

# Baird Rising Dividend Portfolio

Quarterly report for 4Q21

The Rising Dividend Portfolio had a gross return of 11.7% in the fourth quarter, compared to total returns of 11.0% from the S&P 500 and 11.2% from the Morningstar U.S. Dividend Growth Index.

## PWM Equity Research

Contact: 414-765-3690  
[research-pwm@rwbaird.com](mailto:research-pwm@rwbaird.com)

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## Portfolio Changes

We made several targeted changes to the portfolio during the recent quarter, seeking to replace companies with limited catalysts or expectations for tepid growth with companies for which we have high conviction in the earnings growth trajectory over the next 12+ months. As a result, our trades were less about finetuning exposure between sectors; rather, they were focused on upgrading the quality of our holdings. These actions resulted in increased exposure to the Technology, Healthcare and Energy sectors and lower exposure to the Industrial, Communication Services, and Financial sectors.

We sold our positions in **3M Company (MMM)** and **V.F. Corporation (VFC)** during the quarter. The sale of 3M was based on expectations for lower earnings growth next year, coupled with higher valuation compared to other stocks in the portfolio. We sold V.F. Corporation given a lack of visibility into the turnaround of the key Vans brand. We also trimmed our positions in **Abbott Laboratories (ABT)**, **Bristol-Myers Squibb (BMY)**, and **Comcast (CMCSA)**. The Abbott trim was prompted by valuation considerations. The trims of Bristol-Myers and Comcast were a function of lower conviction in these holdings compared to others we own.

We added two new names last quarter via the purchase of positions in **Best Buy (BBY)** and **Cisco Systems (CSCO)**. We initiated an initial position in Best Buy (and subsequently added to it) given our conviction that the company is well positioned for a hybrid work environment and a solid backdrop for consumer tech spending. Additionally, in a supply-constrained retail environment, Best Buy is in a good competitive position, having stocked up on inventory ahead of the key holiday season. The company has a strong history of free cash flow generation and has grown its dividend by 11%, on average, over the last five years. We also added a new position in Cisco on the thesis that enterprise network spending is likely to recover after being postponed during the pandemic. Cisco is also in the midst of transitioning to a more subscription-based software and security services model, which represents a multi-year growth opportunity. The company has a strong track record of profitability and free cash flow generation, which has allowed it to steadily raise its dividend and also buy back stock.

We also added to our position sizes in **Chevron (CVX)** and **Merck (MRK)**. Our addition to Chevron reflected increased confidence that oil prices will remain stronger for longer. Net, we wanted to position the portfolio to have a slight

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## Dividend Increases

The following stocks held in the Baird Rising Dividend Portfolio increased their quarterly dividends in October, November, and December. Of the stocks in the portfolio at quarter-end, 100% raised dividends over the previous 12 months, with an average increase of 12%.

Ticker	Prior	New	Increase
ABT	\$0.45	\$0.47	4%
AVGO	\$3.60	\$4.10	14%
BMY	\$0.49	\$0.54	10%
HON	\$0.93	\$0.98	5%
MRK	\$0.65	\$0.69	6%
TXN	\$1.02	\$1.15	13%
UNP	\$1.07	\$1.18	10%

*Dividends are not guaranteed and may be decreased or eliminated. "New" refers to most recently declared quarterly dividend. See the holdings chart on page 4 for full company names and current dividend yields.*

overweight exposure to Energy via a high-quality operator. We added to our position in Merck after a surprise announcement that it developed a COVID-19 antiviral pill, Molnupiravir, that successfully reduced the risk of hospitalization and death in mild to moderate COVID-19 cases. Based on this announcement, we saw the potential for meaningful positive earnings revisions given this drug was not sufficiently incorporated into earnings estimates.

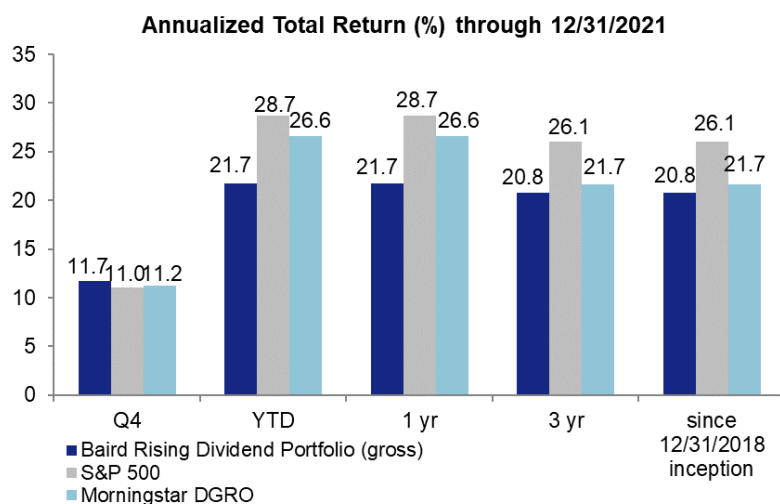
## Market and Portfolio Performance

Bolstered by a late year “Santa Claus” rally, the S&P 500 turned in one of its best quarters of the last decade, returning 11.0%. Despite the rapidly spreading Omicron variant and prospects of tighter monetary policy in the year to come, stocks were buoyed by a strong U.S. consumer, robust earnings growth, and near-record profit margins. This marks the 7th straight quarter of S&P 500 gains, capping a year highlighted by muted volatility and 70+ new all-time highs.

The Baird Rising Dividend Portfolio delivered a total return of 11.7% during the fourth quarter vs. 11.0% for the S&P 500. Sector-wise, Real estate (+17.5%), Technology (+16.7%), and Materials (+15.2%) led, while some of the more cyclical sectors, like Financials (+4.6%) and Energy (+8.0%), lagged. Communication Services (-0.0%) was the worst performing sector in Q4 by a significant margin.

For the year, the S&P 500 finished +28.7%, which would make 2021 the tenth best year since 1958. Digging in, Energy (+54.6%) closed as the clear-cut top performer with economic reopening and rising oil prices boosting the group. Real estate rode a roller coaster Q4 to finish +46.2%, while Financials (+35.0%) and Technology (+34.5%) also posted historically strong years. On the opposite end of the spectrum – despite strong years in their own right—the more traditionally defensive Consumer Staples (+18.6%) and Utilities (+17.7%) sectors were the 2021 laggards.

The Morningstar U.S. Dividend Growth Index (or DGRO), which is composed of U.S. equities with a history of consistently growing dividends, returned 11.2% in Q3. The Rising Dividend Portfolio returned 11.7% (gross) in the quarter. The chart and table below show the portfolio’s gross return relative to the two indices.



Annualized Performance (%)	Q4	YTD	1 yr	3 yr	since 12/31/2018 inception
<b>RDP gross</b>	11.7	21.7	21.7	20.8	20.8
<b>RDP net</b>	11.5	20.5	20.5	19.6	19.6
<b>S&amp;P 500 total return</b>	11.0	28.7	28.7	26.1	26.1
<b>DGRO total return</b>	11.2	26.6	26.6	21.7	21.7

*Performance results are total returns including dividends, annualized for multiyear periods. Performance is presented gross of fees in the chart above. Net performance (shown in the table above) is intended to show the effect of a hypothetical 1% account fee. Actual fees charged may differ. Future dividends are not guaranteed and may be reduced or eliminated by companies. The S&P 500 and the Morningstar U.S. Dividend Growth Index are unmanaged common stock indices; direct investment in indices is not available. Performance results are for the Baird Rising Dividend Portfolio Composite. We do not imply that future performance will be equally attractive or that losses are not possible using these stocks. See page 5 for further disclosures.*

## Market Commentary and Outlook

Despite the abundance of headline risks in 2021—Covid-19 and its variants, China’s regulatory crackdown, percolating inflation, etc.—the S&P 500 turned in another historically strong year. Easy monetary policy, robust fiscal spending, widespread vaccination, economic reopening, and record corporate profits were among the many tailwinds that helped

boost the market to all-time highs. However, the balance is shifting as we head into a new year, with tighter policy (monetary and fiscal) and slowing earnings momentum set to weigh on economic growth and (possibly) index returns.

Notably, 2022 will be the year that the Fed officially shifts into tightening mode. At their final meeting of 2021, they laid out plans to taper asset purchases by March and raise rates three times in 2022. This shift came in response to both inflation that has proven stickier-than-expected (i.e., not “transitory”) and a labor market that has healed at a rapid pace. Given the Fed’s dueling mandates, shifting from a focus on employment to price stability makes sense at this point.

On the other side of the coin, fiscal policy will also be more restrictive. While the proposed tax increases in the Build Back Better (BBB) plan look dead for now, so does the stimulative effect of new spending (particularly the scrapped Child Tax Credit). Even if BBB had passed as proposed, the fiscal boost would be abundantly less than in 2020 and 2021. It is also a mid-term election year, which has historically meant higher-than-average volatility in the market.

As for the cumulative effect on equities, it’s a mixed bag. Stocks have performed well in the early stages of past hiking cycles, but multiple expansion is not common during these periods. Thus, the onus for performance may rest on corporate earnings growth. Profits are projected to grow at a ~9% clip, but expectations have risen and forecasts for nominal GDP growth (a proxy for corporate sales) are being tempered on both Covid-19 and policy concerns. Profit margins remain near record highs, but seem to have peaked for now, and input cost inflation remains concerning.

In this sort of environment—decelerating (but still healthy) economic growth combined with tighter policy—we believe it pays to focus on quality operators that can continue to grow earnings and expand margins. Per Goldman Sachs, stocks with “quality” attributes such as high returns on capital, strong balance sheets, and stable earnings growth have outperformed in similar environments over the past few decades. Our focus on companies with wide moats and long growth runways will continue to serve us well in this volatile and rapidly shifting macro environment.

# Baird Rising Dividend Portfolio | 4Q21 Report

	Portfolio	S&P	Purch. Date	Purch. Price (\$)	12/31/21 Price (\$)	Change (%)	52 Week		Market Cap (\$bil)	—Next Twelve Month (NTM)—				Div. Yield (%)	Div. Growth (%)
							High (\$)	Low (\$)		Rev. Growth (%)	EPS Growth (%)	P/E (x)	EV / EBITDA (x)		
<b>Communication Services</b>		<b>4.0%</b>	<b>10.2%</b>												
CMCSA	Comcast Corporation Class A	1.8%	Multiple	42.60	50.33	18.1	61.80	46.29	231.8	5.7	16.3	13.6	8.3	2.0	8.9
VZ	Verizon Communications Inc.	2.3%	Multiple	56.13	51.96	-7.4	59.85	49.69	217.1	0.0	0.0	9.9	7.3	4.9	2.0
<b>Consumer Discretionary</b>		<b>10.8%</b>	<b>12.5%</b>												
BBY	Best Buy Co., Inc.	1.8%	Multiple	107.68	101.60	-5.6	141.97	94.54	24.6	-1.0	nmf	11.0	6.3	2.7	23.3
HD	Home Depot, Inc.	2.7%	Multiple	165.08	415.01	151.4	420.61	246.59	426.7	2.9	6.1	25.5	17.7	1.6	10.1
MCD	McDonald's Corporation	2.5%	Multiple	167.28	268.07	60.3	271.15	202.73	200.7	6.4	7.7	26.7	18.2	2.1	3.2
SBUX	Starbucks Corporation	1.8%	Multiple	110.53	116.97	5.8	126.32	95.92	136.9	11.4	9.0	32.2	20.1	1.7	9.8
TGT	Target Corporation	2.2%	12/18/18	65.23	231.44	254.8	268.98	166.82	111.1	3.1	3.0	17.4	10.5	1.6	17.9
<b>Consumer Staples</b>		<b>4.0%</b>	<b>5.9%</b>												
PEP	PepsiCo, Inc.	2.0%	Multiple	134.44	173.71	29.2	174.45	128.32	239.2	3.9	7.9	25.9	17.7	2.5	6.1
PG	Procter & Gamble Company	2.0%	12/18/18	92.81	163.58	76.3	164.98	121.54	394.2	4.1	6.2	26.7	19.0	2.1	8.1
<b>Energy</b>		<b>3.6%</b>	<b>2.7%</b>												
CVX	Chevron Corporation	3.6%	Multiple	93.67	117.35	25.3	121.91	83.89	229.9	8.1	13.3	12.8	5.4	4.5	4.0
<b>Financials</b>		<b>14.1%</b>	<b>10.7%</b>												
BLK	BlackRock, Inc.	2.9%	Multiple	384.69	915.56	138.0	973.16	670.28	138.5	7.7	9.0	21.9	15.3	1.8	12.9
CB	Chubb Limited	2.1%	1/13/21	157.41	193.31	22.8	197.92	144.00	82.5	8.9	18.7	13.4	10.2	1.7	3.3
JPM	JPMorgan Chase & Co.	2.9%	12/18/18	99.67	158.35	58.9	172.96	123.77	477.9	0.0	nmf	14.0	nmf	2.5	2.8
MS	Morgan Stanley	1.8%	8/11/21	103.49	98.16	-5.1	105.95	66.85	179.8	-1.4	nmf	13.6	nmf	2.8	25.0
NDAQ	Nasdaq, Inc.	1.9%	8/19/20	129.97	210.01	61.6	214.96	130.70	33.9	4.8	4.1	25.7	18.5	1.1	7.3
USB	U.S. Bancorp	2.6%	Multiple	48.79	56.17	15.1	63.01	42.47	84.9	9.1	nmf	13.3	nmf	3.2	2.4
<b>Health Care</b>		<b>10.7%</b>	<b>13.3%</b>												
ABT	Abbott Laboratories	2.2%	Multiple	70.38	140.74	100.0	142.60	105.36	245.9	-5.4	nmf	28.7	21.3	1.4	25.0
BMY	Bristol-Myers Squibb Company	1.7%	Multiple	63.69	62.35	-2.1	69.75	53.22	137.4	2.7	4.8	7.8	6.6	3.5	8.9
JNJ	Johnson & Johnson	2.9%	Multiple	138.12	171.07	23.9	179.92	151.47	451.6	4.0	5.7	16.6	12.3	2.5	5.6
MDT	Medtronic Plc	2.1%	Multiple	99.87	103.45	3.6	135.89	98.38	142.7	6.0	13.7	17.7	15.1	2.4	8.0
MRK	Merck & Co., Inc.	1.8%	Multiple	76.57	76.64	0.1	91.40	68.38	194.2	16.2	24.1	10.6	8.4	3.6	6.6
<b>Industrials</b>		<b>11.8%</b>	<b>7.8%</b>												
CAT	Caterpillar Inc.	2.4%	Multiple	162.70	206.74	27.1	246.69	179.34	112.0	12.1	19.0	17.3	10.7	2.1	1.9
ETN	Eaton Corp. Plc	2.6%	Multiple	66.49	172.82	159.9	175.72	114.01	67.2	2.8	12.3	23.0	17.8	1.8	3.8
HON	Honeywell International Inc.	2.2%	Multiple	148.04	208.51	40.8	236.86	194.55	142.4	6.6	11.2	23.2	16.4	1.9	3.3
UNP	Union Pacific Corporation	2.6%	Multiple	172.43	251.93	46.1	254.40	193.14	159.3	7.0	14.5	22.3	15.3	1.9	5.2
UPS	United Parcel Service, Inc. Class B	2.0%	Multiple	203.58	214.34	5.3	220.24	154.76	185.6	3.3	3.8	18.1	12.2	1.9	2.0
<b>Information Technology</b>		<b>30.5%</b>	<b>29.2%</b>												
AAPL	Apple Inc.	6.6%	Multiple	41.88	177.57	324.0	182.94	116.21	2986.1	5.4	4.1	30.6	23.0	0.5	6.9
ACN	Accenture Plc Class A	2.5%	12/18/18	153.34	414.55	170.3	417.37	241.73	268.1	14.5	16.3	37.4	22.6	1.0	10.1
ADI	Analog Devices, Inc.	2.2%	Multiple	126.89	175.77	38.5	191.95	142.25	93.1	35.9	15.9	22.6	18.0	1.6	12.1
AVGO	Broadcom Inc.	4.7%	Multiple	318.72	665.41	108.8	677.76	419.14	273.9	10.6	16.4	19.5	15.8	2.5	10.8
CSCO	Cisco Systems, Inc.	1.7%	11/23/21	55.00	63.37	15.2	64.29	43.35	266.4	5.5	6.5	17.8	12.3	2.3	2.8
GLW	Corning Inc	1.5%	Multiple	39.98	37.23	-6.9	46.82	34.81	31.7	5.1	12.5	16.4	8.8	2.6	9.3
MSFT	Microsoft Corporation	5.8%	12/18/18	106.99	336.32	214.3	349.67	211.94	2513.3	15.1	14.9	33.4	22.9	0.7	10.0
QCOM	Qualcomm Inc	3.5%	Multiple	93.22	182.87	96.2	192.68	122.17	101.2	7.2	4.0	16.5	12.4	1.5	4.7
TXN	Texas Instruments Incorporated	2.0%	12/18/18	94.72	188.47	99.0	202.26	160.76	176.0	4.4	2.5	23.1	17.1	2.4	13.3
<b>Materials</b>		<b>3.6%</b>	<b>2.6%</b>												
CE	Celanese Corporation	1.6%	2/3/21	126.54	168.06	32.8	174.04	115.42	18.2	-0.2	nmf	10.8	8.8	1.6	7.3
RS	Reliance Steel & Aluminum Co.	2.0%	Multiple	142.05	162.22	14.2	181.21	114.26	10.1	-7.1	nmf	10.5	6.2	1.7	10.8
<b>Real Estate</b>		<b>1.9%</b>	<b>2.8%</b>												
VICI	VICI Properties Inc	1.9%	4/7/21	29.04	30.11	3.7	33.35	24.51	18.8	55.5	8.4	15.6	13.2	4.8	10.4
<b>Utilities</b>		<b>3.1%</b>	<b>2.5%</b>												
NEE	NextEra Energy, Inc.	3.1%	Multiple	44.06	93.36	111.9	93.73	68.33	179.8	18.7	8.7	33.4	19.1	1.7	10.5
<b>Cash</b>		<b>2.0%</b>													
													<b>Weighted Yield / Growth</b>	<b>2.0</b>	<b>8.2</b>

## Appendix – Important Disclosures

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**Investment Recommendations:** The Baird Rising Dividend Portfolio is managed with the intent of focusing on high-quality companies with a history of consistent dividend growth, strong fundamental characteristics and management teams, attractive growth prospects, and reasonable price-appreciation expectations. The Portfolio is derived using a top-down approach that begins with macroeconomic and market outlooks. Industry sector weightings are taken into account. The Rising Dividend Portfolio is intended as a long-term investment strategy.

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