Bahl&Gaynor
Dividends Pay Dividends®

4Q2026 Mid-Quarter Update

The Value of Financial Flexibility

Markets have spent much of this year trying to price some unusually large questions in real time. Investors are weighing the path of inflation and interest rates, geopolitical developments and energy prices, and the scale and eventual returns of investment in artificial intelligence. The answers remain uncertain, but the value markets assign to different kinds of businesses can change well before those questions are resolved.

We have seen some evidence of that since the end of the third quarter. In our view, recent changes in market leadership are consistent with investors placing greater relative value on characteristics we emphasize: cash generation that can be observed today, financial strength, and the ability to invest while returning cash to owners. We would be careful about reading too much into a few weeks. Market preferences can change quickly as new information arrives.

That is a useful reminder that the price of a business can change much faster than the business itself. Investors can revise what they are willing to pay almost immediately, while the investments behind a company's growth may take years to produce their full economic benefit. For the business, however, investment decisions cannot wait until every uncertainty has been resolved.

In our third-quarter letter, we examined what evidence investors should require that capital committed today will earn an attractive return. The cash a company generates helps answer that question by showing what earlier investment has produced. It also gives management the resources to decide what happens next, which brings us to the value of financial flexibility.

Evidence, Expectations, and Price

Observable evidence and investor expectations both inform market price.



> The price assigned to a business can change before its long-term economics become clear.

For illustrative purposes only, the examples shown are not intended to be exhaustive. Evidence, expectations, and the price investors will pay can change. Market prices also reflect additional factors. Investments can lose value.

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What Cash Allows a Business to Do

Consider a company undertaking a substantial investment, whether in AI infrastructure, a new product, or an acquisition. Management may have good reasons to expect an attractive return, but the rest of the business still has to operate, and its existing financial commitments do not disappear while that investment develops. The company's ability to meet those demands will influence the decisions it can make along the way.

Suppose a project that was expected to begin generating positive cash flow in three years instead takes five because demand develops more slowly. It may still offer an attractive return, although the delay changes its economics and any ongoing costs must be funded for longer. A company that can meet those costs from cash generated elsewhere in the business may have room to continue. Another may need new financing just when lenders or investors have become less confident about the outcome.

Periods of higher interest rates provide one historical setting in which that distinction has mattered. When external capital becomes more expensive, the ability to fund investment and other commitments from internally generated resources can become more valuable. In the rising-rate periods we have examined since 2000, S&P 500 dividend-paying companies generated higher annualized returns than non-dividend payers and exhibited lower volatility and downside capture. We would not view dividend payment alone as the cause of those results, but the experience is consistent with a broader principle: businesses with established cash-generating capacity may be better positioned when the cost of capital rises and financial flexibility becomes more valuable.

Dividend Payers in Rising-Rate Environments

Hypothetical cohort analysis across identified rising-rate months since 2000.

	Dividend payers	S&P 500	Non-dividend payers
Annualized return	7.8%	6.6%	2.7%
Monthly volatility	3.4%	3.7%	5.5%
Downside capture vs. S&P 500	85%	100%	157%

In this hypothetical analysis, dividend-paying companies exhibited lower downside capture than non-dividend payers across the rising-rate periods examined.

Source: FactSet, Federal Reserve, and Bahl & Gaynor. Data as of September 30, 2026. Historical cohort results are hypothetical and do not represent an actual portfolio or Bahl & Gaynor strategy. Past performance does not guarantee future results. See methodology in disclosures. Lower downside capture may coincide with lower participation in rising markets.

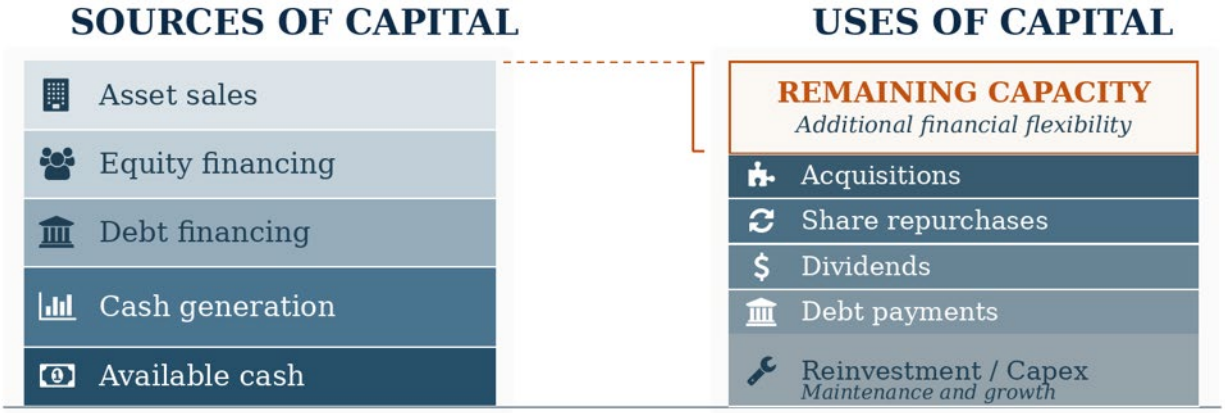
That difference helps explain why we consider the opportunity and the resources needed to pursue it together. External financing can be entirely appropriate when the expected returns justify its cost and terms, just as an investment that limits current cash distributions may create substantial future value. What interests us is whether the business has enough room to continue making sensible decisions if the path to that return changes. It may need to adjust the pace of investment, allow more time for demand to develop, or redirect capital toward a better opportunity.

Those choices matter when conditions improve as well. A business with resources available may be able to expand a successful product or acquire a complementary company at an attractive price. It may choose to strengthen its balance sheet ahead of a larger commitment, or return more cash to shareholders when reinvestment opportunities are less compelling. In each case, financial flexibility gives management options, while the value ultimately created depends on how well it uses them.

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Financial Flexibility Preserves Choices

Potential sources and planned uses of capital over the same period.



Financial flexibility reflects both access to capital and the commitments that capital must support.

For illustrative purposes only. Illustrative sizes, not company data. Sources and uses of capital vary by company and over time. Availability and terms of funding can change; remaining capacity represents additional financial flexibility.

The Dividend in Context

Returning cash to shareholders is one of those options, and it is here that dividend growth becomes relevant to our process. Before deciding what it can sustainably distribute, a company must consider the investment needed to sustain and grow the business as well as its financial commitments. An increase in the dividend is therefore most useful to us when we can understand the cash generation behind it and whether the distribution still leaves the business enough room to invest and adapt.

We are interested in businesses that can sustain that balance over time: investing in their futures, maintaining financial flexibility, and returning a growing amount of cash to their owners. A company can achieve all three when its economics support them, but a dividend funded by weakening the business tells a different story. That is why we return to the underlying cash flows and capital decisions, using the growing payment as one piece of evidence about the business that supports it.

Why Flexibility Matters to Clients

For clients, the relevance of these business characteristics extends well beyond which stocks happen to be in favor. A portfolio is often being asked to support spending today while preserving the ability to meet needs many years from now. The questions we ask connect those needs to what the business can support:

Client objective[1]	What we examine	The question we ask
Growing income	Cash generation after necessary reinvestment, dividend coverage, and the capital required for future growth.	How much dividend growth could come from higher cash generation, and how much would depend on distributing a larger share (higher payout ratio)?
Managing capital risk	Available financial flexibility, debt payments, and the funding required if earnings weaken or investment returns arrive later.	How long can the business meet its commitments without raising capital on unfavorable terms?
Attractive returns	Prospective cash generation and the assumptions about growth and margins already reflected in the share price.	Does the price leave room for an attractive return if those expectations prove too optimistic?

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These questions are deliberately practical. We cannot know exactly how interest rates, inflation, geopolitics, or the returns on new technologies will develop, and neither can the management teams allocating capital today. What we can assess is whether a business has the resources to keep making sensible decisions when reality differs from the original plan.

That is also why we would be cautious about treating a short period of favorable market leadership as validation of the process. Markets may place greater value on observable cash generation and financial strength for a time, then shift their attention elsewhere as expectations change. Our standards should not move with that enthusiasm. The same questions about cash generation, capital needs, balance-sheet capacity, and valuation remain relevant whether the market is rewarding those characteristics or overlooking them.

Over time, this is how we think financial flexibility earns its place in the investment process: not as conservatism for its own sake, but as the capacity to keep investing, meet obligations, return capital when appropriate, and adapt as conditions change.

For clients, those characteristics can support important long-term client objectives - growing income, resilience through difficult periods, and the pursuit of attractive long-term returns.

The future will always require assumptions. In our view, when the path ahead is difficult to forecast, the ability to preserve good choices becomes more valuable.

IMPORTANT DISCLOSURES AND DEFINITIONS

Bahl & Gaynor LLC ("Bahl & Gaynor") is an investment adviser registered with the U.S. Securities and Exchange Commission ("SEC"). Registration with the SEC does not imply a certain level of skill or training.

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Forward-looking statements are based on current expectations, estimates, projections, and assumptions, and involve known and unknown risks and uncertainties. Actual results may differ materially from those anticipated. There is no guarantee that any forecasts, projections, or opinions expressed will be realized. References to market trends, historical market performance, interest-rate environments, or economic conditions are for illustrative purposes only and do not represent the performance of any specific Bahl & Gaynor strategy.

Past performance is not indicative of future results, and all investments involve risk, including the possible loss of principal. Equity investments are subject to market volatility and may decline in value. Dividend payments are not guaranteed, and companies may reduce or eliminate dividends at any time. A history of dividend growth does not guarantee future dividend growth or investment performance. Dividend-focused strategies may underperform other investment approaches during certain market environments. References to financial flexibility, cash generation, growing income, or other potential investment characteristics do not ensure a profit or protect against loss.

The historical dividend-payer analysis presented in this update is hypothetical and retrospective. It was constructed from S&P 500 constituents using the methodology described below and does not represent an actual portfolio, account, or Bahl & Gaynor strategy. Hypothetical results have inherent limitations, including the benefit of hindsight, and exclude investment management fees, transaction costs, taxes, and other expenses. Different assumptions, rebalancing frequencies, cohort definitions, or market periods may produce materially different results. Historical relationships may not persist in the future.

Indexes referenced are unmanaged, do not reflect fees or expenses, and are not available for direct investment. The data presented are derived from sources believed to be reliable, including FactSet and the Federal Reserve, but are not guaranteed for accuracy or completeness.

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IMPORTANT DISCLOSURES AND DEFINITIONS

[1]Investment objectives and income growth are not assured. Equity investments may decline in value.

DIVIDEND PAYERS EXHIBIT - METHODOLOGY

Rising-rate months are months within Federal Reserve rising-rate periods from January 1, 2000 through September 30, 2026, identified based on increases in the federal funds target rate. The rising-rate periods included are January 1, 2000 through May 31, 2000, June 1, 2004 through June 30, 2006, December 1, 2015 through December 31, 2018, and March 1, 2022 through July 31, 2023. The dividend-paying cohort consists of S&P 500 companies with a dividend yield greater than 0%; the non-dividend-paying cohort consists of S&P 500 companies with a dividend yield of 0%. Cohorts are reclassified and rebalanced annually based on dividend yield. Returns are calculated using cap-weighted, float-adjusted cohorts and annualized across the identified rising-rate months. Monthly volatility is the non-annualized standard deviation of monthly returns. Downside capture divides the sum of each cohort's returns during months when the S&P 500 Index was negative by the sum of the Index's returns during those same months. Lower historical volatility or downside capture does not necessarily indicate superior overall performance and may coincide with lower participation in rising markets. Source: FactSet, Federal Reserve, and Bahl & Gaynor. Data as of September 30, 2026.

DEFINITIONS

Annualized return: Annualized return expresses a return over a period as an equivalent yearly rate. For this exhibit, cohort returns are annualized across the identified rising-rate months.

Downside capture: Downside capture compares a cohort's aggregate returns during months when the S&P 500 Index was negative with the aggregate returns of the Index during those same months. A ratio below 100% indicates a smaller aggregate decline than the Index over the measured down months.

Monthly volatility: Monthly volatility is the non-annualized standard deviation of monthly returns over the periods analyzed. Higher or lower volatility refers to relative variability of monthly returns and does not by itself indicate better or worse investment performance.

Rising-rate periods: Rising-rate periods are the Federal Reserve tightening periods used in the exhibit, identified based on increases in the federal funds target rate.

Federal funds target rate: The federal funds target rate is the target range established by the Federal Open Market Committee for the rate at which depository institutions lend reserve balances to one another overnight.

S&P 500 Index: The S&P 500 Index is a broad, market-capitalization-weighted index of large U.S. companies. It is unmanaged, does not reflect fees or expenses, and is not available for direct investment.

Capital expenditures (capex): Capital expenditures are funds a company uses to acquire, upgrade, or maintain long-term assets, including property, equipment, and technology infrastructure.

Financial flexibility: Financial flexibility, as used in this commentary, refers to a company's capacity to fund operations and investment, meet financial obligations, return capital when appropriate, and access additional financing as conditions change. It is not a standardized accounting measure.

Required return: Required return is the return an investor seeks as compensation for the risk and time associated with an investment.

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