Dividend Growth ESG 1Q2022

Russia's War & Corporate Reaction

The military conflict in Ukraine continues to involve a tremendous loss of and disruption to human life, which is immeasurable to the global economic impact. We provide our thoughts on corporate responses to the humanitarian crisis, followed by considerations relevant to the impact on global energy supply.

Human Welfare Crisis

Over the last several years Bahl & Gaynor has observed a shift toward corporate social justice. Stakeholders increasingly encourage companies to take a stance on justice issues (e.g., Black Lives Matter and Time to Vote campaign). This humanitarian-oriented corporate mindset extends to the developing human welfare crisis in Russia and Ukraine today. Many global corporations, including companies in the Dividend Growth ESG strategy, are responding by scaling back or suspending Russian operations. We find company responses are balanced between conforming with government sanctions and empathizing with innocent civilians who are already in a dire situation.

Through our active engagement with and public statements by strategy holdings, Bahl & Gaynor gathered information on how companies have or intend to respond. Below we present reactions from the top three strategy holdings in terms of Russian revenue exposure:

> **PepsiCo (PEP)** PEP halted the sale of non-essential soda brands in Russia but remains committed to the sale of snacks and daily essentials. The company has also announced its intent to support the livelihood of Russian PEP employees and agricultural workers in its supply chain.
>
> **Mondelez (MDLZ)** MDLZ similarly announced the scaling-back of non-essential activities, including the discontinuation of new capital investment and advertising spend. The company has maintained the sale of essentials to ensure a continuation of food supply.
>
> **Avery Dennison (AVY)** AVY has ceased to enter into or renew purchase contracts with Russian suppliers and is unwinding existing contracts in the country.

We believe global company responses aim to distinguish between the actions of the Russian government and affiliated oligarchs, and ordinary Russian citizens. These corporate moves are intended to economically punish the country's decision-makers for launching the unprovoked attack on Ukraine and discourage further escalation. In addition to operational announcements, many companies are providing humanitarian assistance and relief to Ukraine and its citizens. While the outcome and long-lasting impact of this military conflict remain unpredictable, we are encouraged by the speed, magnitude, and thoughtfulness of corporate responses as a whole.

Impact on Global Energy Supply

The economic impact of the military conflict on the US economy continues to be limited; the primary areas of exposure are commodity and financial in nature. A nominal portion of US energy is supplied by Russia, however approximately 40% of the EU's natural gas consumption and more than 25% of its oil consumption is sourced from Russia.[1] This dependence is partially due to a natural concentration of fossil fuels in certain geographic areas as well an aggressive prioritization of lower carbon intensity energy sources. Though difficult to isolate a singular

[1] https://ec.europa.eu/eurostat/cache/infographs/energy/bloc-2c.html

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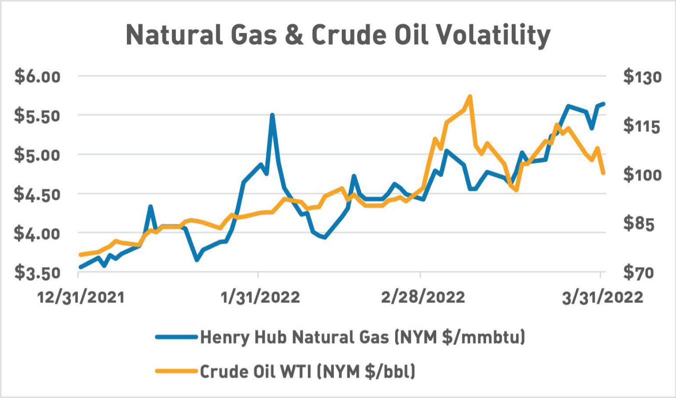
cause, Russia's invasion of Ukraine triggered an abrupt shock to the supply of global energy creating significant commodity volatility throughout the quarter (Figure 1). Green energy represents an attractive and clean source of power; however, the resulting commodity inflation highlights the importance of a balanced transition to clean energy.

Domestically, politicians continue to debate the appropriate path forward to achieve an affordable and more environmentally sustainable energy supply. Recent developments suggest the approach to energy policy may be an "all-of-the-above" one: continuing to support the advancement of renewable energy while simultaneously relaxing regulations on fossil fuel power generation. With or without government subsidies, we remain optimistic that secular trends in clean energy will persist for the foreseeable future.

Figure 1



Source: FactSet

SEC Unveils Long-Awaited ESG Proposal

On March 21st, the SEC announced its proposal for U.S. publicly listed companies to disclose a wide variety of data on climate-related risks and opportunities. Those in favor of the disclosures believe the new rules will increase the standardization, and thus comparability, of climate-related metrics. Opponents to the proposal believe the rule will impose undue costs and that it falls outside the SEC's legal mandate and realm of expertise. The proposal has entered a 60-day public comment period in the hopes of arriving at a final rule which can be determined and adopted over the next year or two. This proposal marks the first climate-related public company disclosure rule in the U.S. Bahl & Gaynor believes greater levels of and conformity to ESG-related disclosures can only benefit our commitment towards responsible investment management. The proposals offered by the SEC will, no doubt, be refined based on stakeholder input. Still, we find the direction of public discourse exciting and encouraging.

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Strategy Objectives

1. ESG Integration: Significant improvement in ESG rankings relative to benchmark[1]
2. Income Growth: 2.1% yield; +10.1% growth in trailing-twelve-month income as of 1Q2022
3. Downside protection: Top quartile 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

Current Quarter Strategy Thoughts Relative to Objectives:

- The Dividend Growth ESG strategy grew TTM income by +10.1%, compared to S&P 500 income growth of +7.3%.
  - Using March's U.S. Consumer Price Index (CPI) TTM growth rate of +8.5%, the strategy provided differentiated real client purchasing power growth.
- 17 strategy holdings announced dividend hikes; average increase was +13.6%, signifying fundamental strength.
- Daily downside capture of 87%* during 1Q2022 across all S&P 500 down days, slightly better than the 90% since inception average.
- The strategy ***underperformed***, returning -7.46% gross (-7.54% net) versus the S&P 500's -4.60% return.
- Investors favored deep value/weak balance sheet companies for most of the quarter, the common factor across many of these companies being a high dividend yield.
  - These companies ***do not*** fit the quality and dividend growth characteristics required for inclusion in the strategy.
- In response to rising geopolitical conflict in Ukraine, sentiment acutely shifted in favor of defense contractors as well as companies within the oil & gas supply chain.
- Despite violently rising real and nominal yields, non-profitable technology and long duration equities rallied versus deep value/weak balance sheet stocks in closing weeks of the quarter, likely driven by retail investors and short covering.
- Strategy characteristics of sustainable dividends and stable fundamentals remain attractively valued despite the risks of central bank tightening, economic deceleration, and continued market-level valuation concerns.

1Q2022 Dividend Increases		
Company	% Increase	Current Yield
Air Products & Chemicals (APD)	+8.0%	2.6%
American Tower (AMT)[1]	+0.7%	2.3%
Best Buy (BBY)	+25.7%	3.9%
BlackRock (BLK)	+18.2%	2.6%
Booz Allen Hamilton (BAH)	+16.2%	2.0%
Cisco Systems (CSCO)	+2.7%	2.7%
Comcast (CMCSA)	+8.0%	2.3%
Eaton (ETN)	+6.6%	2.1%
Eversource Energy (ES)	+5.8%	2.9%
Home Depot (HD)	+15.2%	2.5%
NextEra Energy (NEE)	+10.4%	2.0%
Old Dominion Freight (ODFL)	+50.0%	0.4%
Prologis (PLD)	+25.4%	2.0%
Sempra (SRE)	+4.1%	2.7%
TJX Companies (TJX)	+13.5%	1.9%
Waste Management (WM)	13.0%	1.6%
WEC Energy (WEC)	+7.4%	2.9%

[1]*Increases dividend multiple periods per year.*

1Q2022 Dividend Growth ESG Trades Executed	
Initiations	Eliminations
Cintas (CTAS)	
Agilent (A)	
Increases	Reductions
Booz Allen Hamilton (BAH)	Apple (AAPL)
Cintas (CTAS)	Eli Lilly (LLY)
TJX Companies (TJX)	Microsoft (MSFT)
	Texas Instruments (TXN)

Source: Bahl & Gaynor and Factset, 2022.

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Positive drivers of current quarter performance

– Selection within pharmaceuticals and biotechnology drove positive stock selection in addition to underweight exposure to high-multiple life sciences tools & services companies.

– No exposure to high-multiple, non-dividend paying social and entertainment media and application software companies within the Information Technology and Communication Services sectors.

– Stock selection within regulated and gas infrastructure utilities in a period of market volatility and growing depending on U.S. gas exports.

Negative drivers of current quarter performance

– No exposure to the Energy sector in a period that favored companies with leverage to oil & gas commodity prices.

– No exposure to Defense Contractors amid materializing geopolitical tensions.

– Overweight large cap bank and asset manager positioning amid market volatility and not owning non-dividend payer Berkshire Hathaway.

– Selection within home improvement retail stock ownership amid rising mortgage rates despite secular housing demand, as well as exposure to consumer-centric apparel and electronic retailers.

Largest Portfolio Contributors

1. AbbVie (ABBV) Strength from multiple growth drivers boosted FY2022 guidance and is easing future Humira erosion fears. Greater focus on ABBV's long-term fundamentals beyond Humira should continue to support a re-rating of shares and complement ABBV's continued ESG leadership and improvement within the pharmaceutical industry.

2. Sempra (SRE) SRE management communicated enhanced long-term expectations because of surging global demand of US liquid natural gas (LNG). LNG business expansion should complement SRE's core utility business, earnings consistency, and dividend growth, while also representing a unique avenue to supply lower-emission energy sources.

3. Merck (MRK) MRK continues to steadily execute across its high-quality, diversified business model, demonstrating its ability to generate solid through-cycle earnings and dividend growth. This proved to be particularly attractive to investors seeking to rotate into more defensive assets during the volatile quarter. As demonstrated by its recent inaugural sustainability bond issuance to support and prioritize ESG initiatives, MRK continues to stand out as a leader across pharmaceutical companies.

Largest Portfolio Detractors

1. Home Depot (HD) Rising mortgage rates and difficult sales comp guidance for FY2022 weighed on shares; however, macro dynamics have not impacted HD's commitment to emission and energy-usage reductions or to its vast employee network. HD remains a best-in-class operator for personal and professional home improvement projects with strong commitment to the dividend supported by secular demand.

2. Air Products & Chemicals (APD) Near-term margins are expected to be pressured from higher input costs via rising energy prices. APD remains positioned to benefit from expanding gasification market opportunities, which include emerging clean-energy areas such as Green Hydrogen. These opportunities should drive attractive earnings and dividend growth.

3. Starbucks (SBUX) Labor and commodity cost headwinds, geopolitical risk exposure and unionization efforts have pressured SBUX's near-term outlook. SBUX remains focused on driving sales growth and margin expansion through beverage innovation and digital/delivery options. Further, management continues to execute various workforce-centric initiatives while also maintaining a sharp focus on supply chain management.

Strategy Characteristics			
Qualified Dividend Income (% of Total)	93.2%	Number of Holdings	55
Median ESG Percentile Rank (Universe / Sub-Industry)[1]	18.4 / 12.0	Weighted/Median Market Capitalization	\$290.4 B / \$104.8 B
QTD / YTD Turnover	2.2% / 2.2%	A-or better S&P Ranking	43.1%

PERFORMANCE	1Q2022	YTD	1 Year	2 Years[1]	3 Years[1]	S/I[1,2]
Dividend Growth ESG (Gross)	-7.46%	-7.46%	+12.91%	+28.22%	+15.06%	+18.01%
Sharpe Ratio	-	-	*0.87*	*1.91*	*0.88*	*1.08*
Dividend Growth ESG (Net)[2]	-7.54%	-7.54%	+12.52%	+27.90%	+14.86%	+17.83%
Sharpe Ratio	-	-	*0.85*	*1.89*	*0.87*	*1.07*
S&P 500[†‡]	-4.60%	-4.60%	+15.65	+34.47%	+18.92%	+22.09%
Sharpe Ratio	-	-	*1.19*	*2.20*	*1.04*	*1.24*

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

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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

*Source: Bahl & Gaynor and FactSet; historical downside capture is the sum of strategy returns on all S&P 500 down days divided by the sum of index returns on all respective down days. Down days are defined as any trading day the index posts a negative total return. Strategy performance is derived from the internal rate of return (IRR) of a single non-fee paying representative/model account.

† Past performance does not guarantee future results. Historical performance results for investment indices and/or categories have been provided for general comparison purposes only, and generally do not reflect the deduction of transaction and/or custodial fees, the deduction of an investment management fee, nor the impact of taxes, the incurrence of which would have the effect of decreasing historical performance results. It should not be assumed that your account holdings do or will correspond directly to any comparative indices. The index and other amounts shown above do not relate to the Bahl & Gaynor Income Growth strategy and are for illustrative purposes only.

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