

# High Dividend Equity

December 2023

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 strategy 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 Goals<sup>1</sup>:

- » **Higher dividend yield than the broad equity market**  
Indicated dividend yield was 2.96% as of 12/31/2023 versus 1.48% for the S&P 500 Index
- » **Growth in declared dividends**  
9 of the 52 companies in the HDE portfolio as of 12/31/2023 increased dividends in 4Q23; average increase was 7.5%
- » **Lower volatility than the broad equity market**  
Beta versus the S&P 500 Index of 0.86 since inception

<b>Strategy Inception:</b> January 1, 2011	<b>Number of Clients:</b> 47
<b>Total AUM:</b> \$1.80 Billion	<b>Typical Number of Holdings:</b> 40-60; all holdings are equally weighted

## Portfolio Characteristics

Number of Holdings	52	Avg Market Capitalization	\$146.0 bn
Indicated Dividend Yield	2.96%	Trailing 12 month Yield	3.04%
Forward Price/Earnings Ratio	16.9x	Avg NRSRO Credit Rating	A3/A-
Avg MSCI ESG Rating	A		

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## Team

**Donald Townswick, CFA**  
Managing Director, Equities  
32 years of experience

**Stephen Searl, CFA**  
Managing Director, Co-Head of Credit Research  
37 years of experience

**Joseph Mayo**  
Managing Director, Credit Research  
37 years of experience

**Marcus McGregor**  
Managing Director, Credit Research  
25 years of experience

**Andrew Pace**  
Managing Director, Portfolio Manager  
35 years of experience

**David Tyson, Ph.D., CFA**  
Managing Director, Portfolio Manager  
45 years of experience

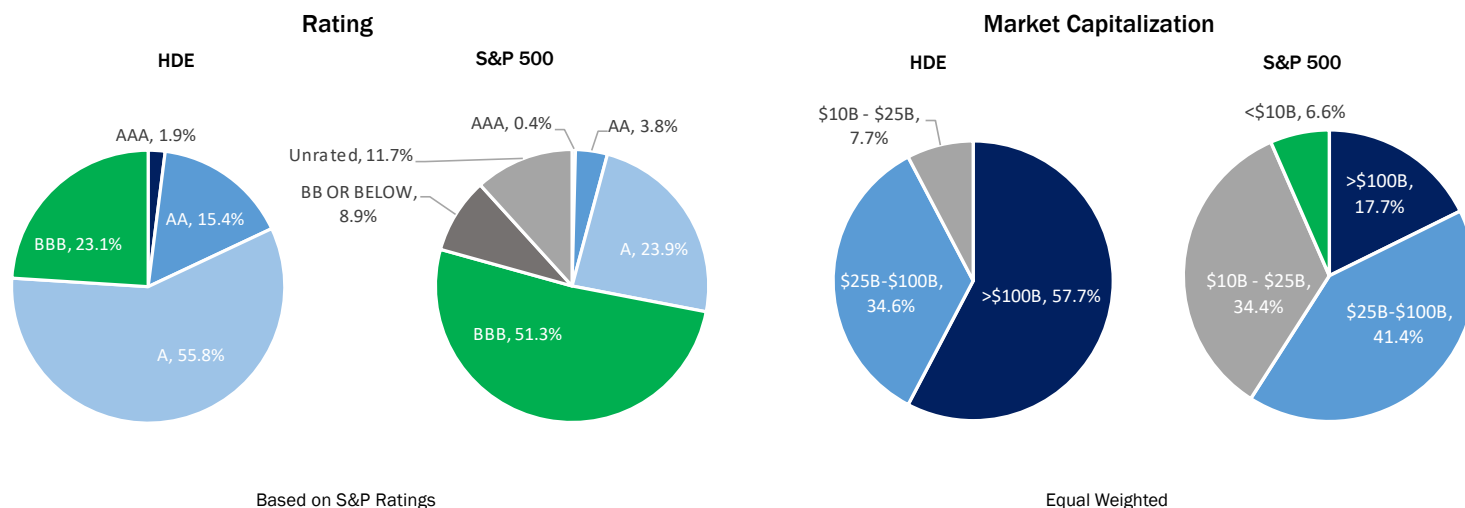
## Manager Comments\*<sup>1</sup>

U.S. stocks were off to the races beginning midway through the fourth quarter. The posture of the markets changed from a hopeful one (hopeful that the recent era of tightening rates was ending) to a confident one (confident that the U.S. Federal Reserve had moved on from its prior hawkish tone of higher-for-longer rates). Energy prices retraced their Q3 rise as well. In the face of all this data and these expectations, technology and real-estate stocks performed well while energy and consumer staples stocks lagged.

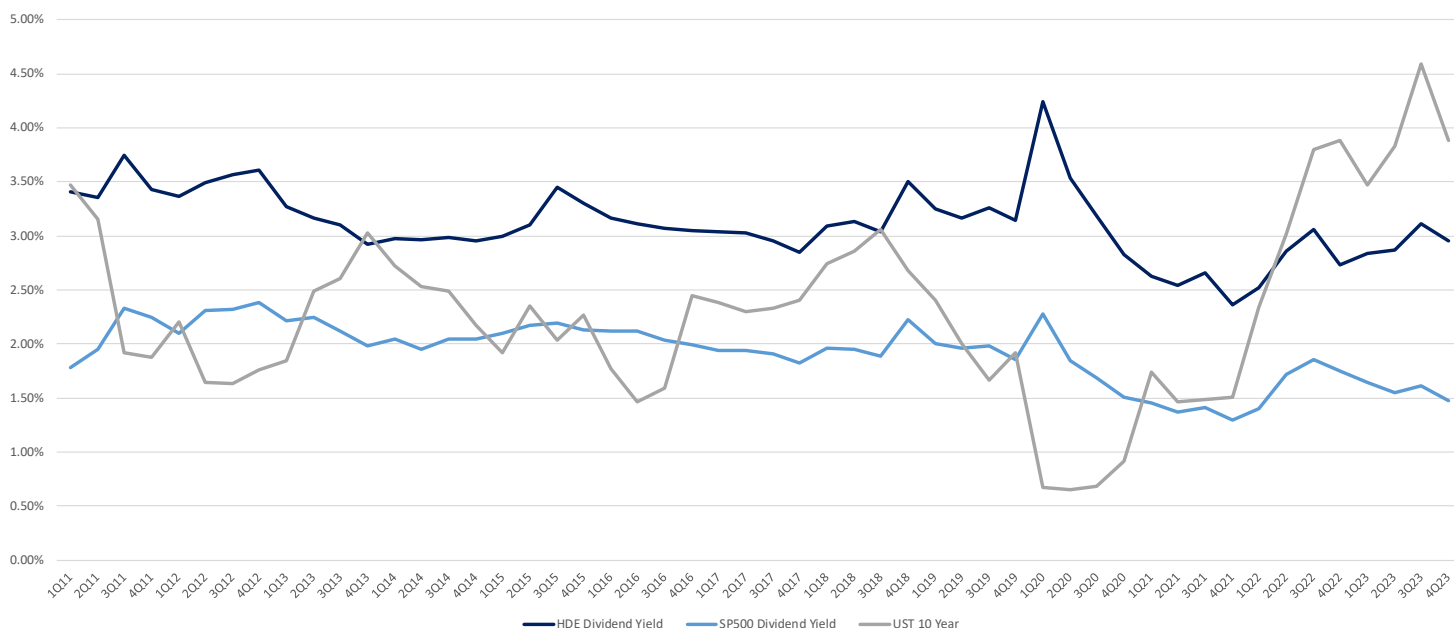
Many investors were surprised by the reduction in the Fed's hawkish tone. Final third-quarter 2023 U.S. GDP came in at a strong 4.9% while the core PCE deflator (the metric the Fed follows to gauge inflation) came in a little light each month of the quarter. Finally, unemployment numbers came in light (at least in the U.S.). Our expectations for real GDP growth in 2024 remain steady at 1.6%.

HDE's return for Q4 was 9.39%, underperforming the S&P 500 (+11.69%). As of December 30, Conning's High Dividend Equity (HDE) strategy yield (2.96%) continues to offer a material income premium over the S&P 500 Index (1.48%). During the quarter, Exxon Mobil was added to HDE.

\* Past performance is not a guarantee of future results.



## Historical Yield Comparison\*



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 As of December 31, 2023. \* Past performance is not a guarantee of future results.

## 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 (%)

4Q23	+/-	YTD 2023	+/-
Energy (Stock)	+ 0.4	Utilities (Sector)	+ 1.0
Information Technology (Stock)	+ 0.2	Real Estate (Sector)	+ 0.3
Utilities (Sector)	+ 0.1	Materials (Sector)	+ 0.2
Consumer Discretionary (Stock)	- 0.5	Information Technology (Stock)	- 7.0
Consumer Staples (Sector)	- 0.4	Consumer Discretionary (Stock)	- 4.1
Health Care (Stock)	- 0.2	Health Care (Stock)	- 3.5

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## Industry Concentrations (%)

(maximum 15% in a single category)

Semiconductors	8.3
Banks	8.0
Capital Markets	7.9
Oil, Gas & Consumable Fuels	7.3
Machinery	6.1
Aerospace & Defense	5.7
Pharmaceuticals	5.6
Household Products	5.5
Specialty Retail	4.0
Biotechnology	4.0

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## Risk Indicators (Since Inception) vs S&P 500 Index<sup>1</sup>

Beta	0.86	Alpha	1.60
Tracking Error	5.60	Information Ratio	- 0.02
Upside Market Capture	0.91	Downside Market Capture	0.84

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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

Top Yielding Names	Indicated Yield (%)
Pfizer Inc.	5.84
Philip Morris International Inc.	5.53
Dow, Inc.	5.11
Best Buy Co., Inc.	4.70
Bristol-Myers Squibb Company	4.68
United Parcel Service, Inc. Class B	4.12
PNC Financial Services Group, Inc.	4.00
AbbVie, Inc.	4.00
Kimberly-Clark Corporation	3.88
Exxon Mobil Corporation	3.80

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