smig®-Small/Mid Cap Income Growth | Fourth Quarter 2023

Strategy Objectives

1. High current and growing income: 2.6% yield[1]; 6.6% growth in 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 smig® strategy grew TTM income by +6.6%, compared to Russell 2500 income growth of +8.5%.[3]
- 10 strategy holdings announced dividend hikes with an average TTM increase of +11.7%, 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 73.9% and upside capture of 75.6% across all Russell 2500 down/up days in the quarter-to-date period ended 12/31/2023.[2]

Price Appreciation

- During 4Q2023, the strategy's small/mid-cap, dividend growth focused mandate underperformed the Russell 2500 benchmark.
- 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. In the small/mid-market capitalization range, Financials, Real Estate and Consumer Discretionary sectors specifically benefitted from the Fed's change in tone.
- As the market embraced a more risk-on stance throughout the year and discounted the probability of recession, traditionally cyclical sectors in the Russell 2500 benchmark, including Industrials, Information Technology and Consumer Discretionary, outperformed traditionally defensive sectors like Utilities, Health Care and Energy over the full-year ended 12/31/2023. The strategy outperformed its investable universe of Russell 2500 dividend stocks with a yield > 2%, which lagged the benchmark during the one-year period.
- We remain convicted in the outlook for risk-aware, active small/mid-capitalization strategies with a focus on sustainable dividends and stable fundamentals as we enter 2024. While there is optimism surrounding the Fed's 4Q2023 pivot language, the current environment is still defined by the tightest monetary conditions in the last decade which we believe presents an opportunity for quality companies with strong balance sheets to outperform.

4Q2023 Dividend Increases

Company	TTM % Increase	Current Yield
Agree Realty (ADC)	2.9%	4.7%
American Financial (AFG)	12.7%	2.4%
Atmos Energy (ATO)	8.8%	2.8%
Avient Corp (AVNT)	4.0%	2.5%
Hartford Financial Services (HIG)	10.6%	2.3%
Hubbell (HUBB)	8.9%	1.5%
Lancaster Colony (LANC)	5.9%	2.2%
Penske Automotive (PAG)	38.6%	2.0%
RPM International (RPM)	9.5%	1.6%
Snap-on (SNA)	14.8%	2.6%

Source: Bahl & Gaynor and FactSet, 2024.

4Q2023 Trades Executed

Initiations	Eliminations
CBOE Markets (CBOE)	Horace Mann Educators (HMN)
U.S. Physical Therapy (USPH)	
Increases	**Reductions**
American Group (AFG)	Avient Corp (AVNT)
Avnet (AVT)	Evercore (EVR)
Hartford Financial (HIG)	Huntington (HBAN)
Lancaster Colony (LANC)	Inter Parfums (IPAR)
Packaging Corp Of America (PKG)	Nexstar Media Group (NXST)
Quest Diagnostics (DGX)	Regions Financial (RF)
Targa Resources (TRGP)	

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Portfolio Review

The smig® portfolio underperformed versus the Russell 2500 Index in 4Q2023. An underweight position size and strong stock selection in Energy, an average position size in Communication Services, along with stock selection in Consumer Discretionary contributed positively to performance. Stock selection in Consumer Staples, Health Care and Utilities detracted from performance.

The largest positive drivers of current quarter performance included:

- No ownership of integrated oil & gas companies within Energy and selective ownership of midstream companies contributed positively to strategy performance as oil prices continued to fall from September highs.
- Within Communication Services, no ownership of low yielding or non-dividend paying movies & entertainment companies benefited strategy performance. These companies continued to see fallout from delayed movie releases caused by the now-settled actor strikes. Ownership of advertising agency Interpublic Group (IPG) contributed positively to strategy performance, although this was partially offset by ownership of broadcaster Nexstar Media (NXST).
- An overweight allocation to home builders was beneficial to 4Q2023 strategy performance amid a housing environment defined by undersupply. This benefit was offset by no ownership of apparel, footwear and specialty retailers as the market embraced a "recession delayed" mentality.

The largest negative drivers of current performance included:

- Within Consumer Staples, ownership of center-store, packaged foods companies contributed negatively to performance as the market continued to assess the potential impact on food and beverage volumes following positive GLP-1 readouts.
- Ownership of over-the-counter pharmaceutical manufacturer Perrigo (PRGO) and no ownership of the largely unprofitable biotechnology industry within Health Care detracted from strategy performance. This was partially offset by an above average weight in healthcare services company Quest Diagnostics (DGX) which exhibited fundamental strength and solid operating momentum during the quarter.
- No ownership of renewable electricity and independent power utilities detracted from strategy performance as these names benefited from the Fed's dovish commentary in December.

Largest Portfolio Contributors

1. **MDC Holdings (MDC):** Amid mortgage rate volatility, MDC applied incentives and utilized rate buy-downs to drive robust sales growth during 2023. The company's long-term outlook remains bright given a favorable macro environment with limited housing supply, its strong balance sheet, and a demonstrated commitment to dividend growth.

2. **Evercore (EVR):** Investor optimism around a future M&A recovery following a period of market uncertainty and supportive risk-on market dynamics benefited shares during the quarter. A strong backlog and active client dialogue in addition to increased hiring should bode well once the M&A market environment recovers.

3. **Insperity (NSP):** Following weak results in the prior quarter, NSP's rebound was driven by the alignment of pricing and benefit cost trends. Mid-single digit growth in worksite employees, positive new client sales and strong client retention more than offset deterioration in net hiring trends among NSP's client base. Furthermore, healthcare benefit costs largely normalized during the quarter with fewer severe healthcare claims compared to expectations.

Largest Portfolio Detractors

1. **Perrigo (PRGO):** As a generics and over-the-counter manufacturer, the sustainability of PRGO's margin profile remained in question due to its private label brands and input cost inflation. However, PRGO's portfolio is compelling through-cycle if consumers trade down in a slowing economy; it is further supported by high-growth and high-margin segments like women's health and skin care.

2. **Amdocs (DOX):** DOX is a global managed services provider with telecom heritage but expansion potential in adjacent markets; the company is leveraged to cloud re-platforming among clients and client focus on 5G monetization. Though DOX sees continued resilience with managed services revenue evidenced in 100% renewal rates, guidance was slightly lowered due to both a lack of inorganic revenue growth contribution due to a cancelled merger and weakness in legacy systems revenue.

3. **Hubbell (HUBB):** Steady execution of the company's portfolio optimization efforts and strong tailwinds from electrification and decarbonization trends has contributed to the stock's outperformance in 2023. However, HUBB underperformed very strong benchmark returns in 4Q2023 despite its healthy +5.4% total return in the quarter.

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Strategy Style Categorization

Asset Class	Benchmark	Mandate
Domestic Equity	Russell 2500	Small/Mid 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 a growing dividend 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.

smig®-Small/Mid Income Growth Positioning

Our smig® strategy focuses on owning small and medium-size companies with a market capitalization between $200 million and the largest company in the Russell 2500 at purchase. Protection of capital in falling markets, providing an above-average and growing income stream, and strong performance, all relative to small to medium-size company managers, constitute the strategy's goals.

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 smig® strategy seeks small to medium-size companies with the ability to grow their dividend payments at a high rate in the future.

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

Client portfolios will generally be diversified 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 and 6% income contributions 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 deteriorating balance sheet
6. The strategy employs no derivatives, exchange-traded funds or mutual funds

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Portfolio Details

Sector	smig® Weight	Russell 2500 Weight
Industrials	27.0%	19.4%
Financials	17.3%	17.9%
Materials	9.3%	5.5%
Information Technology	8.8%	13.8%
Utilities	7.4%	2.7%
Consumer Staples	7.1%	3.1%
Health Care	6.9%	12.0%
Real Estate	6.0%	5.9%
Consumer Discretionary	3.8%	13.2%
Energy	2.5%	4.2%
Communication Services	2.1%	2.2%
Money Market	1.7%	-

Top 10 Holdings	smig® Weight
Amdocs (DOX)	3.88%
Booz Allen Hamilton (BAH)	4.76%
Broadridge Financial (BR)	4.69%
Evercore (EVR)	3.04%
Hubbell (HUBB)	4.09%
Inter Parfums (IPAR)	3.53%
Perrigo (PRGO)	3.09%
Quest Diagnostics (DGX)	3.32%
Snap-on (SNA)	4.18%
Watsco (WSO)	3.85%

Portfolio Statistics	smig®	Russell 2500
P/E Ratio (trailing 12 months)	18.2x	15.6x
P/B Ratio	2.6x	2.3x
Weighted Average Market Cap	$11.4 B	$6.9 B
Dividend Yield – Gross of Fees[1]	2.6%	1.5%
A- or better S&P Quality Ranking	26.1%	12.2%
Beta since inception (Gross / Net)	0.79/0.79	1.00
Sharpe ratio	0.62/0.41	0.46

Source: FactSet, 2024. Inception date 3/31/2013.

4Q2023 Performance (Annualized)	smig® WRAP (Pure Gross)	smig® WRAP (Net)	Russell 2500
1 Year	13.81%	10.46%	17.42%
3 Years	7.75%	4.58%	4.24%
5 Years	10.56%	7.31%	11.67%
10 Years	9.78%	6.55%	8.36%
Since Inception	10.90%	7.64%	9.70%

4Q2023 Risk (Annualized)	smig® WRAP (Pure Gross)	smig® WRAP (Net)	Russell 2500
1 Year	16.33%	16.13%	21.74%
3 Years	17.27%	17.46%	20.15%
5 Years	19.17%	19.39%	23.04%
10 Years	15.89%	16.08%	18.92%
Since Inception	15.54%	15.71%	18.48%

Source: Bahl & Gaynor, Informa – PSN, 2024. Inception date 3/31/2013.

[1]Dividend yield includes cash holdings.
[2]Source: Bahl & Gaynor; historical downside (upside) capture is the sum of strategy returns on all Russell 2500 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 smig® 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 three and five years prior. The income growth rate for the Russell 2500 is calculated using the same methodology.

Source: FactSet, 2024, Bahl & Gaynor. Statistics and weight data is drawn from the Smig® 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 smig® 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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