Third Quarter 2016 Dearborn Partners Rising Dividend Commentary Carol M. Lippman, CFA

How Did We Do?

Here are the performance results of our two Dearborn Partners separately managed accounts (SMAs) and the S&P 500 Composite Index ("S&P 500," the benchmark against which we compare our portfolios) through September 30, 2016.

Total Gross Returns (%) as of September 30, 2016[1]

	1 Year	9 Months	3 Months
Core Rising Dividend SMA	17.6	12.4	1.2
High and Rising Dividend SMA	20.6	15.6	-1.7
S&P 500[2]	15.4	7.8	3.9

Our Dearborn Partners Rising Dividend portfolios outperformed the benchmark in the one year and nine month periods, but in the most recent quarter, we underperformed. What follows is an explanation why.

Interest Rates Played a Role in Stock Market Movement

In the third quarter of 2016, the benchmark long-term U.S. 10-year Treasury bond yield hit a trough of 1.32% on July 6, 2016 according to FactSet. Then, long-term interest rates rose in reaction, at least in part, to comments from several Federal Reserve presidents who entertained the possibility of announcing an increase in interest rates at their Federal Open Market Committee (FOMC) meeting on September 21 or before the end of this year. The 10-year benchmark bond yield peaked at 1.75% a week ahead of the FOMC meeting. Values of interest rate-sensitive securities move inversely to the direction of interest rates: when yields rise, values drop. On the following page, Table 1 shows that all stocks in the S&P 500 that pay dividends, separated by yield quartile, underperformed stocks of companies with no dividends as the yield on the long-term benchmark bond rose after July 6th. Although the yields in our portfolios are not high (please see the Cumulative Income Summary section on page 4 for the average current yields of our portfolios), the stocks in the sectors with some of the highest yields in our portfolios, e.g., REITs, Telecommunications Services and Utilities, were hurt the most as yields rose.

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[1] The performance results are "gross" figures in that they do not reflect the deduction of investment advisory fees. Actual results would therefore have been lower than those presented. The amount by which advisory fees reduce performance, including the compounding effect over time, is determined by the size of the account, its performance, and the advisory fee. For example, an account with a 10% annualized gross performance and a 1% annualized management fee deducted quarterly will have a net performance of approximately 8.9%, a reduction of 1.1%. Compounding similarly will affect the account's performance on a cumulative basis.

2 Historical performance results for investment indexes generally do not reflect the deduction of transaction and/or custodial charges or the deduction of an investment management fee, the incurrence of which would have the effect of decreasing historical performance results. Economic factors, market conditions, and investment strategies will affect the performance of any portfolio and there are no assurances that it will match or outperform any particular benchmark.

On September 21 when the Federal Reserve did not raise rates, the yield on the long bond dropped. The benchmark 10-year U.S. Treasury bond ended the third quarter with a closing yield on September 30, 2016 of 1.6%. Given the inverse relationship between yield and value, the stocks of many interest rate-sensitive securities jumped. During those trading days, REITs and Utilities were among the sectors that benefited the most.

Table 1: Since Interest Rates Troughed in Third Quarter 2016

S&P 500 Dividend Payers By Yield Quartile	Price Change (%) 7/6/16-9/30/16
Quartile 1 (Highest Yield)	1.7
Quartile 2	3.8
Quartile 3	5.9
Quartile 4 (Lowest Yield)	5.7
S&P 500	3.8
Non-Payers	6.8

Source: FactSet, Dearborn Partners

Sector Results

In the first three quarters of 2016, the S&P 500 had six sectors with double-digit returns: Energy, Telecom, Utilities, Information Technology, Materials, and Industrials. Some of the more cyclical sectors—such as Energy, Materials, and Industrials—performed well after a few very difficult quarters, but more defensive sectors—Utilities and Telecom—held up, too. Nine of the eleven sectors in our Core Rising Dividend SMA portfolio outperformed their respective sectors in the S&P 500 benchmark; ten of the eleven sectors in our High & Rising Dividend SMA outperformed their respective benchmark's sectors. While our generally defensive portfolios have held up well through the year so far, a combination of post-Brexit market strength and concerns over interest rate-sensitive sectors affected our portfolios' results in the third quarter.

Standard & Poor's has carved equity REITs (real estate investment trusts) out of the Financial sector to create an 11th sector. In the third quarter of 2016, S&P launched REITs with roughly a 3% market capitalization weighting. To avoid paying taxes, REITs are required to distribute at least 90% of earnings. As a result, the yields on REITs are frequently higher than the yields on other equity securities and, therefore, REITs' values are frequently sensitive to upward changes in the direction of interest rates.

It is not surprising that in the third quarter, when interest rates rose, higher yielding stocks were more significantly affected. Our Dearborn Partners High & Rising Dividend SMA was no exception. Four of the worst-performing sectors in the S&P 500 were those with stocks that frequently have higher yields: Utilities, Telecommunications Services, REITs, and Consumer Staples. Because our High & Rising Dividend SMA strives to provide a higher yield, this portfolio's weightings in all four of those sectors are greater than the benchmark's weightings; and these four sectors underperformed the benchmark in this SMA portfolio. The overall performance of our higher

yielding SMA suffered more than did the performance of our Core Rising Dividend portfolio with a lower average current yield and better anticipated dividend growth.

Looking at the down days in the third quarter of 2016, of the 64 trading days in the quarter, 31 days were negative for the S&P 500. On 19, or 61% of those 31 days, our Core Rising Dividend SMA outperformed the benchmark, but on only 13, or 42% of those 31 days, did our High & Rising Dividend SMA outperform the benchmark. The original research done in the early 1990s, which formed the foundation for this rising dividend strategy, revealed that the stocks of companies with attractive—not high—current yields but above average dividend growth held up better in challenging markets characterized by rising interest rates. Decades later, the results of our two SMA portfolios still show this analysis to be true.

Volatility Returned in 2016

The first three calendar years that we offered our Dearborn Partners separately managed accounts, the stock market as measured by the S&P 500 was relatively calm. Daily price movements of plus or minus 1% accounted for 20% of total trading days in 2012, 15.5% in 2013, 15.1% in 2014, and picked up to 28.6% in 2015, with most of the active days having been in the second half of the year as markets anticipated an interest rate hike by the Federal Reserve. Our generally defensive, high quality SMAs held up well on the down days in the market. Since our SMAs' inception in the fourth quarter of 2011 through the third quarter of 2016, 125 or 9.9% of total trading days declined at least 1% per day. Table 2 shows how frequently each of our SMA portfolios declined less than the broad market on the big down days.

Table 2: Dearborn SMAs' Big Down Day Performance

	# of Trading Days	% of Total Trading Days
Inception (9/30/11) through 9/30/16	1,258	100.0%
S&P 500 down more than 1%	125	9.9%
CRD Outperformed	114	91.2%
HRD Outperformed	109	87.2%

Source: Advent Axys, Dearborn Partners

In the first nine months of 2016, there were 189 trading days. On 21 of those days, the S&P 500 declined 1% or more. Our Dearborn Core and High & Rising Dividend SMAs outperformed the benchmark on 20 (95%) and 18 (86%) of those down days, respectively. Volatility in the third quarter of 2016 was relatively subdued. On only two of the 64 trading days in the quarter did the S&P 500 decline more than 1%. On both of those two down days, our Core Rising Dividend SMA outperformed the benchmark, but our High & Rising Dividend SMA underperformed the benchmark on both of those days. The S&P 500 benchmark outperformed both of our SMA portfolios in the third quarter. But because our portfolios had outperformed the benchmark by such wide margins earlier in the year, the year-to-date total returns in 2016 of both of our SMA portfolios outpaced the benchmark's return.

It is important to keep in mind that our primary objective is to invest in what we consider to be great companies that are able to increase their annual dividends consistently over time. Our analysis has shown that companies able to accomplish such consistent dividend growth must be generally defensive businesses with products or services that are in demand in both good and

difficult economic environments. So, during periods when markets are led by more economically sensitive stocks or factors other than defensiveness, our portfolios' returns very well may lag. We just concentrate on trying to get lots of rising dividends. Investment in such a strategy requires patiently holding for many years to collect the anticipated higher dividends. Table 2, on the previous page, illustrates how this rising dividend strategy has cushioned the fall of stock prices when market returns have been negative. History has shown that if investors can lose less in bad markets, they don't have to work as hard to recover the losses.

Financially solid, defensive, well-managed businesses with the ability to consistently increase dividends have historically helped investment portfolios. Once again, the power of rising dividends from the high quality companies we work hard to find for our portfolios cushioned the fall of stock prices in the Brexit-induced, challenging markets—just as we discovered with our original research in the early 1990s. In strong markets we would hope to participate, but may not outperform. Our primary objectives have been to offer a relatively conservative strategy that allows investors to **participate** in what we truly believe is the long-term wealth-building potential offered by the stocks of solid companies, and **stay in the market** throughout any turmoil and volatility, knowing that there is a high likelihood of receiving dividends that have the potential to increase over time.

Collecting dividends from lots of companies with attractive yields may help investors stay in the market, too. As of September 30, 2016, the current yields on 43 (88%) of the 49 companies in our Core Rising Dividend SMA portfolio exceeded the 1.6% current yield on the U.S. 10-year benchmark Treasury bond and 23 (92%) of the 25 companies in our High & Rising Dividend SMA portfolio had current yields higher than that of the long bond. We promise to maintain our disciplines and to continue to work hard to try to include in our portfolios what we consider to be financially solid companies with the potential to increase dividends over time.

Cumulative Income Summary

Here is the cumulative dividend income from an initial $200,000 investment on September 30, 2011 (the inception date of our SMA portfolios) through September 30, 2016 in each of:

	Current Yield	Cumulative Income*
Core Rising Dividend SMA	2.5%	$37,247
High & Rising Dividend SMA	3.1%	$48,441
S&P 500	2.1%	$33,589

**The S&P 500 dividend income in the table above is calculated by creating hypothetical investable "share units" by dividing the assumed initial $200,000 investment by the price of the index (1131.42) on September 30, 2011 (the inception date of our Rising Dividend SMA portfolios), resulting in 176.77 share units. The dividends per share unit of the index, provided by S&P Dow Jones Indices, are applied to the calculated units on a quarterly basis. The total represented in the table is the sum of those quarterly dividends per share unit, from December 31, 2011, through September 30, 2016.*

Dividend Increases

In the first nine months of 2016, 38 companies in our Core Rising Dividend SMA portfolio announced 43 dividend increases averaging about 8% more than those particular companies paid a

year earlier. Two companies in this portfolio announced dividend increases after only one quarter, one company increased its dividend after only two quarters, one company increased after three quarters, and one company increased its dividend after five quarters. In our High & Rising Dividend SMA portfolio, 19 companies announced 24 dividend increases averaging about 6.8% more than those particular companies paid a year earlier. Two companies in this portfolio increased dividends after only one quarter and one company increased after only two quarters.

Thank you for your interest in our Dearborn Partners Rising Dividend Strategy.

Dearborn Partners Rising Dividend Separately Managed Account Portfolios

Average Calendar Year Dividend Increases

Year	Core Rising	High & Rising	CPI*
2012	18.4%	18.2%	1.9%
2013	12.8%	8.5%	1.7%
2014	12.1%	7.2%	1.6%
2015	9.7%	7.4%	2.1%
2016 YTD	8.0%	6.8%	2.3%

** Core Consumer Price Index for All Urban Consumers Unadjusted 12-month Percent Change. 2016 CPI for the first three quarters (3Q) is through August.*

Past performance is no guarantee of future results. Dividends are not guaranteed and must be authorized by the company's board of directors.

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