

High Dividend Equity

June 2021

ASSET MANAGEMENT | STRATEGY UPDATE

High Dividend Equity (HDE) strategy is a lower volatility equity strategy that seeks to add incremental income to client equity allocations, leveraging the fundamental investment research capabilities of Conning.

Conning's strategy utilizes a separate account structure. All individual holdings are owned directly by the client. Dividends can be either reinvested in the product quarterly or can be distributed to the client. Changes of investment allocation to the strategy by the client will be managed by pro rata purchases as cash is added, or by pro rata sales as cash is required.

Conning's HDE Strategy Has Three Main Goals¹:

- » **Higher dividend yield than the broad equity market**
Indicated dividend yield was 2.54% as of 6/30/2021 versus 1.37% for the S&P 500 Index
- » **Growth in declared dividends**
12 of the 45 companies in the HDE portfolio as of 6/30/2021 increased dividends in 2Q21; average increase was 6.2%
- » **Lower Volatility than the broad equity market**
Beta versus the S&P 500 Index of 0.89 since inception

Strategy Inception: January 1, 2011	Number of Clients: 45
Total AUM: \$1.94 Billion	Typical Number of Holdings: 40-60; all holdings are equally weighted

Portfolio Characteristics

Number of Holdings	45	Avg Market Capitalization	\$141.3 bn
Indicated Dividend Yield	2.54%	Trailing 12 month Yield	2.47%
Forward Price/Earnings Ratio	18.7x	Avg NRSRO Credit Rating	A3/A
MSCI ESG Rating	A		

Prepared by Conning, Inc. Sources ©2011-2021 Bloomberg L.P. and © 2011-2021 Conning, Inc.

Team

Matthew Daly, CFA
Head of Credit Research
25 years of experience

Joseph Mayo
Analyst
35 years of experience

Andrew Pace
Portfolio Manager
32 years of experience

Donald Townswick, CFA
Director of Equity Products
29 years of experience

David Tyson, Ph.D., CFA
Portfolio Manager
42 years of experience

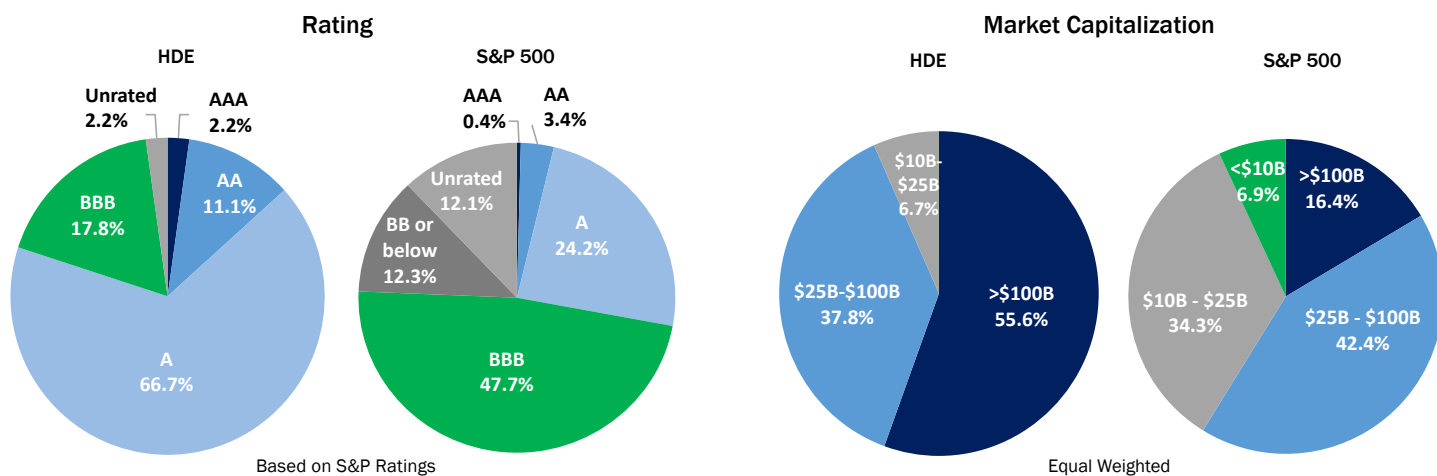
Manager Comments¹

The U.S. equity markets rose during the second quarter. Stocks were driven by strong earnings and revenues and continuing confidence in the approach of a post-COVID world, despite the rise of the highly contagious but less deadly Delta variant. Across the U.S. economy, real estate and technology outperformed, while consumer staples and utilities lagged. First-quarter 2021 earnings are now fully reported, and they were excellent. U.S. companies beat earnings and revenue expectations 86% and 79% of the time, respectively. Additionally, second quarter earnings are expected to be strong.

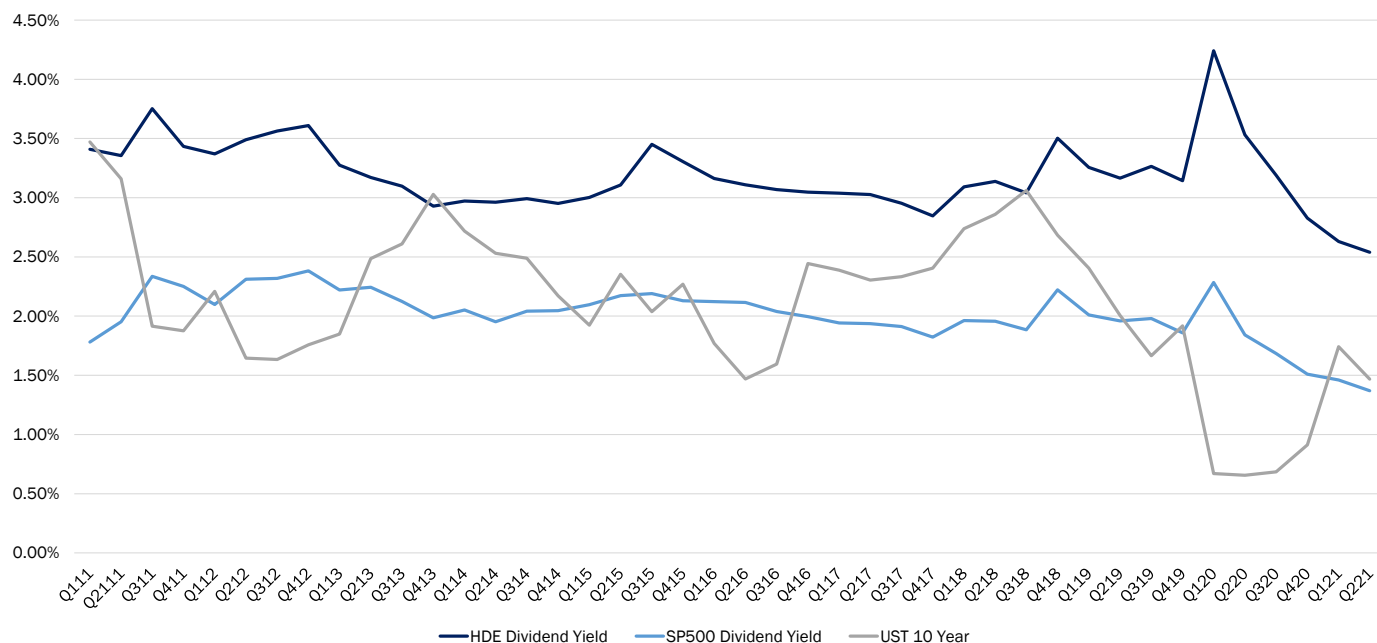
At the most recent rebalance on 6/02/21, Verizon (failed leverage test) and Nucor (yield below threshold) were sold, while Best Buy, Caterpillar and M&T Bank were added to the portfolio.

The rise of the Delta variant weighed on the world last quarter and continues to do so. We expect U.S. inflation in the U.S. to pop to a 3.8% annual rate for Q2, above the Federal Reserve's target of 2.3%-2.5%, and U.S. growth for 2021 is still forecast to be the strongest in years at a 6.4% real rate.

¹ Past performance is not a guarantee of future results.



Historical Yield Comparison



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Conning's Selection Process

- » A multi-stage screening process is used to narrow the S&P 500 universe to a target portfolio including:
 - » Quantitative screens of a broad universe to identify companies meeting parameters
 - » A qualitative review by Conning research analysts to eliminate companies with higher risk profiles
 - » A comparative review of companies passing two prior stages to eliminate a portion of the remaining names, based on screen rankings and analyst risk assessment

Quantitative Screens

- » Minimum equity market capitalization (no small companies)
- » Minimum current dividend yield (income focus)
- » Industry specific balance sheet metrics (conservative financial profile)
- » Dividend payout stable or increasing
- » Positive free cash flow from operations (generates cash to pay dividends)
- » Investment grade debt rating by Conning, Moody's and S&P (quality focus)

Qualitative Credit Research Review

- » Eliminates Close Watch names
- » Eliminates names at risk of dividend reduction/elimination
- » Eliminates names with higher risk financial/business profiles
- » Full bottom-up fundamental analysis including ESG factor assessment

Ongoing Review

- » Continuous analyst review of names and quarterly update and review of quantitative screens
- » Conviction sales can occur whenever analyst observes meaningful decline in business profile
- » Quarterly review of target universe for addition of new names and elimination of names no longer meeting screen parameter

Attribution (%)

2021	+/-	YTD 2021	+/-
Materials (Stock)	+ 0.5	Materials (Stock)	+ 1.3
Utilities (Sector)	+ 0.2	Utilities (Sector)	+ 0.4
Materials (Sector)	+ 0.2	Financials (Sector)	+ 0.3
Information Technology (Stock)	- 1.7	Consumer Staples (Sector)	- 1.4
Consumer Staples (Sector)	- 0.6	Energy (Sector)	- 0.7
Health Care (Stock)	- 0.5	Communication Services (Stock)	- 0.5

Prepared by Conning, Inc. Relative to the S&P 500 Index. Source: ©2014-2021 BI-SAM Technologies, S.A. – used with permission.

Industry Concentrations (%)

(maximum 15% in a single category)

Pharmaceuticals	9.4
Semiconductors	9.2
Banks	8.2
Household Products	6.8
Aerospace & Defense	6.6
Machinery	6.3
Biotechnology	4.7
IT Services	4.7
Specialty Retail	4.5
Beverages	4.4

The High Dividend Equity portfolio was re-balanced on 6/2/2021; all names had equal weight on that date.

Risk Indicators (Since Inception) vs S&P 500 Index¹

Beta	0.89	Alpha	1.56
Tracking Error	4.56	Information Ratio	0.01
Upside Market Capture	0.94	Downside Market Capture	0.86

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Risks of Investing in HDE

- » Prices will decline in bear markets for equities
- » Potential changes in dividend tax rates could lessen demand for the asset class
- » A sharp increase in interest rates could affect prices of income-oriented equities

Top Yielding Names

Indicated Yield (%)	
Philip Morris International	4.84
Gilead Sciences, Inc.	4.12
Pfizer Inc.	3.98
Cardinal Health, Inc.	3.44
Kimberly-Clark Corporation	3.41
Coca-Cola Company	3.10
M&T Bank Corporation	3.03
Broadcom Inc.	3.02
3M Company	2.98
Bristol-Myers Squibb Company	2.93

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