



# BROOKMONT CAPITAL MANAGEMENT

# Brookmont Capital Management

**Launched in November 2007, Brookmont Capital is an employee-owned registered investment advisor based in Dallas, Texas.** Brookmont specializes in dividend equity portfolios that include Separately Managed Accounts and direct client relationships. Our SMA products are available through national brokerage and regional investment firms, registered advisors, and asset management programs. Brookmont also provides custom portfolio management services for individuals, tax-exempt organizations, and corporate institutions.

**As a registered investment advisor, Brookmont Capital has a fiduciary responsibility to act in our clients' best interest and provide sound investment advice.** Our firm avoids potential conflicts of interest and provides full transparency regarding all fees and trading costs.

**Brookmont utilizes a top-down investment process because we believe proper investing begins with an understanding of the current economic and market cycles.** Our macroeconomic outlook is the primary factor in determining the firm's asset allocation models, sector weightings, and attractive market sectors (including market capitalization, domicile, and equity style).

**Our signature investment portfolio is the Brookmont Dividend Equity Strategy,** which is based on a portfolio of individual equities that provide attractive current yields and the opportunity for capital appreciation. **The Brookmont Dividend Growth Strategy** focuses on companies that have reached the stage where quarterly dividends and top-line revenue are growing faster than the S&P 500. **The Brookmont Core Dividend Strategy** strikes a balance between dividend growth and current yield, and was built with existing holdings in the Dividend Equity and Dividend Growth Strategies.

**There are several principles of portfolio management that we follow every day:**

- Portfolio management is an art as much as it is a science
- Diversification does not require owning 100 different holdings. Proper diversification is acquired by owning a portfolio of low-correlated securities
- Long-term holdings are an investment; short-term investments are for speculation. We avoid the latter.
- Most investors overestimate their risk tolerance during rising markets, and underestimate their risk tolerance during a market correction

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## Our Investment Philosophy

**Brookmont Capital Management specializes in dividend-paying common stocks. We have concentrated on this market sector since the day our firm opened its doors in 2007.** We have expanded our SMA portfolios during the years, but have never wavered from the philosophy that current yield and dividend growth are an integral part of long-term total returns.

**Brookmont is a top-down manager. Our first decision is determining which sectors provide near-term and intermediate potential.** The objective is to determine the current position in a normal economic-cycle and overlay the cycle with the market's historic sector performance.

**Our portfolios are built with securities that offer an opportunity for capital appreciation.** The portfolios do not include fixed income securities, preferred stocks, or other investments that are purchased primarily for current income.

**Our portfolios do not include the market's highest-yielding stocks.** "Reaching for yield" in the stock market can be just as dangerous as investing in junk-bonds and illiquid securities.

**Our portfolios do not include concentrations in specific sectors or individual holdings.** Our compliance policy restricts sector weightings to a maximum 20% of the total portfolio, and individual holdings are restricted to a 5% maximum weighting.

**The normal annual turnover is 10% with a range of 5-20%. We buy stocks for their long-term potential based on a long-term theme.** This may include buying companies that are focused on the growing consumer market in emerging countries, medical companies that are advanced in cardiovascular and oncology, or products that are geared to the Millennium Generation.

**We do not manage our portfolios based on current market "fads" or a motivation to chase performance.** This normally leads to making poor decisions and lower long-term investment returns.

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Brookmont offers three distinctive equity portfolios that emphasize current yield, dividend growth, and a balance of current income and rising dividends. Each Strategy includes long-only positions that are not restricted to a specific equity style, domicile, or market capitalization. Risk is controlled through rebalancing and maximum weightings in a specific sector and individual holdings. The portfolios are constructed to hold positions that have low internal cross-correlation.

	<u>Dividend Equity Strategy</u>	<u>Core Dividend Strategy</u>	<u>Dividend Growth Strategy</u>
<b>Benchmark</b>	Russell 1000 Value	Russell 1000	Russell 1000
<b>Equity Style</b>	Core/Value	Core	Core/Growth
<b>Inception</b>	January 2008	January 2015	January 2015
<b>Beta</b>	0.69	0.98	0.96
<b>12-month Forward Yield*</b>	3.10%	2.55%	2.08%
<b>12-month Dividend Growth</b>	9%	9%	15%
<b>Largest Sector Weightings</b>	Health Care, Technology	Technology, Health Care	Health Care, Discretionary
<b>Non-U.S. Holdings</b>	18%	14%	8%
<b>Large-Cap Allocation</b>	87%	86%	84%
<b>Small and Mid-Cap Allocation</b>	13%	14%	16%
<b>Number of Holdings</b>	37	40	34
(Statistics as of 09/30/17)			

# Dividend Equity Strategy

# Dividend Equity Strategy

## Investment Objective

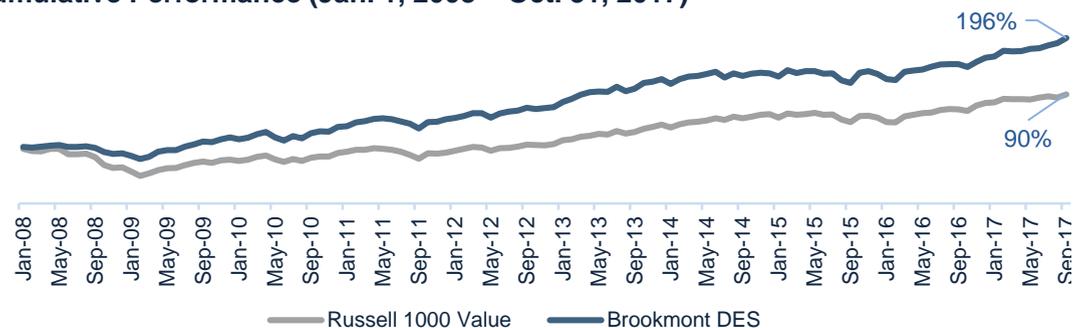
- The **Brookmont Capital Dividend Equity Strategy** invests in common stocks that provide above-market average dividends with a history of increased quarterly payouts.
- The Strategy normally invests in all sectors of the economy (*represented by the S&P 500*) and may invest in domestic and foreign securities ranging from small to large-cap stocks.
- Annual turnover has ranged from 5% to 20%
- Top-down approach that emphasizes sector selection based on economic and market cycles
- Investment philosophy includes generating cash flow, downside protection, and potential for capital gains
- The portfolio manager has 17 years of experience in dividend equities and 28 years in asset management

## Annualized Returns (as of 10/31/2017)

	<u>Year-to-Date</u>	<u>1-Year</u>	<u>3-Year*</u>	<u>Inception*</u>
<b>Dividend Equity Strategy</b>	<b>15.17%</b>	<b>23.13%</b>	<b>8.99%</b>	<b>11.68%</b>
(net of fees)	14.41%	22.17%	8.12%	10.92%
Russell 1000 Value	8.70%	17.78%	7.99%	6.75%

Inception January 1, 2008  
\*annualized returns

## Cumulative Performance (Jan. 1, 2008 – Oct. 31, 2017)



## Strategy Statistics

	<u>Inception</u>	<u>3-Year</u>
Alpha	6.36	1.79
Beta	0.69	0.84
R2	90	80
Upside Capture	92	97
Downside Capture	59	76

## Strategy Characteristics

	<u>Strategy</u>	<u>Russell 1000 Value</u>
Dividend Yield	3.10%	2.50%
P/E Ratio	18x	17x
Avg. Market Cap.	\$143 B	\$118 B
Return on Equity	28.5	12.6
Return on Assets	8.02	4.38

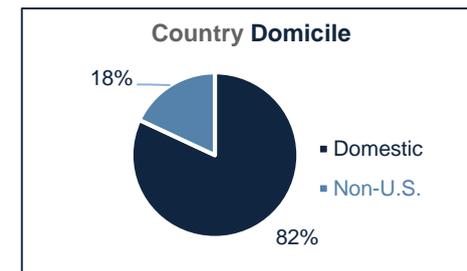
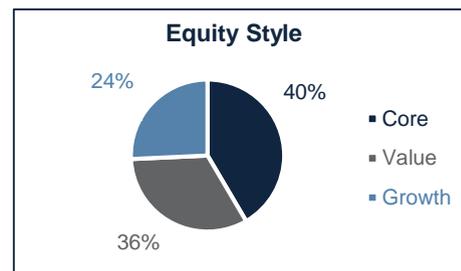
# Dividend Equity Strategy

## Strategy Statistics (Since Inception)

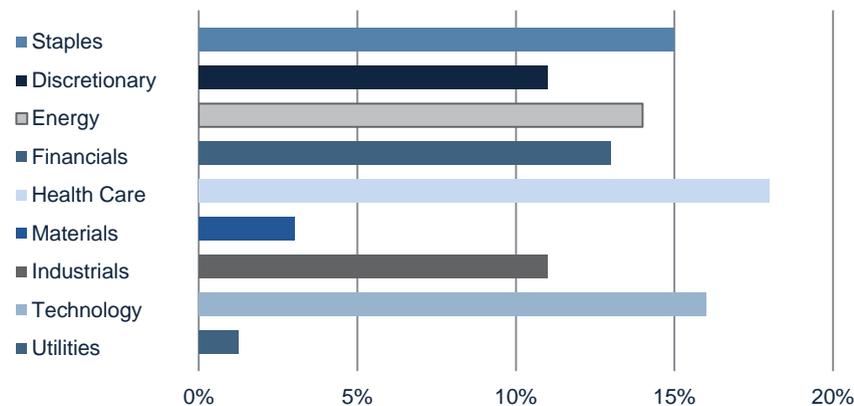
	Strategy	Russell 1000 Value
Alpha	6.19	-1.39
Beta	0.69	1.04
R2	86	96
Upside Capture	88	99
Downside Capture	59	106

## Strategy Characteristics

	Strategy	Russell 1000 Value
Yield	3.10%	2.50%
P/E Ratio	18x	17x
Avg. Market Cap.	\$143 B	\$118 B
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## Sector Weightings



## Largest Composite Holdings

JPMorgan	4.14%
McDonald's	4.10%
Home Depot	4.08%
Unilever	4.08%
Royal Dutch Shell B	3.97%
Chevron	3.97%
Novo Nordisk	3.80%
United Parcel Service	3.55%
Wells Fargo	3.33%
Novartis	3.21%

# Dividend Equity Strategy

**Disclaimer:** Dividend Equity Strategy returns are based on an asset-weighted composite of discretionary accounts that include 100% of the recommended holdings. Individual accounts will have varying returns, including those invested in the Strategy. The reasons for this include, 1) the period of time in which the accounts are active, 2) the timing of contributions and withdrawals, 3) the account size, and 4) holding other securities that are not included in the Strategy. Dividends and capital gains are not reinvested. The Strategy does not utilize leverage or derivatives. Returns are based in U.S. dollars. The inception of the Strategy is Jan. 1, 2008.

The Brookmont Dividend Equity Strategy Composite contains fully discretionary accounts with similar value equity investment strategies and objectives. For comparison purposes, the Dividend Equity Strategy Composite is measured against the Russell 1000 Value Index. The Russell 1000 Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower expected growth values. The Russell 1000 Value Index is constructed to provide a comprehensive and unbiased barometer for the large-cap value segment.

The firm maintains a complete list and description of composites, which is available upon request. Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Past performance is not indicative of future results.

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

Gross-of-fees returns do not include management or custody fees but do include all trading costs. Gross returns will be reduced by investment advisory fees and other expenses that may be incurred in the management of the account. Net-of-fee 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.

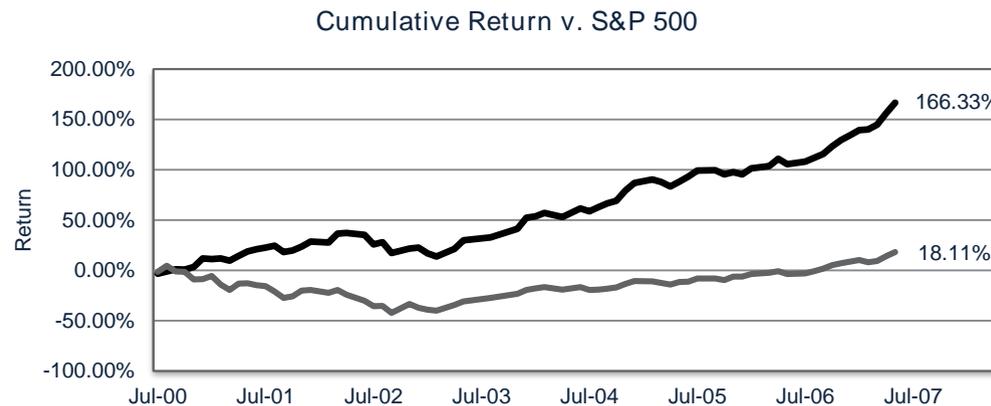
Composite policy requires the temporary removal of any portfolio incurring a client initiated significant cash inflow or outflow of at least 15% of portfolio assets. The temporary removal of such an account occurs at the beginning of the month in which the significant cash flow occurs and the account 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.

The Dividend Equity Strategy is available through several institutional platforms and registered investment advisors that are not affiliated with Brookmont Capital. Required minimum investments and advisory fees differ from one firm to another. Brookmont Capital does not provide comprehensive portfolio management services for investors who have not signed an Investment Management Agreement with our firm.

# Brookmont Capital Management

In August 2000, the manager of the Brookmont Dividend Equity Strategy helped initiate a dividend income strategy at a previous employer and served as its co-manager through May 2007. The calendar and annualized performance results for the strategy are listed below. The same investment philosophy was applied to the Brookmont Dividend Equity Strategy when it was launched in January 2008. **The performance information is for illustrative purposes only and may not be linked with the Brookmont Dividend Equity Strategy.**

	2000	2001	2002	2003	2004	2005	2006	2007 <sup>^</sup>	3-Yr <sup>*</sup>	5-Yr <sup>*</sup>
Prior Performance	12.80%	17.49%	-1.42%	27.89%	22.47%	4.86%	20.48%	10.22%	15.66%	18.60%
S&P 500	-9.10%	-11.68%	-22.10%	28.67%	10.86%	4.91%	15.79%	8.78%	10.44%	6.19%



**Disclaimer:**

- *Strategy inception date: August 2000.*
- *<sup>^</sup>Returns for 2007 are through May 30.*
- *<sup>\*</sup>Three and five-year returns are annualized.*
- *Returns are gross of account level fees. Data is derived from a composite of accounts (taxable and non- taxable).*
- *Stated results are based on composite averaged performance. Performance results reflect co-management of a dividend income strategy at a previous employer between August 2000 and May 2007.*
- *The investment results listed above are only for representative purposes. The performance returns do not include a cash component.*
- *Past Performance does not guarantee future results. Investments may lose value and are not insured against losses.*

# Brookmont Capital Management

**The Principals of the firm have an average of 27 years of experience in Portfolio and Asset Management with a background in equities, fixed income, and alternative securities**

## **Robert Bugg, CFA**

Principal, Chief Investment Officer  
214-953-0433  
rbugg@brookmont.com

Mr. Bugg has 28 years of experience in managing portfolios for individuals, corporations, and Foundations. Before he founded Brookmont Capital, he served as the Senior Investment Manager for Comerica Bank's Asset Management Department in Texas. In 2000, he helped launch and manage their Dividend Income Strategy. Prior to Comerica, he was Portfolio Manager and Equity Analyst for AmSouth Bank and SunTrust Bank.

As Principal and CIO, Mr. Bugg's responsibilities include the Dividend Equity Strategy, Core Dividend Strategy, and Managed ETF Strategy. He serves on the Investment Policy Committee and directs the firm's asset allocation models.

He graduated from Huntingdon College with a Bachelor of Arts in Marketing and History and earned his Master of Business Administration from the University of Alabama and is a Chartered Financial Analyst.

## **Neal Scott**

Principal, Fixed Income Manager  
214-953-0196  
nealscott@brookmont.com

Mr. Scott brings 26 years of experience in fixed income instruments, including taxable and tax-free bonds, short-term investments, and preferred securities. Prior to Brookmont Capital, he spent nine years at Morgan Keegan in their Birmingham, Alabama office. His previous employment also included institutional fixed income sales with Compass Bank.

As Principal at Brookmont Capital, Mr. Scott manages the firm's fixed income and actively managed cash portfolios. He provides credit analysis for holdings in the Dividend Equity Strategy, directs the firm's new business efforts, and serves on the Investment Policy Committee.

Mr. Scott earned his finance degree from the University of Alabama.

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