Dividend Investing

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Why Invest in Dividend-Paying Stocks?

- Investors are experiencing a decline in income levels of many asset classes amid low interest rates and low government bond yields.

  - Current yields on 10-year Treasuries are at 2.83% as of December 2018, significantly lower than where they were 20 years ago (4.7% as of December 1998).
  - Average rates on a 6-month Certificate of Deposit were around 2.48% as of December 2018 (4.4% as of December 1998).
  - In 1998, a $100,000 investment in a 6-month CD for a period of one year would return about $4,400, whereas today that same investment yields about $2,480.

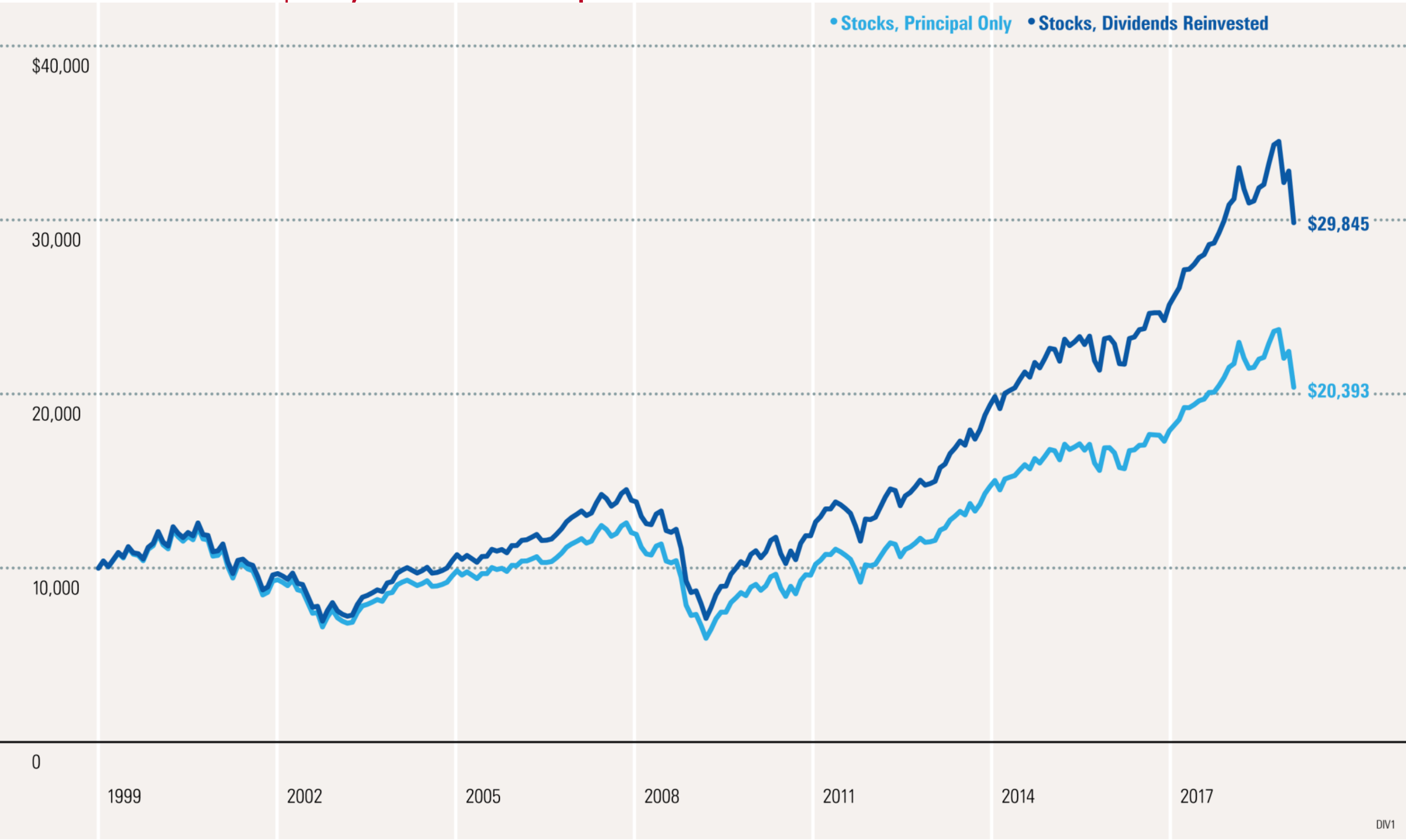
- Fixed-income instruments such as Treasuries, cash, and cash equivalents may not provide income growth to stay ahead of inflation.

- Dividend-paying stocks may provide current income and the potential to participate in capital appreciation.

Past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index.

Impact of Dividend Reinvestment Over Time

Growth of $10,000: Principal versus Reinvested Distributions



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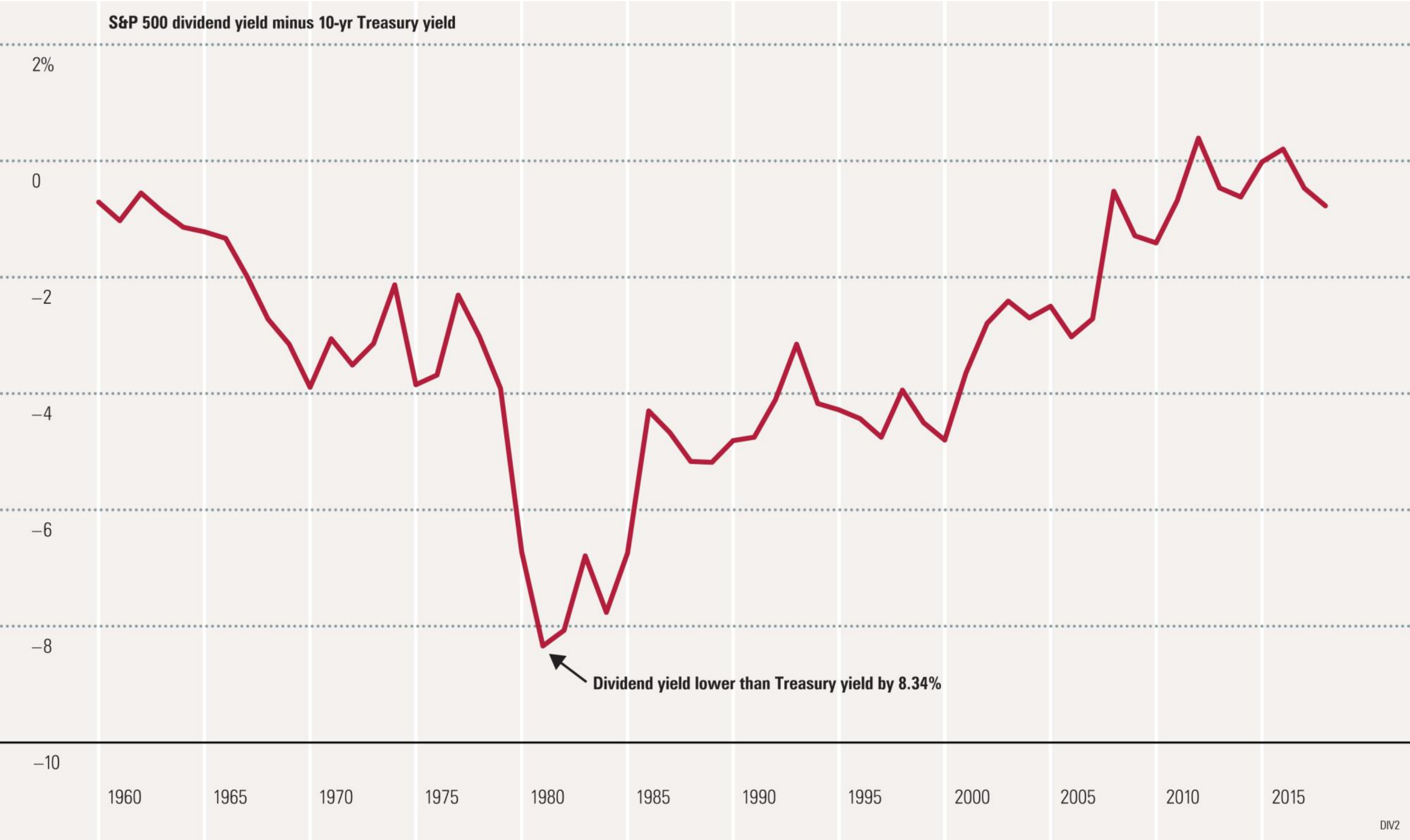
Trend in Yields Over Time

Difference in yield between S&P 500 and Treasuries, 1960-2018*



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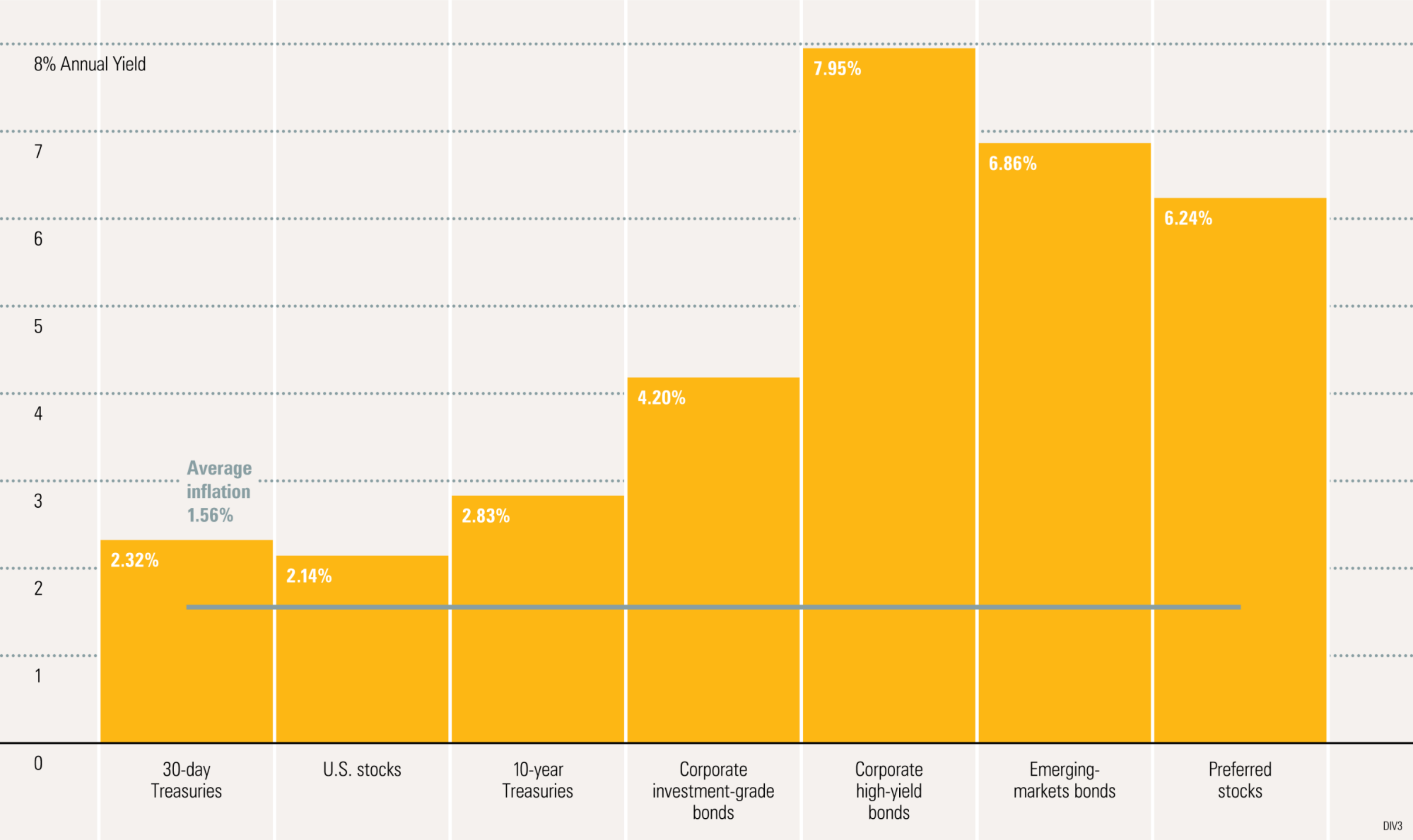
Current Yield Landscape

As of December 2018



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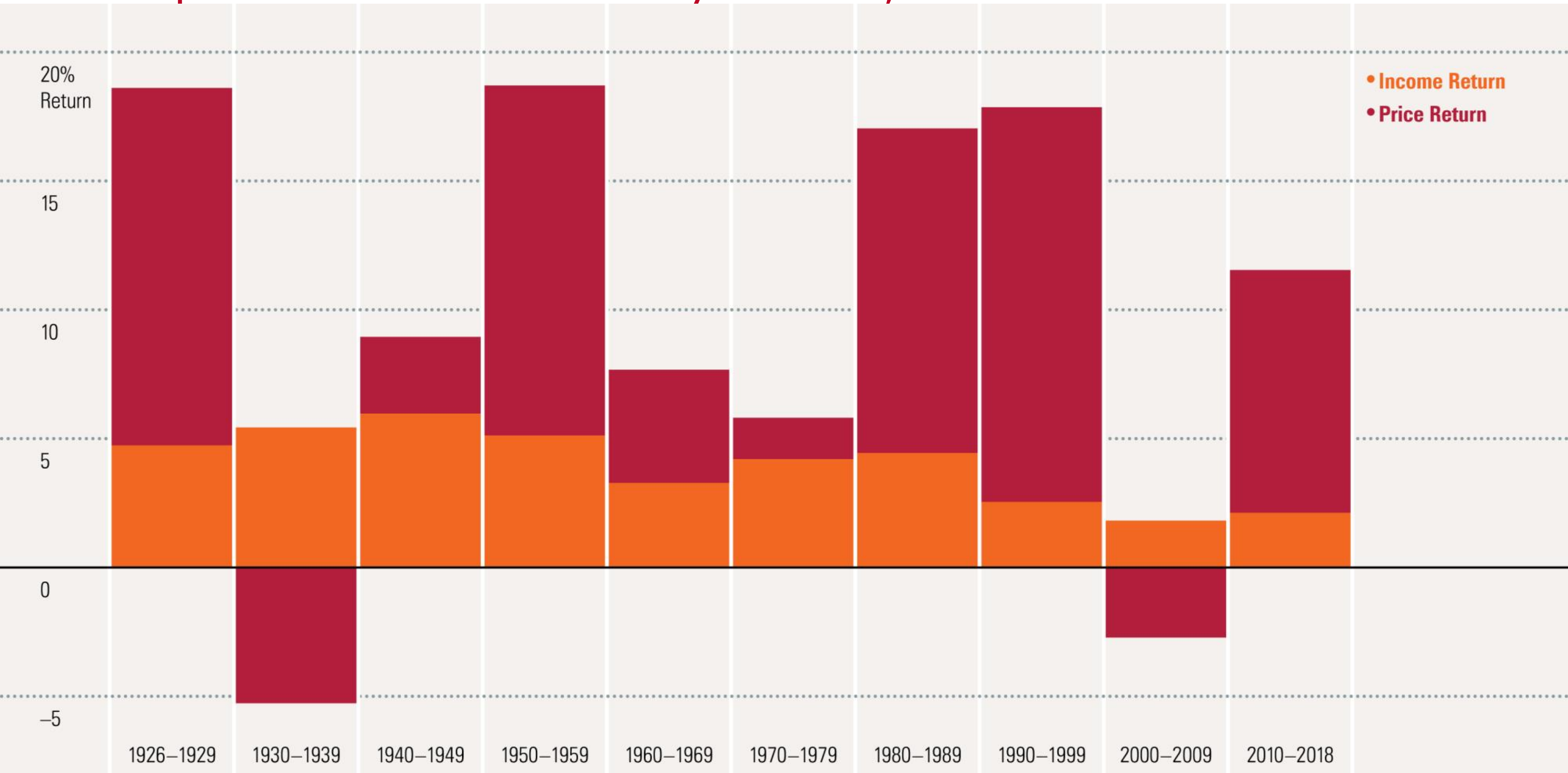
Dividend Contribution to Total Return

Compound annual returns by decade, 1926–2018



	1926–1929	1930–1939	1940–1949	1950–1959	1960–1969	1970–1979	1980–1989	1990–1999	2000–2009	2010–2018
Stocks total return	19.2	–0.1	9.2	19.4	7.8	5.9	17.5	18.2	–0.9	11.7
Income contribution to total return	25%	NA	65%	26%	42%	72%	25%	14%	NA	18%

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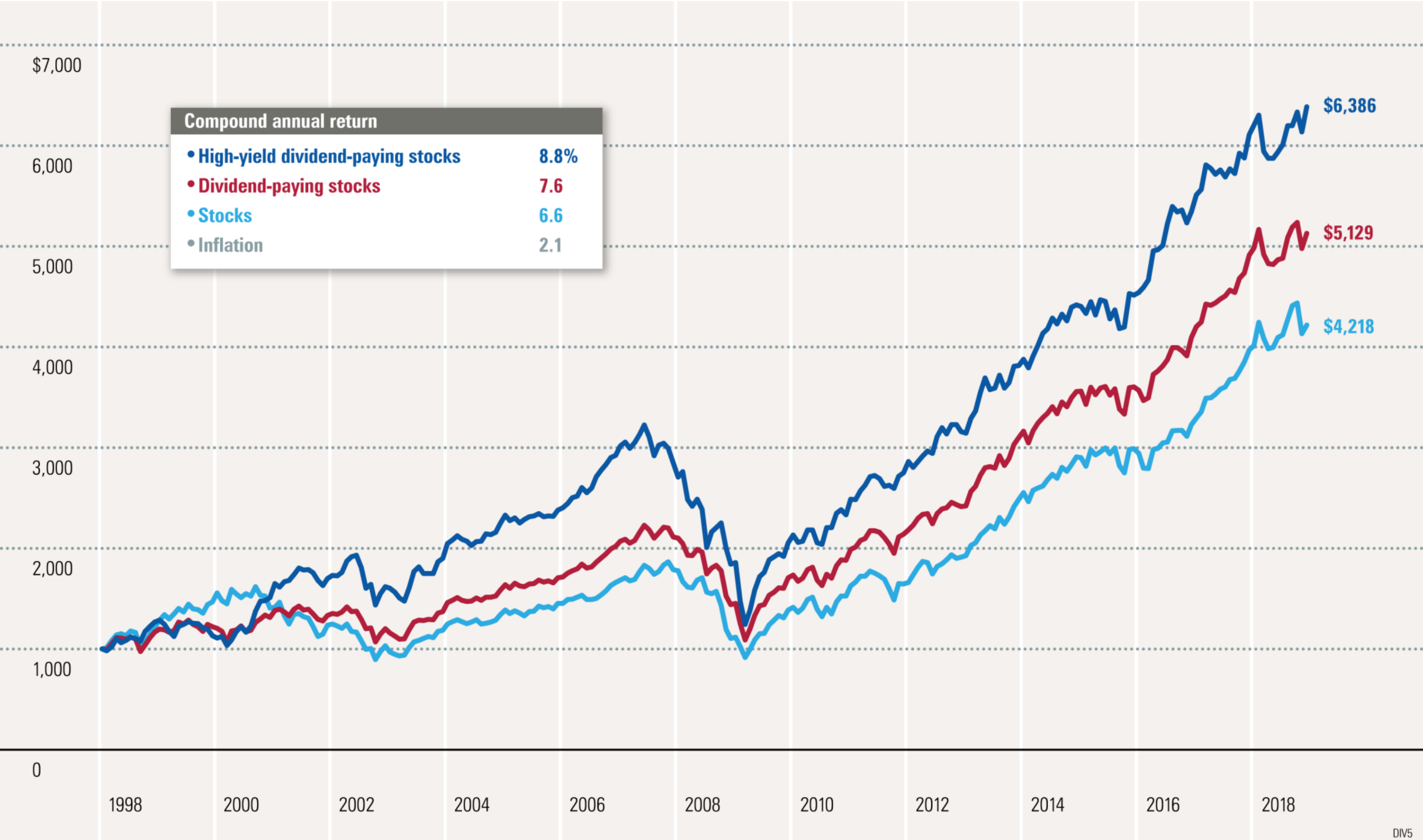
Historical Performance of Dividend Stocks

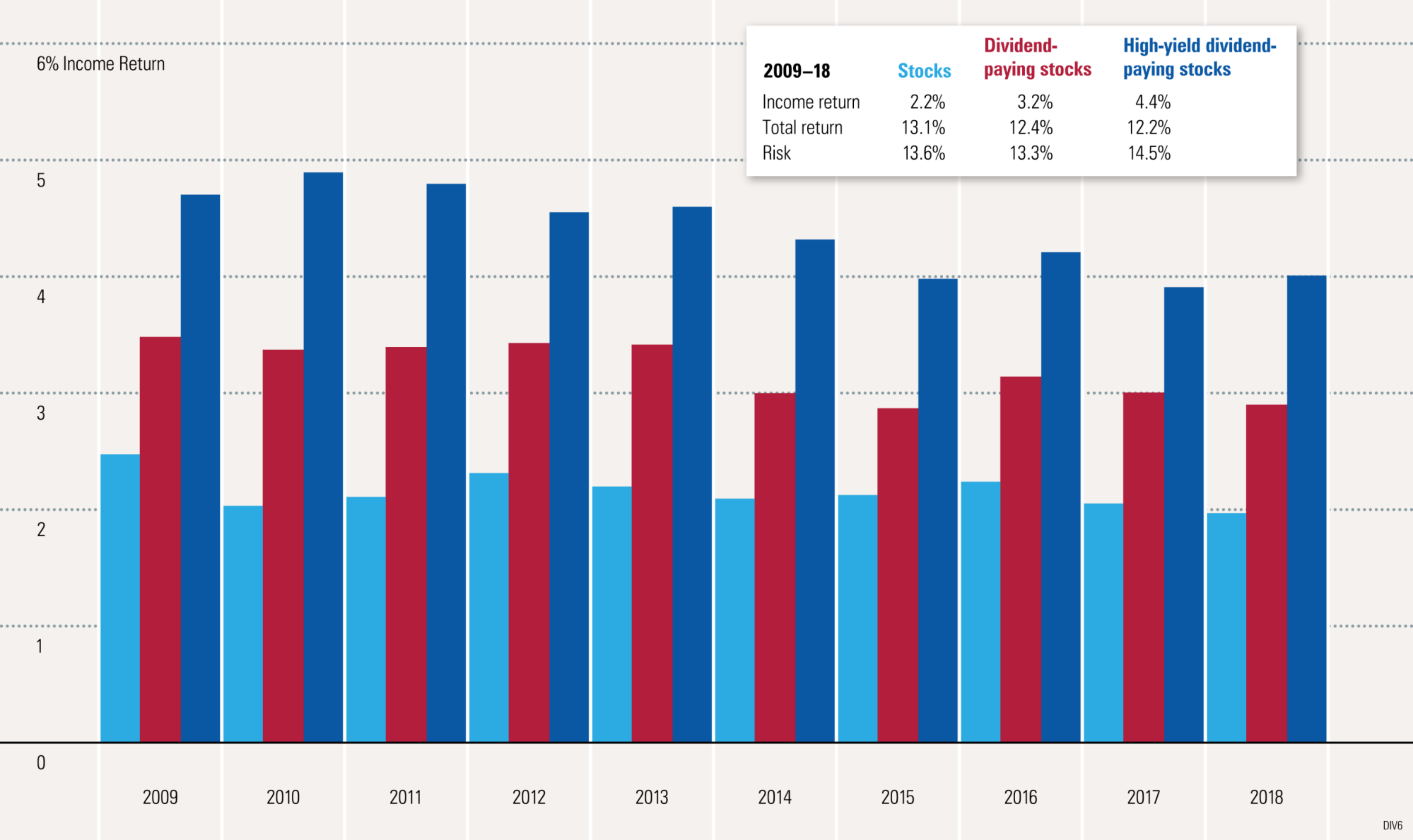
1998–2018



Past performance is no guarantee of future results. Assumes reinvestment of all income and no transaction costs or taxes. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. Returns and principal invested in stocks are not guaranteed. Dividends are not guaranteed and are paid solely at a company's discretion.

Income Return Comparison

2009–2018



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Dividend Stocks: Asset Class Characteristics

July 1997–December 2018

	Return (%)	Risk (%)	Sharpe ratio (%)	Correlation to stocks	Correlation to bonds
REITs	8.9	20.0	0.43	0.58	–0.06
Stocks	7.0	14.9	0.39	1.00	0.58
High-yield dividend-paying stocks	9.5	15.1	0.55	0.65	–0.12
Dividend-paying stocks	8.1	13.6	0.50	0.90	–0.22
Bonds	4.6	4.2	0.63	–0.29	1.00

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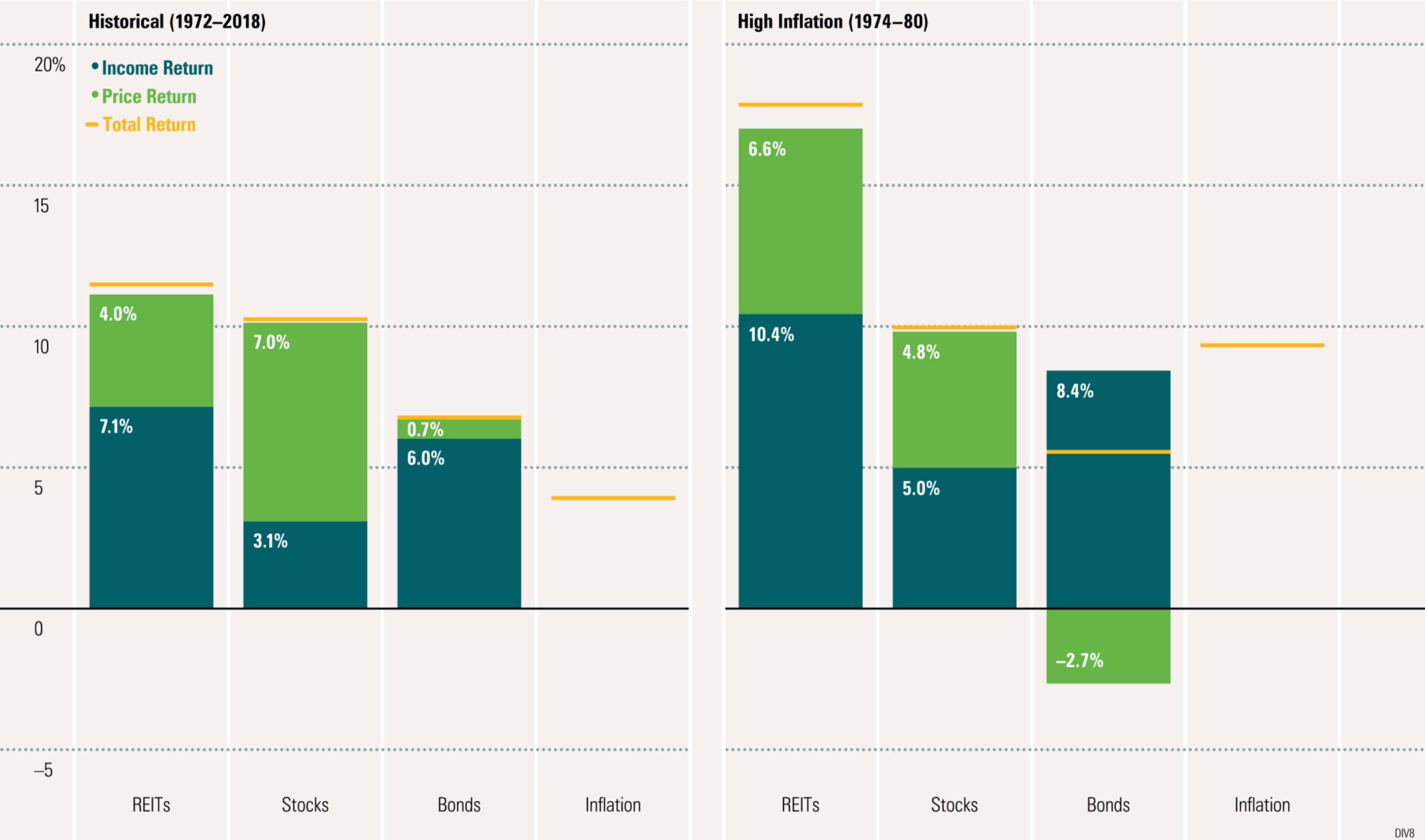
Dividends and Inflation

Stocks, bonds, and REITs, 1972–2018



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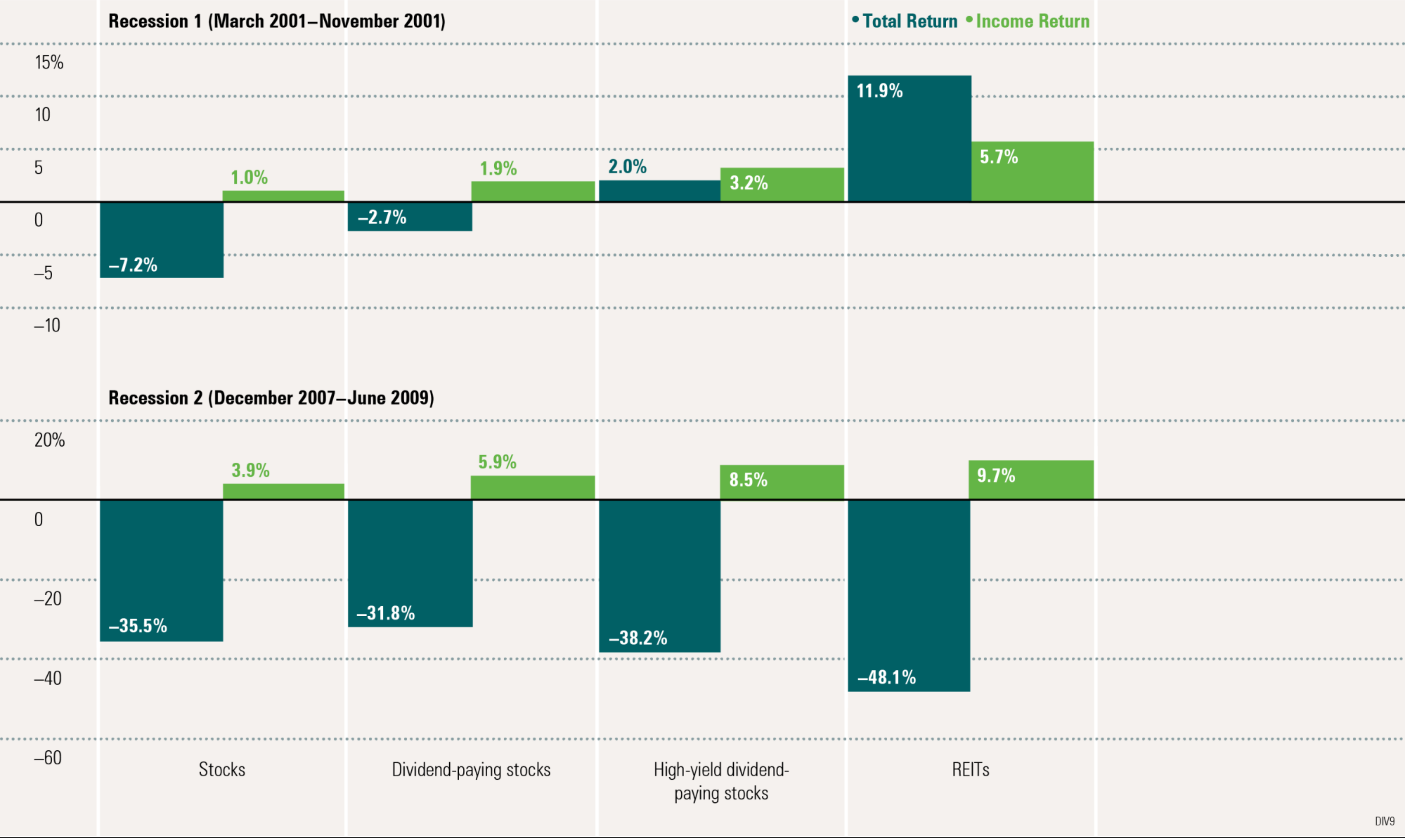
Dividend Income During Downturns

Returns of stocks, dividend-paying stocks and REITs



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Takeaways: Dividend Investing

- Current income from Treasuries, cash, and cash equivalents may not be enough because inflation has the effect of eroding purchasing power.
- Dividend-paying stocks can generate income, grow income, and offer the potential for capital appreciation.
- Dividend-paying stocks may provide better risk attributes, such as lower volatility and some level of downside protection when markets decline.
- Even for investors not focused on income, dividend stocks may offer advantages for long-term capital growth:
    - Dividend growth has been a driver of total return in the long run.
    - Reinvesting dividends may help boost long-term equity returns.

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Glossary of Indices

The indices are presented to provide you with an understanding of their historic long-term performance, and are not presented to illustrate the performance of any security. Investors cannot directly purchase an index. Past performance is not indicative of future results. Individual investor results will vary.

Barclays U.S. Corporate Index is an unmanaged index considered representative of publicly issued, fixed-rate, nonconvertible, investment-grade debt securities.

Barclays U.S. Corporate High-Yield Index covers the U.S. dollar-denominated, non-investment grade, fixed-rate, taxable corporate bond market. Securities are classified as high-yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. The index excludes emerging-markets debt.

Citigroup Non-U.S. Dollar World Government Bond Index is an unmanaged, market-capitalization-weighted index that tracks 10 government bond indices, excluding the United States.

Consumer Price Index (CPI) from the U.S. Bureau of Labor Statistics tracks changes in the prices paid by urban consumers for a representative basket of goods and services.

DFA U.S. Micro Cap Portfolio is a no-load mutual fund designed to capture the returns and diversification benefits of a broad cross section of U.S. small companies on a market-cap-weighted basis. The portfolio invests in securities of U.S. companies with market capitalizations within the smallest 5% of the market universe or smaller than the 1,500th largest U.S. company, whichever results in a higher market capitalization break. The market universe primarily comprises companies listed on the New York Stock Exchange, American Stock Exchange and NASDAQ Global Market.

FTSE NAREIT All Equity REITs Index is a free float-adjusted market-capitalization-weighted index that includes all tax-qualified REITs listed in the New York Stock Exchange, American Stock Exchange and NASDAQ National Market.

House Price Index (HPI) from the Federal Housing Finance Agency is a broad measure of the movement of single-family house prices. The HPI is a weighted, repeat-sales index; it measures average price changes in repeat sales or refinancings on the same properties. This information is obtained by reviewing repeat mortgage transactions on single-family properties whose mortgages have been purchased or securitized by Fannie Mae or Freddie Mac since January 1975.

Ibbotson Large Company Stocks Index is represented by the S&P 500 Composite Index (S&P 500) from 1957 to present, and the S&P 90 from 1926 to 1956.

Ibbotson Long-Term Corporate Bonds Index is represented by the Salomon Brothers long-term, high-grade corporate bond total return index.

Ibbotson Small Company Stocks Index is represented by the fifth capitalization quintile of stocks on the NYSE from 1926 to 1981 and the performance of the Dimensional Fund Advisors (DFA) Micro Cap Fund thereafter.

International Finance Corporation (IFC) Investable Index is designed to measure the type of returns foreign portfolio investors might receive from investing in emerging-market stocks that are legally and practically available to them.

International Monetary Fund (IMF) Coordinated Portfolio Investment Survey (CPIS) is conducted on an annual basis under the auspices of the IMF's Statistics Department. Participation in the CPIS is voluntary, and some 75 economies currently participate.

Glossary of Indices

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IMF International Financial Statistics (IFS) comprises approximately 32,000 time series covering more than 200 countries starting in 1948. It includes exchange rates, fund accounts, and the main global and country economic indicators.

IMF World Economic Outlook Databases comprise time series data for GDP growth, inflation, unemployment, payments balances, exports, imports, external debt, capital flows and commodity prices.

JPMorgan Emerging Markets Bond Index Plus is an unmanaged index that tracks debt securities of emerging markets.

Mergent's Bond Record offers a comprehensive review of over 68,000 issues. It provides coverage on corporate, government, municipal, industrial development/environmental control revenue and international bonds, plus structured finance and equipment trust issues, medium-term notes, convertible issues, preferred stocks and commercial paper issues.

Morningstar Dividend Composite Index captures the performance of all stocks in the U.S. Market Index.

Morningstar Dividend Leaders Index captures the performance of the 100 highest-yielding stocks.

Morningstar Long-Only Commodity Index is a fully collateralized commodity futures index that is long all eligible commodities.

Morningstar Style Index family consists of 16 indexes that track the U.S. market by capitalization and investment style using a comprehensive, rules-based, 10-factor methodology.

Morningstar Technology Sector Index tracks the performance of publicly traded companies engaged in the design, development, and support of computer operating systems and applications.

Morningstar TIPS Index includes all Treasury Inflation-Protected Securities, or TIPS, with at least one year remaining to maturity.

MSCI AC (All Country) Asia Except Japan Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of Asia, excluding Japan. The index comprises the following developed and emerging market country indices: China, Hong Kong, India, Indonesia, Korea, Malaysia, Philippines, Singapore, Taiwan and Thailand.

MSCI Canada Index is designed to measure the performance of the large and mid cap segments of the Canada market. With 91 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Canada.

MSCI Country Indices (Australia, Brazil, Canada, Chile, Czech Republic, Egypt, Japan, Korea, Malaysia, Mexico, Thailand, United Kingdom) are constructed by identifying every listed security in the market. Securities are free float-adjusted, classified in accordance with the Global Industry Classification Standard (GICS®), and screened by size, liquidity and minimum free float.

MSCI Emerging Markets Index is a free float-adjusted market capitalization index designed to measure equity market performance of emerging markets. The index comprises these economies: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand and Turkey. Statistics are shown in U.S. dollars and local currency.

MSCI Emerging Markets Latin America Index is a free float-adjusted market-capitalization index that measures equity market performance in Latin America.

MSCI Europe, Australasia, Far East (EAFE®) Index is a free float-adjusted market capitalization index designed to measure developed-market equity performance excluding the United States and Canada.

Glossary of Indices

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MSCI Europe Index is a free float-adjusted market capitalization weighted index designed to measure the equity market performance of the developed markets in Europe. The index comprises the following country indices: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom.

MSCI Europe ex UK Index captures large and mid cap representation across 14 Developed Markets (DM) countries in Europe*. With 342 constituents, the index covers approximately 85% of the free float-adjusted market capitalization across European Developed Markets excluding the UK.

MSCI Japan Index is an unmanaged index considered representative of Japanese stocks. The index is computed using the net return, which withholds applicable taxes for non-resident investors.

MSCI Pacific Index is a free float-adjusted market capitalization weighted index designed to measure the equity market performance of the developed markets in the Pacific region. The index comprises the following: Australia, Hong Kong, Japan, New Zealand and Singapore.

MSCI United Kingdom Index is designed to measure the performance of the large and mid cap segments of the UK market. With 102 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in the UK.

S&P 90 was a value-weighted index based on 90 stocks.

S&P 500 comprises 500 stocks chosen for market size, liquidity and industry group representation. It is a market-value-weighted index; each stock's weight in the index is proportionate to its market value. It is one of the most widely used benchmarks of U.S. equity performance.

The S&P/IFCI Composite is a liquid and investable leading emerging market index designed to be sufficiently investable to support index tracking portfolios. It is a subset of the S&P Emerging Plus Broad Market Index, with the addition of South Korea. The S&P/IFCI Asia, Europe, Latin America and Middle East/Africe TR Indices are subsets of the S&P/IFCI Composite. These asset class indices are designed to be sufficiently investable to support index tracking portfolios and are segmented by country/region, size (large, mid, small), GICS&reg (sector/industry), and style (value/growth).

U.S. Treasury Bills Index is tracked by Lipper to provide performance for the three-month US Treasury bill.

Important Disclosures

Asset allocation: Asset allocation cannot eliminate the risk of fluctuating prices and uncertain returns.

Fixed income securities: Investing in fixed income securities involves certain risks, such as market risk if sold prior to maturity and credit risk, especially if investing in high-yield bonds, which have lower ratings and are subject to greater volatility. All fixed income investments are subject to availability and change in price and may be worth less than original cost upon redemption or maturity. In addition to market risk, there are certain other risks associated with an investment in fixed income funds, such as default risk, the risk that the company issuing debt securities will be unable to repay principal and interest, and interest rate risk, the risk that the security may decrease in value if interest rates increase.

International/emerging market securities or funds: Investing in international securities or funds that invest in these securities takes on special risk. These risks include, but are not limited to, currency risk, political risk and risk associated with varying accounting standards. Investing in emerging markets normally accentuates these risks.

Sector funds or portfolios: The investor should note that funds or portfolios that invest exclusively in one sector or industry carry additional risks. The lack of industry diversification subjects the investor to increased industry-specific risks.

Non-diversified funds or portfolios: Non-diversified funds or portfolios that invest more of their assets in a single issuer involve additional risks, including share price fluctuations, because of increased concentration of investments.

Small-cap securities or funds: The prices of small- and mid-cap company stocks are generally more volatile than large-company stocks. They often involve higher risks because small- and mid-cap companies may lack the management expertise, financial resources, product diversification and competitive strengths to endure adverse economic conditions.

High-yield bonds or bond funds: Investing in lower-rated debt securities (commonly referred to as junk bonds) or funds that invest in such securities involves additional risk because of the security's or fund portfolio's lower credit quality. These securities or funds are subject to a higher level of volatility and increased risk of default, or loss of principal. In addition to market risk, there are certain other risks associated with an investment in a convertible bond, such as default risk, the risk that the company issuing debt securities will be unable to repay principal and interest, and interest rate risk, the risk that the security may decrease in value if interest rates increase.

Real estate investment trusts (REITS): Investing in REITS involves special risks, including the potential for illiquidity of REIT securities if they are not listed on an exchange. REITS have limited historical data, and their historical behavior has varied over time.

Government bonds and Treasury bills: Government bonds and Treasury bills are guaranteed by the U.S. government, and if held to maturity, offer a fixed rate of return and principal.

Stocks: Stocks are not guaranteed, represent ownership in a company and offer long-term growth potential but may fluctuate more and provide less current income than other investments.

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