Large Cap Quality Growth Portfolio | Fourth Quarter 2023

Strategy Objectives

1. Accelerated income growth: 2.1% yield[1]; +8.0% growth in trailing-twelve-month (TTM) income as of 4Q2023
2. Downside protection: Competitive daily downside capture[2]
3. Price appreciation: Compelling alpha and Sharpe ratio

4Q2023 Results Relative to Strategy Objectives:

Income Growth

- The Quality Growth strategy grew TTM income by +8.0%, compared to S&P 500 income growth of +6.7%, delivering on its primary objective to provide dividend growth in excess of the benchmark.[3]
- 14 strategy holdings announced dividend hikes; average TTM increase was +9.8%, signaling continued financial health of the portfolio. The strategy remains positioned for broad-based dividend growth going into 2024.

Downside Protection

- Daily downside capture of 83.2% and upside capture of 87.6% across all S&P 500 down/up days in the quarter-to-date period ended 12/31/2023.[2]

Price Appreciation

- During the 4Q2023, the strategy's dividend growth-focused mandate underperformed the S&P 500 benchmark and performed in line with S&P 500 dividend payers over the same time period.
- Year-over-year inflation rates continued to fall in support of the Fed's five-month, and counting, pause in interest rate hikes. In December, the Fed embraced a dovish tone, suggesting a cut may be the next move in rates, which propelled interest rate sensitive equities in the final days of the quarter.
- Dispersion of returns among the top seven holdings continued to grow following a year dominated by the largest market cap names. During the fourth quarter, these seven holdings contributed 34.3% of the S&P 500's 11.7% return, reflecting a significantly lower influence on the index compared to the 84.5% return contribution over the first three quarters of 2023.
- We remain convicted in the outlook for risk-aware active managers with a focus on sustainable dividends and stable fundamentals as we enter 2024. With the current environment defined by the tightest monetary conditions in the last decade, and a historically imbalanced market backdrop, we believe companies with strong balance sheets and the ability to self-fund can outperform the market through-cycle.

4Q2023 Dividend Increases

Company	TTM % Increase	Current Yield
Abbott Laboratories (ABT)	7.8%	2.0%
AbbVie (ABBV)	4.7%	4.0%
American Financial (AFG)	12.7%	2.4%
Amgen (AMGN)	5.6%	3.1%
Automatic Data Processing (ADP)	12.0%	2.4%
Broadcom (AVGO)	14.1%	1.9%
CDW (CDW)	5.1%	1.1%
Eli Lilly & Co (LLY)	15.0%	0.9%
Hartford Financial Services (HIG)	10.6%	2.3%
KLA (KLAC)	11.5%	1.0%
Merck & Co (MRK)	5.5%	2.8%
Motorola Solutions (MSI)	11.4%	1.3%
Snap-on (SNA)	14.8%	2.6%
Stryker (SYK)	6.7%	1.1%

4Q2023 Trades Executed

Initiations	Eliminations
Amgen (AMGN)	Genpact (G)
CBOE Markets (CBOE)	Texas Instruments (TXN)
Dell Technologies (DELL)	
Snap-on (SNA)	
Targa Resources (TRGP)	
Increases	**Reductions**
American Financial (AFG)	Abbott Laboratories (ABT)
Mondelez (MDLZ)	Evercore (EVR)
Targa Resources (TRGP)	Illinois Tool Works (ITW)
TJX Companies (TJX)	Regions Financial (RF)

Source: Bahl & Gaynor and FactSet, 2024.

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Portfolio Review

The Quality Growth portfolio underperformed versus the S&P 500 Index in 4Q2023. Stock selection in Industrials, Health Care and an underweight in Communication Services contributed positively to performance. Stock selection in Consumer Staples, Materials and Consumer Discretionary detracted from performance.

The largest positive drivers of current quarter performance included:

- Strong stock selection in Industrials contributed positively to strategy performance. Ownership of diversified support and professional services companies Cintas (CTAS) and Booz Allen Hamilton (BAH), building products company Carlisle (CSL), and rail transport company (UNP) buoyed strategy performance. This was partially offset by ownership of aerospace & defense companies L3Harris (LHX) and Northrop Grumman (NOC).
- Within Health Care, no ownership of life sciences tools companies, healthcare services or supplies companies contributed positively to performance, although this benefit was partially offset by an overweight allocation to the pharmaceuticals sub-industry.
- No ownership of Communication Services companies was a benefit to strategy performance during the quarter. Mega-cap, media and services company Alphabet (GOOG/L,) and many Communication Services sub-industries including cable and broadcasting underperformed the benchmark during the quarter.

The largest negative drivers of current performance included:

- Ownership of snack food companies in Consumer Staples proved challenging as the investor community continued to assess the longer-term impact on food and beverage demand with positive GLP-1 readouts. Packaged food holding Mondelez (MDLZ) and soft drink company PepsiCo (PEP) were particularly challenged during the period.
- Within Materials, ownership of industrial gas company Air Products & Chemicals (APD) detracted from performance. During the quarter, the company announced a material cost increase for one of its large-scale, mega projects. This headwind was partially offset by no ownership of fertilizers & agricultural chemicals, commodity chemicals or packaging companies.
- No ownership of mega-cap retailer and non-dividend payer Amazon (AMZN) within Consumer Discretionary contributed negatively to strategy performance. AMZN was the beneficiary of both multiple expansion and positive earnings revisions during the quarter, although the stock still has not revisited 2021 highs. Ownership of home improvement retailer Home Depot (HD) offset some of the negative allocation effect within Consumer Discretionary.

Largest Portfolio Contributors

1. **Broadcom (AVGO):** As the leader in networking integrated circuits, AVGO continued to outperform following strong product cycles and excellent customer and channel management. Additionally, ~15% of the business is currently benefiting from AI tailwinds, and the recently closed acquisition of VMware should continue to diversify revenue streams.
2. **Cintas (CTAS):** Strong FY2Q2024 results highlight continued demand across an array of end-markets, with management noting healthy contribution from both new customers and cross-selling within existing customers. The company's strong fundamental momentum remains supportive of its balanced capital-allocation philosophy, including accelerated dividend growth.
3. **Exxon Mobil (XOM):** XOM has continued to evolve into a more disciplined CAPEX-spend company and has significantly reduced its operating expenses per barrel of energy produced. The company has made material discoveries over the last few years resulting in a visible growth trajectory for production. Cashflow remains robust through both production growth and pricing power.

Largest Portfolio Detractors

1. **Chevron (CVX):** Earnings were pressured during the quarter compared to 2022 record levels as crude prices eased and higher costs crimped refining and chemical profits. Despite these pressures, CVX maintains a positive long-term outlook, especially with the recent acquisition of HES, which provides a foothold in Guyana's oil basins.
2. **Marsh & McLennan (MMC):** MMC sold off in December following the Fed's dovish pivot as investors took a risk-on stance and feared the possibility of lower investment income from balance sheet assets. Despite the sell-off, MMC posted better-than-expected organic growth results, improved margins in 3Q2023, and increased cost savings actions which are expected to support EPS growth in 2024.
3. **Air Products & Chemicals (APD):** APD shares underperformed during the quarter due to inflationary cost-increase announcements within the hydrogen project backlog. Long term, APD remains well positioned to benefit from gasification market opportunities, which should drive attractive earnings and dividend growth.

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Strategy Style Categorization

Asset Class	Benchmark	Mandate
Domestic Equity	S&P 500	Large Cap Core

Investment Philosophy

Bahl & Gaynor employs a Growth at a Reasonable Price discipline to purchase high-quality companies at sensible valuations. It is our goal to seek competitive performance while preserving capital in declining markets. In addition, our focus on companies that pay growing dividends has benefited our clients in the form of a reliable income stream.

We are long-term investors and seek to identify companies that are managed conservatively and for growth, have stable and sustainable business models, and reward shareholders with a growing dividend. It is our intention to identify the best companies that meet these criteria and hold them for long periods of time.

Bahl & Gaynor's investment philosophy exemplifies our firm belief in the power of long-term investing and compounding dividend income.

Quality Growth Positioning

Our Quality Growth strategy focuses on providing protection in falling markets, while preserving the ability of capital to appreciate in value over long periods of time, all with a focus on delivering income to the investor in the form of a growing dividend income stream.

Bahl & Gaynor's equity selection process yields an investable universe of companies that are managed conservatively and for long-term growth, have stable and sustainable business models, and reward shareholders of the company with a growing dividend. From this investable universe, the Quality Growth strategy seeks larger companies with the ability to grow their dividend payments at a high rate in the future.

Over a full market cycle, Bahl & Gaynor's Quality Growth strategy seeks to outperform its benchmark and large-capitalization core peers all in the context of a lower-than-average portfolio risk profile.

Client portfolios will generally be diversified among a selection of 45 to 55 common stock issues with each security typically held for three to five years. Low portfolio turnover combined with the favorable tax treatment of dividend income results in a cost and tax-efficient portfolio.

Portfolio Management Parameters

1. 100% of companies held in the portfolio pay a cash dividend
2. Portfolio typically managed to maximum 5% capital contribution per stock
3. Cash is frictional and generally represents 1% to 3% of portfolio value
4. Annual portfolio turnover is low to moderate
5. Sell or trim decisions are based upon fundamentals, dividend policy, and better opportunities for yield or income growth
6. The strategy employs no derivatives, exchange-traded funds or mutual funds

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Portfolio Details

Sector	Quality Growth Weight	S&P 500 Weight
Industrials	19.9%	8.8%
Information Technology	19.4%	28.9%
Health Care	15.0%	12.6%
Financials	14.6%	13.0%
Consumer Staples	8.8%	6.2%
Consumer Discretionary	7.2%	10.9%
Energy	5.0%	3.9%
Utilities	4.5%	2.3%
Materials	2.3%	2.4%
Real Estate	2.0%	2.5%
Communication Services	0.0%	8.6%
Money Market	1.3%	-

Top 10 Holdings	Quality Growth Weight
Broadcom (AVGO)	5.27%
Broadridge Financial Solutions (BR)	4.39%
Eli Lilly (LLY)	4.25%
Marsh & McLennan (MMC)	3.42%
Cintas (CTAS)	3.37%
Bank of America (BAC)	3.35%
Motorola Solutions (MSI)	3.35%
Mondelez (MDLZ)	3.22%
TJX (TJX)	3.20%
Chevron (CVX)	2.72%

Portfolio Statistics	Quality Growth	S&P 500
P/E Ratio (trailing 12 months)	22.5x	23.0x
P/B Ratio	4.5x	4.2x
Weighted Average Market Cap	$158.3 B	$721.7 B
Dividend Yield – Gross of Fees[1]	2.1%	1.5%
A- or better S&P Quality Ranking	38.0%	26.2%
Beta since inception (Gross / Net)	0.82/0.82	1.00
Sharpe ratio	0.61/0.35	0.52

Source: FactSet, 2024. Inception Date 6/30/1990.

4Q2023 Performance (Annualized)	Quality Growth WRAP (Pure Gross)	Quality Growth WRAP (Net)	S&P 500
1 Year	12.51%	9.20%	26.29%
3 Years	9.31%	6.09%	10.00%
5 Years	14.33%	10.96%	15.69%
10 Years	11.51%	8.23%	12.03%
15 Years	12.67%	9.35%	13.97%
20 Years	9.61%	6.39%	9.90%
Since Inception	10.45%	7.19%	10.26%

4Q2023 Risk (Annualized)	Quality Growth WRAP (Pure Gross)	Quality Growth WRAP (Net)	S&P 500
1 Year	12.08%	11.88%	14.11%
3 Years	15.47%	15.59%	17.29%
5 Years	16.70%	16.87%	18.37%
10 Years	13.95%	14.16%	15.13%
15 Years	13.92%	14.02%	15.33%
20 Years	13.27%	13.37%	14.86%
Since Inception	13.03%	13.11%	14.88%

Source: Bahl & Gaynor, Informa – PSN, 2024. Inception date 6/30/1990.

[1]Dividend yield includes cash holdings.
[2]Source: Bahl & Gaynor; 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 account.
[3]The income growth rate for the Bahl & Gaynor Quality Growth strategy is calculated as of the most recent quarter-end using the trailing twelve months of income earned in a model portfolio, with income reinvestment, compared to the income earned in the twelve-month period one year prior. The income growth rate for the S&P 500 is proxied by the SPDR® S&P 500 ETF Trust (SPY) as an investable proxy for the Index that pays out real distributions of dividend income paid by the index constituents. SPY was chosen versus other S&P 500 Index Tracking ETFs due to its status as the largest ETF tracking the S&P 500 Index and its longer history, with an inception date of 1/22/1993, versus peers. SPY income is calculated as of the most recent quarter-end using the trailing twelve months of income earned per the distribution rate paid by the ETF, with income reinvestment at the end of each quarter, compared to the income earned in the twelve-month period one year prior.
Source: FactSet, 2024, Bahl & Gaynor. Statistics and weight data is drawn from the Quality Growth model portfolio that is fully discretionary, unconstrained and subject to change. Individual Bahl & Gaynor clients may or may not hold these positions or have similar characteristics. Risk and return data are representative of the Quality Growth WRAP composite. Past performance does not guarantee future results. Other methods may produce different results and the results for individual accounts and for different periods may vary depending on market conditions and the composition of the account. Care should be used when comparing these results to those published by other investment advisers, other investment vehicles and unmanaged indices due to possible differences in calculation methods. No alteration of the composite as presented here has occurred because of changes in personnel or other reasons at any time. Standard & Poor's (S&P) Quality Ranking: S&P determines "quality" via a company's 10-year history of earnings growth and dividend growth. Those with a quality rating of B+ (or better) are considered "average" (or better).

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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.

If you would like to speak in greater detail with a member of the B&G Team, please reach out to us through our Institutional Consulting Group.

Contact Us

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