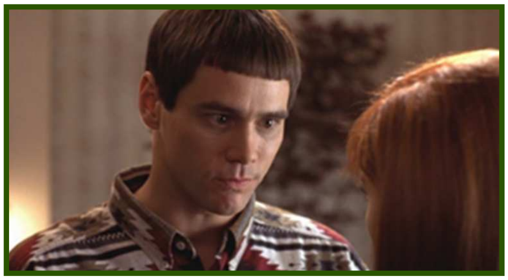
First Quarter 2017

The Copeland Review

"We believe that stocks with sustainable dividend growth consistently outperform the market with less risk."



So You're Telling Me There's a Chance

LLOYD: "What do you think the chances are of a guy like you and a girl like me ending up together? … What are my chances?"

MARY: "Not good."

LLOYD: "You mean, not good, like one out of a hundred?"

MARY: "I'd say, more like one out of a million."

LLOYD: "So you're telling me there's a chance?"

\- *Dumb and Dumber*, 1994

Many investors have been conditioned to believe that their likelihood of outperforming the market is akin to Lloyd's chances of settling down happily ever after with Mary. Every day it seems that we read an article or see an interview in which we're reminded that money continues to flow into passive investment vehicles on just such an assumption. However, despite the widely held nature of this view, we believe it is misguided.

We submit that the odds for our portfolios are far better than "one in a million," with very favorable chances of outperforming their benchmarks over time because of our disciplined Dividend Growth investment approach. By rigorously identifying and researching companies with strong future dividend growth potential, we actively tilt the odds of investment success in our favor.

In this Review, we emphasize how we believe that investors can (1) outwit the market by owning only dividend growers, (2) purchase higher growth companies at discounted valuations, and (3) outperform during periods of rising interest rates.

Outwitting the Market

With data provided by Ned Davis Research, Chart 1 illustrates the odds of beating the benchmark by owning different types of stocks based on dividend policy in rolling periods since 1981. Relative to other "buckets" of companies, Dividend Growth has performed well during shorter time frames – one- and three-year rolling periods – and even better over five- and ten-year rolling periods, besting the benchmark 85% and 92% of the time, respectively. By contrast, the results for all other categories are markedly lower, including odds for non-dividend payers of only 34% on a one-year basis and a meager 16% on a ten-year basis.

As described in these pages before, we believe the reason behind outperformance can be summarized as follows: Dividend Growers tend to have competitively advantaged business models, strong financial underpinnings, disciplined management teams, and a committed dividend policy, all of which support a rising dividend as well as provide significant downside protection. These attributes help avoid company specific pitfalls that are more frequent among non-dividend paying companies.

Higher Dividend and Earnings Growth - at a Discount!

In addition to the above factors, we believe the underlying pace of dividend growth is an important contributor to a stock's total return potential. Specifically, our research suggests that there is a close correlation between the rate of a company's dividend growth and the appreciation of its share price over time. So, we seek to own companies with above average dividend growth profiles. Some investors are surprised to learn that these companies also tend to have above average rates of earnings growth to sustain both critical business reinvestment and higher dividends.

Notably, the pace of dividend and earnings growth for Copeland's strategies typically exceeds that of the corresponding benchmark, often by a wide margin. Chart 2 (on page 2) shows the one-year pace of dividend and earnings growth for the quarter-end holdings of Copeland's Small Cap, Mid Cap, Large Cap, and All Cap domestic strategies relative to their respective benchmarks. As illustrated, the stocks that we hold continue to post outsized dividend and earnings per share growth versus their benchmarks.

Amazingly, despite evidence of outperformance and generally higher growth profiles, dividend growers are seemingly being

Chart 1. Improving the Odds by Owning Dividend Growth Stocks – Outperformance During Rolling Periods from March 1981 through December 2016

Category	One Year Rolling	Three Year Rolling	Five Year Rolling	Ten Year Rolling
All Cap Dividend Growers	68%	71%	85%	92%
All Cap Flat Dividend Payers	46%	14%	36%	48%
All Cap Non-Dividend Payers	34%	20%	23%	16%
All Cap Dividend Cutters	30%	33%	25%	31%

Source: Ned Davis Research. The information presented is intended to illustrate performance of All Cap stocks according to their dividend policy. All returns shown are annualized and include dividends reinvested. This is not the performance of any strategy overseen by Copeland and there is no guarantee that investors will experience the type of performance reflected in the information presented. Strategies managed by Copeland's investment team are subject to transaction costs, management fees, trading fees or other expenses not represented in the information presented. There is no guarantee that companies will declare dividends or, if declared, that they will remain at current levels or increase over time. You cannot invest directly in an Index. Please refer to the Disclosure Section for other important information.

ignored by the market. Last quarter, we noted that it was the only time in the last 30 years that high dividend yield stocks were ever more expensive than high dividend growth stocks, with the latter trading at a 2% discount to the former compared to a historical premium of 38%! At the end of the March quarter, the valuation discount of high dividend growth stocks versus high dividend yield stocks widened further, increasing to 4%. And, relative to the Russell 3000 Index, high dividend growth stocks were at an 11% discount, actually trading below the moderate discount of high dividend yield stocks, which typically trade a much wider discount to the market (see Chart 3).[1]

The chase for yield in a low interest rate environment has driven high dividend yield stocks upward in recent years, but we are perplexed by the magnitude of the dividend growth discount to the market and to high yield stocks. It is possible that this "trade" may remain en vogue if the 10-Year Treasury rates stay at or below current levels (2.40% at quarter-end), in defiance of recent Federal Reserve actions to raise short-term rates (the current target Fed Funds rate is ¾ to 1 percent with a projection for 1.4% at year-end 2017).[2] Or, the trade may be poised for a reversal should long-term interest rates move upward, aided by rising inflation or better economic growth prospects.

The bottom-line: the slope of the yield curve is extremely difficult to forecast and pundits regularly miss the mark. However, we are comfortable in saying that – at some point – we expect a return to the historical valuation premium garnered by dividend growth companies relative to the benchmark. Such a premium is justified, in our view, by their typically strong and growing cash flows that drive rising dividend streams.

Interest Rate Concerns Misplaced for Dividend Growth Stocks

Clients continue to ask about the impact of rising rates on dividend growth stocks. The good news is that, relative to other categories of stocks, Dividend Growers have outperformed during historical rising rate environments. If rates do rise meaningfully, Dividend Growth stocks should benefit on a relative basis compared to the broader market.

Chart 4 (next page) demonstrates how All Cap equities, broken down by dividend policy using Russell 3000 Index constituents, have performed during historical rising rate environments. As illustrated, Dividend Growers have historically been the best performer. We believe the favorable performance is explained by the attributes discussed earlier, particularly strong market positions that support growth through economic cycles.

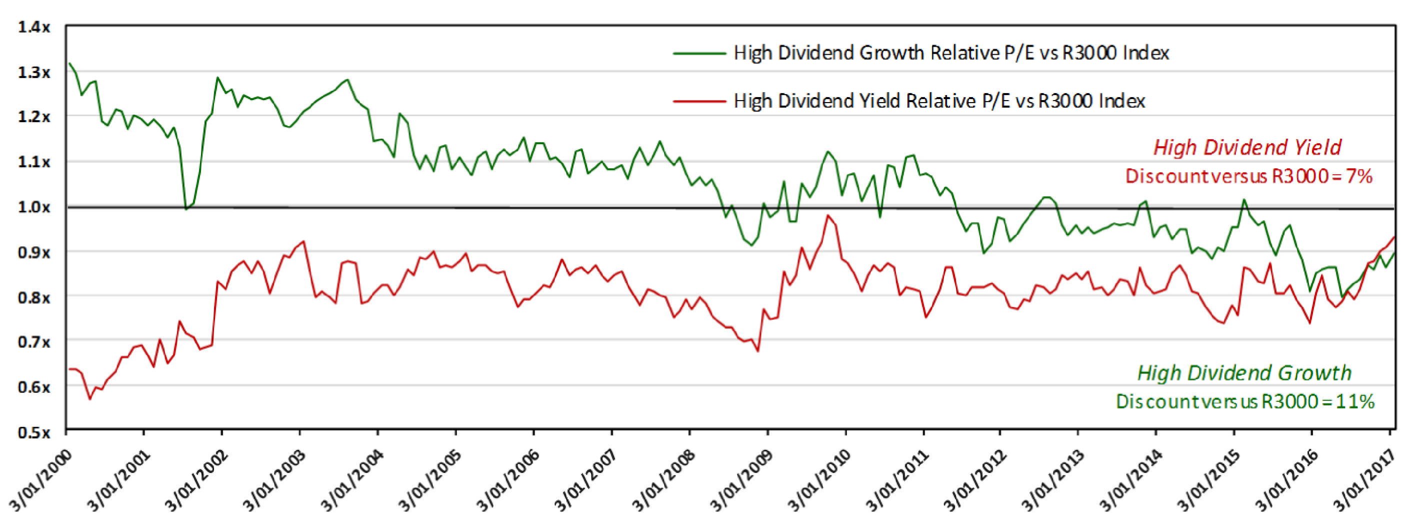
For insight into Copeland's direct experi-

Chart 2. Copeland's Pace of Dividend and Earnings Growth: Small Cap, Mid Cap, Large Cap, and All Cap versus Relevant Benchmarks

	SMALL CAP		MID CAP		LARGE CAP		ALL CAP	
Summary as of 3/31/17	CCM SC	R2000 Index	CCM MC	RMID Index	CCM LC	S&P 500 Index	CCM AC	R3000 Index
One-Year Dividend Growth (% CAGR)	12%	5%	12%	6%	15%	7%	14%	7%
One-Year EPS Growth (% CAGR)	13%	6%	10%	2%	6%	3%	7%	3%

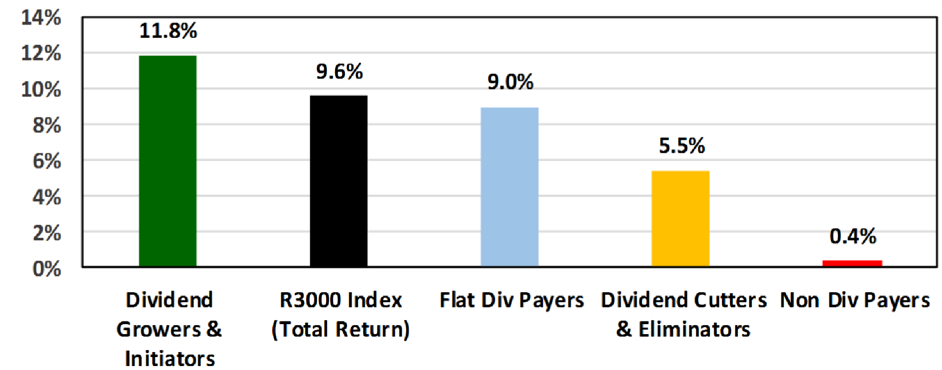
Sources: FactSet and CCM. Compound annual growth rates (CAGRs) calculated using aggregate ordinary dividends and aggregate earnings on a trailing twelve-month basis compared to the same figure for the prior period. For information on the Indexes shown above as well as other important information, please refer to the Disclosure Section.

Chart 3: At 3/31/17, High Dividend Growth Stocks Traded Near All-Time Lows while High Dividend Yield Stocks Traded Near All-Time Highs Relative to the Russell 3000 Index



Source: FactSet and CCM. Past performance is no guarantee of future results. For information on the Index shown above as well as other important information, please refer to the Disclosure Section.

Chart 4. Performance of All Cap Stocks by Dividend Policy During Rising Rate Periods



Sources: Ned Davis Research, CCM. The information presented is intended to illustrate performance of All Cap stocks according to their dividend policy during periods of rising interest rates as determined by the Fed Funds rate. All returns shown are annualized and include dividends reinvested. This is not the performance of any strategy overseen by Copeland and there is no guarantee that investors will experience the type of performance reflected in the information presented. Strategies managed by Copeland's investment team are subject to transaction costs, management fees, trading fees or other expenses not represented in the information presented. There is no guarantee that companies will declare dividends or, if declared, that they will remain at current levels or increase over time. You cannot invest directly in an Index. For information on the Index shown above as well as other important information, please refer to the Disclosure Section.

ence, we can again revisit what happened in 2013. Readers may recall that 2013 saw the strongest annual returns since the market crash of 2008 and that year also saw the yield on the 10 Year US Treasury surge to a high of 3.0% in December from a low of 1.6% in May. The Russell 2000 and the Russell Mid Cap Indices were up 39% and 35%, respectively. Yet, Copeland's Small Cap and Mid Cap strategies outperformed those benchmarks by only owning Dividend Growth stocks. Meanwhile, the rapid spike in interest rates caused value and high yield stocks to lag.[3]

The Market Tends to Confound

The now eight year market uptrend has been fueled by accommodative global central bank policies and characterized by tepid economic recovery. Market volatility has been muted. Yet, market movements and results continue to astonish and even humiliate the most seasoned experts.

For example, during the first quarter, the level of consumer and business confidence readings remained elevated and optimistic, but tapered somewhat in March as certain post-election euphoria faded.[4] At the same time, the NFIB's Uncertainty Index spiked upward in March to its second highest reading in the survey's history.[5] The gauge hit a 42-year high in November, but fell after the election. With the latest resurgence, the NFIB commented that "More small business owners are having a difficult time anticipating the factors that affect their businesses, especially government policy." Finally, in the credit markets, the prevailing view that long-term interest rates will rise is in question as the Treasury yield curve is flattening with long-term rates falling and short-term rates rising on Federal Reserve actions.

It is still too early to ascertain whether generally positive market psychology will translate into meaningfully improved economic and earnings growth. As noted, levels of policy uncertainty have increased and, in many cases, broad valuation metrics suggest that equity valuations are stretched. Meanwhile, the pace of growth has been decelerating as the economic cycle becomes more mature.

At some point, volatility will revisit the market and may rain on the market's upward parade. In this scenario, it is worth noting that downside capture – the amount by which an investment strategy declines versus its benchmark during a market decline – tends to be much lower for dividend growth stocks. For All Cap dividend growers from 1981 through 2016, downside capture was only 79% versus 150% for dividend non-payers, 100% for flat payers, and 117% for dividend cutters.[6] Meanwhile, investors in passive benchmark strategies are destined to experience exactly 100% of the downside and 100% of the upside, which is to say, they will receive average performance over time.

Go with the Odds!

While we are quick to relay the obligatory disclaimer that past performance is no guarantee of future performance, we like the chances for our Dividend Growth approach. History reveals that Dividend Growth stocks have consistently outperformed the benchmark through the decades, with far less risk or volatility along the way.

As a result, we focus on what we know and what we can control: leveraging our disciplined quantitative and fundamental research process to select the best possible dividend growth stocks for our domestic and international portfolios. We are not simply chasing incredibly long odds as Lloyd was with Mary, but making a well-informed investment choice. As an investment team, we happily "eat our own cooking" by investing alongside our clients across our strategies.

Today, as described above, our portfolios are positioned with meaningfully higher dividend and earnings growth, but Dividend Growth stocks trade at discounted valuations. We continue to believe that the apparent valuation disconnect could prove to be a very attractive entry point for dividend growth stocks.

April 2017

[1] *FactSet.*

[2] *Federal Reserve https://www.federalreserve.gov/monetarypolicy/fomcprojtabl20170315.htm*

[3] *FactSet.*

[4] *Trading Economics US Consumer and Business Confidence readings http://www.tradingeconomics.com/united-states/indicators*

[5] *NFIB http://www.nfib.com/surveys/small-business-economic-trends/*

[6] *Ned Davis Research and CCM.*

About Copeland Capital Management — Copeland Capital Management is an employee owned, registered investment adviser with offices in Conshohocken PA, Wellesley MA and Atlanta GA. The firm specializes in managing Dividend Growth strategies for both institutions and high net worth individuals. For more information, please contact Chuck Barrett, Senior Vice President - Director of Sales and Marketing at (484)351-3665, cbarrett@copelandcapital.com or Robin Lane, Marketing Manager at (484) 351-3624, rlane@copelandcapital.com.

Disclosure Section:

The views expressed herein represent the opinions of Copeland Capital Management and are subject to change based on market, economic or other conditions. These opinions are not intended to be a forecast of future events, a guarantee of future results or investment advice. All data referenced is from sources deemed to be reliable, but cannot be guaranteed as to accuracy or completeness. All investments are subject to risk including possible loss of principal.

Past performance is no guarantee of future results. *There is no guarantee that companies will declare dividends or, if declared, that they will remain at current levels or increase over time. Returns for periods of greater than one year are annualized. The returns shown in the Charts herein include dividends reinvested. The historical data are for illustrative purposes only and do not represent the performance of any strategy overseen by Copeland strategy or any particular investment, and there is no guarantee that investors will experience the type of performance reflected in the information presented. Strategies managed by Copeland's investment team are subject to transaction costs, management fees, trading fees or other expenses not represented in the information presented. A stock is classified as a* ***dividend payer*** *if it paid a cash dividend any time during the previous 12 months, a* ***dividend grower*** *if it initiated or raised its cash dividend at any time during the previous 12 months, and a* ***non-dividend payer*** *if it did not pay a cash dividend at any time during the previous 12 months.*

 Ned Davis Research adjusted its calculation method as of December 31, 2014 to capture only those names that meet a certain liquidity threshold in order to better represent the investable universe. As a result, historical performance information may differ from previously disseminated performance information for stocks according to their dividend policy. This is not the performance of the firm and there is no guarantee that investors will experience the same type of performance. Dividend Growers included stocks that raised their existing dividend or initiated a new dividend during the previous 12 months. Flat Dividend Payers included stocks that pay a dividend but have not raised or lowered their existing dividend during the previous 12 months. Non-Dividend Payers included stocks that have not paid a dividend during the previous 12 months. Dividend Cutters included stocks that lowered their existing dividend or eliminated their dividend during the previous 12 months.

The Indexes mentioned are unmanaged, are not available for investment and do not incur expenses. The ***Russell 2000® Index*** *is comprised of the smallest 2000 companies in the Russell 3000® Index. The* ***Russell 3000® Index*** *measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market. The* ***Russell Mid Cap® Index*** *is comprised of the 800 smallest companies in the Russell 1000® Index. The Russell 1000® Index measures the performance of the 1000 large cap U.S. companies based on total market capitalization, which represents approximately 90% of the investable U.S. equity market. The* ***S&P 500® Index*** *is a market-capitalization-weighted index of the stocks of 500 leading companies in major industries of the U.S. economy. You cannot invest directly in an index.*

Definitions

Dividend Yield *is a company's total annual dividend payments divided by its market capitalization, or the dividend per share, divided by the price per share.*

Dividend Growth Rate *is the annualized percentage rate of growth that a particular stock's dividend undergoes over a period of time.*

The material in this letter is for informational purposes only. It represents an assessment of the market environment at a specific point in time and is intended neither to be a guarantee of future events nor as a basis for any investment decisions. It should also not be construed as advice meeting the particular needs of any investor. Neither the information presented nor any opinion expressed constitutes a solicitation for the purchase or sale of any security.

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