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OSAM RESEARCH

## Five Considerations for Equity Income Investors

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## A Survey of Yields on Income-Generating Options

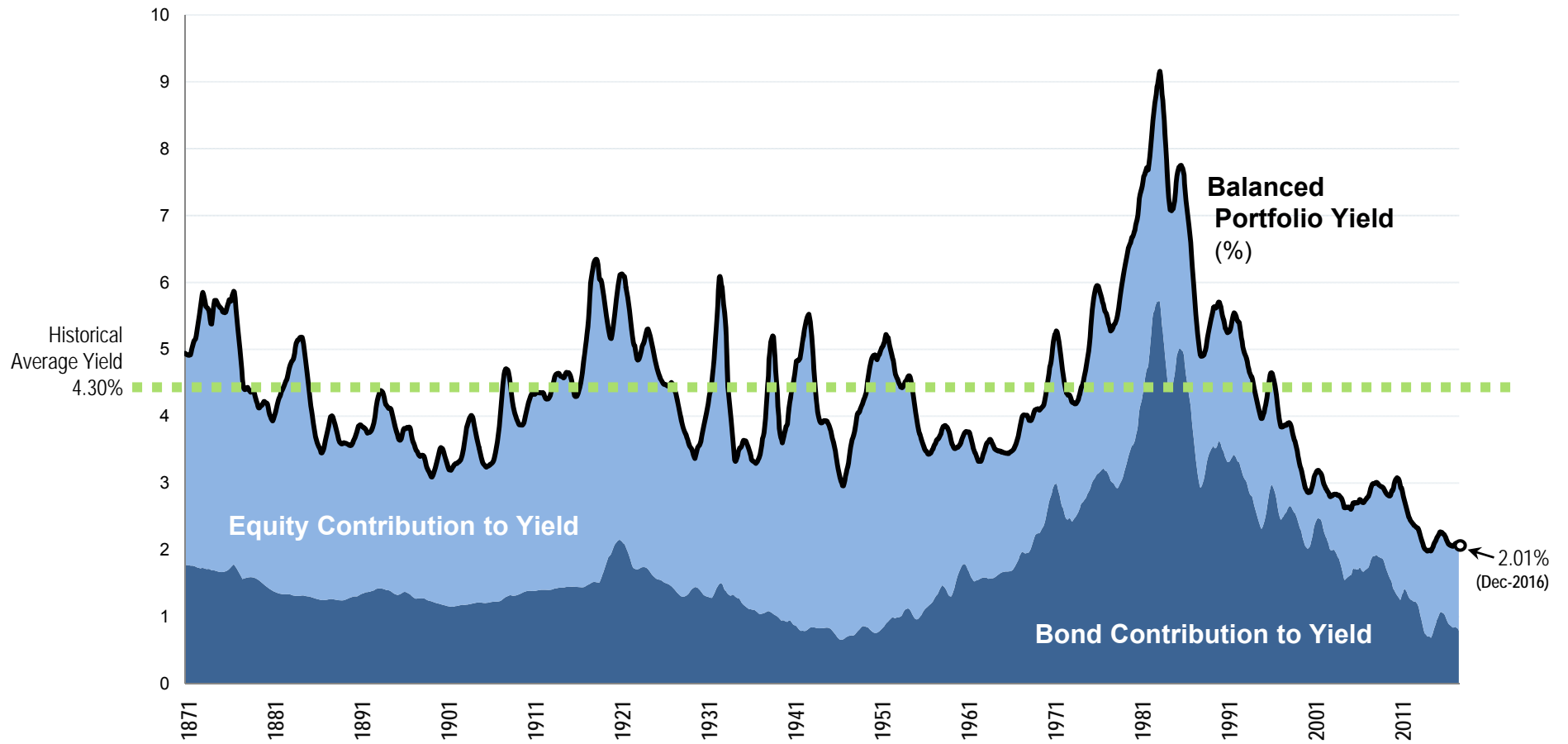


Source: Global Financial Data, Thompson QA, Bloomberg

Past performance is no guarantee of future results. Please see important information titled "General Legal Disclosures & Hypothetical and/or Backtested Results Disclaimer" at the end of this presentation.

Generating yield has become more difficult than at any point in the past 146 years

**Historical Yield on a Hypothetical Balanced Portfolio ( 60% Equity / 40% Bond )**



Source: Global Financial Data, OSAM Calculations. The Bond component is represented by 10-Year U.S. Treasuries. The Equity component is represented by the S&P 500 Index. (Jan-1871 to Jun-2016)

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## Client Objectives

- 1) Protect principal**
- 2) Hedge against severe downside risks**
- 3) Minimize volatility**
- 4) Generate income**

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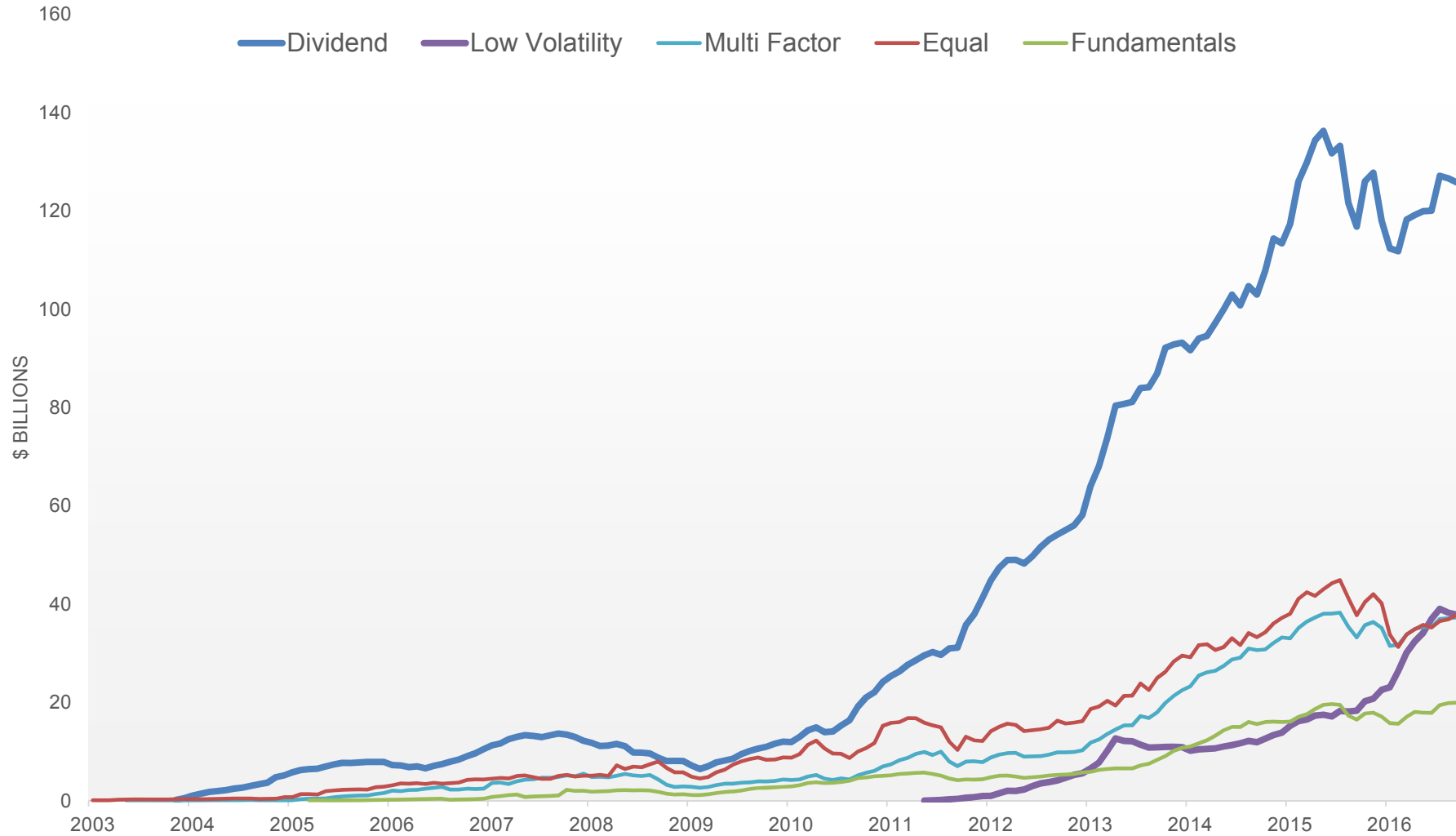
**3) Minimize volatility**

Preserve  
Lifestyle

**4) Generate income**

## Client Response: Pour money into income and risk reduction products

ETF Assets by Type

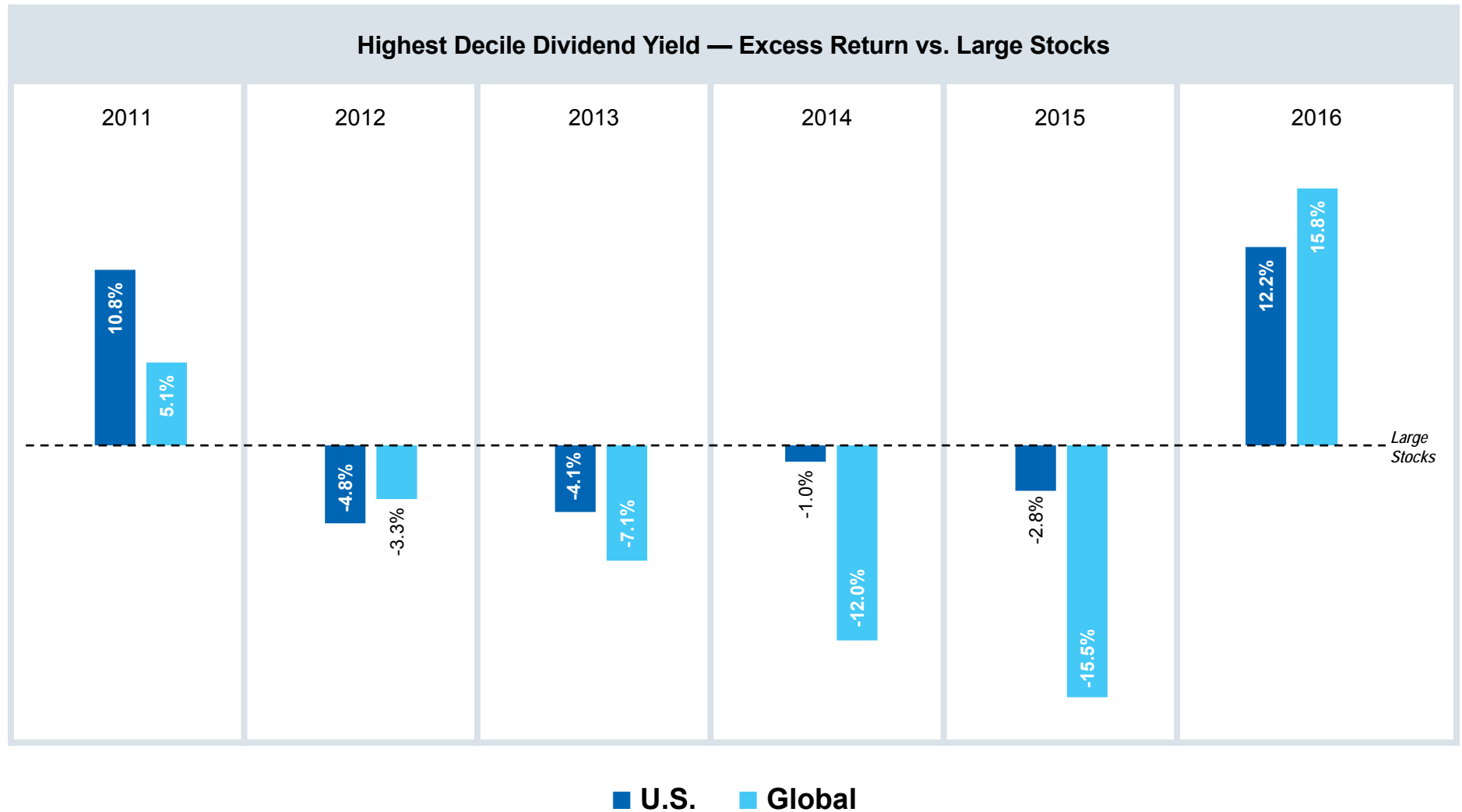


Source: OSAM calculations. Bloomberg.

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## Dividends performed terribly in the years preceding 2016; that's OK

BACKTESTED



Large Stocks: -5.9% (2011), 17.3% (2012), 28.5% (2013), 7.4% (2014), -3.7% (2015), 11.4% (2016)

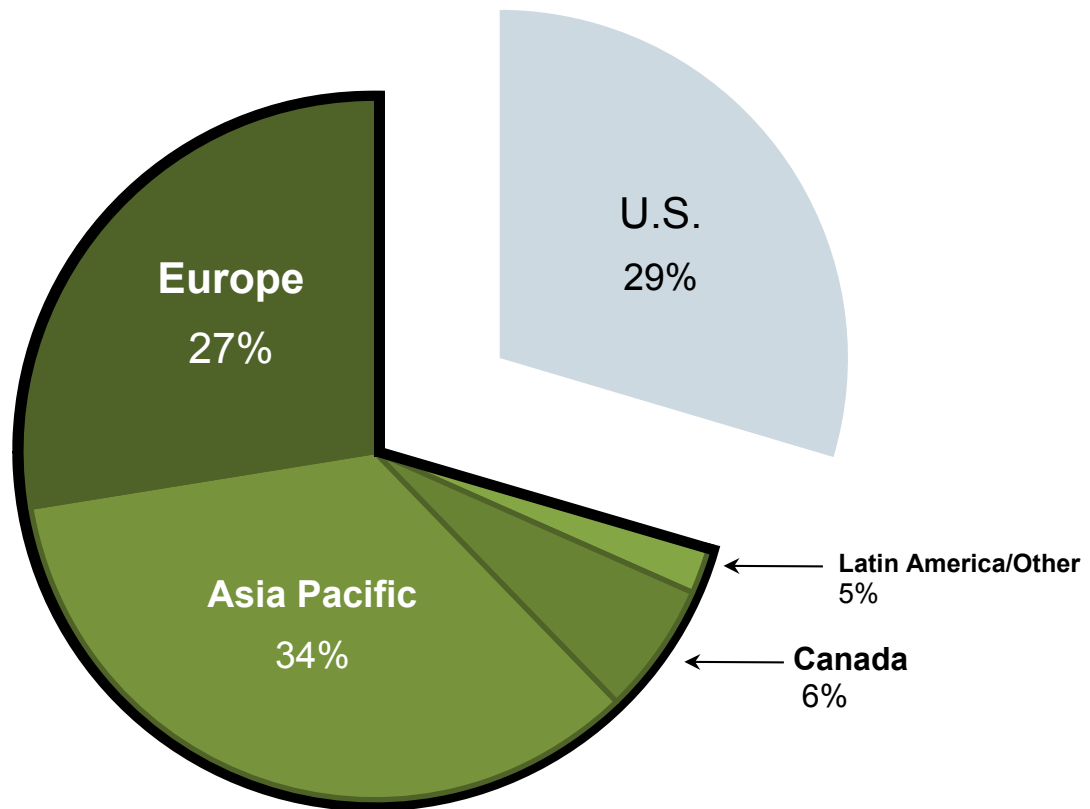
Source: OSAM calculations

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The U.S. is a small component of the global dividend opportunity set

**71% of the global dividend-paying opportunity set is domiciled outside of the United States:**

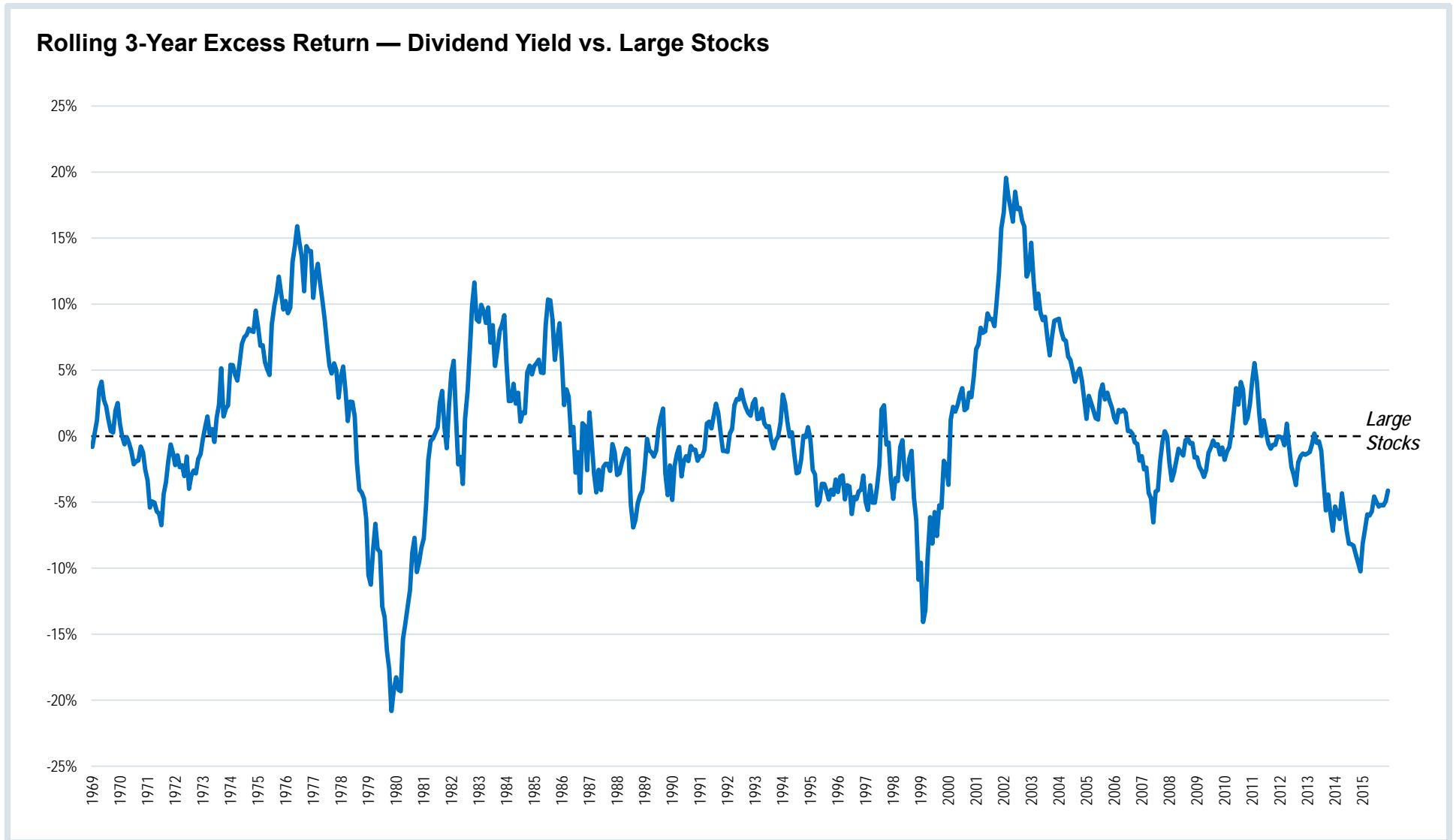


Percentage of global dividend payers by region, Global Large Stocks (2015)  
Source: Worldscope, OSAM Calculations

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## Dividends historically move in and out of favor

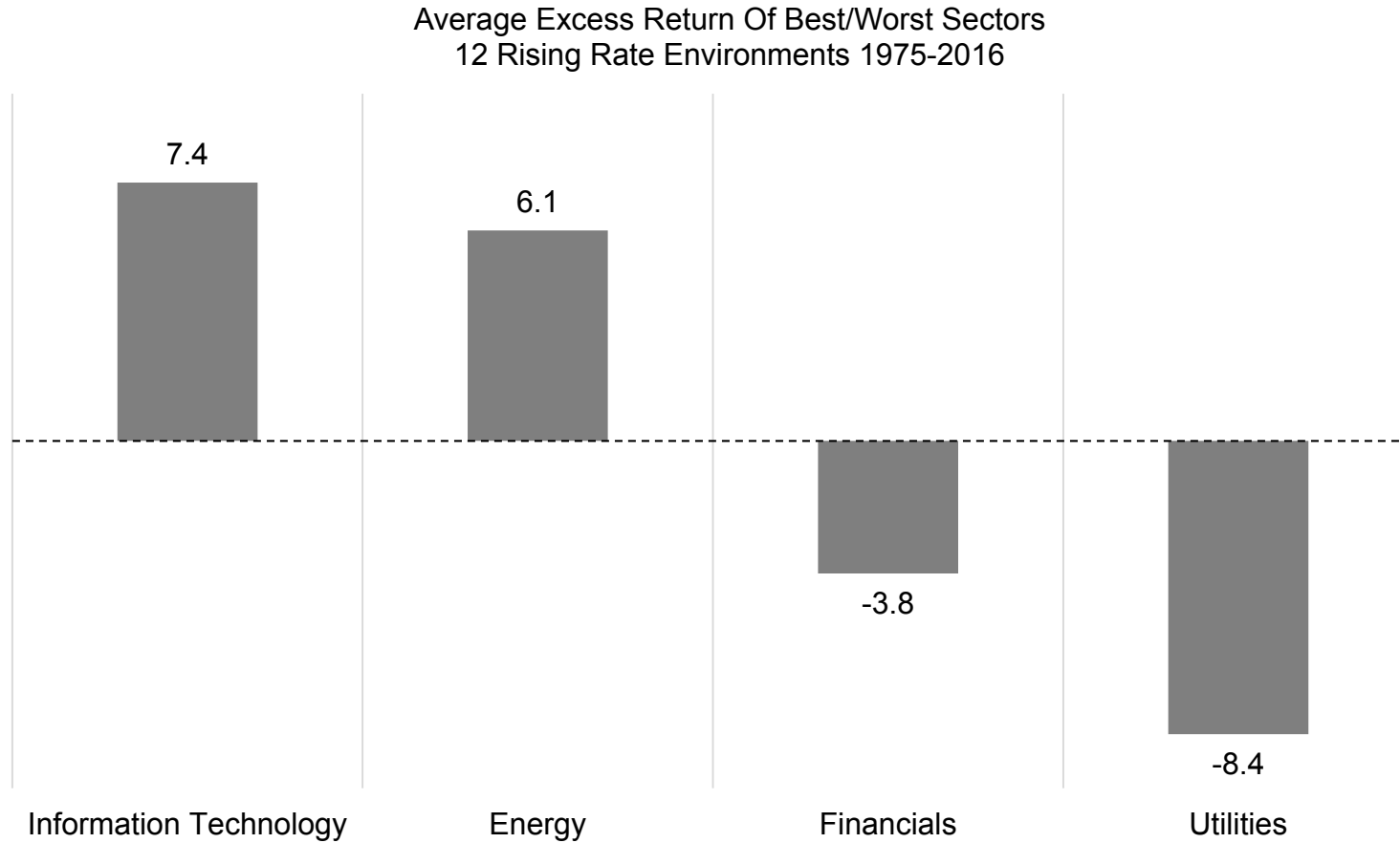
BACKTESTED\*



Source: OSAM calculations

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Certain dividend payers historically buck the rising rate performance headwind



Source: OSAM calculations. Thompson QA. Compustat.

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## Global Dividend Yield Outperforms U.S. Dividend Yield in Rising Rate Environments

BACKTEST\*

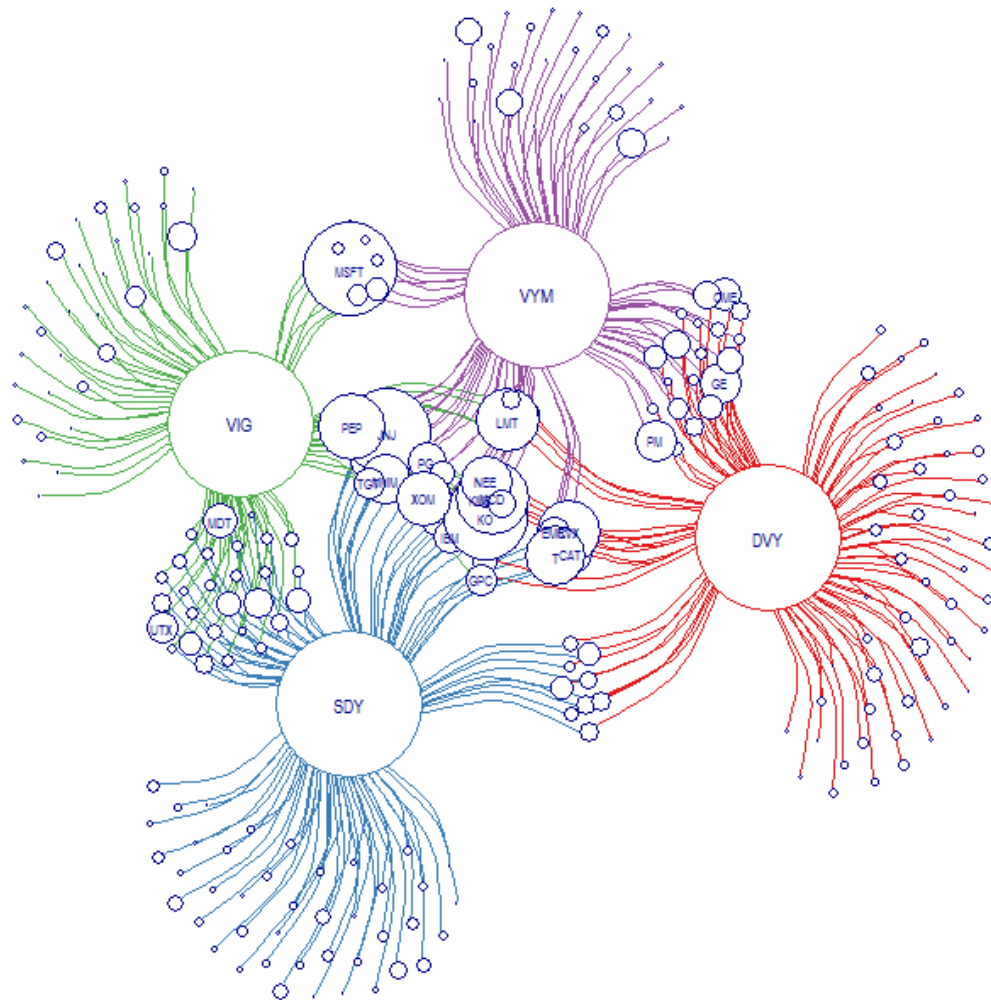
Yield in Rising Rate Environments Large Stocks (Returns are annualized)				Total Return (%)						
				U.S.				Global		
Start	End	Duration (Months)	10-Year UST Rate Change	10-Year UST	S&P 500	U.S. Dividend Yield	U.S. Dividend Yield <u>ex Utilities</u>	MSCI ACWI	Global Dividend Yield	Global Dividend Yield <u>ex Utilities</u>
7/1/2012	8/31/2013	14	+1.27	-6.4	19.5	14.8	21.0	20.8	14.1	16.9
1/1/2009	12/31/2009	12	+1.60	-9.5	26.4	23.5	26.1	35.4	40.3	42.5
7/1/2005	6/30/2006	12	+1.21	-5.1	8.6	8.7	11.2	18.6	15.5	18.1
5/1/2003	5/31/2004	12	+1.29	-6.1	18.3	18.2	22.2	24.7	27.2	28.5
10/1/1998	1/31/2000	16	+2.24	-6.8	28.3	-7.1	-0.6	30.4	4.6	12.6
1/1/1996	3/31/1997	15	+1.34	-1.4	20.5	9.9	20.5	9.1	12.0	19.2
4/1/1993	11/30/1994	20	+1.88	-1.8	3.2	0.1	6.6	9.4	4.8	10.2
7/1/1989	8/31/1990	13	+1.04	2.0	-2.9	-12.4	-20.0	-12.4	-7.6	-11.9
9/1/1986	9/30/1987	13	+2.68	-8.1	28.8	6.2	25.0	32.4	10.5	30.4
5/1/1983	6/30/1984	14	+3.57	-5.4	-1.3	3.1	2.5	-1.5	3.9	3.3
9/1/1977	9/30/1981	49	+8.56	-2.1	10.1	8.1	13.8	6.3	8.3	13.0
11/1/1971	9/30/1975	47	+2.61	2.3	0.7	3.1	4.8	-1.9	3.7	5.4
Average:		20	+2.44	-4.0	<b>13.4</b>	<b>6.3</b>	<b>11.1</b>	<b>14.3</b>	<b>11.4</b>	<b>15.7</b>
Median:		14	+1.74	-5.2	<b>14.2</b>	<b>7.1</b>	<b>12.5</b>	<b>14.0</b>	<b>9.4</b>	<b>14.9</b>

Source: CRSP, Global Financial Data, OSAM Calculations

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Dividend ETF's offer less diversification than investors are led to believe

## Dividend ETF Overlap



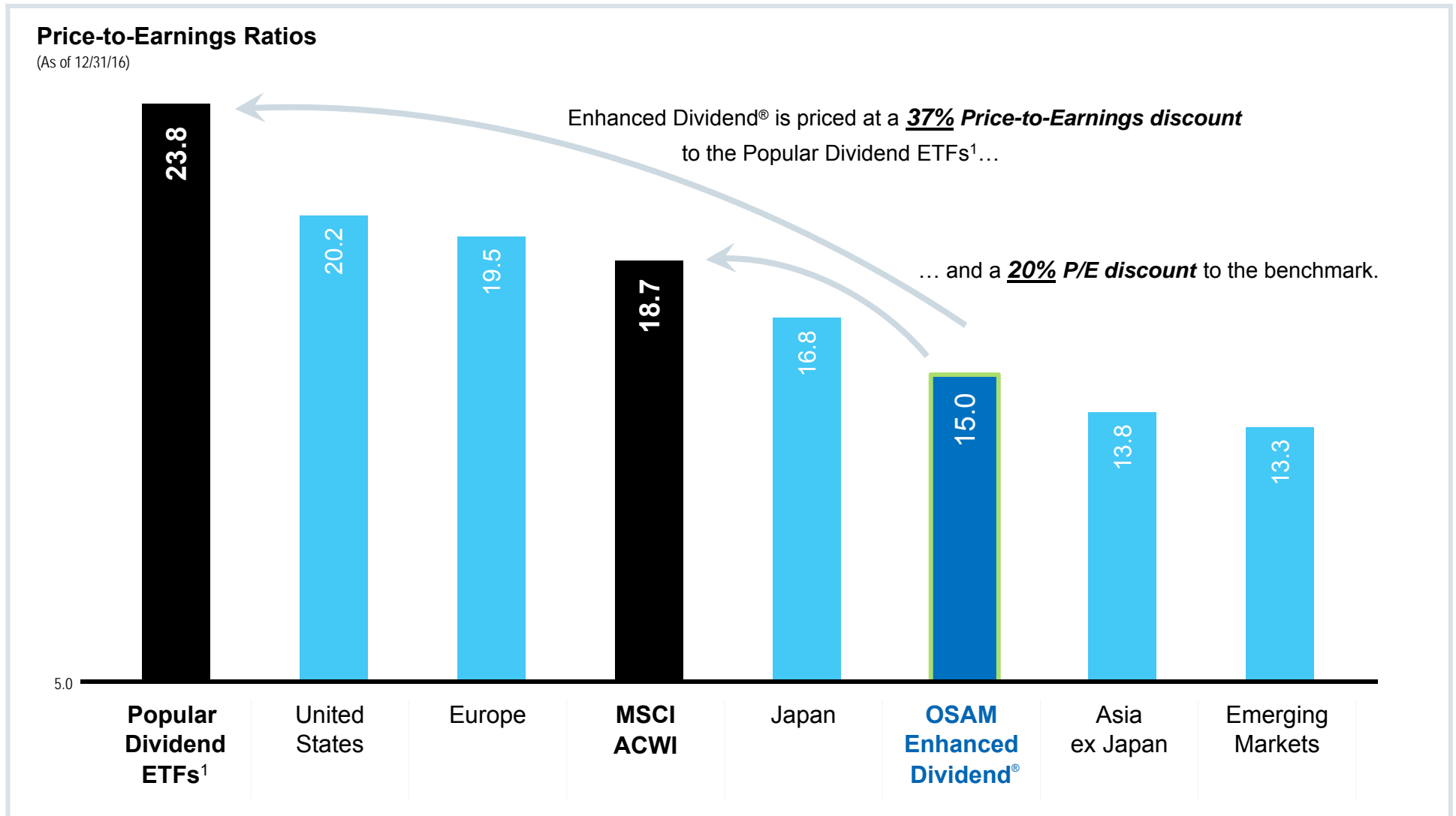
## Dividend growth on its own is not an effective strategy



Source: OSAM calculations. Thompson QA. Compustat.

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## Continuously Seek Discounted Valuation Opportunities



Source: Bloomberg, Compustat, Worldscope

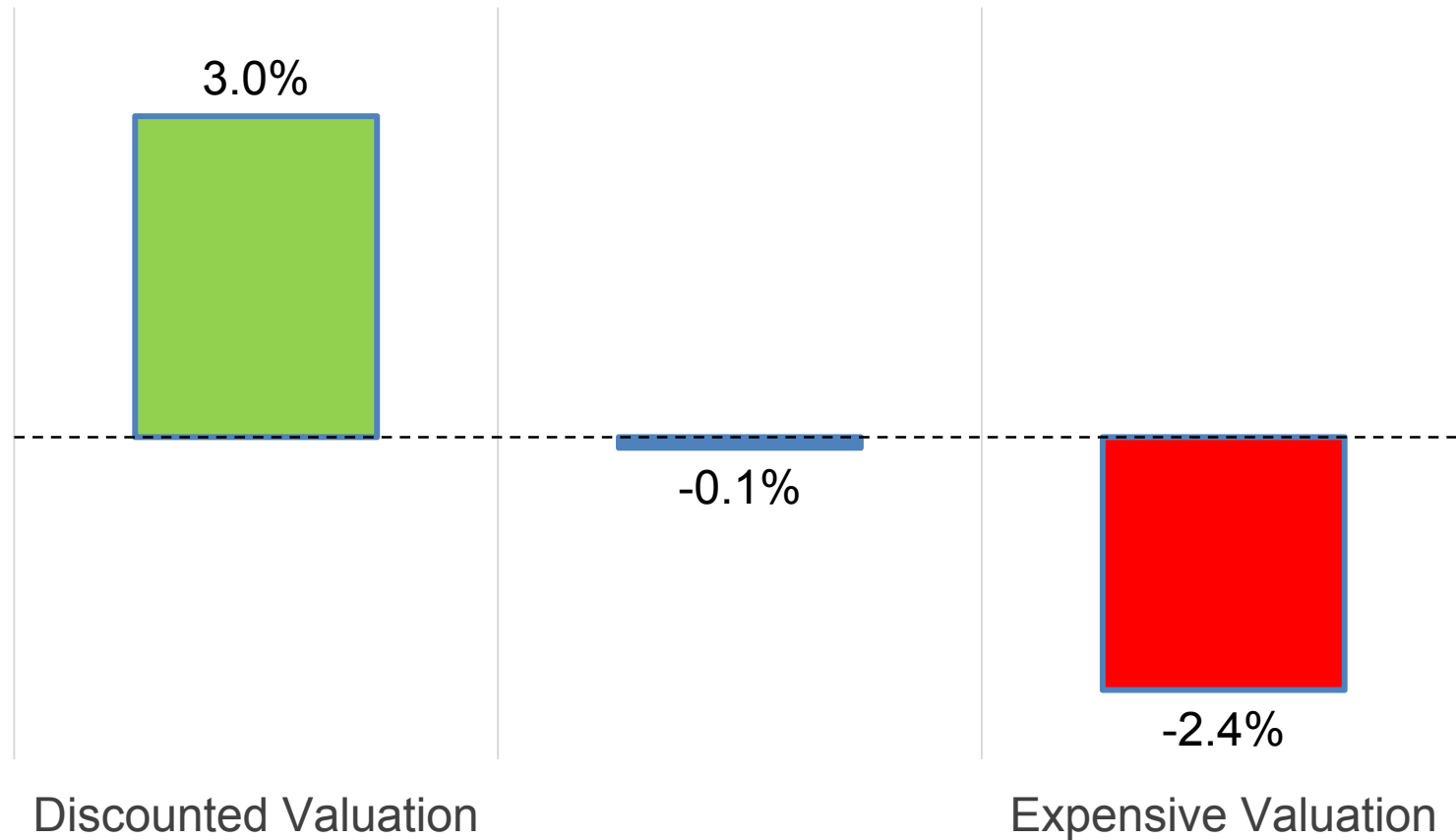
<sup>1</sup> Vanguard Dividend Achievers (VIG), iShares Select Dividend ETF (DIV), Vanguard High Dividend Yield Index Fund ETF (VYM), SPDR S&P Dividend ETF (SDY) Bloomberg, as of 1/4/2017.

Investment characteristics and performance are based on OSAM's Separately Managed Accounts. Should OSAM have another product or investment vehicle with a similar name, investment characteristics and performance may differ.

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## Valuation trumps dividends

### Excess Return - Top Third Dividend Yield 1975-2016



Source: OSAM calculations. Thompson QA. Compustat.

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## 5 Considerations for Equity Income Investors

- I. Dividends had struggled; don't count them out**
- II. Certain dividend payers historically buck the rising rate performance headwind; avoid Utilities and Financials**
- III. Dividend ETF's offer less diversification than investors are led to believe; seek differentiated portfolios**
- IV. Dividend growth on its own is not an effective strategy; pair dividend strategies with other criteria**
- V. Valuation trumps dividends; pair dividend strategies with valuation criteria**

**Q & A**

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