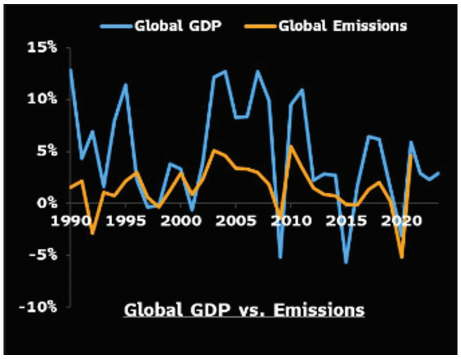
Bahl&Gaynor

4Q 2022 Dividend Growth ESG Update

2022 "Near Year's Resolutions" Under Review

Looking in the rearview mirror, many global leaders' "2022 New Year's Resolutions" appeared to address Climate Change head-on. However, as the year continued priorities may have shifted in response to the myriad of unpredictable challenges and disruptions. This deepened the philosophical debate whether ESG-oriented objectives (e.g. Climate Change) are inherently at odds with economic and fiducial considerations.

Similar to personal assessments of successful and failed resolutions, data forecasts shared at COP27[1] reflected upon climate change resolutions and detailed a bleak outcome: nearly 2x recent trend-rate growth in global carbon emissions driving global emissions to a new high-water mark. Increased global emissions have been primarily attributed to rising coal and oil consumption, as well as continued growth in global GDP – two metrics with a robust positive correlation (~94% R^2).



Source: WGDPWRLD Index, World Bank

Often with resolutions, both leaders and laggards emerge; in this sense, we remain encouraged by trends and milestones that demonstrate rising domestic leadership, continued progress and renewed commitment to broad ESG priorities. Domestic support for climate action has materialized through the Inflation Reduction Act of 2022 as well as continued regulatory support for investment in the production and distribution of cleaner and more diverse energy. We are also encouraged by positive leadership at numerous companies – this positive momentum importantly continues to build in areas most material to each company, and thus offers greatest potential for value.

New Year = New Resolutions

As we enter 2023, we look to set new Resolutions…often small subtle adjustments that we hope will leave a lasting, comprehensive impact. Below we present Dividend Growth ESG portfolio companies that continue to build on positive momentum through recently renewed and/or expanded "New Year's Resolutions" demonstrating the continued pursuit of ESG principles.

Air Products and Chemicals (APD) announced plans to invest $4B alongside AES Corporation (AES; not held) to build the first "mega-scale" green-hydrogen production facility in Texas. The project is expected to be the largest green hydrogen facility in the U.S. with robust hydrogen and renewable energy capacity forecasts. Operations are expected to commence in 2027, representing a key milestone for domestic clean energy while simultaneously supporting robust earnings growth for APD.

Cisco (CSCO) recently announced its plan to provide digital and cybersecurity skills training beginning in 2023. The program aims to train 25 million learners over the next 10 years through the Cisco Networking Academy. The World Economic Forum estimates that by 2025 97 million new jobs will be created globally due to advances in technology. CSCO's efforts may empower millions across the globe to access these positions, increase cybersecurity acumen broadly, and further the social pillar within ESG.

CMS Energy (CMS), numerous stakeholders, and its governing regulator reached a settlement in its groundbreaking proposal to rapidly, but responsibly, accelerate the transition to cleaner energy. The plan includes an accelerated replacement of coal-powered energy with a combination of expanded supply of renewables and cleaner – albeit still a fossil fuel – natural gas. This will likely allow CMS to become the first vertically integrated Utility to fully eliminate coal and will support goals to achieve targets of net zero carbon emissions by 2040 and the expansion of renewable energy.

Mondelez (MDLZ) announced its continued commitment to its flagship cocoa sustainability program, Cocoa Life, which is focused on addressing systemic issues across its global supply chain. The company's renewed pledge included investing an additional $600mm by 2023 bringing total cocoa sustainability investments to $1B. Child protection systems, access to quality education, and a household living wage are just a few of the tangible benefits Cocoa Life beneficiaries reap. This not only supports various communities but should enhance supply chain visibility and oversight.

While these corporate commitments are discrete instances, together they form a larger pledge to environmental and social initiatives globally. We remain optimistic that our Dividend Growth ESG portfolio holdings are demonstrating leadership in their ESG efforts while exhibiting the other key attributes expected in a Bahl & Gaynor portfolio holding.

[1] *November UN Climate Change Conference of the Parties (COP27)*

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Strategy Objectives

1. ESG integration: Significant improvement in ESG rankings relative to benchmark[1]
2. High current and growing income: 2.4% yield; +13.9% growth in trailing-twelve-month income as of 4Q2022
3. Downside protection: Competitive daily downside capture*
4. Price appreciation: Compelling risk-adjusted returns through a full-market cycle

[1] Measured against the S&P 500 index. Please refer to Disclosures for additional information.

Current Quarter Strategy Thoughts Relative to Objectives:

- The Dividend Growth ESG strategy grew trailing-twelve-month income by +13.9%, providing client purchasing power growth in this higher inflationary environment.
- 13 strategy holdings announced dividend hikes; average TTM increase was +10.3%, signaling business stability and financial health of the portfolio.
- Daily downside capture of 80.4%† and 81.8%† across all S&P 500 down days in 4Q2022 and full-year 2022, respectively.
- The strategy's dividend growth focused mandate provided investors relative stability during a volatile 4Q2022 and full-year 2022.
- Durable growth sectors of Consumer Staples, Utilities and Health Care outperformed both the October/November market rebound and volatile month of December, supporting outperformance by high-quality strategies.
- Quality cyclical leadership from sectors such as Financials and Industrials contributed to strategy performance.
- Mega-cap stocks Amazon (AMZN), Apple (AAPL), Google (GOOG/L), Meta (META) and Tesla (TSLA) fell by an average -18.6% and weighed on the S&P 500 total return by approximately 2.7%.
- The outlook for risk-aware active managers with a focus on sustainable dividends and stable fundamentals remains positive.

4Q2022 Dividend Increases

Company	% Increase	Current Yield
Abbott Laboratories (ABT)	8.5%	1.9%
AbbVie (ABBV)	5.0%	3.7%
Agilent Technologies (A)	7.1%	0.6%
Alexandria Real Estate (ARE)[1]	2.5%	3.3%
American Tower (AMT)[1]	6.1%	2.9%
Broadcom (AVGO)	12.2%	3.3%
CDW Corp. (CDW)	18.0%	1.3%
Crown Castle (CCI)	6.5%	4.6%
Eli Lilly (LLY)	15.3%	1.2%
Merck & Co (MRK)	5.8%	2.6%
Motorola Solutions (MSI)	11.4%	1.4%
Nike (NKE)	11.5%	1.2%
Zoetis (ZTS)	15.4%	1.0%

[1]Increases dividend multiple periods per year.
Source: Bahl & Gaynor and Factset, 2023.

4Q2022 Dividend Growth ESG Trades Executed

Initiations	Eliminations
Kinder Morgan (KMI)	Best Buy (BBY)
Increases	**Reductions**
Booz Allen Hamilton (BAH)	American Tower (AMT)
CMS Energy (CMS)	Apple (AAPL)
Eaton Corp. (ETN)	Fidelity Information Services (FIS)
Kinder Morgan (KMI)	Medtronic (MDT)
Marsh & McLennan (MMC)	Microsoft (MSFT)
Mondelez (MDLZ)	
Prologis (PLD)	
TJX Companies (TJX)	

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Positive drivers of current quarter performance

- Ownership of high-quality fast casual restaurant, coffee and discount retailers within the Consumer Discretionary sector in addition to not owning underperforming Amazon (AMZN) or Tesla (TSLA).
- Stock selection within the semiconductors and communications equipment industries within the Information Technology sector in addition to being significantly underweight Apple (AAPL).
- No exposure to high-growth, non-dividend paying internet and direct marketing companies or levered, slow growth telecommunication services companies in the Communication Services sector.

Negative drivers of current quarter performance

- Under allocation to the Energy sector, despite positive stock selection within midstream companies
- Ownership of regulated utilities amid outperformance of gas, water and unregulated utility stocks, nearly offset by positive contribution from an overweight allocation in the sector.
- Mixed stock selection within the services segment of Industrials, partially offset by positive contribution by being overweight in the sector.

Largest Portfolio Contributors

1. Air Products & Chemicals (APD) Strong price/cost execution continues to offset higher energy costs and COVID-related impacts in China, demonstrating resiliency in the earnings stream. Longer-term, APD remains positioned to benefit from expanding gasification market opportunities, including green hydrogen projects, which should drive attractive earnings and dividend growth.

2. Merck (MRK) MRK delivered both a strong beat and raise earnings announcement as well as compelling phase III clinical trial data for its key cardiovascular drug in 4Q2022. MRK continues to provide stable cash flow and dividend growth making the stock particularly attractive amid this macro environment. Supported by ongoing prioritization of ESG initiatives in four focus areas, MRK remains a leader across pharmaceutical companies.

3. Broadcom (AVGO) AVGO delivered an exceptional 3Q2022 beat and full-year EPS guidance raise despite macro headwinds within IT spending. AVGO posted sustained double-digit growth across its core infrastructure end markets (networking, broadband, enterprise, and storage) and provided investors with a strong +12.2% dividend increase. Maintaining quality suppliers and overseeing responsible use of resources continues to be a material ESG focal point for AVGO.

Largest Portfolio Detractors

1. Fidelity National (FIS) FIS margins underwhelmed in its 3Q2022 report as its operating expenses track in-line with inflation while revenues are slower to follow due to contractual conditions. However, margin degradation is expected to peak in 2022 and balance sheet deleveraging continues to be a priority for management, both of which should support long-term free cash flow generation.

2. Broadridge (BR) BR missed 3Q2022 earnings estimates with margins contracting due to growth in its low-margin distribution business as well as large investment in its platform development. Though the initial platform rollout will hurt margins near-term, it is expected to significantly boost annualized revenue and grow deal count. Moving into 2023, margins and free cash flow conversion should rise back to historical levels.

3. Waste Management (WM) Strong core results bolstered by robust pricing power combined with a defensive earnings stream supported material outperformance heading into 4Q2022. Though actions have been taken to mute its impact to overall earnings, declines in prices for recycled commodities overshadowed core fundamentals during the quarter. WM's ESG narrative remains strong as it ramps up its two-pronged, $1.6B green capex plan.

Strategy Characteristics			
Qualified Dividend Income (% of Total)	94.0%	Number of Holdings	53
Median ESG Percentile Rank (Universe / Sub-Industry)[1]	18.6 / 14.7	Weighted/Median Market Capitalization	$162.0 B / $68.4 B
QTD / YTD Turnover	4.2% / 18.2%	A-or better S&P Ranking	44.6%

Source: [1]Sustainalytics. Please refer to Disclosures for additional information on third-party data.

Due to reporting complexities resulting from new SEC marketing guidelines effective 4Q22, Bahl & Gaynor will no longer publish composite performance in its quarterly newsletter. Performance figures may be obtained through your Bahl & Gaynor contact or financial advisor.

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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

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

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