Brookmont Firm Story

The strategy and investment philosophy originated from the Trust Department at Comerica Bank. The purpose was to provide clients with a through-cycle equity strategy that touts capital preservation and participation on the up-swing.

This purpose, philosophy, and strategy has stayed true to this day at Brookmont Capital. We are a boutique manager that focuses on not only on providing superior security selection but also honest, transparent relationships. This is why our UIT is exclusively available through First Trust and why our SMA is not on the major wirehouses. We look for quality over quantity in every aspect of our business.

Brookmont Capital won “Manager of the Decade” from PSN/Informas from 2008 – 2017.

Philosophy

Brookmont’s philosophy is dividend oriented and the belief that the quality of a dividend payment can be a good proxy for fundamental strength which includes identifying companies with sustainable and growing dividends that do not use their balance sheet to subsidize dividend growth through direct payments or share buybacks.

We believe that management’s discipline in meeting dividend expectations creates a better run company while the dividend growth is indicative of a company and/or sector with good long-term prospects.

Our portfolio construction methodology is designed to capture high active share and protect on the downside and includes a maximum sector waiting of 20% and maximum individual holding sizes of up to 5%.

3-year dividend growth history and yield 50% higher than S&P 500 yield

Series 24

As it relates to the UIT Series 24 it is effectively equal weight large-cap growth and large-cap value.

Series 24 portfolio has a lower trailing and forward price to earnings multiple, representing a discount to the S&P 500 or potential capital appreciation. Additionally, the portfolio is low beta which should help to mute volatility in what we anticipate being a choppy period prior to the election.

Brookmont looks for companies that have more downstream exposure to technological advancement. This helps individual companies build wider moats in their industries.

Brookmont also looks for those companies that are classified as value but have strong growth potential and those classified as growth companies we can by at an attractive price and demonstrate strong free cash flow sufficient to grow dividends.

Higher Dividend Growth Rate supported by a higher free cash flow relative to the dividend payout which means the companies are actively earning that yield and not using debt or cash reserves to subsidize a distribution. So you are paying less for higher quality companies with more sustainable cash flows and dividend growth.

Brookmont believes that high end consumer exposure should be emphasized due to the structural unemployment. For exposure to the marginal consumer, we maintain positions in companies that tend to remain neutral during negative income shocks.

Changes from Series 23 to Series 24 (Sector Allocation)

We increased our exposure to technology, materials, and real estate. The names we added all have higher downstream exposure to technology which has become a defensive theme and sector with possible growth opportunities during the current pandemic.

Specific Stock Talking Points

- Although J.M. Smucker's is best known for its preservatives, roughly 40% of its revenue derived is from pet food sales. As I'm sure you've all seen there are no stray dogs or cats in shelters as adoption rates have skyrocketed. We believe this position is a good defensive name in that context
- Testing for the COVID disease will continue to be an integral part of reopening and the new scare of a 2nd wave will drive more people to get tested. Abbott Labs will benefit from continued demand for testing.
- Home Depot is an example of a "value" stock with greater growth opportunities. HD has grown 108% over the past five years. They have a favorable COVID outlook with consumers prepping for home sales, boredom from lockdown, and home projects after purchase. We think the demand for homes will rise but there will be high turnover associated with record unemployment. This will create an increase in real estate transactions and Home Depot will benefit from this.

Additions to Series 24

Apple – Apple is one of the largest companies in the world with a strong outlook stemming from management's focus to diversify revenue away from the iPhone. Investor sentiment with Apple is that "you can't go wrong with Apple" and that sentiment has led it to become a defensive position during a year of grave uncertainty. One of the largest projected growth drivers will be the new 5G network roll out. The American consumer has become even more dependent on their smart phones over the past couple of years and the demand for newest and fastest phone available will be prioritized by American households.

Crown Castle International Corp. – Crown Castle is a REIT that controls the largest amount of shared communications infrastructure in the United States. Crown Castle has significant exposure to the 5G investment cycle and has also the company has invested in a significant amount of new fiber optic cable that is being significantly discounted in the market.

DuPont de Nemours – DuPont is the prime example of downstream exposure to technology. DuPont spun off from Dow Chemical and has a more favorable outlook, in our view, because of

the diversified markets for which their customers are derived. DuPont's customers have a more technological shift and a good example is their production of Silvadure which is a chemical used in microbodial fabrics which is a new and exciting market that the US consumer has embraced.

Starbucks - We added to our position in Starbucks because the company successfully navigated the shutdowns and now has 99% of their stores open. At the same time, Starbucks further entrenched their loyalty base, which now accounts for about 50% of their revenue. In the US, 90% of sales come from mobile orders which is driving an easier transition after the lockdowns. Starbucks also announced a new concept for stores that focuses on "pickup" where customers can use the mobile ordering to quickly grab coffee without human interaction.