

# Relative Value and Dividend Growth

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With the core advantages of customization and a direct dialogue in mind, Copeland Capital Management provides six investment strategies as part of its SMA product line-up. Portfolio managers Mark Giovanniello and Eric Brown offer insights into the firm's Concentrated All Cap Relative Value Strategy and the Dividend Growth Strategy, whose common focus is on high quality businesses that are temporarily out of favor.

"Our investment philosophy endeavors to purchase the securities of high quality business models when they are out of favor, at a time when there is a catalyst in place to return them to favor."

**Q: What is the history of the firm?**

**A:** Copeland Capital Management, LLC was founded in 2005 and the Dividend Growth strategy was launched at that time. On July 31, 2009, we merged with Rorer Asset Management and are now headquartered in Conshohocken, Pennsylvania, while maintaining an office in Wellesley, MA. The Rorer team brought its Relative Value strategy, available in Large Cap, Mid Cap, Small Cap and All Cap market capitalizations, as well as Fixed Income strategies to Copeland. Currently, we manage a total of six investment strategies and the firm's assets under management are \$120 million.

**Q: What are the major benefits of investing in Separately Managed Accounts as opposed to mutual funds?**

**A:** Separately managed accounts are set up for each investor's unique risk tolerance and investment objectives as opposed to a mutual fund where an investor is at the mercy of the fund's direction. An investor in a separately managed account has a direct relationship with a fund manager, which is not possible in mutual fund investing.

Moreover, investors in SMAs have much greater control over the portfolio gains and losses realized each year, and can avoid the burden of accumulated unrealized gains from prior periods that can be present in many funds, a major assist to tax planning.

**Q: Who are your typical clients? What is the minimum requirement for investing in your SMA products?**

**A:** We manage portfolios for high net worth individuals and all types of institutions, including corporate pension plans, educational and religious endowments, charitable foundations, healthcare institutions, and municipalities.

Generally, the minimum investment is \$250,000. Client asset levels range from this level up to \$10 million.

**Q: What core beliefs drive your investment philosophy for the Concentrated All Cap Relative Value Strategy as well as the Dividend Growth Strategy?**

**A:** In both strategies we endeavor to purchase the securities of high quality business models when they are out of favor, and where we can identify a catalyst that will enable appreciation to our estimation of fair value. We are valuation oriented but we feel it is important to invest in great business models with strong growth drivers, not just cheap stocks. Our goal is to achieve total returns and risk-adjusted returns superior to the respective benchmark for each strategy.

## Copeland Capital Management

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### Concentrated All Cap Relative Value Strategy

PORTFOLIO FACTS		
Inception		2006
Weighted Avg Mkt Value *	\$29,777	
Median Cap *	\$8,059	
P/E - Next 12 Months	17.2	
PE/G	1.2	
Dividend Yield	0.7	
Standard Deviation	23.6	
Beta	1.06	

PERFORMANCE VS. S&P 1500 INDEX		
	Composite	Index
2009	29.9%	27.3%
2008	-38.1%	-36.7%
2007	15.5%	5.47%

PERFORMANCE VS. RUSSELL 3000 INDEX		
	Composite	Index
2009	29.9%	27.9%
2008	-38.1%	-38.3%
2007	15.5%	5.2%

### Dividend Growth Strategy

PORTFOLIO FACTS		
Inception		2005
Weighted Avg Mkt Value *	\$65,422	
Median Cap *	\$37,410	
P/E - Next 12 Months	16.0	
PE/G	1.5	
Dividend Yield	3.0	
Standard Deviation	14.76	
Beta	0.82	

PERFORMANCE VS. S&P 1500 INDEX		
	Composite	Index
2009	16.7%	26.5%
2008	-27.8%	-37.0%
2007	10.8%	5.5%

PERF VS. MERGENT DIVIDEND ACHIEVERS INDEX		
	Composite	Index
2009	16.7%	11.3%
2008	-27.8%	-29.3%
2007	10.8%	N/A

INVESTMENT PROFESSIONALS		
Eric Brown, CFA	CEO, Portfolio Mgr	
Mark Giovanniello, CFA	CIO, Portfolio Mgr	
Robert Leininger, CFA	Portfolio Mgr	
David McGonigle, CFA	Portfolio Mgr	
Edward Rorer	Chairman	
James Spencer, CMT	Dir of Fixed Income	

\* millions  
 12/31/2009; Source: Company Documents



**ERIC BROWN** is the Founder and Chief Executive Officer of Copeland Capital Management. He is a partner at the firm and the Lead Portfolio Manager for the Dividend Growth Strategy. Brown is a member of the investment policy committee and also a member of the management committee. Prior to forming Copeland Capital Management, LLC, Brown was a Senior Portfolio Manager with The Colony Group in Boston, MA. He holds Chartered Financial Analyst designation.



**MARK GIOVANNIELLO** is the Chief Investment Officer at Copeland and a partner at the firm. Prior to joining Copeland in August 2009, Giovanniello was lead portfolio manager for the Mid-Cap strategy at Rorer Asset Management. Before joining Rorer, Giovanniello spent six years at The Colony Group in Boston, Massachusetts, where he was the Director of Research and portfolio manager for the Mid-Cap strategy. He holds Chartered Financial Analyst and Certified Public Accountant designations.

**Q: How does your philosophy translate into an investment strategy?**

**A:** The All Cap and Dividend Growth each have a specific investment strategy.

In the All Cap Relative Value, our relative valuation model removes from the investable universe all stocks that are trading at a premium to their historical averages relative to the market index. Key metrics considered include price to earnings, price to sales, price to book, price to cash flow and dividend yield, all of which are measured based on the stock's historical valuation levels relative to the market. We then quantitatively rank all remaining stocks to help identify those with a strong competitive advantage and emerging operational momentum. The portfolio is characterized by moderate valuations and strong free cash flow, earnings momentum and return on capital.

The All Cap Relative Value has been designed to have a "go-anywhere, unconstrained" approach which focuses on the best ideas of the Large Cap, Mid Cap and Small Cap Relative Value portfolios. Approximately 25-35 securities are selected with position sizes typically larger than that of the other more diversified Relative Value strategies. There are no sector, industry or capitalization constraints. The philosophy underpinning this approach posits that the All Cap portfolio can capture the full benefit of the portfolio manager's investment skill by ignoring benchmarks and fully utilizing the output of the quantitative models and research staff. The All Cap targets equities with a market capitalization above \$250 million at purchase that we feel possess a dominant competitive advantage and an attractive relative valuation.

In the Dividend Growth strategy, we target equities with a market capitalization over \$250 million and ten-year history of consecutive dividend increases. We will then screen companies to identify those possessing both a dominant competitive position, as reflected in elevated return on capital, and those generating substantial and growing free cash flow. Finally, we diversify portfolios by sector to deliver steadier returns over time. Our ultimate goal is to generate a superior level of income and total return while taking on considerably less risk than the broader market.

Our dividend growth focus ensures that we are fishing from a pool of companies that have both consistently grown cash flows and earnings over time and have bestowed these earnings upon shareholders in the form of an ever increasing income stream. Our focus on steady cash flow generation guides us towards companies with a proven history of creating shareholder value. The historical performance of dividend growers versus just dividend payers and non-dividend payers offers compelling evidence as to the merits of a dividend growth investment strategy.

**Q: How would you describe your research process?**

**A:** We employ a disciplined process that governs purchases and sales. The research process for each strategy begins with our macroeconomic research and technical review of all market sectors. Our investment committee meets daily to discuss the fundamentals of individual stocks and the constantly evolving economic environment. Quantitative models designed specifically for each of the Dividend Growth and Relative Value strategies rank the investment universe by quality as well as timing factors. Top ranked stocks are candidates for purchase. Analysts utilize SEC filings, quarterly reports, industry conference, management interviews and data compiled by our research platform to complete the analysis.

In the Concentrated All Cap Relative Value, we review the daily output of our Relative Value model which determines our investable universe of stocks. These stocks are then ranked to determine those with the best combination of valuation, earnings momentum, and quality, as reflected in various return on capital and cash flow generation factors. Research analysts implement a disciplined fundamental review of top stocks, specifically looking for evidence of sustainable competitive advantage and investment catalysts. We consider barriers to entry, pricing power, market concentration, market share gains and an industry's competitive discipline as evidence of competitive advantage. Catalysts can include upcoming events such as a regulatory decision, a merger or acquisition, an earnings report or guidance, or a turn in macroeconomic environment. Our analysts also consider the top down macro outlook and major investment themes identified by the investment team in considering specific equities. Technical analysis is another component of the selection process of individual securities.

In our Dividend Growth Strategy, we focus our investments on companies that have increased their dividend in each of the past ten years. This guides our research efforts to roughly 300 companies that have consistently grown cash flows and earnings. We then run portfolio candidates through a proprietary quantitative screen to identify those companies that are best positioned for future growth. Our focus is not solely on those companies that have high absolute yields but also on those that have paid steadily rising dividends in the past and are fundamentally positioned to distribute ever growing payments in the future. We specifically focus on metrics like return on capital, cash flows, yield, valuation, profitability, growth, and earnings momentum in identifying equities best positioned for continued growth. We use relative strength as a complement to our fundamental analysis. We monitor relative price trend data on all of the equities in our universe, in combination with our fundamental work, as an objective check.

**Q: Could you give some examples to illustrate your research process?**

**A:** For instance, in the Concentrated All Cap Relative Value Strategy, we purchased Apple Inc. in April 2006. At the time, the company was still mainly known for designing attractive and user-friendly computers. We saw that the firm was emerging as major player on the cutting edge of handheld entertainment, then with the Ipod music player but more recently with the iPhone and iPad.

Prior to our purchase, the stock dropped on concerns over a maturing music business. We saw that earnings momentum remained strong and believed that new Ipod models would soon refresh the product cycle. We were able to purchase the stock at a substantial discount to its historical relative valuation levels. For example the relative P/E was 1.7x the market vs a long term average closer to 3x.

We were attracted to the competitive advantage of the company, which was a combination of very strong brand identity, a track record of innovation, and more importantly the iTunes and the Application Stores which significantly increased the switching costs for consumers considering competing products.

The company has a great financial business model reflected in the huge cash flows generated and very low capital intensity, which results in a high return on capital. The result is a strong quantitative score in our ranking system. Apple was an out-of-favor stock emerging as a leader of an exciting new handheld device market, which was the catalyst we saw that would lead to higher valuation levels.

Praxair, a global provider of industrial gases, exemplifies the type of company that we look to purchase in our Dividend Growth Strategy. Founded in 1907, Praxair is one of the largest industrial gases companies in the world. The company has increased its dividend for 18 consecutive years, dating back to 1992. Over the last five years, the dividend has grown at an average annual rate of 20% per year. The company currently offers an above market yield of 2%. Despite the tumultuous economic environment, Praxair recently increased its payout by 12%.

Praxair scores extremely well in our quantitative model, reflective of strong cash flow growth, improving margins and an attractive valuation. The industrial gas business is dominated by a few key players, which enables rational price competition in the industry. The product can't be delivered economically over long distances, an entry barrier to potential producers from lower cost countries. From a price perspective, Praxair has outperformed the market on a two, five and ten year basis, reflecting its superior growth and business model. Lastly, the company is well diversified geographically garnering roughly half of its earnings overseas and over 30% in emerging markets. With economic concerns abating, we feel earnings improvement and dividend hikes will be significant upcoming catalysts.

**Q: How many names do you typically hold in your portfolios and what are their relevant benchmarks?**

**A:** The Concentrated All Cap Relative Value focuses on the best ideas of the Large Cap, Mid Cap and Small Cap portfolios. Approximately 25 to 35 securities are selected with position sizes typically 3-5% with a maximum of 8% at market value. There are no sector, industry or capitalization constraints. The benchmark for this strategy is the Russell 3000 Index.

In the Dividend Growth Strategy, the portfolio holds approximately 35 stocks, focused on 10 year dividend growers, supported by relative price strength and backed by fundamental analysis. The benchmark is the S&P 500 index. The position size is typically 2% for small or mid cap companies and 3% for large cap companies with 5% being the maximum position size.

**Q: What is your sell discipline? Do you establish a target price to sell?**

**A:** We believe our sell process is unique in its inclusion of rigid rules that eliminate the emotion often associated with the decision of whether or not to sell a stock. These disciplines enhance our ability to realize profits when they are available and to conserve capital when circumstances dictate caution.

In the Concentrated All Cap Relative Value Strategy, analysts set a price target on each stock based on a 12-18 month outlook. When that target is achieved the stock is sold unless the analyst can re-establish a new thesis for further appreciation potential in a presentation to the investment team. In addition, any stock will be sold when the fundamentals no longer justify the original investment thesis which may be reflected in quantitative deterioration. We monitor every stock's relative performance, quantitative scoring and technical health on a daily basis in order to identify the need to take action.

In addition to these processes, as part of the Dividend Growth strategy, if a company cuts its dividend it would be sold from the portfolio. By constantly monitoring the quantitative ranking of each stock in the Dividend Growth Portfolio, we are able to readily identify stocks that may merit further review. In particular, factors are used to red flag stocks which may be forced to cut their dividend.

**Q: How do you view risk in your portfolios and what do you do to control it?**

**A:** In the Concentrated All Cap Relative Value Strategy, we start out by investing in companies with the highest quality business models and inexpensive relative valuations, which limits downside risk. We then diligently monitor the relative performance, earnings momentum, and quantitative ranking of stocks on a daily basis. Unlike our other strategies, the All Cap purposely does not seek to diversify risk via sector and industry limits.

For the Dividend Growth strategy, risk is managed in a number of ways. Dividend growth stocks have consistently outperformed the broader market with considerably less volatility. The strength of the dividend universe and the underlying businesses provides tremendous protection in down markets. Portfolios are well diversified by sector, industry and by market capitalization to engender steadier returns over time. Lastly, position sizes are limited so as to minimize security specific risk.