Dividend Growth ESG 4Q2021

No BBB Boost, But ESG Conviction Still Strong

We begin the New Year questioning the future of President Biden's $2 trillion "Build Back Better" proposal, which prioritized spending on programs aimed, in part, at addressing climate change and various social-related issues (e.g., racial equity, education, and housing). The proposal effectively died in late December as inflationary concerns intensified from both sides of the aisle. Although some Senators say they want to revise the proposal, there are no talks planned calling to question the eventual outcome. Recently renewed excitement related to ESG spending is also stifled; the Administration deferred much of that spending to prioritize more urgent needs including infrastructure and COVID-19 relief.

Various stocks that were expected to benefit from the plan's spending, particularly those stocks with less diversified business models, experienced heightened volatility throughout the turbulent political process. While several companies in Bahl & Gaynor's Dividend Growth ESG strategy were expected to benefit from certain elements of BBB, our investments are supported by the underlying economics of these businesses – independent of legislation. As a result of our investment philosophy, we believe the strategy is still positioned to benefit from secular ESG-related growth trends (e.g., renewable energy production) without hindering the ability to deliver on risk-oriented objectives. We continue to balance ESG-related metrics with traditional financial goals, all the while remaining mindful of our long-term investment horizon.

Board Diversity on the Rise

To date, 30% of S&P 500 directors are women while 47% of new S&P 500 board seats were filled this year by individuals of historically underrepresented racial and ethnic groups.[1] Studies[2] show that increasing boardroom diversity is not only the right thing to do for an organization's culture, but that it correlates to better business outcomes and smarter decision-making. To aid in the adoption of diverse boards, many companies have implemented board diversity requirements. For example, **BlackRock (BLK)** cited a lack of boardroom diversity in proxy votes against company directors and expressed it may vote against nominating or governance committees for a lack of commitment to board diversity. As part of the search process for new director candidates, **Accenture (ACN)** actively seeks women and historically underrepresented candidates to include in the pool from which Board nominees are chosen.

*In August 2021, the SEC approved new Nasdaq Board Diversity Rules ("Rules") requiring a systematic approach to addressing boardroom governance for certain Nasdaq-listed companies. Fully effective in 2023, the Rules generally require a minimum of two diverse board members as well as additional board diversity disclosures. These expanded requirements are accompanied by complimentary board recruiting services for one year during the phase-in period. We believe access to the recruiting services will prove to be particularly valuable as companies work to achieve compliance in 2022. *Recruiting board members and, more importantly, the right board members is a timely and costly initiative.* While the Nasdaq's commitment will help ease the burden of finding diverse candidates, the service must be "top notch" with respect to both efficiency and organizational fit. If not, it is possible companies may turn to private HR search firms, increasing costs and perhaps dissuading businesses from wanting to list on the Nasdaq or worse – rejecting diversity initiatives altogether.

Not only can a diverse governance structure lead to better business outcomes, but we believe standardized reporting can lead to more informed investment decisions. New Rules* may help to facilitate these investment decisions by standardizing diversity data across an area that historically relied on voluntary reporting. Diversity & Inclusion ("D&I"), including boardroom diversity, is among a number of key ESG-issues Bahl & Gaynor uses to evaluate companies in the strategy. In addition to considering D&I, we utilize a materiality-based approach to ESG research. That means we focus on sector-specific issues directly impacting results. With a dynamic approach to ESG integration and bottom-up approach, we believe the Dividend Growth ESG strategy fits hand in glove with Bahl & Gaynor's time-tested dividend growth philosophy.

[1] "U.S. Spencer Stuart Board Index 2021 Highlights"
[2] "Diversity Wins: How inclusion matters," McKinsey & Company, May 2020. "Firm performance and boardroom gender diversity: A quantile regression approach," Journal of Business Research, October 2017.

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Strategy Objectives

1. ESG Integration: Significant improvement in ESG rankings relative to benchmark[1]
2. Income Growth: 1.8% yield; +8.7% growth in trailing-twelve-month income as of 4Q2021
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, 2022 4 Inception: 12/31/2018

Market Review and Forward View:

Investors entered 4Q2021 with a dour outlook amid weakening macro (inflation, decelerating global growth, valuations, etc.) and technical backdrops for stocks. Concerns intensified with a new global COVID-19 variant, political gridlock for social infrastructure, and the Fed pivot to a less accommodative stance due to rising inflation. Yet investors exited 2021 with the large cap equity markets near all-time highs and small and mid-cap stocks ripe for a move higher thanks to a strong first three quarters and a late-December Santa Claus rally. The vagaries of the market make for humble reminders that investing isn't as easy as following the mood of daily fact patterns to answer the question of whether one should invest or not.

Market valuations remain stretched after two years of robust returns and the longer-term outlook for equity returns may be more muted. With the timing for such "resetting" events nearly impossible to predict, and repeated studies showing market timing hurts investor returns, our philosophy remains one of keeping clients fully invested. We remain confident in our time-tested equity strategy focused on high-quality companies that pay increasing dividends and provide downside protection, especially as these stocks remain near a historical discount to the broader market.

4Q2021 Dividend Increases

Company	% Increase	Current Yield
Abbott Labs (ABT)	+4.4%	1.3%
AbbVie (ABBV)	+8.5%	4.2%
Alexandria Real Estate (ARE) [1]	+2.7%	2.1%
American Tower (AMT) [1]	+3.6%	1.9%
Broadcom (AVGO)	+13.9%	2.5%
CDW Corp (CDW)	+25.0%	1.0%
Crown Castle (CCI)	+10.5%	2.8%
Lilly Eli (LLY)	+15.3%	1.4%
Merck (MRK)	+6.2%	3.6%
Motorola Solutions (MSI)	+11.3%	1.2%
Nike (NKE	+10.9%	0.7%
Texas Instruments (TXN)	+12.7%	2.4%
Union Pacific (UNP)	+10.3%	1.9%
Visa (V)	+17.2%	0.7%
Zoetis Inc (ZTS)	+30.0%	0.5%

[1]Increases dividend multiple periods per year.

4Q2021 Dividend Growth ESG Trades Executed

Initiations	Eliminations
Best Buy (BBY)	Home Depot (HD)
Eversource Energy (ES)	Sempra Energy (SRE)

Source: Bahl & Gaynor and Factset, 2022.

Current Quarter Performance Breakdown

- ESG Dividend Growth strategy income grew +8.7% year-over-year.
- 15 strategy holdings announced dividend hikes with an average TTM increase of +12.3%.
- The strategy **outperformed**, returning +14.21% gross (+14.12% net) versus the S&P 500's +11.03% return.

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Positive drivers of current quarter performance

- Stock selection in the information technology sector, specifically being underexposed to data processing and application software industries while being overweight select semiconductor companies.
- Company selection within industrials, specifically within industrial & electrical equipment manufacturers and transportation industries.
- Under allocation to communication services, specifically not owning non-dividend paying social and entertainment media or traditional telecom companies.

Negative drivers of current quarter performance

- Overweights within select diversified and regional banks as macro concerns from the COVID variant outweighed enthusiasm from continued improvement in credit trends, loan growth and execution.

Top 3 Companies Contributing to Relative Performance

1. Broadcom (AVGO) AVGO is a leading provider of high-performance radio-frequency integrated circuit (RFIC) chips and is exposed to increased semiconductor content in mobile devices. In an effort to prioritize social responsibility and more sustainable business practices, the company's wireless and broadband innovations enable societal connectivity enhancing everyday life. While supply chain issues continue to limit industry growth, AVGO continues to grow sales at an attractive rate above peers. This operational superiority combined with an impressive profit margin and free cash flow generation profile should support attractive future dividend growth.

2. Qualcomm (QCOM) QCOM plays an integral role in technological innovation and the advancement of 5G, which has the potential to enable a more environmentally sustainable and connected economy. Due to its leadership in 5G technology, QCOM benefits from an entrenched competitive position in a growing market. QCOM continues to see operational strength across most of its end-markets despite supply chain constraints across the industry. Longer term, QCOM should see robust growth in its handset business as well as non-handset business, especially within the automotive end market, leading to attractive earnings and dividend growth.

3. Prologis (PLD) As the largest industrial REIT in the U.S. with a scale-advantaged portfolio, PLD continues to benefit from the increased durability of secular demand trends, allowing the REIT to capture strong re-leasing spreads to drive funds from operations and dividend growth. To capitalize on the need for a more efficient and resilient global supply chain, the company continues to effectively allocate capital between developments and acquisitions of class A logistics space. Partially influenced by growing client demand for a "greener" footprint, PLD uniquely targets 100% carbon neutral construction globally by 2025 and offers LED upgrades to tenants without business disruptions at zero up-front cost.

Top 3 Companies Detracting from Relative Performance

1. Medtronic (MDT) MDT is a global leader in cardiology, diabetes and neurostimulation devices with high-single-digit top-line organic growth goals set out by its young but energetic management team. Shares underperformed in 4Q2021 due to COVID-19 headwinds on elective surgeries, a delay in its robotics system rollout and an FDA warning letter from one of its diabetes pump facilities. The warning letter, while serious, is importantly not a product recall and was contained to a singular facility. Management remains focused on the issue and, to ensure the most effective response, is utilizing external experts and resources from across the company. While these factors will reduce near-term revenue and earnings momentum, the long-term, innovation-focused earnings and dividend growth story remains for MDT.

2. JPMorgan Chase & Co (JPM) JPM remains one of the most dominant banking players with leading investment bank, commercial bank, credit card, retail bank and asset management businesses. Additionally, the bank continues to invest in inorganic ESG expansion efforts to steadily expand its competitive advantage. In mid-2021, for example, the company announced the acquisition of OpenInvest that will allow clients of its Wealth Management division to create highly personalized, dynamic ESG portfolios. Following strong YTD performance through 3Q2021, shares moderated in 4Q2021 due to a flattening yield curve and concerns over new COVID-19 variants impacting loan growth. Stellar capital ratios and high deposit bases should support future lending growth for JPM in 2022.

3. Texas Instruments (TXM) TXN is navigating the semiconductor chip shortage effectively since it produces 80% of chips in-house and therefore has little reliance on outside manufacturers. Through innovative advancements, TXN has improved the affordability and efficiency of semiconductor chips which play a critical role in reducing energy consumption across a number of end-markets. However, concerns over the sustainability of current high semi demand weighed on shares during 4Q2021. Despite this, TXN continues to deliver attractive top-line growth driven by strong demand across multiple end-markets. It continues to operate with an attractive margin and free cash flow profile which should support its shareholder-friendly capital allocation policy.

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Strategy Characteristics			
Qualified Dividend Income (% of Total)	93.5%	Number of Holdings	53
Median ESG Percentile Rank (Universe / Sub-Industry)1	17.4 / 10.2	Weighted/Median Market Capitalization	$339.5 B / $133.2 B
QTD / YTD Turnover	0.8% / 8.5%	A-or better S&P Ranking	43.4%

PERFORMANCE	4Q2021	1 Year	2 Years[1]	3 Years/S/I[1,3]
Dividend Growth ESG (Gross)	+14.21%	+29.16%	+19.63%	+22.76%
Sharpe Ratio	-	*2.40*	*1.09*	*1.41*
Dividend Growth ESG (Net)[2]	+14.12%	+28.74%	+19.38%	+22.59%
Sharpe Ratio	-	*2.37*	*1.07*	*1.40*
S&P 500†‡	+11.03%	+28.71%	+23.44%	+26.07%
Sharpe Ratio	-	*2.71*	*1.22*	*1.47*

Source: Bahl & Gaynor and PSN, 2022. [1]Annualized. [2]B&G net-of-fee figure is after management, trading and applicable bundled fees. [3]Inception: 12/31/2018

Thanks

Your continued support and interest are much appreciated.

Everyone at Bahl & Gaynor would like to thank you for the opportunity to serve your investment needs.

Important Disclosures

Legal Stuff

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