



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 weighting 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 buy 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 microbial 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.

Disclosures:

This letter may contain "forward-looking statements" which are based on Brookmont's beliefs, as well as on a number of assumptions concerning future events, based on information currently available to Brookmont. Current and prospective clients are cautioned not to put undue reliance on such forward-looking statements, which are not a guarantee of future performance, and are subject to a number of uncertainties and other factors, many of which are outside Brookmont's control, and which could cause actual results to differ materially from such statements.

All expressions of opinions are subject to change without notice. A complete description of Brookmont's performance calculation methodology, including a complete list of each security that contributed to the performance of this Brookmont portfolio is available upon request.

Certain economic and market information contained herein has been obtained from published sources prepared by other parties, which in certain cases has not been updated through the date of the distribution of this letter. While such sources are believed to be reliable for the purposes used herein, Brookmont does not assume any responsibility for the accuracy or completeness of such information.

These individual securities do not represent all of the securities purchased, sold, or recommended for this Brookmont portfolio and the reader should not assume that investments in the securities identified and discussed were or will be profitable.

The firm maintains a complete list and description of composites, which is available upon request. Results are based on fully discretionary accounts under management, included those accounts no longer with the firm. Composite policy requires the temporary removal of any portfolio incurring a client initiated significant cash inflow or outflow of at least 15% of portfolio assets. The temporary removal of such account occurs at the beginning of the month in which the significant cash flow occurs, and the account re-enters the composite at the beginning of the month which follows the cash flow by at least 30 days. Additional information regarding the treatment of significant cash flows is available upon request.

Brookmont's returns do not include reinvestment of dividends and are shown gross-of-fees. All transaction costs are included. The Russell 1000 cumulative return includes reinvestment of dividends and capital gains. During a rising market, not reinvesting dividend could have a negative effect on cumulative returns.

There is no representation that this index is an appropriate benchmark for such comparison. You cannot invest directly in an index, which also does not take into account trading commissions and costs. The Volatility of this index may be materially different from the performance of the Strategy.

Gross returns will be reduced by investment advisory fees and other expenses that may be incurred in the management of the account. Net-of-fees performance was calculated using actual management fees. Additional information regarding the policies for calculating and reporting returns is available upon request.

Your account returns might vary from the composite's returns if you own securities that are not included in the Strategy or if your portfolio dollar-cost averaged into the Strategy during the reporting period.

Brookmont Capital Management claims compliance with the Global Investment Performance Standards (GIPS®). To receive a complete list and description of Brookmont's composites and a presentation that adheres to GIPS standards, please contact Suzie Begando at 214-953-0190 or write Brookmont Capital Management, 2000 McKinney Avenue, Suite 1230, Dallas, TX 75201.

Brookmont Capital does not provide comprehensive portfolio management services for investors who have not signed an Investment Management Agreement with our firm.

Past performance is not indicative of future results