Breckinridge CAPITAL ADVISORS

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Q3 2026 High Quality Dividend Commentary



SUMMARY

- On a net basis, both HQD strategies continue to outperform year-to-date (YTD), but underperformed during the third quarter, as an underweight to Information Technology (IT) and security selection weighed on returns.
- The strategies' Quality and Value tilts contributed positively but did not offset the effects of sector allocation and security selection.
- Rising Treasury yields pressured equity valuations, while market breadth weakened and returns remained concentrated among the largest stocks.
- Against this backdrop, we continue to favor diversified equity exposure to companies with strong balance sheets, profitability, a historical record of paying dividends, and a record of prudent financial policy.

The following commentary is a summary performance update for the Breckinridge High Quality Dividend (HQD) and Sustainable High Quality Dividend (SHQD) Strategies, which offers timely insights into Breckinridge's repeatable rules-based process focused on delivering consistent dividend growth and long-term capital appreciation, as equity market cycles turn.

Overview

The Breckinridge HQD and SHQD Strategies employ a rules-based security selection process grounded in the firm's core belief in dividend quality investing. As such, its disciplined investing process seeks out companies with strong balance sheets, a historical record of paying dividends, and the potential for increased dividends over time. Stocks are selected by reviewing factors that reflect these traits, including high return on equity (ROE), a long track record of growing dividends, dividend yield, low payout ratios, and proprietary investment grade (IG) credit ratings, as determined by Breckinridge's team of corporate credit analysts.

S&P 500 Index returns were +2.3 percent in 3Q26 with flat returns in July, followed by a 2.7 percent gain in August and -0.35 percent returns in September. Per Bloomberg, headline 1-year forward price-to-earnings (P/E) multiples have contracted from ~20.6x to ~19.0x over the quarter, as the significant increase in Treasury yields pressured valuations.

Breckinridge's HQD Strategy underperformed the Bloomberg U.S. Large Cap Index (B500, the Index) by 5.7 percent during 3Q26 but continues to outperform by ~1.6 percent year-to-date (YTD) through 9/30/26, on a net basis (See Figure 1). SHQD underperformed the Index by 5.16 percent and outperformed by 13bps (net) for the same periods, respectively.

FIGURE 1: HQD & SHQD PERFORMANCE AS OF SEPTEMBER 30, 2026

	QTD	YTD	1-Year	Since Inception*
High Quality Dividend				
Gross	-3.32%	14.59%	20.61%	18.79%
Net	-3.38%	14.38%	20.31%	18.41%
B500	2.32%	12.76%	15.53%	22.77%
Sustainable High Quality Dividend				
Gross	-2.78%	13.10%	19.50%	12.08%
Net	-2.84%	12.89%	19.20%	11.71%
B500	2.32%	12.76%	15.53%	22.77%

*HQD incepted on 10/1/22 and SHQD incepted on 4/1/22.

Net results include a maximum advisory fee of 25 basis points (bps) after October 1, 2025 and 35 bps before that date. Previously, net returns subtracted an annual maximum fee of 35bps, pro-rated for partial years, from compounded gross returns. Strategy results include reinvested earnings but exclude brokerage or trading costs. Past performance is not indicative of future results, and there can be no assurance that any investment strategy will achieve its investment objective or avoid losses. All investments involve risk, including the possible loss of principal. GIPS reports are available here.

Attribution

HQD Attribution: During the quarter, underperformance was driven by both security selection and sector allocation. Sector allocation underperformed due to the significant underweight in the IT sector, which continued to outperform the market, and due to a large overweight to Industrials, which underperformed the market. Positively, an underweight to the Utilities sector helped, as these rate-sensitive stocks lagged the market significantly.

Security selection in the IT sector was negative, as three chipmakers pulled back after strong gains in the year (Applied Materials, Inc., LAM Research Corp. and KLA Corp.). On the positive side, selection in the Materials sector was positive, as Southern Copper Corp. had a strong quarter on ~8 percent higher copper prices and broad concerns about copper-supply deficits given the artificial intelligence (AI) and electric vehicle (EV) buildouts. (See Figure 2 for top and bottom contributors to return.)

SHQD Attribution: Similar to HQD, SHQD underperformance was also driven by both sector allocation and security selection, including an underweight to the IT Sector. An overweight to the Financials sector also weighed on performance, as the sector declined on concerns around the rapid increase in interest rates. On the positive side, the large overweight position in the Health Care sector contributed to performance, with idiosyncratic tailwinds driving growth at several companies.

Security selection was also negative overall during the quarter, most notably in the IT sector driven by the pullback in two chipmakers (Applied Materials, Inc. and LAM Research Corp.), as well as Cisco Systems Inc., all of which have had strong performance over 1H2026. Positive security selection stemmed from the Industrials sector, where holdings in ADT Inc., Deere & Company, and Cintas Corp. (CTAS) were positive on idiosyncratic catalysts. (See Figure 2 for top and bottom contributors to return.)

FIGURE 2: THIRD QUARTER TOP & BOTTOM PERFORMANCE CONTRIBUTORS

HQD Top/Bottom Contributors 3Q26				
Top 10	**Average % Weight**	**Contribution to Return (%)**	**Total Return (%)**	**Current Rank**
MICROSOFT CORP	4.91	1.50	37.76	14
APPLE INC	4.41	0.60	15.19	35
NVIDIA CORP	4.26	0.56	14.27	1
THERMO FISHER SCIENTIFIC INC	1.88	0.55	34.74	81
ACCENTURE PLC-CL A	1.26	0.45	49.08	5
MASTERCARD INC - A	3.88	0.26	7.55	7
VISA INC-CLASS A SHARES	4.25	0.19	4.93	9
JOHNSON & JOHNSON	4.15	0.18	4.75	93
CONOCOPHILLIPS	0.93	0.16	21.18	62
ABBOTT LABORATORIES	1.61	0.13	9.68	132
Top 10	**Average % Weight**	**Contribution to Return (%)**	**Total Return (%)**	**Current Rank**
APPLIED MATERIALS INC	2.82	-1.14	-29.19	12
KLA CORP	2.01	-1.07	-35.32	21
LAM RESEARCH CORP	2.89	-0.95	-24.11	24
CATERPILLAR INC	3.18	-0.93	-23.72	44
HOME DEPOT INC	2.79	-0.56	-18.74	26
GENERAL ELECTRIC	3.03	-0.52	-16.34	20
GOLDMAN SACHS GROUP INC	2.94	-0.31	-10.53	23
MORGAN STANLEY	2.47	-0.23	-9.54	13
CUMMINS INC	0.72	-0.23	-27.30	70
TJX COMPANIES INC	1.61	-0.20	-12.39	6

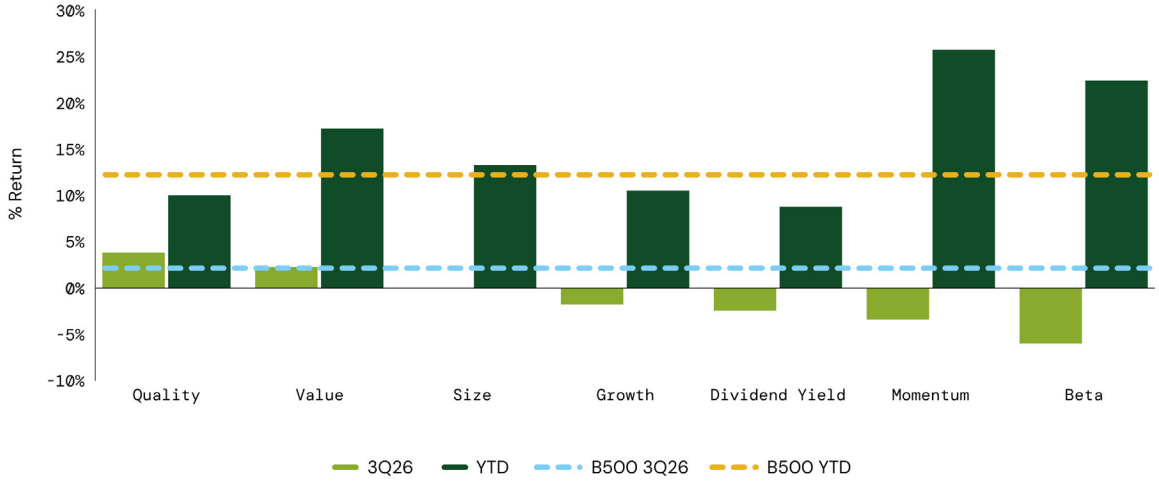
SHQD Top/Bottom Contributors 3Q26				
Top 10	**Average % Weight**	**Contribution to Return (%)**	**Total Return (%)**	**Current Rank**
MICROSOFT CORP	4.87	1.49	37.76	13
THERMO FISHER SCIENTIFIC	2.06	0.61	34.74	57
ACCENTURE PLC-CL A	1.38	0.49	49.08	4
MERCK & CO. INC.	3.04	0.38	13.75	123
AMGEN INC	2.07	0.32	17.07	54
CONOCOPHILLIPS	1.63	0.28	21.18	42
MASTERCARD INC - A	3.25	0.22	7.55	6
CME GROUP INC	1.13	0.18	19.20	48
BLACKROCK INC	1.82	0.17	10.64	77
ABBOTT LABORATORIES	1.77	0.15	9.68	81
Top 10	**Average % Weight**	**Contribution to Return (%)**	**Total Return (%)**	**Current Rank**
APPLIED MATERIALS INC	2.80	-1.14	-29.19	11
LAM RESEARCH CORP	2.87	-0.95	-24.11	20
CATERPILLAR INC	2.38	-0.70	-23.72	33
HOME DEPOT INC	2.78	-0.55	-18.74	22
UNITEDHEALTH GROUP INC	2.88	-0.33	-11.15	50
GOLDMAN SACHS GROUP INC	3.01	-0.31	-10.53	19
CISCO SYSTEMS INC	3.81	-0.31	-8.03	79
MORGAN STANLEY	2.70	-0.25	-9.54	12
CUMMINS INC	0.79	-0.25	-27.30	51
TJX COMPANIES INC	1.76	-0.22	-12.39	5

Source: Bloomberg, as of 9/30/2026

The securities identified above represent the ten largest positive and ten largest negative contributors to portfolio return for the period shown and do not represent all securities purchased, sold or recommended for client accounts. The methodology used to identify securities is applied consistently based on each security's contribution to portfolio return during the period. Contribution to return and security-level total returns shown above are presented gross of investment management fees and other expenses and should not be interpreted as the return experienced by an investor. Please refer to the accompanying gross and net performance of the applicable strategy for information regarding the effect of fees and expenses on investment returns. Past performance does not guarantee future results.

Factor spotlight: Quality and Value factors outperformed during the quarter, while High Beta and Momentum lagged (See Figure 3). Overall attribution from a factor perspective consists of style allocation (such as Value and Growth), sector allocation, and security selection. Overall HQD and SHQD strategy attribution from style was positive given the strategies' positive tilts towards High Quality and High Value, but that was more than offset by detractors from a sector and security perspective.

FIGURE 3: FACTOR RETURNS* FAVORED QUALITY & VALUE IN 3Q26 WHILE MOMENTUM & BETA LAG



Source: Bloomberg, as of 9/30/2026.

Factor returns reflect equal weighting of constituents in a long only framework for each period. Constituents are re-balanced monthly.

*Factor Returns are derived from taking the average return included in the 1st quintile of securities for each factor. Factors are defined as follows: Beta: the sensitivity of excess stock returns vs. excess returns of the cap-weighted market portfolio; Momentum: the trailing 12 month returns minus the most recent month; Growth: a composite of trailing and forward growth characteristics including historical 5 year sales growth, historical 5 year earnings growth, consensus estimated growth for 2 year and 3 year forward EPS; Size: log of market capitalization; Quality: a composite of profitability (including Return on Equity, Return on Assets and Profit Margin), leverage and variability (of sales earnings and cash flows); Dividend yield: annual dividends per share divided by price per share; Value: a composite of valuation (book to price, sales to price, cash flow to price) and earnings yield (trailing and forward earnings yield).

Stock Spotlight

HQD: During the regular end-of-quarter reranking of eligible securities, Cincinnati Financial Corp. (CINF) and The Travelers Companies, Inc. (TRV) entered the HQD strategy with weights of 59bps and 82bps, respectively (See Figure 4). CINF moved up to the #30 ranking, mostly due to an internal rating upgrade but also due to stronger ROE, more than offsetting a lower dividend yield. TRV entered the HQD strategy despite the ranking declining modestly to #36 because it was not previously held and there were two securities that exited the strategy, requiring two new replacements.

A feature of the rules-based HQD strategy is the requirement to hold 60 securities with no security falling out of the strategy until the ranking declines below #90. Abbott Laboratories (ABT) and Johnson & Johnson (JNJ) exited the strategy, as rankings for each security declined to #132 and #93, respectively. ABT's ranking declined on weaker ROE due to higher interest expense and selling, general, and administrative expenses (SG&A), as the company raised new debt to acquire Exact Sciences Corp. The payout ratio also increased, while dividend yield declined, contributing to a weaker ranking. JNJ's lower ranking stemmed primarily from a lower dividend yield and higher payout ratio.

FIGURE 4: PORTFOLIO CHANGES IN HQD STRATEGY

				Contribution to Rank Change				
	Company	New Rank	Prior Rank	ROE	Payout	Dividend Growth	Rating	Dividend Yield
New Positions	Cincinnati Financial	30	65	↑	↑	↑	↑	↓
	Travelers	36	34	↑	↑	↑	↔	↓
Exited Positions	Abbott	132	82	↓	↓	↓	↔	↓
	Johnson & Johnson	93	74	↓	↓	↑	↔	↓

Source: Bloomberg, as of 9/30/2026.

The securities shown represent all positions added to and all positions exited from the Strategy during the period indicated. The presentation is intended to illustrate changes to the Strategy during the period and should not be considered a recommendation to buy or sell any security. Securities identified do not represent all securities purchased, sold or held by the Strategy during the period, and no assumption should be made that investments in the securities identified were or will be profitable. The securities shown were selected solely based on their status as new or exited positions during the period and were not selected based on investment performance. Holdings and portfolio characteristics are subject to change without notice. Past performance does not guarantee future results.

SHQD: After two consecutive quarters of no changes, the SHQD strategy had three securities exit due to declining rankings, leaving room for three new securities to enter (See Figure 5). CTAS, Merck & Co. (MRK) and Elevance Health, Inc. (ELV) all had ranking declines to below #90. CTAS' ROE declined on a higher equity base, while MRK's ROE declined due to large intellectual property R&D charges that stemmed from two large acquisitions, which helped to lower net income. ELV's ranking declined due to a roughly even mix of weaker ROE, higher payout ratios, and lower dividend yield. Replacing these three securities, NVIDIA Corp. has now entered the SHQD strategy as the top ranked holding. The SHQD strategy now holds two of the MAG 7[1] securities (Microsoft Corporation is the other). Visa Inc. and TRV had stable and high rankings, entering the SHQD strategy in replacement of companies that exited.

1. The MAG 7 (or Magnificent Seven) refers to a group of seven dominant, high-performing U.S. mega-cap technology and tech-adjacent companies that heavily drive market indexes like the S&P 500. They are Alphabet, Amazon, Apple, Meta, Microsoft, NVIDIA, and Tesla.

FIGURE 5: PORTFOLIO CHANGES IN SHQD STRATEGY

				Contribution to Rank Change				
	Company	New Rank	Prior Rank	ROE	Payout	Dividend Growth	Rating	Dividend Yield
New Positions	NVIDIA	1	1	↑	↓	↔	↓	↓
	Visa	7	5	↓	↓	↑	↓	↓
	Travelers	29	26	↑	↑	↑	↓	↓
Exited Positions	Cintas	139	71	↓	↓	↓	↔	↓
	Merck & Co	123	73	↓	↓	↑	↔	↓
	Elevance	94	80	↓	↓	↓	↔	↓

Source: Bloomberg, as of 9/30/2026.

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Looking ahead

On the heels of last quarter's strong equity markets, we wrote that "upward inflation and rates have not had the same immediate impact on valuations as prior inflation scares..." During the third quarter, equity markets started to show some of those cracks. The rapid and large increase of 70 to 90bps in Treasury yields across the curve began to impact equity valuations, with headline S&P 500 forward P/E declining towards ~19x by the end of the quarter from ~20.6x at the beginning per Bloomberg.

Based on Breckinridge's analysis utilizing Bloomberg data, equities are supported by strong consensus estimates for earnings growth of ~30 percent over the 3Q26 through 2Q27 period, which should keep the index at near peak levels in our view. Although these multiples are below the past 3-year average, we are mindful of headwinds, including high market concentration, a negative equity risk premium and tightening monetary policy.

Also notably, market breadth weakened significantly in the quarter, with ~63 percent of companies posting negative returns over the quarter — the largest volume of negative returns since 3Q23.

2. The ICE BofA/ML Merrill Lynch Option Volatility Estimate (MOVE) Index measures U.S. interest rate volatility by tracking the movement in U.S. Treasury yield volatility implied by current prices of one-month over-the-counter options on 2-year, 5-year, 10-year and 30-year Treasuries. Historically, the index rises as concerns grow that interest rates are moving higher. You cannot invest in an index.
3. The Chicago Board Options Exchange (OEX) Volatility (VIX) Index is the ticker symbol and name for the Chicago Board Options Exchange's (CBOE) equity market volatility index, a measure of the stock market's expectation of volatility based on S&P 500 Index options. You cannot invest directly in an index.

The pace of upwards rate pressure occurred quickly and will likely pressure equities should it persist. The ICE Bank of America MOVE Index[2] spiked in September, indicating elevated rate volatility. The Chicago Board Options Exchange Volatility Index (VIX)[3] was relatively mild, ending September below its 200-day moving average, while underlying stock-level volatility for the average company was higher than in recent periods. The differential here being that the VIX can be subdued due to the high concentration of mega cap stocks.

In the short term, with small and midcap stocks showing weakness, the state of the AI trade will drive markets. We expect that there will be some periodic disruptions to this megatrend. It is not going to be smooth forever in our view; it just has been so far. Investors should consider maintaining a high quality bias in their equity allocations with good diversification across securities with strong balance sheets, profitability and demonstrable track records of prudent financial policy.

The HQD and SHQD process discipline helps Breckinridge to look beyond short-term volatility. High quality companies with strong visibility into their business can continue to raise their dividends over time, irrespective of short-term market noise, in our view. The Quality Dividend investing model sees continued dividend growth as a key sign of the underlying quality of the company. Additionally, companies that display the characteristics of quality dividend payers have tended to be more defensive than the market, historically, and this could be beneficial in any future prolonged downturn.

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