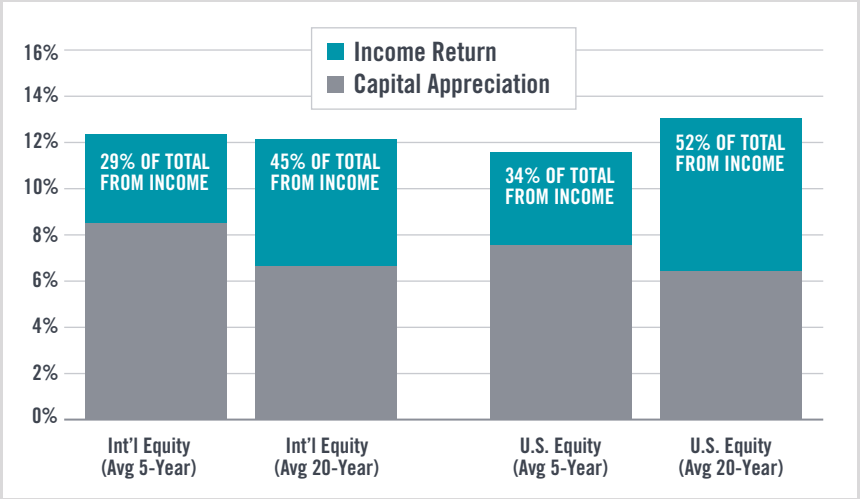
Income as the Source of Long-Term *Equity* Returns

JANUARY 2016

Annualized Returns over 5- and 20-year Rolling Periods*, 1970-2014

Dividend income was a *significant* component of equity returns over the long term for U.S. and non-U.S. equities



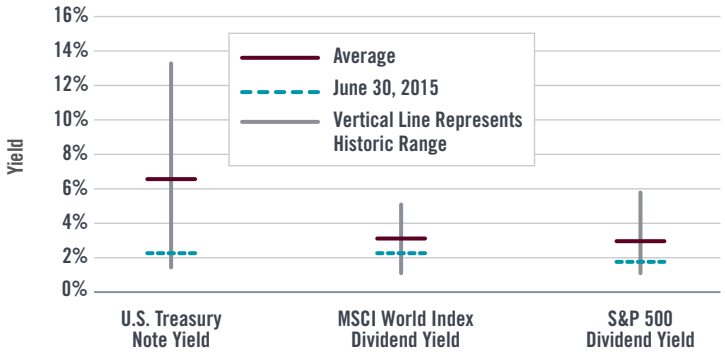
Source: Brandes Institute, based on data from Ibbotson Associates, Global Financial Data, Inc. and FactSet, as of December 31, 2014. Past performance is not a guarantee of future results. U.S. and non-U.S. returns 1/1/1970 to 12/31/2014. U.S. equity represented by S&P 500 Index (1976-2015 – 500 largest U.S. stocks in market value; 1970-1976 – 90 largest stocks) – through Ibbotson Associates. Non-U.S. equity represented by the MSCI EAFE Index.

High-dividend stocks worldwide have had high total returns and low volatility.

Bond and Dividend Yields vs. Historic Average Ranges

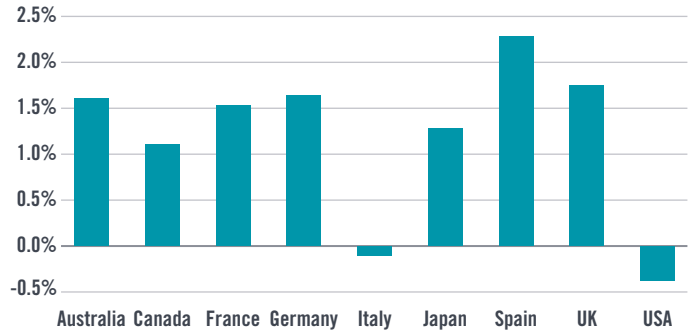
(Dec. 31, 1970 to June 30, 2015)

U.S. Treasury bond yields have fallen in recent years; but dividend yields for stocks were close to their long-term averages.



Source: Brandes Institute, based on data from Ibbotson Associates, Global Financial Data, Inc., FactSet, and the Financial Times as of June 30, 2015. Past performance is not a guarantee of future results. One cannot invest directly in an index. Whereas Treasuries are backed by the full faith and credit of the U.S. Government with respect to the timely payment of principal and interest, the declaration and payment of stock dividends are solely at the discretion of the issuer and are subject to change at any time.

The Yield Gap†: Stock Dividend Yields Generally Higher Than Gvt. Bond Yields (as of 6/30/15)



†The yield gap is defined as the dividend yield on domestic stocks minus the yield on 10-year government bonds

The yield gap – or dividend yield minus government bond yield – was positive in most developed non-U.S. markets, reflecting the income advantage many stocks in these markets provided vs. their local government bonds.

Income as the Source of Long-Term *Equity* Returns

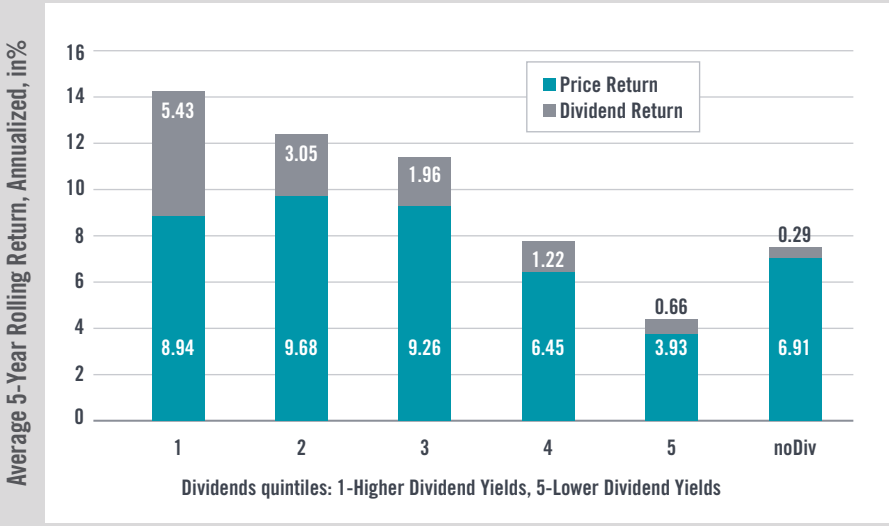
Higher-Dividend Stocks Worldwide Delivered the Greatest Total Returns**

(June 1981 – June 2015)

Average rolling 5-year returns for price and dividend of each dividend yield quintile (annual rebalancing)

Note: On a price-only basis, the top three quintiles of dividend-paying stocks had higher price and total returns than quintiles 4 and 5 and non-dividend-paying stocks. See chart at right.
In addition, price returns for the highest dividend-paying stocks (measured by the top three quintiles) showed lower volatility relative to lower dividend payers. See chart below.

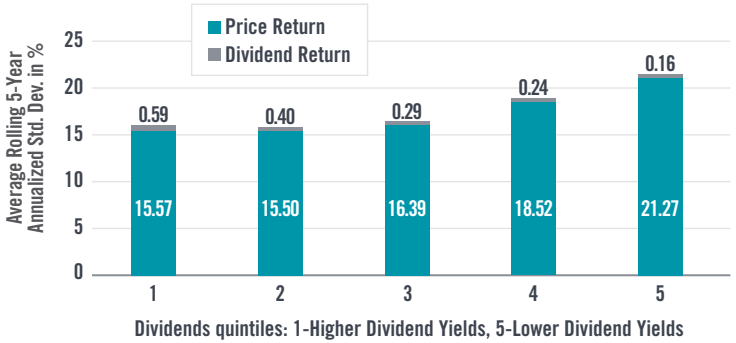
Source: Brandes Institute, Worldscope via FactSet, as of June 30, 2015. Past performance is not a guarantee of future results. The largest 50% of developed market stocks by market capitalization.



High Dividend Paying Stocks: Lower Volatility in Returns

(June 1981 – June 2015)

Average rolling 5-year standard deviation for price and dividend return of each dividend yield quintile



Source: Brandes Institute, Worldscope via FactSet, as of June 30, 2015. Past performance is not a guarantee of future results. The largest 50% of developed market stocks by market capitalization.

KEYS FROM OUR ANALYSIS

1. Dividend income provided a substantial part of long-term returns.
2. By mid-2015, major non-U.S. equity markets had dividend yields that were **both** higher than U.S. yields **and** higher than their local bond yields suggesting an opportunity in dividend-paying non-U.S. stocks.
3. Worldwide, stocks with the highest dividend yields had the highest total returns and the lowest volatility.
4. For investors who focus primarily on their income stream, the volatility of dividend returns was less than 1/20th of the volatility of price returns.

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*We used two return series: a total return series that included reinvested dividends and capital appreciation and one that was capital appreciation only. We calculated the income component of returns by subtracting the capital appreciation only series from the total return series. Neither series reflects considerations for taxes, fees or other expenses. Hypothetical examples are used for illustrative purposes only and do not represent any specific investment. Actual results will vary. Returns for rolling windows are annualized returns for a series of overlapping, smaller time periods within a single, larger time period. For example, the 20-year time period from 12/31/82 through 12/31/02 consists of 16 five-year segments. The first segment is the five-year period 12/31/82-12/31/87, the next segment is the five-year period 12/31/83-12/31/88, and so on.

**We examined the largest 50% of stocks by market capitalization in the Worldscope database of developed market stocks going back to June 1981. We then divided the dividend-paying stocks in this universe into quintiles by dividend yield, rebalancing annually. We used a separate category for stocks that did not pay dividends, so that they did not default into the fifth quintile. We then calculated 5-year annualized rolling average returns over the measurement period (June 1981 to June 2015).

Data Sources:

Yield Gaps

All bond yields are 10-year maturity government bonds, sourced from www.bloomberg.com

Dividend yields for Australia, Germany, France, Italy and Spain are for MSCI country specific indices, sourced from FactSet

Dividend yield for the U.S. is for the S&P 500 Index sourced from www.bloomberg.com

Dividend yields for the UK and Japan are for the FTSE 100 Index and FTSE Japan Index respectively, sourced from the Financial Times

Dividend yield for Canada is for the S&P/TSX Index, sourced from FactSet

The FTSE 100 Index with gross dividends measures equity perforamance of 100 leading companies in the United Kingdom.

The FTSE Japan Index with gross dividends measures equity market performance in Japan.

The S&P/TSX Composite Index with gross dividends measures equity market performance in Canada.

Disclosures

Standard deviation: The dispersion of a portfolio's returns over a given period from the portfolio's mean return over the same period. Calculated as the square root of variance.

Yield: Annual income from the investment (dividend, interest, etc.) divided by the current market price of the investment.

S&P 500 Index: The S&P 500 Index is a market capitalization index that measures the equity performance of 500 leading companies in industries of the U.S. economy.

MSCI World Index: The MSCI World Index is a free float-adjusted market capitalization index that measures the equity market performance of developed markets.

MSCI EAFE Index: The MSCI EAFE (Europe, Australasia, Far East) Index is a free float-adjusted market capitalization index that measures the equity market performance of developed markets in Europe, Australasia, and the Far East. MSCI has not approved, reviewed or produced this report, makes no express or implied warranties or representations and is not liable whatsoever for any data in the report. You may not redistribute the MSCI data or use it as a basis for other indices or investment products.

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