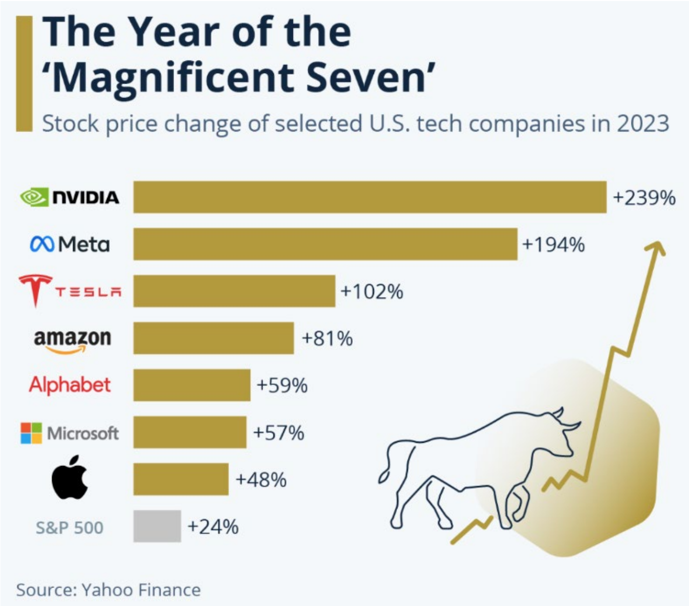
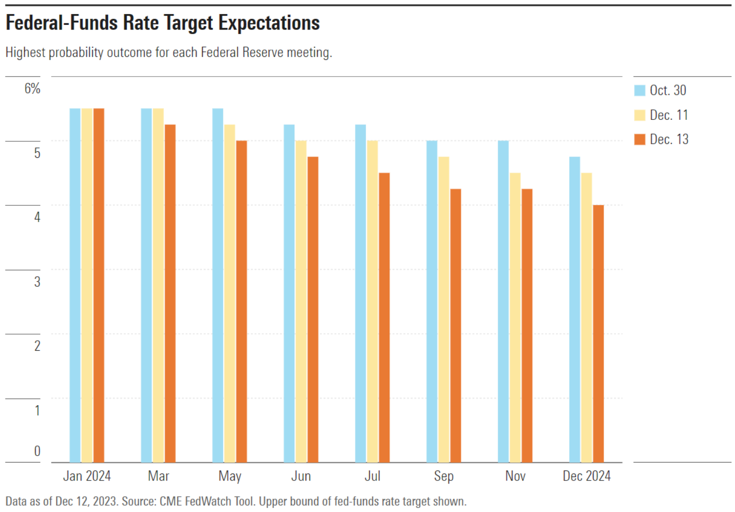
2023 brings no recession, cooling inflation and global growth

In the Fourth Quarter of 2023, the S&P 500 returned 11.7%, the Russell 1000 Value returned 9.5%, and the Russell 1000 Growth returned 14.2%, ending the year with 26.3%, 11.4%, and 42.6%, respectively. Major stock market indexes have been dominated by the technology and communication companies that have direct AI exposure. The IT and communication sectors contributed more than 70% of the total S&P 500 returns in 2023. There has been a larger-than-normal dispersion of returns in the equity markets, which has presented a good opportunity for active equity management. Going into 2023, businesses, economists, and market participants alike were of the view that a recession was a near certainty. However, the much-anticipated recession did not materialize in 2023, but global growth and inflation are slowing, with lower yields expected in 2024.



2024 – what is next?

The probability of a soft landing has increased significantly during the last few months. Markets rallied through year-end, reflecting these more positive expectations. Despite the increased probability of avoiding a recession, the US economy will still face a period of below-trend growth. Rate cut expectations abound, with the chart at the left showing the December consensus of 6 cuts decreasing Fed Funds from 5.25% to under 4% by the end of 2024. Should 2024's equity market rally, it will require strong earnings growth to support current valuations; however, the prospect of muted economic growth suggests that this will require specific drivers beyond broad economic exposure. As such, our outlook and positioning for the coming year are intently focused on secular themes that we believe will allow our holdings to outgrow a stagnant economy and post financial results superior to the broad market. These themes include AI, automation, geopolitical destabilization, liquified natural gas (LNG), and diabetes/obesity care. Our portfolios each have roughly half of their holdings exposed directly or indirectly to these themes. Below is an overview of these themes with some examples of how our portfolios are getting exposure.



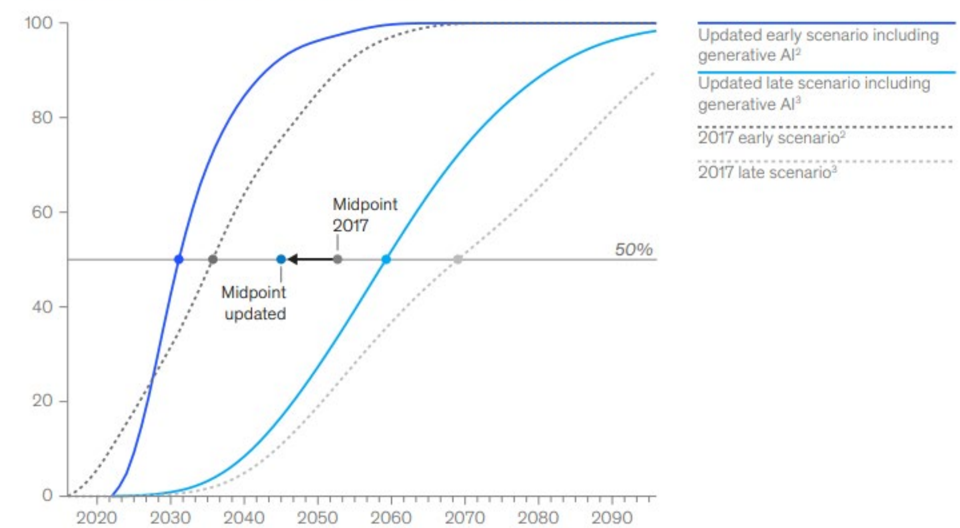
AI drove the rally in 2023, could the rally expand along with AI use cases?

With the launch of ChatGPT in November 2022, AI adoption quickly surged, growing in popularity throughout 2023 as companies and consumers experimented with the new technology. A number of holdings throughout the strategies are direct and indirect beneficiaries of this trend, including Microsoft, Nvidia, Broadcom, Amazon, Accenture, and DuPont.

In 2023, investment in automation stalled as businesses proceeded through the year with caution due to fears of recession. We expect this overall trend on a long-term basis will continue and that investments in this area will increase over the next couple of years as recession fears ease and borrowing costs decrease.

The chart below illustrates that recent advancements in generative AI have contributed to a significant acceleration in the potential adoption of automation, with 50% of the time spent on current work activities now expected to be automated roughly a decade sooner than prior projections.

Global automation of time spent on current work activities,[1] %



[1]Includes data from 47 countries, representing about 80% of employment across the world. 2017 estimates are based on the activity and occupation mix from 2016. Scenarios including generative AI are based on the 2021 activity and occupation mix.
[2]Early scenario: aggressive scenario for all key model parameters (technical automation potential, integration timelines, economic feasibility, and technology diffusion rates.).
[3]Late scenario: parameters are set for later adoption potential.
Source: McKinsey Global Institute analysis

Over the long term, AI will impact economies, businesses, and markets in ways currently not anticipated. Below are positions that are benefiting from AI's impact now.

Holding	AI exposure
Microsoft	Microsoft benefits from increasing cloud usage and monetization of the software through copilot in its Office suite.
Nvidia	Nvidia benefits from the usage of its data center GPUs to train large language models and other forms of AI.
Broadcom	Broadcom benefits from the increased demand for high-performance switching and routing within data centers.
Amazon	Amazon benefits from the increased shift to the cloud as companies seek to utilize new AI tools on their proprietary data.
Accenture	Accenture benefits from customers utilizing their services to transition to the cloud, transform data into mature formats, and implement new AI tools on a company-specific level.
Dupont	Dupont benefits as the surge in AI popularity drives increased demand for advanced semiconductors, which require incrementally more usage of Dupont's electronics solutions products in the wafer fabrication process. DD benefits from this theme also as increased automation requires incrementally more semiconductors (specifically microcontrollers and analog) to sense environmental feedback, process data, and manage industrial processes.
Microchip and Analog Devices	MCHP and ADI are semiconductor companies that have the industrial end-market as their largest and the majority of their products are MCUs (microcontrollers) and analog semiconductors which are used in industrial automation.
Honeywell	Honeywell benefits from this theme through its solutions offered for building automation and warehouse automation.

Expanding Geopolitical tensions and contentious elections to capture 2024 headlines

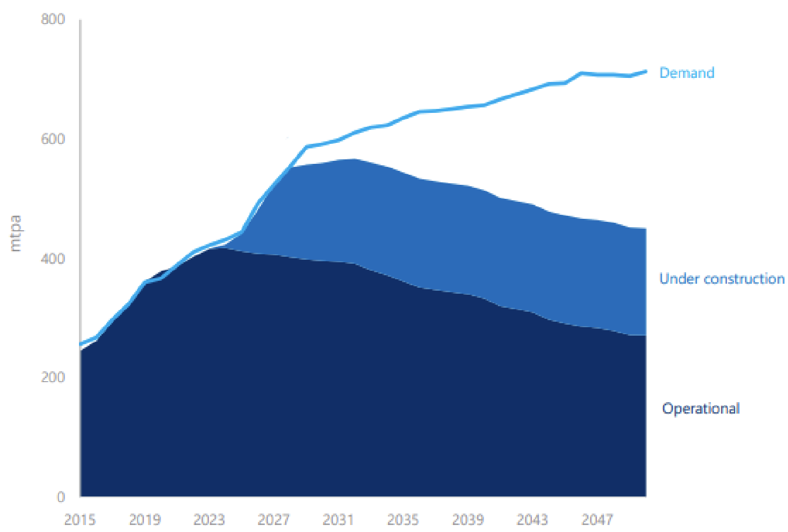
With Russia's invasion of Ukraine in 2022 and the outbreak of the Israel-Hamas war in 2023, the global threat environment has escalated significantly over the past couple of years. In addition to the growing prevalence of armed conflict, geopolitical tensions have also increased. The most recent indication of this is the US banning the export of advanced semiconductors and advanced semiconductor fabrication equipment to China.

L3Harris Technologies, RTX Corp, and BWX Technologies are beneficiaries of this trend with exposure to key areas of defense spending, such as resilient communication, advanced missile tracking, advanced missile defense, and nuclear-powered submarines.

Liquefied Natural Gas (LNG): the blue energy fueling the green transition

We expect LNG to continue to grow in importance and utilization globally over the next decade for two major reasons. Firstly, LNG is considered "blue" energy. While it is not free of GHG (greenhouse gas) emissions, it produces significantly less emissions than forms of power generation such as coal. Crucially, capacity can be increased relatively quickly, and its import/export infrastructure can eventually be converted to liquid hydrogen. This makes LNG an ideal transition fuel in the green economy, which is essential because "dirty" power generation cannot become green overnight, and LNG offers a solution to bridge the gap with less emissions as the green transition continues. Secondly, LNG offers significantly more flexibility in terms of energy security. With Russia's invasion of Ukraine and the weaponization of its natural gas supply to Europe, LNG played a crucial role in providing alternative sources of natural gas to fuel power generation. As such, we expect countries to increase the resilience of their energy supplies via expansions of LNG infrastructure. This also relates to our previously mentioned theme of geopolitical instability. The chart illustrates global demand likely won't peak for decades, and current investment is insufficient to meet that demand.

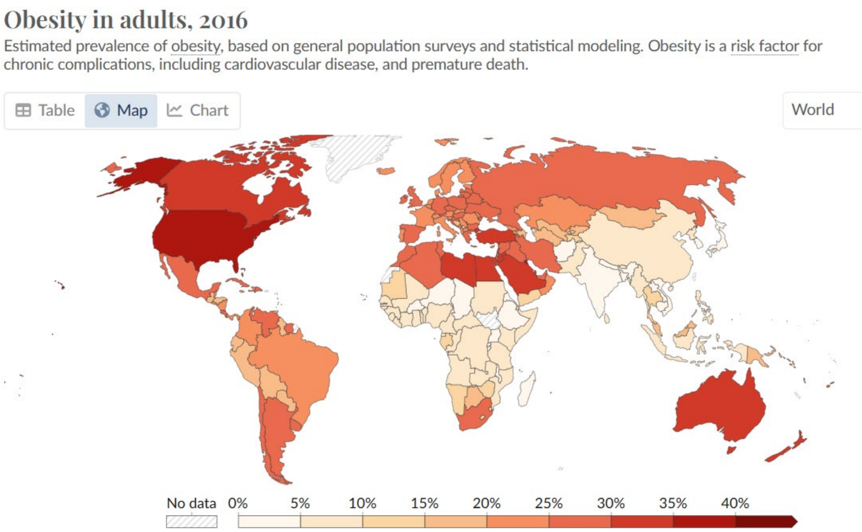
Global LNG supply and demand gap[3]



Our position in Shell should benefit from this trend through its Integrated Gas segment. It is the largest market player in the global LNG market and has a reach that expands across six continents. This is essential because, while there is exposure to absolute global energy prices, natural gas is not as easy to transport over long distances as crude oil (or other fossil fuels like coal) due to its gaseous state As a result of this and the pursuit of lower emissions, there are often imbalances in gas markets, which can result in substantial differences in prices between different regions. This is where Shell's scale and footprint are essential, as the company can arbitrage these price differences through its trading and optimization. Another holding, Sempra, has substantial exposure to the LNG export market through its Sempra Infrastructure segment, which builds and operates infrastructure to enable the energy transition. Chevron benefits from LNG through its LNG export facilities in Angola and Australia. ConocoPhillips gains from LNG through minority stakes across multiple facilities, as well as feed gas supply and offtake agreements. It is clear that LNG is a critical commodity to fuel the future of energy, and our holdings are well-positioned to capitalize.

Diabetes and obesity care widening use creates access to more opportunity

Diabetes and obesity care have been a key theme in our strategies for a number of years. Globally, there are over 500 million people with diabetes; of those, only ~15% of those are under control. As such, there is a significant opportunity for improvement in the treatment of diabetes. Novo Nordisk's GLP-1 drugs used to treat Type 2 Diabetes can significantly improve the ease of treatment for diabetics, with options for once-weekly injections or daily oral medications (versus frequent insulin injections). Abbott Lab's CGM (Continuous Glucose Monitor) devices are essential for diabetics to monitor their blood sugar levels. The company has continuously innovated to improve device scale and longevity; the most recent generation of devices is approximately the size of two stacked pennies. The popularity of obesity treatments surged in 2023, and we expect the adoption of these medications to increase further going forward. Crucially, Novo's SELECT CV trial demonstrated the ability of Wegovy to reduce the occurrence of adverse cardiovascular events. We believe that this is an essential step in proving the value of Wegovy to insurers, physicians, and patients, with the improvement in health outcomes both benefiting patients and eventually saving insurers money via the reduction in the frequency of adverse cardiovascular events, which are expensive to treat. This should drive an expansion in reimbursement, which will significantly improve patients' access to the drug. There are over 750 million obese people worldwide, and most are concentrated in developed countries that can afford treatment.



Quality matters as the market digests uncertainties in the first half of 2024

With a macro backdrop that includes higher for longer rates caused by easing but persistent inflation and strong employment, slowing consumer spending, and increased geopolitical tension, the team at Brookmont thinks that focusing on companies with solid balance sheets and durable business models is the best way to minimize risk. The current late market cycle that the US economy is in right now favors those companies that have been disciplined with their capital and have the opportunity to take advantage of their peers' weaknesses. The wide dispersion of returns and higher interest rates favor an active manager who can find strong businesses with attractive secular growth drivers.

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.

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Brookmont Capital is defined as an independent investment management firm that is not affiliated with any parent organizations.

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.

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The Brookmont Dividend Growth 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 on U.S. dollars. The inception of the Strategy is January 1, 2008.

The Brookmont Dividend Growth Strategy Composite contains fully discretionary accounts with similar value equity investment strategies and objectives. For comparison purposes, the Dividend Growth Strategy Composite is measured against the Russell 1000 Value Index. The Russell 1000 Value Index measures the performance of the large-cap 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. There is no representation that this index is an appropriate benchmark for such a 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.

Brookmont's returns do 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 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 composites 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.

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. The 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.

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, 5950 Berkshire Lane, Suite 1420, Dallas, TX 75225.

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Past performance is not indicative of future results