAC)	Fastenal (FAST)
Old Dominion Freight (ODFL)	Organon (OGN)
Increases	Reductions
Booz Allen Hamilton (BAH)	American Tower (AMT)
Crown Castle (CCI)	Accenture (ACN)
KLA Corp. (KLAC)	Home Depot (HD)
Marsh & McLennan (MMC)	Microsoft (MSFT)
	Texas Instruments (TXN)

Source: Bahl & Gaynor and Factset, 2021.
[1]Increases dividend multiple periods per year.

Current Quarter Performance Breakdown

- ESG Dividend Growth strategy income grew +6.9% year-over-year.
- 11 strategy holdings announced dividend hikes with an average increase of +8.3%.
- The strategy **underperformed**, returning +6.03% gross (+5.94% net) versus the S&P 500's +8.55% return.

Positive drivers of current quarter performance

– Stock selection and an overweight allocation to REITs, particularly tower REITs, and more stable Industrial sector industries, such as services, provided a tailwind to strategy performance.

– No exposure to lower-quality industries such as tobacco, construction machinery and airlines that paused after a 1Q2021 rally amid significant fiscal support aided performance.

Negative drivers of current quarter performance

– Significant outperformance of FAANG stocks amid a falling yield environment favoring long-duration growth stocks was a headwind.

– Company selection in semiconductors despite a healthy orderbook backlog and high dividend growth expectations detracted from performance.

– Overweight exposure to Utility companies despite resilient fundamentals and earnings growth outlook detracted from performance.

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Top 3 Companies Contributing to Relative Performance

1. BlackRock (BLK) BLK carries a broad-based product portfolio and distribution footprint, which positions them well to gain market share and investor inflows. BLK reported +14% organic base fee growth in 2Q2021 and momentum carried through the end of the quarter with industry leading inflows and new fund launches. Management continues to align the business with areas of growth including ETF's, alternatives, ESG and solutions to drive peer leading organic growth.

2. Eli Lilly (LLY) LLY continues to stand apart from Pharma peers given its successful launch of new products and limited near-term patent expiration risk that give LLY a clear runway for strong revenue, EPS and dividend growth. During the quarter, LLY provided key positive data supporting its new diabetes drug franchise while also announcing intentions to accelerate an FDA approval for its Alzheimer's drug on the heels of a competitor's approval.

3. Marsh & McLennan (MMC) MMC is one of largest brokers in a fragmented, growing industry with opportunity to gain market share. The combination of an improving economy and a rebounding consulting business coupled with easy top line comparisons and a hard market environment provided positive catalysts for shares during 2Q2021. A history of consistent, predictable growth in a capital light business supports continued dividend growth potential.

Top 3 Companies Detracting from Relative Performance

1. NextEra Energy (NEE) NEE remains one of the most dominant players in the generation and distribution of renewable energy. Shares underperformed in 2Q2021 as the market shied away from both renewable energy and regulated Utility companies. NEE's best-in-class renewable energy profile should continue to drive industry-leading earnings and dividend growth.

2. Truist Financial (TFC) TFC bares an attractive, idiosyncratic investment thesis via cost savings from the SunTrust merger and fee-based business growth (ex. insurance). Additionally, TFC flexes a premium ROTCE among regional bank peers. A continued soft loan growth environment and a falling 10-year Treasury yield challenged shares across banks for the quarter, although regulatory easing towards shareholder return should benefit the group in 2H2021.

3. Abbot Laboratories (ABT) ABT is one of the world's largest diversified health care companies in the world, with exposure within Medical Devices, Diagnostics, Consumer Health and Emerging Market Generic Drugs. Shares underperformed as management cut its 2021 EPS guidance due to significantly lower expected revenues from its COVID-19 diagnostic/testing business. Despite this, ABT's long-term top-line and dividend growth algorithm remains above industry peers due to its accelerating base business.

Strategy Characteristics			
Qualified Dividend Income (% of Total)	93.4%	Number of Holdings	53
Median ESG Percentile Rank (Universe / Sub-Industry)[1]	20.0 / 9.9	Weighted/Median Market Capitalization	$280.7 B / $131.7 B
QTD / YTD Turnover	3.0% / 6.3%	A-or better S&P Ranking	44.0%

[1]Source: Sustainalytics

PERFORMANCE	2Q2021	YTD	1 Year	2 Years[1]	S/I[1,3]
Dividend Growth ESG (Gross)	+6.03%	+12.24%	+32.86%	+16.56%	+20.95%
Sharpe Ratio	-	-	*2.87*	*0.98*	*1.27*
Dividend Growth ESG (Net)	+5.94%	+12.08%	+32.55%	+16.42%	+20.84%
Sharpe Ratio	-	-	*2.85*	*0.97*	*1.26*
S&P 500††	+8.55%	+15.25%	+40.79%	+23.03%	+26.39%
Sharpe Ratio	-	-	*2.91*	*1.23*	*1.42*

Source: Bahl & Gaynor and PSN, 2021. [1]Annualized. [2]B&G net-of-fee figure is after management, trading and applicable bundled fees. [3]Inception: 12/31/2018

Looking Forward Bahl & Gaynor remains focused on investing in businesses that can sustain and grow economic returns, dividends, and franchise value across all states of the world. With a 75% active share versus the S&P 500 and historically attractive relative valuation, we believe the Dividend Growth ESG strategy represents an excellent opportunity to generate sustainable and inflation-beating income growth over time, while growing capital with less risk. The past 18 months have highlighted the importance of consistency in investment philosophy execution and the strategy is expected to continue delivering on its prioritized objectives as the economic cycle progresses.

Thanks

Your continued support and interest is much appreciated.

Everyone at Bahl & Gaynor would like to thank you for the opportunity to serve your investment needs. Please feel free to contact any member of the Institutional Client Service Team through the information provided below if you have questions.

Sincerely,

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