



## High Quality Dividend Appreciation Strategy

December 2022

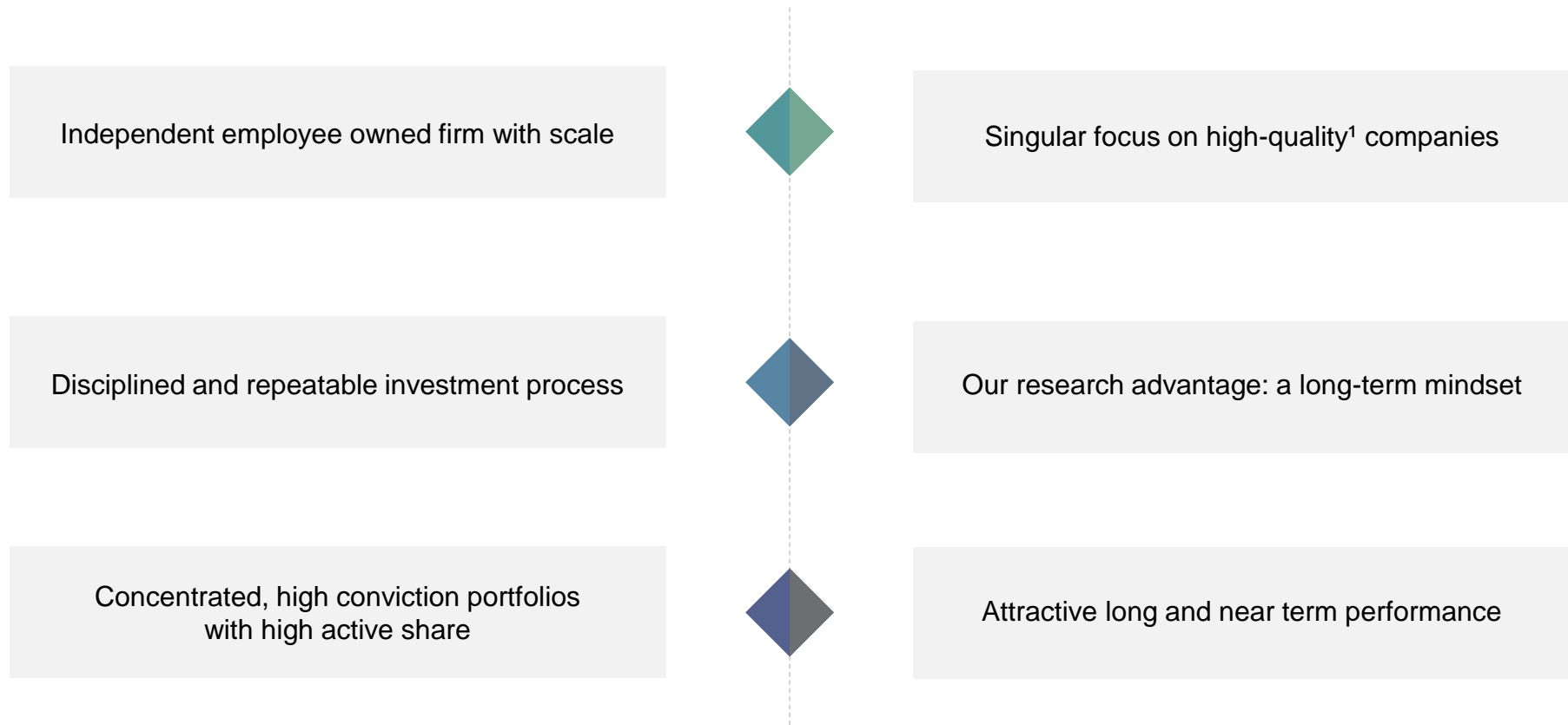
*The content contained in this presentation is suitable for  
institutional investors only*



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# Executive Summary



<sup>1</sup>BFM Capital defines High Quality companies as those that share similar attributes including but not limited to a demonstrated history of stable and growing cash flow and dividends and high returns on invested capital; stable business models relatively less exposed to economic gyrations and competitive threats; competitive advantages that suggest sustainable profitability well into the future; low capital intensity and low-risk balance sheets; and employee compensation aligned with shareholder interests and material insider ownership.

# Firm Overview

- Headquartered in Boston, MA

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- A division of Boston Financial Management LLC

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- Independent and 100% employee owned

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- Approximately \$3.7B in AUM (as of December 31, 2022)

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- Manage two domestic equity strategies
  - High Quality Mid Cap (\$586M in strategy assets)
  - High Quality Dividend Appreciation (\$789M in strategy assets)

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- 5 dedicated investment professionals

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- Analysts have on average 16 years of professional experience

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Advisory services are provided to certain institutional clients through BFM Capital doing business under Boston Financial Management LLC. Boston Financial Management, LLC is a registered investment adviser with the Securities and Exchange Commission. To request a copy of BFM's firm brochure free of charge please contact the firm at 617-338-8108 or [info@bmfinvest.com](mailto:info@bmfinvest.com) Additional information about BFM is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

# The BFM Capital Difference

## What Set Us Apart from Many Other Active Managers

### High Quality

Singular focus on identifying **high-quality** companies

### High Conviction

Invest **concentrated** portfolios with **high active share**

### Low Turnover

Execute with a **long-term** mindset resulting in **low turnover**

### Lower Risk

**Disciplined** on price and focused on **downside risk management**

BFM  
CAPITAL

# Key Investment Tenets

Focus on Identifying Exceptional High-Quality Companies

Do Thorough and Independent Research

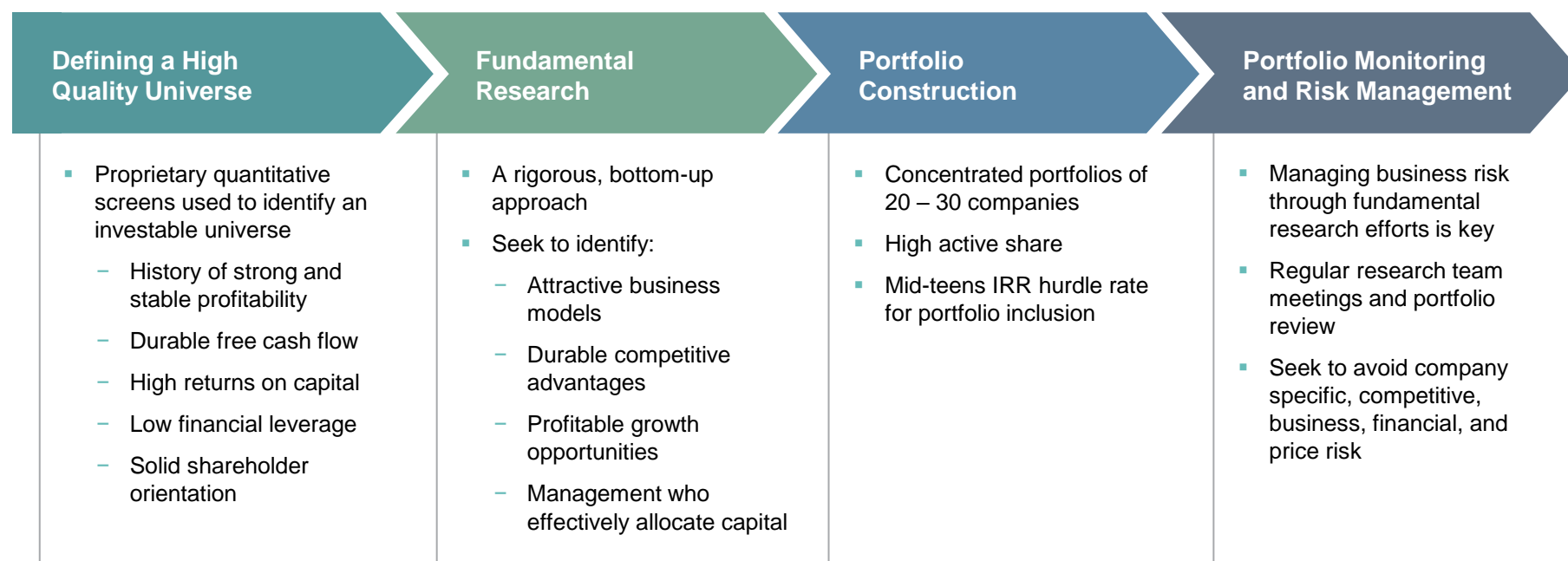
Think Long-Term

Be Disciplined on Price

Focus on Downside Risk Management

Invest in Concentrated Portfolios

# Investment Process: Overview



# Investment Process: Defining a High Quality Universe



## Quantitative Evidence of Historical Quality

- High and stable returns on capital
- Profitable growth
- Low financial leverage
- Consistent record of cash flow generation
- Use data to generate proprietary quality rank

## Qualitative Due Diligence

- Competitive analysis
- Business model review
- Growth opportunities
- Identify fundamental drivers
- Quality of management team
- Is the advantage sustainable?

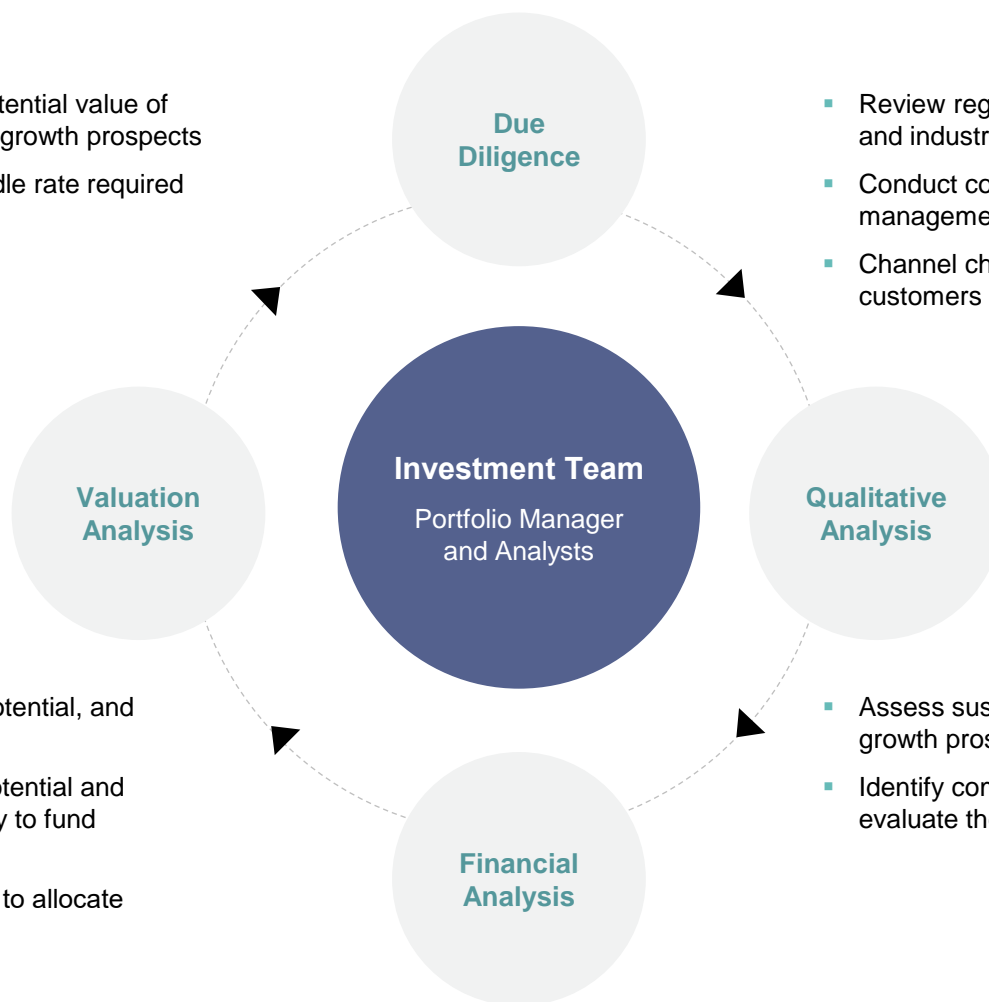
## Waiting for the Right Opportunity

- Finding what others are missing
- Estimate intrinsic value and expected return
- Identify catalysts
- Manage risk drivers of portfolio
- Invest with path to mid-teens IRR



# Investment Process: Fundamental Research

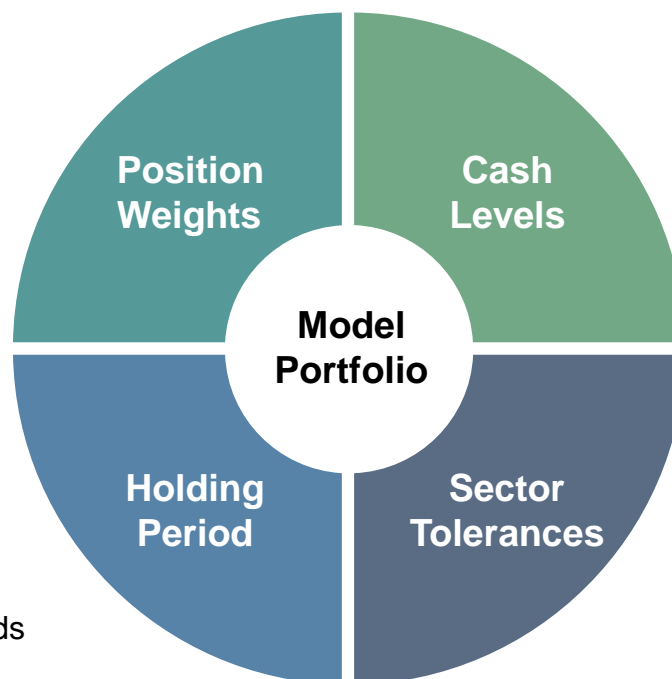
- Determine the current and potential value of the business based on future growth prospects
- Mid-teens multi year IRR hurdle rate required for portfolio inclusion



# Investment Process: Portfolio Construction

- 20 – 30 holdings
- 4%-6% average position size
- 8% maximum initial position size (at cost)
- 15% maximum position size (at market)

- Portfolio turnover typically 10% - 20% annually
- Implies 5-10 year holding periods



- A function of bottom-up opportunity set
- Aim to be fully invested

- Sector agnostic, driven by bottom-up selection
- Manage to business exposure first
- Maximum absolute sector weight of 35% for risk control

# Investment Process: Risk Management & Portfolio Monitoring



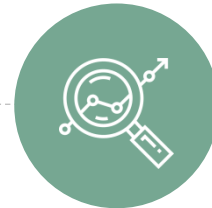
## Investment Philosophy

- Focus on “high-quality” companies
- Avoid unnecessary financial leverage
- Emphasis on downside risk management, stress test adverse scenarios
- Company’s “business risk” is a primary risk control factor



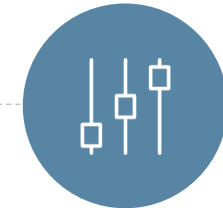
## Trading Guidelines

- Extensive communication between Chief Investment Officer and Trading Team
- Limit trading activities as percentage of daily trading volume (typically no more than 20%)
- Post trade analysis done by CIO
- Quarterly best execution committee meetings to review procedures



## Position Reviews

- “Position Review” report when a portfolio holding declines 10% relative to the market
- Re-validate reasons for original purchase or sell position
- Maintain a sell discipline based primarily on changes in the fundamental business outlook



## Portfolio Level Controls

- Maximum sector weight of 35%
- Individual security weights held to a maximum of 15% at market and 8% at cost

# Fee Structure

For BFM Capital’s services, the Client agrees to pay an annual fee based on the portfolio value of the combined Client accounts:

Portfolio Value	Annual Fee
First \$50 Million	0.8%
\$50 Million - \$100 Million	0.7%
Above \$100 Million	0.6%

The fee will be debited quarterly based on the annual percentage. The account(s) will be valued on the last day of each calendar quarter, and the fee will be paid in advance. BFM Capital is authorized to receive payments of the fee by instructing the custodian to withdraw the amounts from the cash and then from the proceeds of securities then sold for that purpose. If BFM Capital manages an account(s) for a portion of a quarter, BFM Capital will be paid a pro-rated share of the fees based on an actual calendar day quarter. The above fee schedule is specific to institutional clients acquired on or after March 15, 2019. BFM defines institutional clients as entities with #10 million or more in investable assets. The fee schedule used and referenced in the accompanying GIPS® presentation is used for non institutional clients.

# Team Bios

Professional	Title	Professional Experience	Education
<b>Investment Team</b>			
Brad M. Weafer, CFA	Chief Investment Officer	22 Years	Bachelor of Arts in Economics – University of Vermont Master of Business Administration – Babson College
Timothy J. Farina, CFA	Research Analyst	10 Years	Bachelor of Science in Business Administration - Boston University
Timothy M. Robinson, CFA	Research Analyst	16 Years	Bachelor of Arts in Economics – Tufts University
<b>Trading Team</b>			
Jay P. Nicholls, CFA	Director of Trading	8 Years	Bachelor of Science in Finance - Framingham State University
Rylee Clarkin	Investment and Trading Associate	2 Years	Bachelor of Arts in Economics – University of Connecticut
<b>Executive Management</b>			
Louis P. Crosier	President and Chief Executive Officer	25 Years	Bachelor of Arts in Psychology and French Literature – Dartmouth College, Master of Education – Harvard University, Master of Business Administration, Investment Management – Dartmouth College
Charles J. Zambri	Chief Operating Officer and Chief Compliance Officer	17 Years	Bachelor of Science in Business Administration – Saint Michael's College, Master of Business Administration, Master of Science in Finance – Boston College

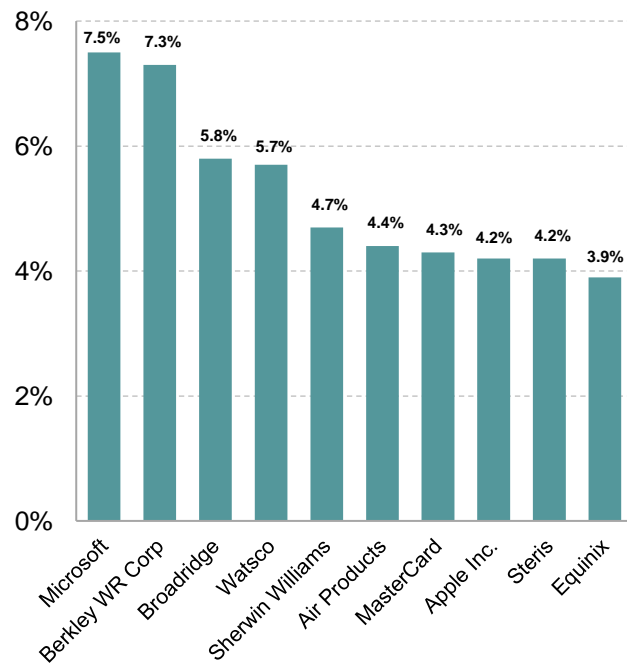
## High Quality Dividend Appreciation

(\$789M in strategy assets)

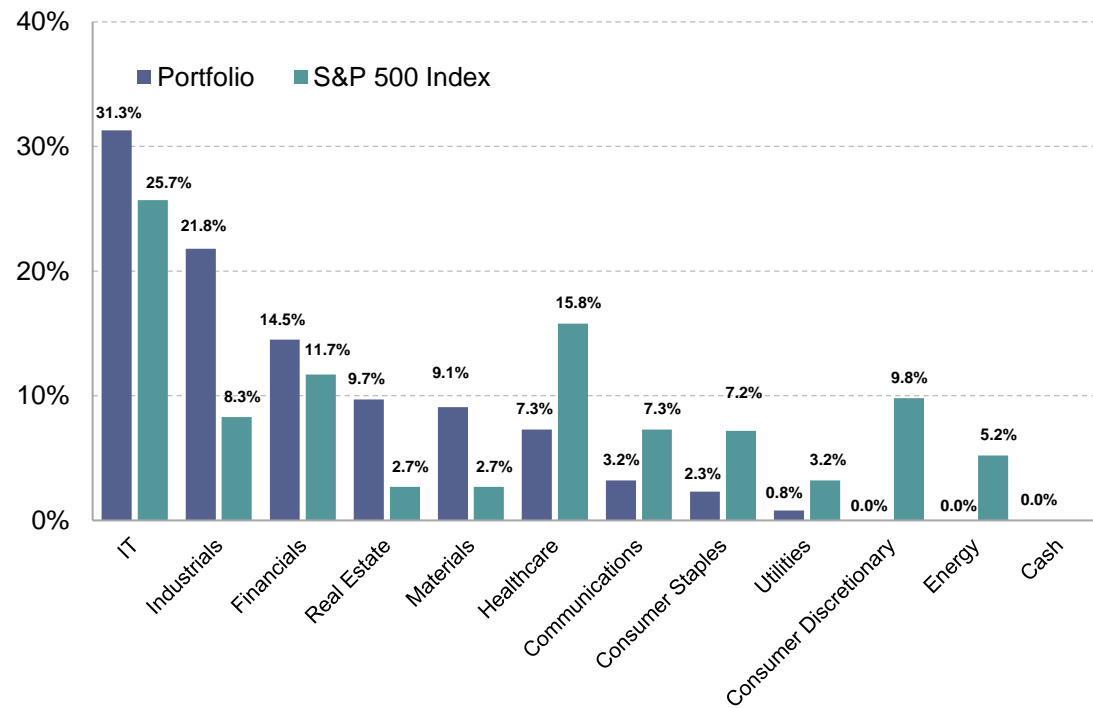
# High Quality Dividend Appreciation Holdings & Exposure

As of December 31, 2022

## Top Ten Holdings (52% of Total)



## Sector Weightings



# Case Studies

## Air Products and Chemicals Inc. (APD)



### High Quality Characteristics:

- Market share leader in consolidated industry
- Oligopoly industry with barriers to entry
- Defensive contract structures
- Balance sheet optionality
- Capital deployment opportunity

### Company Overview:

Pennsylvania-based Air Products is one of three major industrial gas suppliers globally, selling oxygen, hydrogen and other gases to manufacturers across industrial, energy and consumer markets. The business model centers on building an air separation plant directly next to a large customer, produce and sell gas under long-term, fixed-price contracts to that customer, and then produce extra gas to be sold in smaller volumes to other local businesses.

### Investment Thesis:

We have long-admired the industrial gas industry. The product is a small dollar cost, but essential input for manufacturing customers with little risk of substitution. The industry has grown for years at above-GDP rates as manufacturers increasingly outsource this function, and contract structures – 10-20 year fixed-fees with raw-material pass-through clauses – insulates profitability. Barriers to entry around technical expertise and network effects, not to mention decades of consolidation, have left three major players today which all enjoy respectable and stable returns on capital.

We purchased shares in December 2016, following the completion of two transactions that divested and spun-off ancillary businesses – leaving Air Products as a pure-play industrial gas supplier with significant cash on the balance sheet to deploy to growth projects. Management was optimistic it had high-return opportunities to deploy this capital, and was properly incentivized to do so. At the time of our purchase, and still today, we believe the earnings power of the business will be much higher once this capital is deployed, and management has shown good progress to-date.

This case study is intended to demonstrate the analysis and thought process BFM undertakes when making an investment decision. There is no guarantee that BFM's investment decisions will be profitable. BFM's investment decisions (including Air Products) may be unprofitable and our clients can lose money as a result of those decisions.



# Case Studies

## Walgreens Boots Alliance, Inc. (WBA) Sale Recommendation



### BFM Capital Sell Discipline:

- Fundamental outlook or competitive position deteriorates
  - Acquisition of Rite Aid was delayed and ultimately downsized, reducing synergy potential and ROI of deal.
  - The delayed closure of Rite Aid took management focus away from needed strategic actions within its existing footprint.
  - Front store sales decline were due to more structural factors than we initially believed.
  - Entrance of Amazon into online pharmacy sparked a wave of M&A which (1) reduced the value of WBA's partnership approach and (2) risked leaving the company without a 'dance partner' in a rapidly evolving market.

### Company Overview:

Walgreens Boots Alliance is the largest retail pharmacy across the US and Europe and has over 18,500 stores in 11 countries, as well as one of the largest global pharmaceutical wholesale and distribution networks with over 390 distribution centers in more than 20 countries.

### Investment Thesis:

We began accumulating a small position in December 2016. BFM was originally attracted to the industry because of favorable demographic trends that we expected would support growth in all economic environments. We felt Walgreens had amassed enough scale from both vertical and horizontal M&A to offset industry pricing pressure and its strategy of partnering left it well-positioned to capture market share. Its pending acquisition of Rite Aid was expected to increase its scale and further consolidate the marketplace, and was significantly accretive to earnings.

### What Happened:

We sold our position in November 2018 after a series of events ultimately caused us to revisit the validity of our investment thesis: (1) Its acquisition of Rite Aid was delayed an additional 9 months and ultimately downsized by regulators. This lowered the potentially synergy capture and ROI of the deal, but more importantly, cost the company time and management focus during a period of significant market upheaval; (2) Front of the store sales weakness was not due to challenging flu season comparisons as we initially believed and continued to weigh on overall profitability to a greater extent than expected; and (3) The potential entrance of Amazon into online pharmacy sparked a wave of M&A, with competitor CVS acquiring Aetna and PBM Express Scripts merging with Cigna. With WBA hindered by regulatory review of its Rite Aid acquisition and then bogged down with integration work after the deal closed, it was unable to respond to the evolving landscape appropriately.

When Amazon ultimately acquired PillPack in June 2018, it became clear that the industry landscape had changed such that our conviction in the quality of the industry and Walgreens' competitive advantage was no longer strong enough to justify owning. We sold into strength in the fall of 2018.

# High Quality Dividend Appreciation Metrics

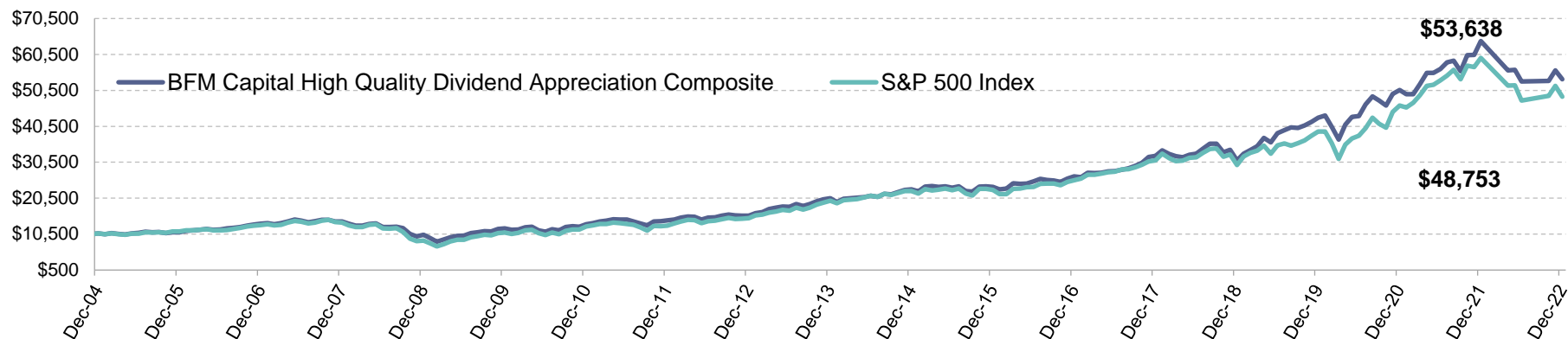
(as of December 31, 2022)

	High Quality Dividend Appreciation	S&P 500 Index
<b>Quality</b>		
Return on Invested Capital	15%	13%
Debt-to-EBITDA	0.9x	1.7x
<b>Growth</b>		
Revenue (5 year)	10%	7%
Free Cash Flow Growth (5 year)	11%	6%
Dividend (5 year)	12%	8%
<b>Valuation</b>		
Free Cash Flow Yield	3.8%	3.4%
EV/EBITDA (TTM)	18.1x	14.0x
Dividend Yield	1.8%	1.8%
<b>Market</b>		
Market Cap	\$58.7B	\$31.0B
Beta	0.9	1.0

Source: BFM estimates, Capital IQ, Bloomberg, Results are median weighted with the exception of dividend yield and Beta.

# Performance (as of December 31, 2022)

## Growth of \$10,000



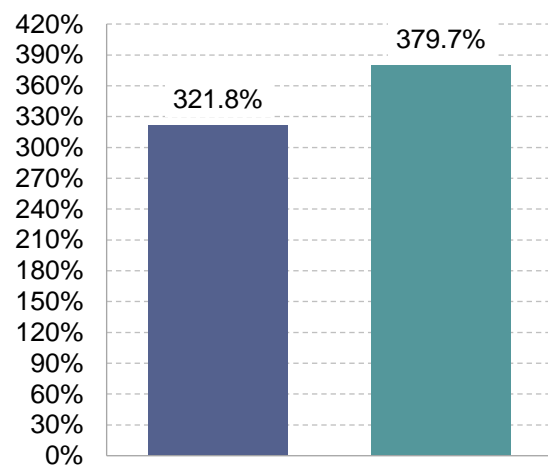
	Year to Date	One Year	3 Year Annualized	5 Year Annualized	10 Year Annualized	Since Inception Annualized
BFM Capital High Quality Dividend Appreciation (net)	-16.48%	-16.48%	7.72%	10.71%	13.14%	9.56%
S&P 500 Index	-18.11%	-18.11%	7.66%	9.42%	12.56%	8.99%

Source: IDC and BFM Capital data, calculated by Tamarac as of December 31, 2022. Inception date is June 30, 2004. Net returns shown are actual composite returns. The High Quality Dividend Appreciation Composite contains only accounts fully invested in the strategy. Net-of-fee returns are calculated using actual management fees (the fees paid by clients may be higher or lower than the actual fees reflected in the net-of-fee composite returns). Performance returns reflect the reinvestment of dividends and other earnings. Past performance is not indicative of future results. It should not be assumed that future performance of any investment strategy, including the investment or investment strategies recommended by BFM Capital or in this presentation will be profitable or will correspond to any index or past performance. There are inherent limitations in comparing our equity composite performance to benchmark indices. Particularly, a client account invested in any of BFM Capital's equity strategies will hold fewer securities, have less diversification across industries, and have different sector weightings than the benchmark index.

# Cumulative Performance in Up & Down Markets

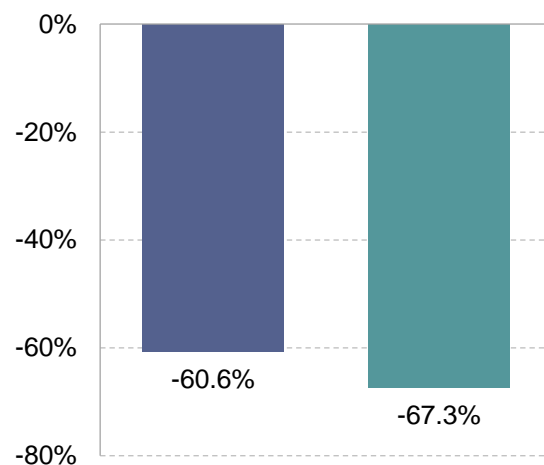
December 30, 2017 – December 31, 2022

## Up Market



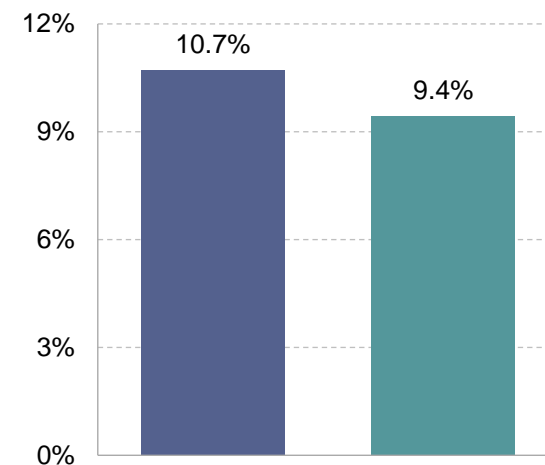
Upside Capture: 85%

## Down Market



Downside Capture: 90%

## Annualized 5 Years



Annualized Alpha: 1.3%

■ BFM High Quality Dividend Appreciation    ■ S&P 500 Index

Up-Down Market measure composite performance (net of fee) relative to index during periods when index has risen/fallen. Source: Morning Star, BFM Estimates

# Appendix

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# Strategy Holdings (as of December 31, 2022)

Holding	Ticker	Industry	Date Added	Strategy Weight	Dividend Yield
MICROSOFT CORP	MSFT	Software	10/3/2007	7.50%	1.13%
BERKLEY W R	WRB	Insurance	4/5/2019	7.27%	1.24%
BROADRIDGE	BR	IT Services	10/19/2009	5.84%	2.16%
WATSCO	WSO	Trading Companies and Distributors	11/13/2018	5.74%	3.93%
SHERWIN WILLIAMS	SHW	Chemicals	10/13/2017	4.73%	1.01%
AIR PRODUCTS	APD	Chemicals	12/14/2016	4.37%	2.10%
MASTERCARD	MA	IT Services	10/28/2015	4.30%	0.66%
APPLE INC	AAPL	Technology Hardware, Storage and Peripherals	9/16/2013	4.25%	0.71%
STERIS PLC	STE	Health Care Equipment and Supplies	6/26/2017	4.23%	1.02%
EQUINIX	EQIX	Equity Real Estate Investment Trusts (REITs)	4/6/2018	3.90%	1.89%
LOCKHEED MARTIN	LMT	Aerospace and Defense	6/9/2011	3.63%	2.47%
AMERICAN TOWER	AMT	Equity Real Estate Investment Trusts (REITS)	1/22/2021	3.61%	2.95%
VISA INC CL A	V	IT Services	2/26/2019	3.60%	0.87%
RITCHIE BROS AUCTIONEERS	RBA	Commercial Services and Supplies	10/19/2021	3.55%	1.87%
AMPHENOL	APH	Electronic Equipment, Instruments and Components	8/4/2020	3.17%	1.10%
NEXSTAR MEDIA	NXST	Media	3/7/2022	3.15%	2.06%
FIRST REPUBLIC	FRC	Banks	9/11/2017	3.08%	0.89%
BECTON DICKINSON	BDX	Healthcare Equipment and Supplies	4/22/2015	3.06%	1.43%
A.O. SMITH	AOS	Building Products	7/14/2021	2.78%	2.10%
CDW CORP	CDW	Electronic Equipment, Instruments and Components	2/3/2022	2.66%	1.32%
CME GROUP	CME	Capital Markets	4/1/2014	2.61%	5.05%

## Strategy Holdings (cont.)

Holding	Ticker	Industry	Date Added	Strategy Weight	Dividend Yield
COSTCO	COST	Food and Staples Retailing	9/29/2015	2.31%	0.79%
CROWN CASTLE	CCI	Equity Real Estate Investment Trusts (REITs)	7/22/2015	2.24%	4.62%
NORDSON CORP	NDSN	Machinery	11/7/2017	2.15%	1.09%
FERGUSON	FERG	Trading Companies and Distributors	4/26/2022	2.03%	2.36%
IDEX CORP	IEX	Machinery	4/12/2021	1.90%	1.05%
BLACKROCK	BLK	Capital Markets	9/13/2011	1.56%	2.75%
CASH	CASH	-	-	0.79%	0.10%

# GIPS® Composite

Year End	Annual Performance Results Composite "Pure Gross" Supplemental	Annual Performance Results Composite Net	Equity Benchmark	Composite Dispersion	Composite 3-Yr St Dev	Benchmark Index 3-Yr St Dev	Number of Accounts	Composite Assets (USD) (millions)	Total Firm Assets	% of Wrap Assets
2021	27.92%	26.92%	28.70%	0.48%	15.60%	17.41%	21	\$12.80	\$3,789.4	19.3%
2020	18.78%	17.91%	18.40%	0.45%	16.37%	18.80%	7	\$6.20	\$3,220.2	27.3%
2019	39.23%	38.17%	31.49%	0.47%	11.52%	12.11%	12	\$13.00	\$2,714.2	24.2%
2018	-2.97%	-3.71%	-4.38%	0.26%	10.42%	10.80%	9	\$9.70	\$2,220.0	38.5%
2017	22.16%	21.34%	21.83%	0.50%	8.82%	9.92%	8	\$27.40	\$2,169.8	20.1%
2016	13.40%	12.59%	11.96%	0.68%	9.42%	10.59%	12	\$27.50	\$1,853.0	22.2%
2015	3.75%	3.03%	1.38%	0.41%	9.70%	10.50%	10	\$25.20	N/A	26.8%
2014	12.67%	11.88%	13.45%	0.30%	8.80%	9.20%	7	\$23.70	N/A	30.8%
2013	32.22%	31.19%	32.53%	-	9.90%	12.70%	6	\$21.40	N/A	32.3%
2012	9.55%	8.83%	17.51%	-	12.60%	15.50%	3	\$15.50	N/A	39.4%



## GIPS® Composite (cont.)

Boston Financial Management, LLC (doing business as BFM Capital) claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Boston Financial Management, LLC has been independently verified for the periods January 1, 2000, through December 31, 2021. The verification reports are available upon request.

A firm that claims compliance with the GIPS standards must establish policies and procedure for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

Boston Financial Management (BFM) is an independent wealth management firm that provides investment management, financial planning, estate planning, and trust services to individuals, families, endowments, nonprofits, and institutions. BFM is an investment advisor registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940. Registration does not imply a certain level of skill or training. BFM manages a variety of equity, fixed income, and alternative investments for clients located primarily but not exclusively in the United States. Emerson Investment Management was an independent, Registered Investment Advisory firm, which managed equity, balanced, and fixed-income portfolios. On April 29, 2016, Boston Financial Management acquired Emerson Investment Management (EIM). Prior to their acquisition by BFM, EIM claimed compliance with the Global Investment Performance Standards (GIPS®) and was independently verified for the periods January 1, 2000, through December 31, 2015. Therefore, total firm assets prior to 2016 are shown as N/A because the firm no longer exists.

Future results may or may not equal these historical results. The actual return and value of an account will fluctuate and at any point could be worth more or less than the amount invested. Individual account performance will vary according to individual client investment objectives.

This composite includes all portfolios that have an equity exposure of 75% or more and are fully invested in High-Quality Dividend Appreciation Strategy. This strategy invests in companies with strong competitive positions and attractive growth opportunities paying a growing stream of dividends to investors. These portfolios have no fixed income or alternative exposure and have an account minimum of \$200,000. As of January 1, 2020, if a portfolio's cash is more than 5% higher than the strategy's target cash level, the portfolio will be excluded from the composite. As of January 1, 2020, this composite no longer has an account minimum.

The index is the S&P 500 Index. Prior to January 1, 2015, the index was the Russell 1000 Value Index. The benchmark was changed to better reflect the risk/return profile of the composite. All index performance numbers include reinvested dividends. The Indices are unmanaged and do not reflect the deduction of advisor fees. It is impossible to duplicate the returns of the benchmark indices.

The three-year annualized standard deviation measures the variability of the composite, and the benchmark returns over the preceding 36-month period.

The composite was created on June 30, 2014 and has an inception date of June 30, 2004. The U.S. Dollar is the currency used to express valuations and performance. 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. "Pure Gross" returns, presented as supplemental information, include trading costs for all portfolios except for bundled fee (wrap) portfolios, which do not pay trading costs. Net-of-fee performance is calculated using actual management fees and for bundled-fee portfolios includes the wrap sponsor's fee. Composite and benchmark returns are presented gross of withholding taxes on foreign dividends, if any, and reflect the reinvestment of income and other earnings. The Number of Accounts and Composite Assets columns include only the accounts that were in the composite at the end of the year. The annual composite dispersion presented is an asset-weighted standard deviation calculated only for the accounts in the composite for the entire year. It is not shown for the years 2011 through 2013 because the composite contained fewer than five portfolios for the full year. Policies for valuing investments, calculating performance, and preparing GIPS Reports presentations are available upon request. Past performance is not indicative of future results.

BFM's management fee schedule is as follows: 1.20% on the first \$2 million, 1.0% on assets between \$2 million and \$4 million, and 0.80% on assets between \$4 million and \$6 million and 0.60% thereafter. Wrap program total fees can be up to 3.00% based on assets under management. Wrap program fees include management fees, transaction costs, custodial fees, and consulting services. Actual investment advisory fees incurred by clients may vary. Additional information on BFM's investment management fees can be found on Part 2A on form ADV.

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