Brookmont Capital Management

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Dividend Equity Strategy – Second Quarter 2015

The markets struggled to move higher during the second quarter due to a conflux of bad news from foreign markets and earnings disappointments from several domestic companies. The markets took their biggest hit during the month of June as fears about Greece, China's economy, and second quarter earnings announcements led to widespread sales activity.

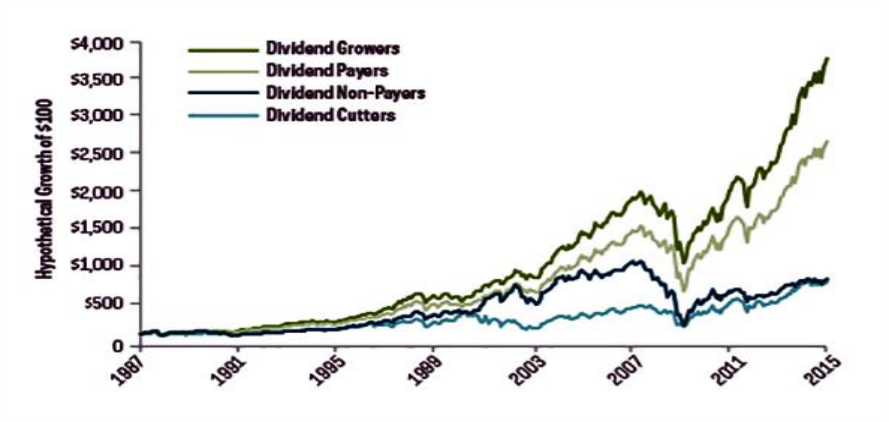
The Dividend Equity Strategy was repositioned during the second quarter in anticipation of increasing risk in the equity markets. Valuations were becoming stretched based on expected earnings growth and consensus assumptions that the Federal Reserve will raise short-term interest rates during the second half of the year.

During the second quarter we reduced our position in mid-cap stocks by 50% and now represent only 16% of the portfolio. This is our lowest weighting in small and mid-cap stocks since early 2009. This market sector outperforms during the early stages of an economic recovery and has historically underperformed when interest rates rise and the market cycle has peaked.

At the end of the second quarter, the Strategy maintained an 8.25% weighting in short-term securities. Our normal cash position is 2.5% or less and we plan to invest the excessive cash when opportunities are available. This will happen if the markets pull back by at least 10% or if a specific company boosts its quarterly dividend by at least 20%.

In relation to dividend paying stocks, earnings growth is not the most important variable in determining its future performance. These names are historically driven by strong cash flow, pristine balance sheets, dividend growth, and a market environment that prefers equities with a lower risk profile. Likewise, the actions by the Federal Reserve will only impact dividend stocks when yields for taxable fixed income securities become an attractive alternative. We cannot envision a series of rate hikes during the current economic cycle that would bring after-tax yields much higher than the Dividend Equity Strategy.

We always encourage investors to maintain a long-term outlook and ignore the short-term fluctuations in the markets. How your portfolio is invested, as well as remaining invested in the markets, will have a much greater influence on long-term performance than anything else. The chart below is confirmation that a portfolio built on dividend growth has far outperformed stocks that provide no income for its shareholders (Source: Ned Davis Research, based on the Russell 3000 Index from 1987-2014).



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Brookmont Capital Dividend Equity Strategy Performance

Investment Objectives

- **The Brookmont Capital Dividend Equity Strategy** invests in common stocks that provide above-market average dividends with a history of increased quarterly payouts
- We strive for long-term performance with a lower risk profile than the general markets.
- The Strategy invests in all 10 sectors of the economy and may invest in domestic and foreign securities ranging from small to large-cap stocks
- Annual turnover has ranged from 5-20%
- The Strategy follows a top down approach that emphasizes sector selection based on economic and market cycles
- The investment objectives include a generation of monthly cash flow, downside protection, and the potential for capital gains
- The Strategy Portfolio Manager has 15 years of experience in dividend equities and 25 years in asset management

Annualized Returns (as of June 30, 2015)

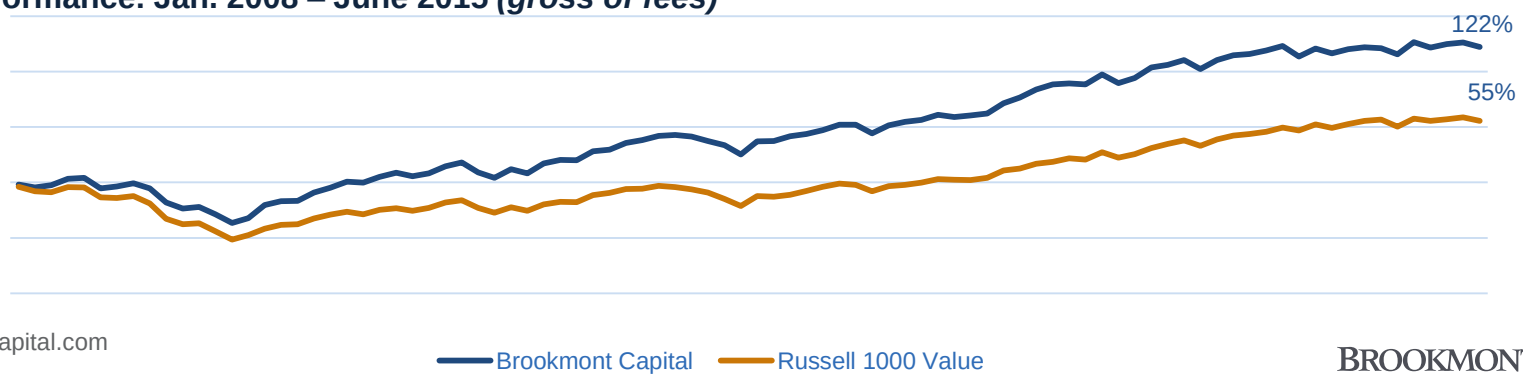
	YTD	5-Yr*	Inception*
Dividend Equity Strategy	**-0.23%**	**16.18%**	**11.14%**
(net of fees)	-0.83%	14.99%	10.01%
Russell 1000 Value^	-0.61%	16.50%	5.92%

Inception January 1, 2008
*annualized returns
^benchmark

Calendar Year Returns

	2008	2009	2010	2011	2012	2013	2014
Dividend Equity Strategy	**-21.98%**	**39.50%**	**17.65%**	**10.63%**	**14.42%**	**29.84%**	**5.12%**
(net of fees)	-22.97%	37.79%	16.24%	9.29%	13.64%	28.80%	4.09%
Russell 1000 Value	-36.85%	19.69%	15.51%	0.39%	17.51%	32.53%	13.45%
S&P 500	-37.00%	26.46%	15.06%	2.11%	16.00%	32.39%	13.69%

Cumulative Performance: Jan. 2008 – June 2015 *(gross of fees)*



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Brookmont Capital Dividend Equity Strategy Performance

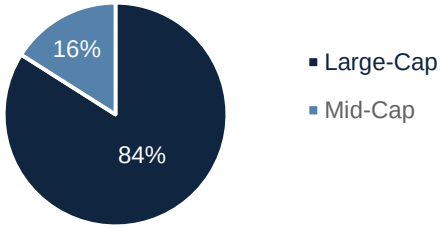
Strategy Statistics (since inception)

	Strategy	Russell 1000 Value
Alpha	2.57	0
Upside Capture	103	100
Downside Capture	76	100
Cumulative Return	122%	55%

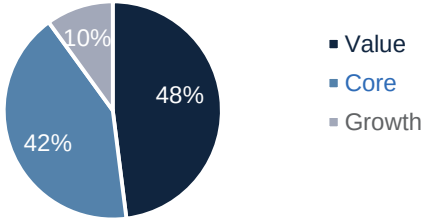
Strategy Characteristics

	Strategy	Russell 1000 Value
Dividend Yield	3.27%	2.47%
Beta	0.93	1.05
P/E Ratio	16x	16x
Average Market Cap.	$120B	$103B

Market Capitalization



Equity Style



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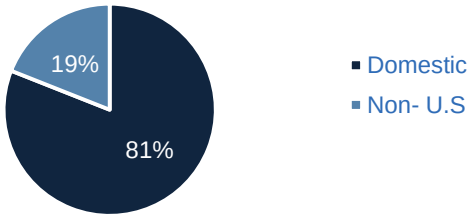
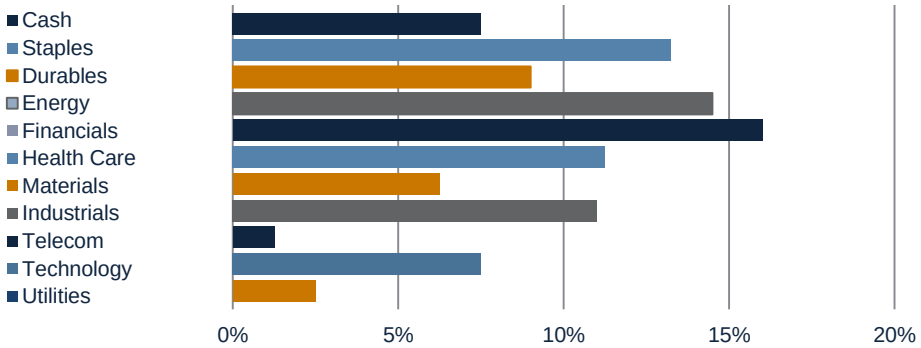


Largest Composite Holdings

Novartis	Health Care	4.34%
J.P. Morgan	Financials	4.26%
Paychex	Technology	3.99%
Abbott Labs	Health Care	3.94%
Wells Fargo	Financials	3.83%
Diageo	Staples	3.79%
PepsiCo	Staples	3.77%
Microchip Technology	Technology	3.69%

Sector Weighting



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Brookmont Capital Dividend Equity Strategy Performance

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. Performance results include a cash component as of 01/01/2009. The Strategy does not utilize leverage or derivatives. Returns are based in U.S. dollars. Inception of the Strategy is Jan. 1, 2008. Gross-of-fees returns do not include management or custody fees but do include all trading costs. Benchmarks include major indices and ETF's that are highly correlated to the Strategy. The Russell 1000 Value is a trademark of the Frank Russell Company. The S&P 500 is a trademark of Standard and Poor's.

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.

For comparison purposes only, performance returns are listed for the Standard and Poor's 500 Index. The S&P 500 is widely regarded as the best single gauge of the U.S. equities market and includes 500 leading companies in leading industries of the U.S. economy. Although the S&P 500 focuses on the large cap segment of the market, with approximately 75% coverage of U.S. equities, it is also a proxy for the total market.

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 affect 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 fee performance was calculated using the highest account level fee percentage (1.25%) and actual management fees could be lower. 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 investment management fee schedule is as follows: U.S. Clients – 1.25% on the first $1 million, 1% on assets over $1 million. The minimum annual fee for U.S. clients is $5,000. Under special circumstances, fees may be negotiable.

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.

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Past performance is not a guarantee of future results. Investments are not FDIC insured and may decline in value.

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