

# High Dividend Equity

September 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 3.11% as of 9/30/2023 versus 1.61% for the S&P 500 Index
- » **Growth in declared dividends**  
9 of the 51 companies in the HDE portfolio as of 9/30/2023 increased dividends in 3Q23; average increase was 6.5%
- » **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> 48
<b>Total AUM:</b> \$1.74 Billion	<b>Typical Number of Holdings:</b> 40-60; all holdings are equally weighted

## Portfolio Characteristics

Number of Holdings	51	Avg Market Capitalization	\$129.6 bn
Indicated Dividend Yield	3.11%	Trailing 12 month Yield	3.25%
Forward Price/Earnings Ratio	16.0x	Avg NRSRO Credit Rating	A3/A-
Avg MSCI ESG Rating	A		

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## Team

**Donald Townswick, CFA**  
Managing Director, Equities  
31 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

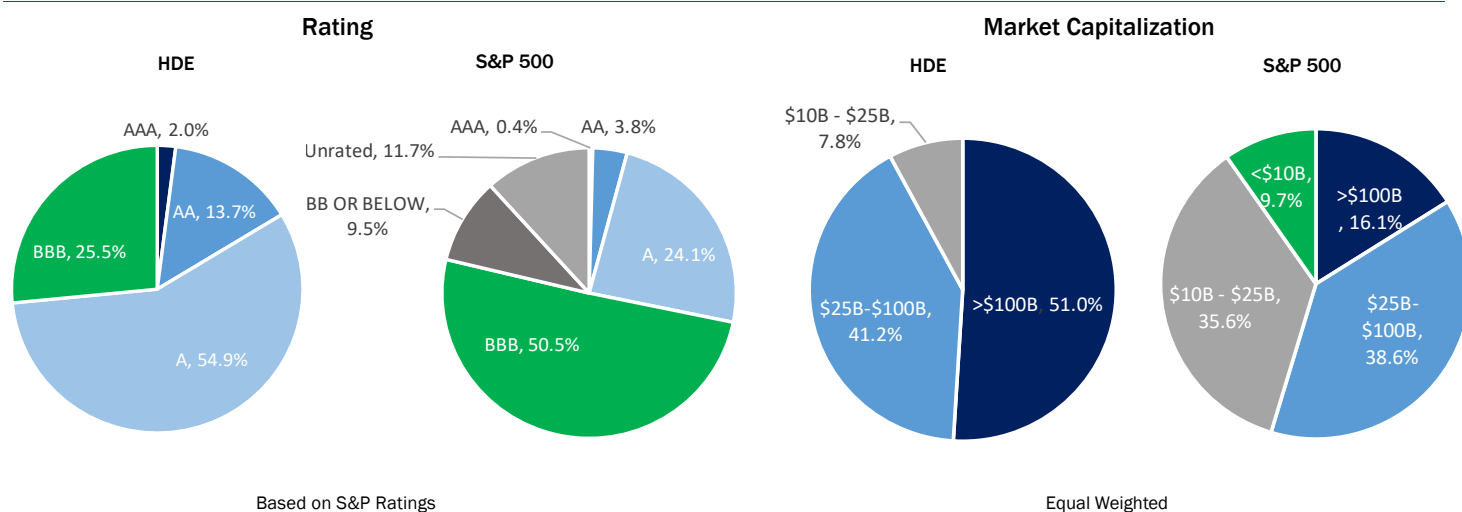
**David Tyson, Ph.D., CFA**  
Managing Director, Portfolio Manager  
45 years of experience

## Manager Comments\*1

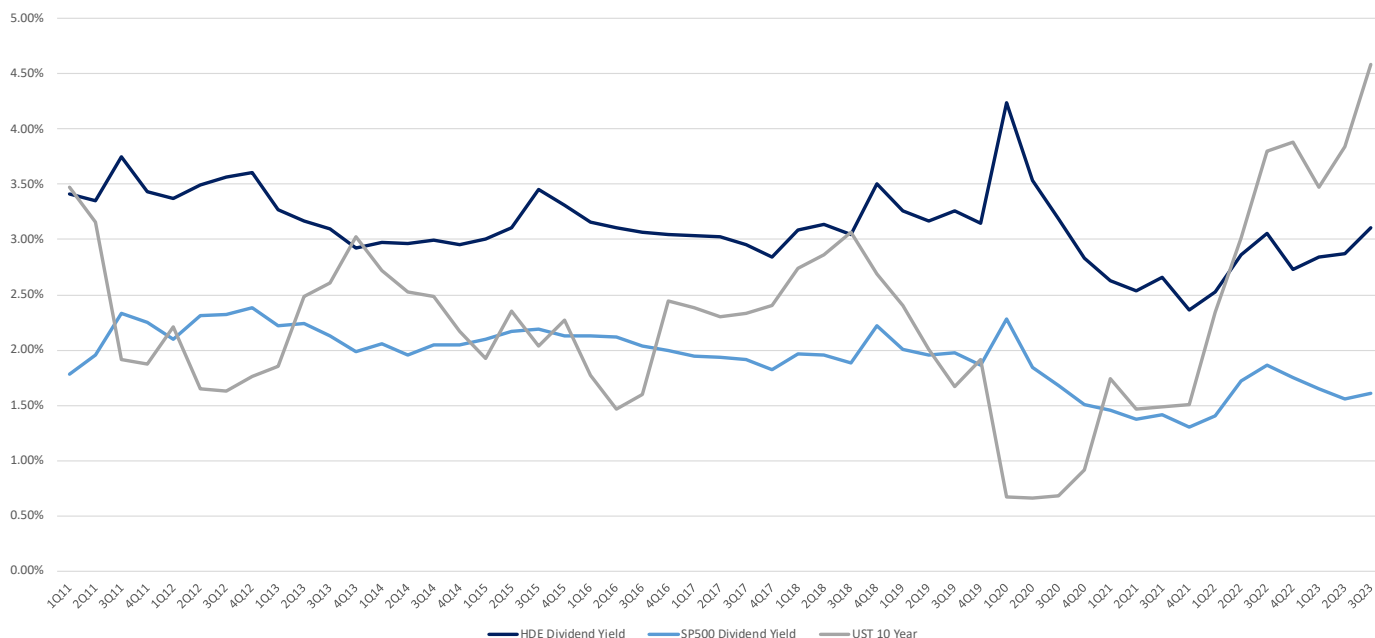
Dividend stocks showed some strength during the third quarter, but the strongest performance was turned in by energy stocks as the price of crude oil rose nearly 30% following a decision by OPEC+ to reduce production quotas. Despite the sharp increase in energy prices, measured inflation around the world has lessened from its peak a year ago. Energy and communication services stocks were the strongest performers while real estate and utilities lagged.

The U.S. Federal Reserve appears to be headed for a higher-for-longer interest rate posture in the pursuit of lower inflation. Final second-quarter 2023 U.S. GDP came in at 2.1%, which was still strong despite expectations for 2.4%. Global third-quarter GDP expectations remain mixed though and inflation expectations for most of the world remain stubbornly high, making more interest-rate tightening very likely in the affected economies. China's economy has continued to be a weak spot but may be showing signs of life. Revisions to Japan's strong numbers last quarter did nothing to ease fears regarding its growth sustainability, and Europe and the U.K. are still struggling with inflationary pressures and the prospects of a looming recession.

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



## Historical Yield Comparison\*



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As of September 30, 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 (%)

3Q23	+/-	YTD 2023	+/-
Energy (Stock)	+ 0.4	Utilities (Sector)	+ 0.8
Information Technology (Stock)	+ 0.2	Energy (Sector)	+ 0.5
Utilities (Sector)	+ 0.1	Real Estate (Sector)	+ 0.4
Consumer Discretionary (Stock)	- 0.5	Information Technology (Stock)	- 6.1
Consumer Staples (Sector)	- 0.4	Consumer Discretionary (Stock)	- 3.5
Health Care (Stock)	- 0.2	Health Care (Stock)	- 3.0

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## Industry Concentrations (%)

(maximum 15% in a single category)

Banks	8.2
Capital Markets	7.9
Semiconductors	7.8
Machinery	5.9
Oil, Gas & Consumable Fuels	5.9
Household Products	5.9
Pharmaceuticals	5.8
Aerospace & Defense	5.6
Insurance	4.2
Biotechnology	4.1

©2023 Conning, Inc. The High Dividend Equity portfolio was re-balanced on 9/30/2023; all names had equal weight on that date.

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

Beta	0.86	Alpha	1.69
Tracking Error	5.60	Information Ratio	0.01
Upside Market Capture	0.91	Downside Market Capture	0.83

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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 (%)
Philip Morris International Inc.	5.62
Dow, Inc.	5.43
Best Buy Co., Inc.	5.30
PNC Financial Services Group, Inc.	5.05
Pfizer Inc.	4.94
Morgan Stanley	4.16
United Parcel Service, Inc. Class B	4.16
M&T Bank Corporation	4.11
HP Inc.	4.09
Gilead Sciences, Inc.	4.00

## About Conning

Conning ([www.conning.com](http://www.conning.com)) is a leading investment management firm with over \$202 billion in global assets under management as of September 30, 2023.\* With a long history of serving the insurance industry, Conning supports institutional investors, including insurers and pension plans, with investment solutions, risk modeling software, and industry research. Founded in 1912, Conning has investment centers in Asia, Europe and North America.

\*As of September 30, 2023, represents the combined global assets under management for the affiliated firms under Conning Holdings Limited (CHL) and Cathay Securities Investment Trust Co., Ltd. (SITE). SITE is a separate entity under Cathay Financial Holdings Co., Ltd which is the ultimate controlling parent of all Conning entities.

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Composite results are presented on both a "gross of fee" and "net of fee" basis. Gross returns are presented before investment advisory fees and after trading expenses. Net returns are reduced by trading expenses and actual investment advisory fees incurred in the management of the account.

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

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