

High Dividend Equity

September 2022

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:

- » **Higher dividend yield than the broad equity market**
Indicated dividend yield was 3.06% as of 9/30/2022 versus 1.86% for the S&P 500 Index
- » **Growth in declared dividends**
7 of the 52 companies in the HDE portfolio as of 9/30/2022 increased dividends in 3Q22; average increase was 8.6%
- » **Lower volatility than the broad equity market**
Beta versus the S&P 500 Index of 0.85 since inception

Strategy Inception: January 1, 2011	Number of Clients: 49
Total AUM: \$1.68 Billion	Typical Number of Holdings: 40-60; all holdings are equally weighted

Portfolio Characteristics

Number of Holdings	52	Avg Market Capitalization	\$127.0 bn
Indicated Dividend Yield	3.06%	Trailing 12 month Yield	3.00%
Forward Price/Earnings Ratio	12.8x	Avg NRSRO Credit Rating	A3/A
Avg MSCI ESG Rating	A		

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Team

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

Joseph Mayo
Analyst
36 years of experience

Marcus McGregor
Head of Commodities
24 years of experience

Andrew Pace
Portfolio Manager
34 years of experience

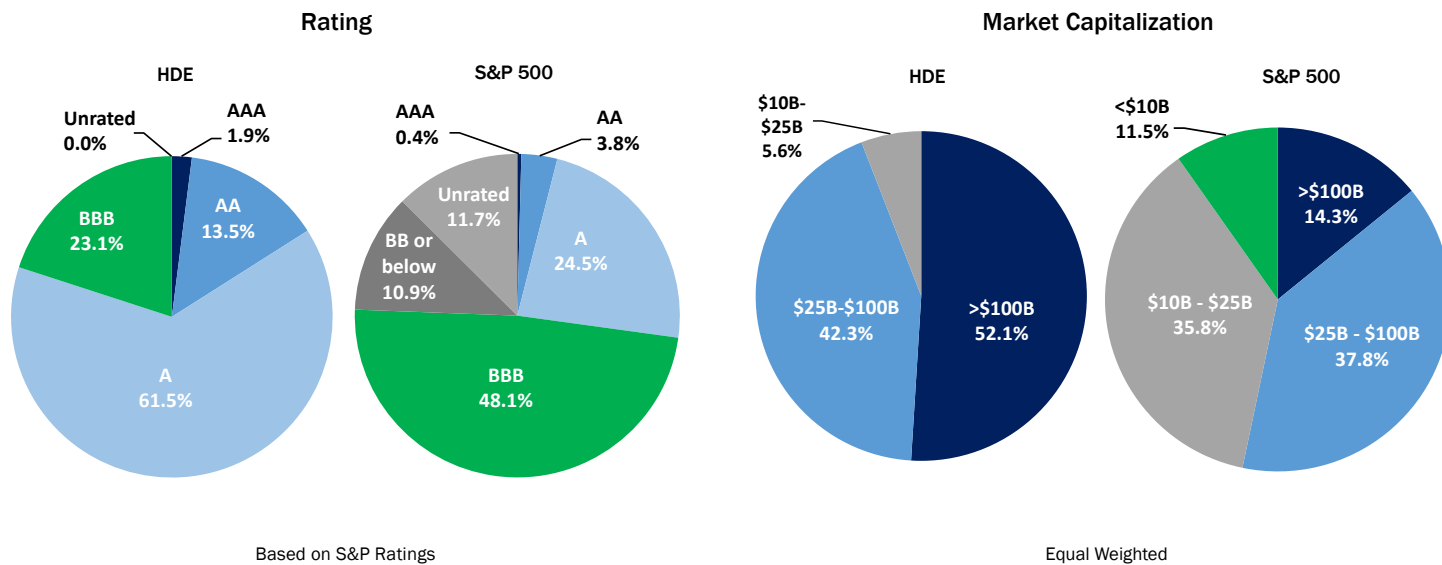
Donald Townswick, CFA
Director, Equities
31 years of experience

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

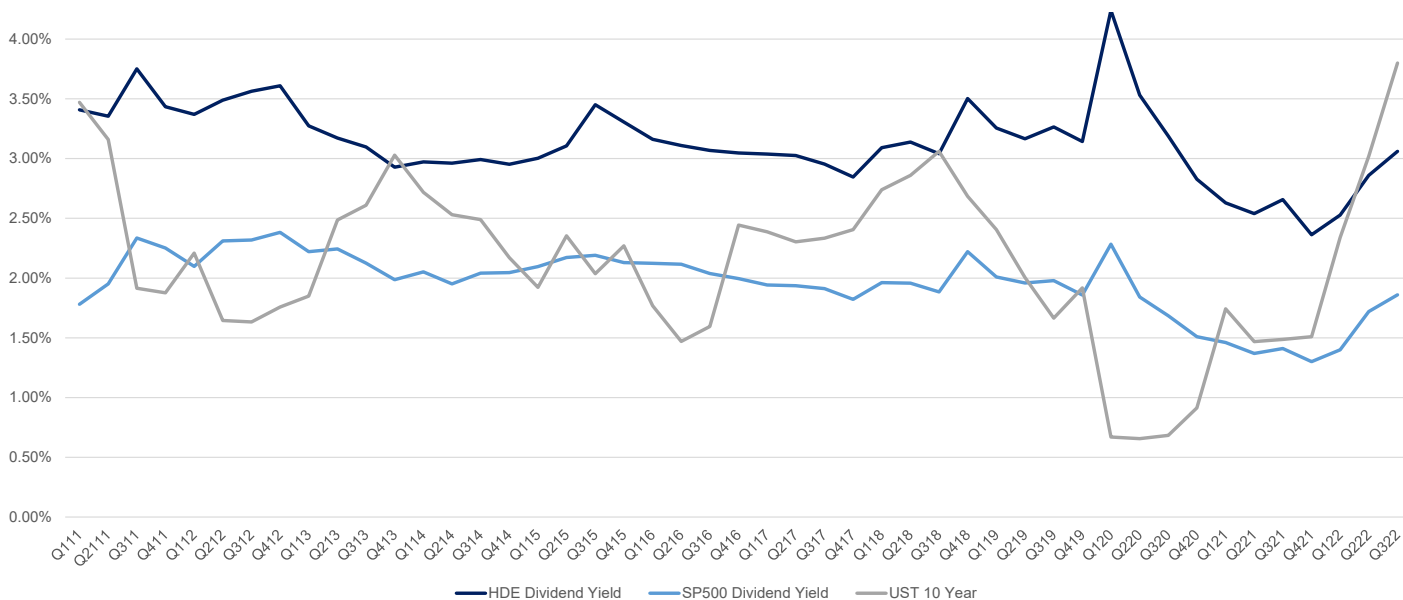
Manager Comments¹

Equity markets turned in another weak performance during the third quarter, continuing the downward momentum built up in the second quarter. Energy and consumer discretionary outperformed while real estate and communication services lagged. Second-quarter 2022 earnings were generally strong. U.S. companies beat earnings and revenue expectations 76% and 71% of the time, respectively.

There was no relief from interest rate tightening during the third quarter. The U.S. Federal Reserve instituted two 75-basis-point rate increases during the third quarter in response to continuing reports of high inflation, and at least one more 75-basis-point upward move is expected. With the Fed in relentless pursuit of reducing demand to bring down inflation, we expect tight monetary policy to remain in place into 2023. In the meantime, despite the economy continuing to decelerate following the past two years of strong growth, we expect the equity market to bottom out at some point in the foreseeable future.



Historical Yield Comparison



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As of September 30, 2022. 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 (%)

3Q22	+/-	YTD 2022	+/-
Communication Service (Sector)	+ 0.5	Health Care (Stock)	+ 1.6
Energy (Sector)	+ 0.3	Industrials (Sector)	+ 1.4
Real Estate (Sector)	+ 0.2	Information Technology (Sector)	+ 0.6
Consumer Staples (Stock)	- 1.0	Materials (Stock)	- 0.5
Industrials (Stock)	- 0.5	Utilities (Stock)	- 0.5
Information Technology (Sector)	- 0.4	Energy (Stock)	- 0.2

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Industry Concentrations (%)

(maximum 15% in a single category)

Semiconductors	9.4
Pharmaceuticals	8.5
Banks	7.8
Biotechnology	6.0
Aerospace & Defense	5.9
Machinery	5.8
Household Products	5.7
Capital Markets	5.5
Oil, Gas & Consumable Fuels	4.0
Health Care Providers and Services	3.9

©2022 Conning, Inc. The High Dividend Equity portfolio was re-balanced on 9/30/2022; all names had equal weight on that date.

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

Beta	0.85	Alpha	2.46
Tracking Error	5.12	Information Ratio	0.18
Upside Market Capture	0.93	Downside Market Capture	0.82

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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 Inc.	6.12
Intel Corporation	5.67
Best Buy Co., Inc.	5.56
Gilead Sciences, Inc.	4.73
AbbVie, Inc.	4.20
Kimberly-Clark Corporation	4.12
PNC Financial Services Group, Inc.	4.02
HP Inc.	4.01
JMorgan Chase & Co.	3.83
Cisco Systems, Inc.	3.80

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Dividends and other earnings are reinvested as part of a quarterly re-balancing program for portfolios that reinvest.

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