MEMORANDUM

To: Boards of Trustees (the "Boards") of the Funds (the "Funds")

From:

Date:

Re: Board Report for Rising Dividends Fund

Market Overview for the Three Months Ended February 28, 2022

Surging inflation readings, a looming interest-rate increase from the US Federal Reserve (Fed) and a loss of earnings-growth momentum across a wide range of companies weighed on sentiment and created market volatility over the three-month period ended February 2022. Russia's invasion of Ukraine on February 24 ultimately pushed some market gauges down more than 10% from recent peaks, and the S&P 500 Index, Nasdaq Composite Index and Dow Jones Industrial Average all posted losses for the three-month reporting period. Six out of 11 S&P 500 sectors retreated, with consumer discretionary, communication services and information technology declining most. The energy sector pulled ahead materially as oil prices climbed over demand and supply concerns brought on by the Ukraine crisis. Shares of small-capitalization firms suffered steeper average declines than mid- and large-cap equities, while value-oriented shares fared better than growth stocks regardless of company size. Around the world, MSCI indexes in US-dollar terms showed mostly negative returns, with gauges of developed and emerging markets faring better than US equities, while frontier markets collectively fell much further.

Despite nascent signs that supply-chain disruptions were easing as the pandemic abates, commodity prices rose over the period amid persistent strong demand, ongoing shortages of raw materials and finished commodity goods, and the build-up of Russian troops and weaponry near the Ukraine border, which unfortunately presaged an invasion. Against this backdrop, the Refinitiv/CoreCommodity CRB Index gained 22.8% over the reporting period, led by double-digit rallies in crude oil, iron ore, palladium, soybeans and wheat.

Fixed income spread sectors suffered from rising market volatility as increased uncertainty on several fronts shifted sentiment toward a "risk-off" stance. Geopolitical risks and elevated levels of inflation led most fixed income spread sectors to perform poorly. Concerns as to the ripple effects the Russia-Ukraine conflict will have on the global economy caused volatility in risk assets to increase, leading to a flight to "haven" assets, including US Treasuries (USTs). Over the three-month period, the UST yield curve shifted up, with yields across maturities ending higher. The yield on the 10-year UST note ended the period at 1.83%, 31 basis points higher than where it started.

Evidence continued to mount that inflation and pricing pressures were building across the globe, and a shift toward less accommodative monetary policy from many of the world's central banks occurred during the reporting period. The Fed pivoted to a more hawkish stance at its December meeting, leading many investors to anticipate multiple interest-rate increases throughout 2022. In comments following the Fed's January meeting, Chair Jerome Powell signaled March as the likely lift-off date for rate hikes. Incoming data bolstered that Fed plan as there is no sign yet of a peak in measures of CPI (Consumer Price Index) or

PCE (personal consumption expenditures). Overall CPI accelerated to a 40-year high as it rose 7.5% year-over-year in January from 7% in December, while the PCE price index surged 6.1% year-over-year after recording 5.8% in December 2021.

The US remains a tight labor market with job openings near record levels and wages on the rise, but confidence and consumer spending were still challenged by elevated prices and the ongoing pandemic. The unemployment rate edged down to 3.8% in February following readings of 3.9% in December 2021 and 4% in January 2022. The employment picture helped The Conference Board's Consumer Confidence Index climb for a third successive month in December to 115.2 before marking two consecutive months of declines in January (111.1) and February (110.5), well below its recent peak of 128.9 in June 2021. Meanwhile, consumer spending was weaker than expected in December before accelerating to 2.1% in January, although still below its pace in the first half of 2021. The US housing market signaled a modest cooldown amid supply-side challenges. However, buyers of existing homes shrugged off higher mortgage rates and lower affordability as sales increased 6.7% in January to 6.5 million units annualized, rebounding from a downwardly revised 3.8% fall in December. Conversely, sales of new homes slumped 4.5% to a seasonally adjusted annual rate of 801,000 units in January after surging to 12.0% in December.

Global manufacturing activity gathered strength in February—after expanding at its slowest pace in 15 months in January—as output, orders and employment all accelerated and business optimism climbed to a 10-month high. Similar to the world as a whole, the US manufacturing sector remained in a demand-driven, supply chain-constrained environment. More recently, US factory activity regained momentum as the Institute for Supply Management (ISM) manufacturing purchasing managers' index (PMI) rose to 58.6 in February from a reading of 57.6 in January, while December registered 58.8 (readings above 50 indicate expansion). The February survey details were mixed as new orders, production and exports picked up, while employment slowed and order backlogs swelled. On the nonmanufacturing side of the US economy, the ISM Services PMI expanded for the 21st month in a row, though the breadth of growth narrowed as the overall reading fell for the third straight month from 62.3 in December to 59.9 in January and 56.5 in February. Weakening new orders and business activity drove the February decline in the headline index, while price pressures climbed.

Performance Review

The fund slightly underperformed its benchmark, the S&P 500 Index, as stock selection in materials, selection and allocation effects in financials (unfavorable underweight), and allocation effects in energy (unfavorable underweight) weighed on returns. A lack of exposure in utilities also detracted from relative performance. Those losses were partially offset by stock selection and favorable overweight effects in health care, a favorable lack of exposure to communication services, and a favorable overweight to industrials. Underweights in the benchmark's two weakest performing sectors, information technology and consumer discretionary, also aided relative results.

Among the detractors, Lithium producer **Albemarle** weighed substantially on relative returns. The stock declined during the period following two years of strong market performance. The company has continued to benefit from improving fundamentals in the lithium market, bolstered by demand for rechargeable batteries for smartphones, other devices and especially electric vehicles, as sales ramp up amid continued scarcity, raising fears about manufacturers' ability to obtain enough raw materials. Prices for lithium and lithium-based chemicals more than doubled in 2021, and demand is forecast to rise sharply over the next five years.

Air Products and Chemicals, Inc., an industrial gas producer, was a relative detractor as the stock declined sharply. The company provides industrial gases and related equipment to the energy, environmental, and emerging markets. In its latest fiscal quarter, the company showed year-over-year increased sales volume,

but higher energy costs placed pressure on its margins. The company maintains a strong liquidity position and has increased its dividend for forty consecutive years.

Retail giant **Target** detracted from performance as the stock declined over the three-month period. The stock had outperformed the S&P 500 for the last two years, and the company has continued to see positive sales trends both in its stores and online, as spending in recent years had enabled it to become a strong omnichannel retailer. Low switching costs and price competition in the retail space continue to put pressure on the company, but consumers are spending more on consumer products at Target, and the company has positioned the store at the center of its distribution efforts. We continue to view Target as a high-conviction, multi-year growth story.

Nike, a footwear and sports apparel maker, declined during the period as COVID-19-related factory closures and transportation disruptions impacted the company's supply chain in the near-term. Labor issues in China have also created temporary headwinds. The company continues to benefit from its strong brand and ongoing product innovations.

Global IT services giant **Accenture** detracted during the period with a pullback of over 25% from the stock's record high in December. The company posted better-than-expected fourth-quarter earnings on strong revenue growth, margin expansion and new bookings, especially for consulting services. Accenture also raised guidance amid elevated, sustained demand for digital, cloud and security services from businesses looking to improve processes and efficiency in an ongoing shift to hybrid working models. The company earns about one-third of its revenue in Europe, potentially increasing its exposure to current geopolitical risks.

Aerospace and defense firm **Raytheon Technologies** was a notable relative contributor. The company reported strong fourth-quarter profits that beat estimates, backed by strong performance in its aerospace businesses as coronavirus restrictions eased and air travel began to recover. The ongoing geopolitical crisis in Europe contributed to strong performance among defense contractors.

Medical device and product companies **Stryker** and **Becton, Dickinson & Co.** both contributed to relative returns as the effect of the coronavirus omicron variant on routine and elective medical procedures began to subside. In our view, Stryker proved resilient amid the impact of the delta and omicron variants on elective procedures, underlined by year-over-year sales growth in the fourth quarter, and the outlook for the company remains positive. The Fund managers expect that Becton, Dickinson & Co. will see better demand for medical supplies as routine health care services resume.

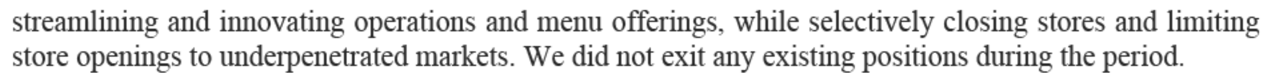
Aerospace and defense firm **General Dynamics** helped relative performance as the stock increased sharply late in the three-month period amid rising geopolitical tensions. The potential global impact on defense spending as a result of the invasion of Ukraine and broad gains among defense contractors aided the stock.

Oil exploration and production company **EOG Resources** contributed to returns. The firm reported strong fourth quarter results as it generated record free cash flows. The company has focused on utilizing free cash flow to strengthen its balance sheet and return cash to shareholders.

The fund did not use derivatives during the period.

Changes to the Portfolio during the Past Three Months

During the period, we initiated a new position in global coffee company Starbucks. Starbucks is the largest specialty coffee chain in the world. Its premium positioning for the historically commoditized product has allowed the company to charge higher prices than competitors. Starbucks is currently focused on



streamlining and innovating operations and menu offerings, while selectively closing stores and limiting store openings to underpenetrated markets. We did not exit any existing positions during the period.

The fund had net new flows of -$483.7 million in the three-month reporting period.

Strategy and Outlook
We continue to believe that a balanced portfolio is best positioned to take advantage of market opportunities in 2022. The outlook for economic growth remains healthy as continuing fiscal stimulus, consumers' strong savings rates and solid company fundamentals remain supportive. While we remain constructive on economic conditions, we continue to monitor some key uncertainties, including the path of the ongoing pandemic, inflationary and wage pressures, continuing supply chain disruptions and the potential for a tightening monetary cycle. We believe that quality companies with attractive positions in their respective markets should do well in this environment.

Data in the US continue to show that the economy is recovering strongly from the global pandemic, even as COVID-19 case numbers continued to run high in early 2022. Vaccination rates continue to rise, and many state and local economies continue to see accelerating activity. Fiscal stimulus measures passed during the pandemic and in early 2021 have helped boost personal savings, enabling a rebound in spending on activities that had been reduced by the pandemic, such as travel and dining out. The Fed shifted its guidance to the likelihood of an interest-rate increase in March, which would mark the first rate increase since 2018. The Fed, which started to slow its bond purchases late last year, also maintained the schedule it laid out for eliminating its bond-buying program in March. Furthermore, Fed Chair Jerome Powell indicated an eventual reduction in the Fed's balance sheet would occur after the rate-increasing cycle has begun. Still, policymakers hope to balance those actions while continuing to boost employment and hinder further inflation. That, together with continued US infrastructure spending, should continue to support economic growth, in our view.

As economic trends have risen, the labor market has also seen improvement. However, companies in many industries are struggling to find workers to meet surging demand. We are watching the crisis in Europe and are assessing what impact it will have on economic conditions and that outlook for holdings in the fund. Additionally, we are mindful of inflationary pressures, which have been stronger and more persistent than many expected. In part due to rising commodity prices and a tight labor market, inflation continued its sharp ascent, with the headline Consumer Price Index (or CPI) reaching its highest reading since 1982 in December. Companies have repeatedly cited price increases for oil, many raw materials, rents and other costs in recent earnings results and guidance for 2022.

The outlook for dividends and dividend growth remains positive as corporate profits have been strong. During the early stages of the pandemic, some companies, such as those with more levered balance sheets or those operating in heavily cyclical industries, reduced or suspended their dividends. Encouragingly, dividend growth for those companies and the broader market has improved since that time. Dividends for our portfolio companies have proven to be far more resilient than those of the broader market since the beginning of the pandemic, as they have largely remained resilient through 2020 and showed strength relative to the rest of the market throughout 2021. We believe that trend will likely continue, as the companies with investment-grade balance sheets and strong business models that comprise our strategy generally are better positioned to grow or maintain their dividends across economic cycles, given their attractive cash-flow generation capabilities. We believe the strategy's holdings should continue to demonstrate an added measure of resilience given their fundamentals, market leading positions and prudent capital management decisions.

This strategy is not new for us—we have consistently sought to invest in companies with strong business models together with the ability to demonstrate growing and resilient earnings streams along with sustainable cash flows and strong balance sheets to navigate times of economic uncertainty. We seek companies that can benefit in part

from their exposure to secular growth themes that we believe can provide excellent capital appreciation opportunities over the longer term. We believe companies with consistently rising dividends should, over time, have the potential to realize stock price appreciation. We look to use market volatility to our advantage and attempt to buy shares at what we believe are attractive prices.