Full Year 2016 Commentary **Carol M. Lippman, CFA**

Lessons from Year 2016: Full-time market participation and patience are critical.

Year 2016 started with concerns about China as well as plunging oil and stock prices. The S&P 500 bottomed intraday on February 11, 2016 at 1810.10. From the December 31, 2015 closing price of 2043.94, the February 11, 2016 intraday trough represented a -10.3% pullback (total return, i.e., including dividends). Not since more than four years earlier, in October 2011, had the broad market pulled back at least 10%.

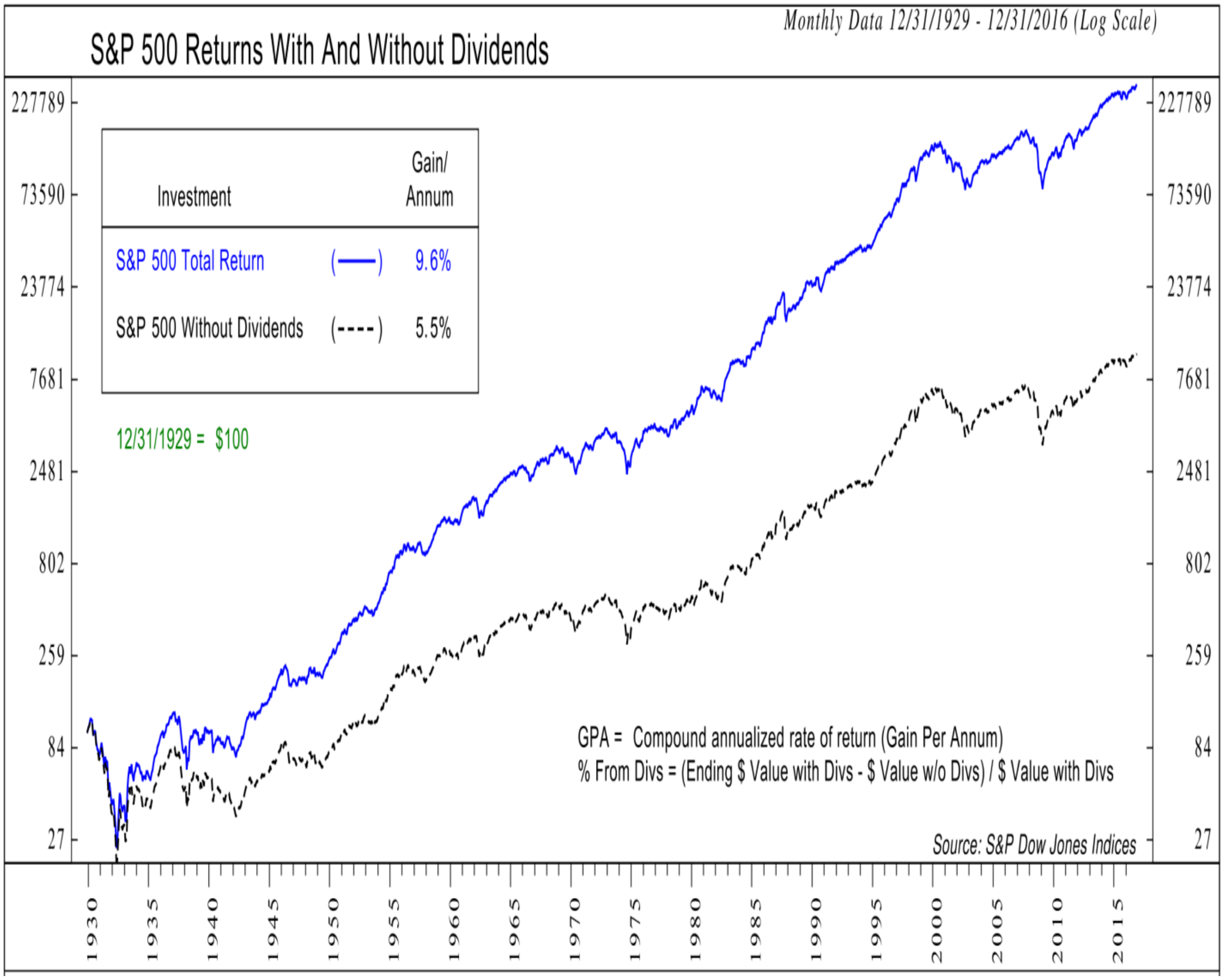
In the United Kingdom on Thursday June 23, 2016, voters on the referendum to either remain in or leave the European Union defied consensus expectations and voted to leave. The next two trading days, Friday June 24 and Monday June 27, the S&P500 declined -5.8% to an intraday low of 1991.68. By July 1, the S&P 500 returned to above 2100 where it had been on the day of the vote a week earlier.

Anyone watching election returns into the wee hours of the night November 8, 2016 saw Dow Jones Industrials (DJIA) futures indicated down 800 or 900 points. Markets opened the morning of November 9, however, down barely -0.1%, began rising almost immediately, and closed the day up 1.4% to 18,589.69, according to FactSet. Now the DJIA index is flirting with all-time record highs of 20,000.

What if nervous investors panicked and sold the stocks or equities strategies in their portfolios because of any of these events? The answer is obvious: such nervous investors would have missed opportunities to enhance the value of their portfolios.

It is normal to be nervous about various developments throughout the world. If one invests in stocks of companies that pay no dividends to provide at least some returns throughout the waiting period, it is perhaps understandable to sell in an attempt to preserve principal. The road to success as an investor in the stock market, however, has generally required the recognition that for nearly a century, the long-term trend of common stocks has been up. The Ned Davis chart on page 2 illustrates the long-term upward trend of stocks, from 1930 through 2016, as well as the importance of dividends.

Without dividends, the average annual gain of the S&P 500 (5.5%) was about half as much as the annual total return with dividends (9.6%). A primary objective of our Dearborn Partners Rising Dividend strategy is to invest in what we consider to be great companies that are able to increase their annual dividends consistently over time. Stock market participation is critical for successful investment results. When invested in such a generally high quality, conservative strategy, smart investors resist the temptation to sell, even when conditions appear bleak.


S&P 500 Returns With And Without Dividends
Monthly Data 12/31/1929 - 12/31/2016 (Log Scale)
Investment
Gain/ Annum
S&P 500 Total Return (——) 9.6%
S&P 500 Without Dividends (----) 5.5%
12/31/1929 = $100
GPA = Compound annualized rate of return (Gain Per Annum)
% From Divs = (Ending $ Value with Divs - $ Value w/o Divs) / $ Value with Divs
Source: S&P Dow Jones Indices
227789
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How Did We Do?

Here are the performance results of our two Dearborn Partners separately managed account portfolios (SMAs) and the S&P 500 Composite Index ("S&P 500," the benchmark against which we compare our portfolios) for the year ended December 31, 2016.

Total One-Year Returns (%) as of December 31, 2016[1]

	Gross	Net
Core Rising Dividend SMA	13.0	11.2
High and Rising Dividend SMA	17.4	15.7
S&P500[2]	12.0	

Our Dearborn Partners Rising Dividend portfolios' gross returns outperformed the benchmark in full year 2016.

Total Returns Annualized (%) as of December 31, 2016[1]

	3- year		5- year		Since Inception (9/30/11)	
	Gross	Net	Gross	Net	Gross	Net
Core Rising Dividend SMA	9.0	7.3	12.5	10.7	14.0	12.1
High & Rising Dividend SMA	10.7	9.1	12.8	11.2	14.4	12.8
S&P500[2]	8.9		14.7		16.4	

Interest Rates Played a Role, Again

In our second quarter 2016 Commentary we wrote: "Our greatest outperformance and contribution to return came from our allocation and stock selection in the Financial sector in each of our SMA portfolios. The S&P Financial sector declined -3% for the first half of the year whereas that sector's returns in our portfolios were roughly +27% and +16% in High & Rising and Core Rising, respectively."

[1] Returns are presented on a pure gross and net basis and include the reinvestment of all income. Pure gross returns do not reflect the deduction of any expenses, including trading costs, and are supplemental to net returns. Net of fee performance was calculated using actual fees, which include wrap fees, management fees and trading commissions. The Dearborn management fee schedule is 1.00% on the first $1 million and 0.75% on amounts over $1million, but actual fees may vary.

[2] The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market. Inclusion of this index is for illustrative purposes only. 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.

In fact, except for about 18 months between June 2013 and the end of 2014, our stock selection—with only one bank—and weighting of the Financial sector benefited our SMA portfolios for much of the time from their inception (September 30, 2011) through third quarter 2016. The yield curve—as measured by the distance between short-term, 3-month U.S. Treasury bills, and long-term, 10-year U.S. Treasury bond yields—has been quite flat for much of this period as the Federal Reserve maintained a zero interest rate policy for the short end of the curve and used quantitative easing to lower the yields on the long end. According to data derived from FactSet, 70% of the time between September 30, 2011 and the end of 2016, the spread (or difference) was less than 225 basis points. A flat yield curve is typically a challenge to the profitability of banks. The basic business of banks is to borrow money at short-term rates and lend money at long-term rates. When the yield curve is flat, the net interest margins of banks usually suffer.

On Friday November 4, 2016, the yield on the benchmark long-term 10-year U.S. Treasury bond hit an intraday low of 1.7%. On November 9, 2016, the day after Election Day, however, the long-term benchmark's yield opened trading at 1.86%, reached an intraday low of 1.71%, an intraday high of 2.087% and closed at 2.05%. Thirty-seven basis points (2.087% minus 1.71%) is an extraordinary move in one week, much less one day. (There were three weeks in November and December 2008, after the great financial crisis hit, in which fear and a flight to safety moved the long-term benchmark yield down more than 40 basis points per week. Otherwise, over the past decade, yields have moved far less dramatically.) Bank stocks soared. On Election Day, the S&P Banks Select Industry Index closed at 766.29, according to FactSet. A week later, that Bank index closed at 882.68, +15.2%. With only one bank in each of our portfolios, we participated, but did not outperform. In the fourth quarter of 2016, the S&P 500 benchmark returned 3.8%; total gross returns for our Core and High & Rising Dividend portfolios were 0.6% and 1.6%, respectively.

One of the disciplines to which we adhere is that we will not include in our portfolios any company that lost its discipline leading up to the financial crisis to such an extent that it cut its dividend and required a bailout from taxpayers to remain in business. The one bank that we have in our portfolios not only maintained its dividend but continued to increase its dividend throughout the financial crisis of 2008-2009, and it never took TARP (Troubled Asset Relief Program) money. Many readers may remember that when companies slashed their dividends during the financial crisis, their stock prices generally collapsed, too. Our logic is that if management failed to maintain its standards for quality once, they might do so again under dire enough circumstances. Not every company needed a bailout or cut its dividend. There are no guarantees, of course, that history will repeat.

The stocks of many of the banks that cut dividends and took TARP money, including companies that seven years later have not yet repaid taxpayers the TARP money that they took, have moved significantly higher over the past few years and especially since the broad market bottomed in February 2016. By not including such stocks, our portfolios may underperform when other investors bid up those stocks. Please remember that a primary goal of our strategy is to attempt to lose less money in challenging markets. We believe that if we include in our portfolios only companies that we consider to be financially strong and well managed, over time we would hope that our portfolios would benefit and that we should be able to sleep well at night.

Another objective of our strategy is to identify stocks of what we consider to be great companies that we believe are capable of increasing their dividends throughout any environment. We want to establish positions, collect the potentially rising dividends, and hold on for many years. We strive to keep our turnover low; it has averaged about 10% per year since inception. We do not change our holdings just because of events around the world. Our impetus for change is if we no longer feel comfortable about a company's ability to increase its dividend at rates that can help investors keep ahead of the rising cost of living. Historically markets have demonstrated that if companies can consistently increase dividends, over the long term such growth should show up in their stocks' total returns. Successful investing typically requires patience. Every stock in our portfolios pays us while we patiently hold.

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 December 31, 2016 in each of:

	Current Yield	Cumulative Income*
Core Rising Dividend SMA	2.4%	$39,485
High & Rising Dividend SMA	3.0%	$51,127
S&P 500	2.1%	$35,714

**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 December 31, 2016.*

Dividend Increases

In all of year 2016, 49 companies in our Core Rising Dividend SMA portfolio announced 56 dividend increases averaging about 8% more than those particular companies paid a year before their latest dividend increase announcement date. Two companies in this portfolio announced dividend increases after only one quarter, one company announced a dividend increase after only two quarters, one company increased after three quarters; one company announced its dividend increase after five quarters, one after 7 quarters, and one after 10 quarters.

In our High & Rising Dividend SMA portfolio, 24 companies announced 31 dividend increases averaging about 6.5% more than those particular companies paid a year before their latest dividend increase announcement date. Two companies in this portfolio announced dividend increases after only one quarter, one company announced its increase after only two quarters and one company announced its dividend increase after paying the same rate for 10 consecutive quarters.

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

DEARBORN PARTNERS

Dearborn Partners Rising Dividend Separately Managed Account Portfolios

Average Calendar Year Dividend Increases

Year	Core Rising	High & Rising	CPI*
2012	13.0.%	9.6%	1.9%
2013	12.2%	8.7%	1.7%
2014	12.2%	7.4%	1.6%
2015	9.7%	7.5%	2.1%
2016	8.0%	6.5%	2.1%

** Core Consumer Price Index for All Urban Consumers Unadjusted 12-month Percent Change. 2016 CPI is through November.*

On the date that a company in our SMA portfolios announces a dividend increase, we calculate the percentage difference from the dividend the company paid a year earlier. We are excluding any special or accelerated dividends paid. We then calculate the average of all those year-over-year increases. However, if a company announces a dividend increase more than once a year, we use the average of that company's multiple increases to be considered in the year-over-year comparison.

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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