The Copeland Review

First Quarter 2025

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

Severance*

"Your outie is an exemplary person. These facts should be very pleasing. Just relax your body and be open to the facts. Try to enjoy each equally." - Ms. Casey in Severance, Season One, Episode Three

*In the Apple TV+ show, "Severance," refers to a surgical procedure that divides a person's memories between their work and personal lives.

US stocks fell during the first quarter due to mounting economic uncertainty, in part related to policy undertakings by the Trump Administration, but also because of rapid technological change in the artificial intelligence (AI) market. Volatility increased, and the more speculative, unprofitable darlings of the fourth quarter tumbled while sentiment toward quality-oriented companies grew more favorable.

As the second quarter began, President Trump unveiled his much-anticipated trade plan on "Liberation Day," making the market turbulence of the previous three months seem trivial by comparison. Promising a tough stance on global trade, the scope and scale of the tariffs introduced far exceeded expectations. With stocks falling and companies scrambling to take prescriptive action, volatility and uncertainty reached levels not seen since the depths of pandemic in 2020 or the Great Financial Crisis in 2008 (Chart 1). While most countries soon received a 90-day reprieve, the clock is ticking as they consider whether to retaliate or offer a deal to trade and invest more with America. An extremely wide and unpredictable range of outcomes is possible.

In the hit Apple TV program, "Severance," a medical procedure surgically divides

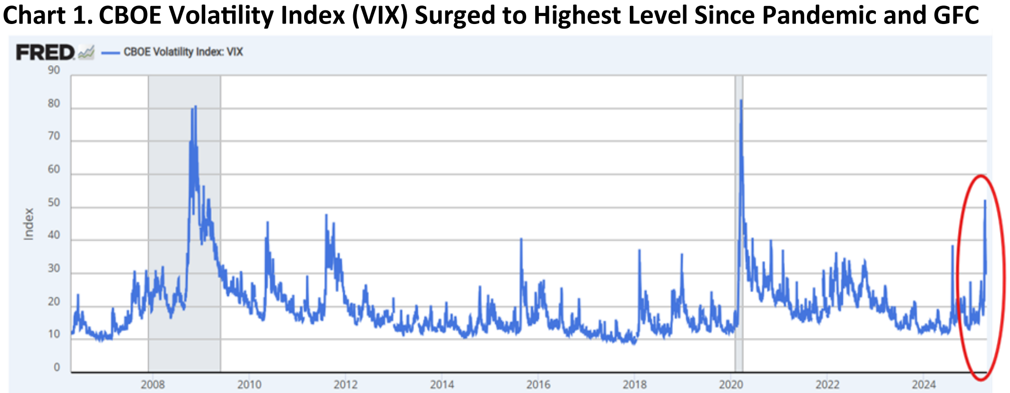
workers' memories between their work and personal lives. In the show, these are dubbed "innie" and "outie," respectively.

Similarly, in periods like this, we believe it is imperative for investors to sever their inner psyche – which might be panicked – from their outer actions, focusing on making rational, informed decisions.

In this *Review*, we highlight the following:

1. Disruption to the status quo by the Trump Administration is pushing global economic policy uncertainty to record levels, souring sentiment, and will likely dampen near-term corporate fundamentals.
2. The speculative frenzy of the fourth quarter last year reversed when the Chinese company DeepSeek AI entered the fray and reminded investors of risks related to momentum investing and rapid technological change.
3. Attempting to predict the President's next tactical move, foreign retaliation, or where tariffs may be in six months is futile and unnecessary – Copeland remains focused on selecting high quality, resilient companies that are well-positioned to achieve strong dividend growth in the long run.

Chart 1. CBOE Volatility Index (VIX) Surged to Highest Level Since Pandemic and GFC



Source: https://fred.stlouisfed.org/series/VIXCLS

Your Outie is Not Swayed by Uncertainty

Shock and awe. Realization. Acceptance. This is the typical psychological cycle for any unexpected event, and this market shock will be no different. Yes, the trauma arising from recent events may seem more severe and surprising than prior volatile periods. This feeling, according to former Fed Chair Janet Yellen, is because it was "a self-inflicted wound" to a seemingly "well-functioning economy."[1]

On the downside, students of any basic Economics course will hurry to explain that protectionist tariff policies usually lead to an immediate consumption tax, which reduces demand and creates "deadweight" loss. Further, prisoner's dilemma scenarios – cooperate or retaliate – elevate uncertainty and can create whack-a-mole policy responses leading to further distortions and making consumers even worse off. Hence, the demand and earnings outlooks for a wide range of companies have suddenly become extremely cloudy.

For his part, President Trump is aiming "to make America the manufacturing superpower of the world once again" with a focus on "critical goods."[2] To facilitate that goal, he believes that his policies are "liberating America from unfair and hostile trade practices that have hollowed out the American manufacturing base and left us reliant on other countries." Initially, numerous companies, including Nvidia, Taiwan Semiconductor, Hyundai, Johnson & Johnson, CMA CGM, and others recently announced plans to invest nearly three trillion dollars in the US.[3]

The caveat is that rebuilding a manufacturing base for the modern economy cannot happen overnight. Indeed, even as these promises of investment represent encouraging long-term signals, many US businesses rely on imported components and/or sell imported products. These companies may need to make complicated, costly changes to their business models, including potentially significant price increases to offset new costs.

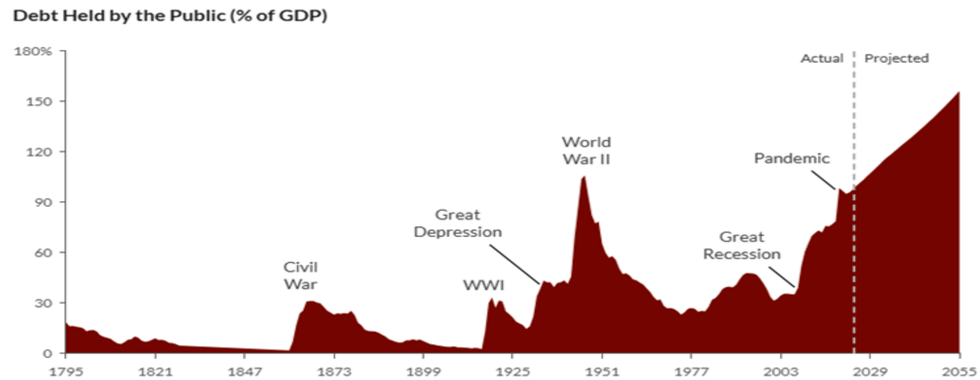
At the same time, the Department of Government Efficiency (DOGE) is rapidly searching for federal budget reductions to address the mounting US public debt burden (Chart 2). We wrote about the government's ballooning debt and deficits exactly one year ago in "It Just Doesn't Matter." Most politicians would agree that changes need to happen, though the scope and means are debated, and very few are willing to act. President Trump is unabashedly going down this path, although to materially change the debt trajectory, mandatory entitlement programs must also be reshaped, which is – so far – not on the table.

While the success or failure of the DOGE remain to be seen, these efforts and the overall reversal of pandemic-driven government stimulus create another economic headwind. Government consumption expenditures and gross investment represented a meaningful 17% of 2024 US GDP and contributed one-fifth of last year's overall 2.8% pace of growth in real GDP.[4] Meanwhile, household balance sheets are stressed as pandemic savings have been broadly depleted, leaving consumer spending firepower depleted (Chart 3).

Add it all up and the level of global, economic angst is at extreme levels. The Global Economic Policy Uncertainty Index is back near its all-time high reached during the pandemic in 2020 (Chart 4).

Understandably, the "innie" might be dazed, confused, and possibly paralyzed. Conversely, the "outie" realizes that noise, volatility, and risk factors are constant in investing. Rather than panic, the "outie" remains pragmatic and capable of both

Chart 2. Mounting US Debt Burden



Source: Peter G. Peterson Foundation https://www.pgpf.org/our-national-debt/

staying the course and acting upon opportunities that arise during a period of unease.

Your Outie Seeks Competitive Moats, Not Memes

Amidst the tariff hubbub, the speculative craze that dominated the fourth quarter of 2024 has all but been forgotten. Recall that extreme euphoria drove companies related to quantum computing, AI, and space exploration meaningfully higher late last year, regardless of underlying fundamentals. For example, within the Russell 2500 Index, only three of the top 25, and none of the top 10 performing stocks were profitable in 2024.[5] Even more remarkable, for those top 10, no profits were expected for 2025 or even 2026.[5]

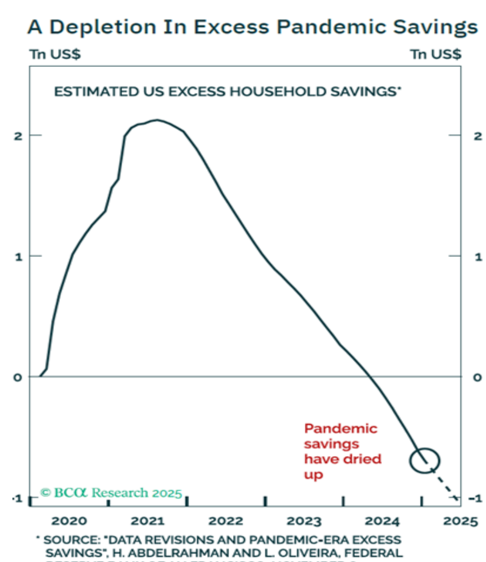
The frenzy carried into early 2025, but reversed when a Chinese company, DeepSeek AI, surfaced from obscurity and released its AI model. Out of the gate, the model rivaled its American counterparts in terms of performance despite being built with a minimal budget and utilizing less powerful semiconductors.[6] Notably, the model requires far less energy to operate relative to other leading models.[7] Since that time, DeepSeek AI announced model upgrades that are even more efficient, as have Google, Meta, OpenAI, Anthropic, and others.[8]

Alas, dramatic technological change often strikes when it's least expected. The landscape is dynamic and sometimes the leader today is not the leader tomorrow. This realization altered the speculative market mindset and brought renewed focus on the financial return of massive AI-related capital investments, as well as the importance of profits and valuation.

Of course, human nature can be fickle. The "innie" might desire quick riches promulgated by purveyors of hot tips, exciting themes, and even unprofitable "meme" stocks. While some speculations can pan out, the vast majority come up short and many fail spectacularly.

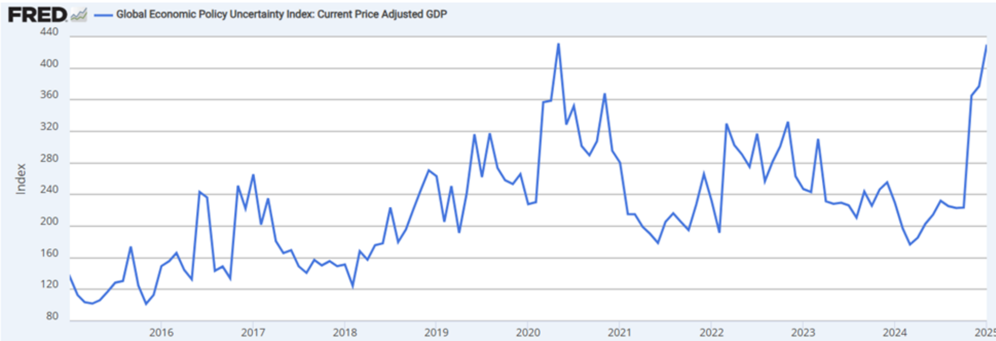
The previously noted pragmatic "outie" retains a disciplined focus on understanding attributes of each business as an owner. No fad or casino-like gamble. Rather, the desire is to own businesses that will be bigger, better, and stronger over the long-term, producing earnings and dividends that both rise over time.

Chart 3. Goodbye to "Excess" Savings



Source: BCA Research, Strategy Outlook, March 2025

Chart 4. Global Economic Policy Uncertainty Index Near All-Time High



Source: https://fred.stlouisfed.org/series/GEPUCURRENT

Your Outie Follows a Consistent, Long-Term Investment Philosophy

Fortunately, renewed investor emphasis on fundamentals brought favor to quality dividend growth stocks during the March quarter. With volatility spiking further upward in April, our experience indicates that dividend growth can provide downside protection, just as it has in past market declines. This is a reward for our "outie," who invests with a long-term view in high quality, competitively advantaged businesses. As evidence, Chart 5 illustrates both lower volatility and downside capture relative to respective benchmarks for Copeland's strategies since inception through the end of the first quarter.

At Copeland, in times of uncertainty the process does not change. Any investment decision hinges on a measured analysis of risk versus reward, acknowledging that idiosyncratic and market risks can plague a given business at any time. There are never any guarantees that an investment will increase in value. Yet, we believe that our process can help identify the likelihood of a business enduring periods of turmoil unscathed, and potentially emerging with an enhanced competitive position. How? By following capital allocation decisions and dividend signals put forth by companies.

Many investors are now searching for the "all clear" signal indicating when the market will bottom and when to increase equity exposure, whether to cyclical, more aggressive "high beta," or other types of stocks. We suggest that this type of search amounts to a risky, low success endeavor.

Instead, our "outie" astutely realizes that dividend actions are a signal worth monitoring on a company-by-company basis. Actions speak louder than words. Promises of growth are not actions and may turn out to disappoint investors.

Alternatively, a dividend signal is far more reliable. A board of directors that decides to increase a company's dividend must believe that earnings and cash flow will rise over time. Conversely, if a board lacks confidence in the outlook, it may opt to hold the dividend flat or – worse – reduce it.

Chart 5. Copeland Dividend Growth Approach Provides Downside Protection

Since Strategy Inception through 3/31/2025			Volatility (Standard Deviation)		Downside Capture	
Copeland Strategy	Inception Month	Benchmark	Copeland	Benchmark	Copeland	Benchmark
US Micro Cap	February 2015	Russell Micro Cap Index	17.7%	22.4%	65%	100%
US Small Cap	October 2009	Russell 2000 Index	16.6%	19.9%	75%	100%
US Smid Cap	October 2013	Russell 2500 Index	15.9%	18.7%	78%	100%
US Mid Cap	January 2011	Russell Mid Cap Index	14.1%	16.5%	80%	100%
US Large Cap	January 2006	S&P 500 Index	14.1%	15.3%	86%	100%
US All Cap	January 2016	Russell 3000 Index	15.3%	16.1%	88%	100%
Inter Small Cap	January 2017	MSCI World Ex USA Small Index	15.7%	17.4%	82%	100%
Inter All Cap	January 2014	MSCI World Ex USA Index	13.7%	14.8%	82%	100%
Global Small Cap	January 2017	MSCI World Small Index	17.0%	18.9%	83%	100%
Global All Cap	January 2018	MSCI World Index	15.3%	16.6%	89%	100%

Source: CCM, Bloomberg. The Indexes mentioned are unmanaged, are not available for investment, and do not incur expenses. Past performance is no guarantee of future results. Please see the Disclosure section for important information about the Indexes mentioned herein.

Avoiding Whiplash

The ultimate outcome of the current global trade situation is highly uncertain. Equity markets could well be whipsawed by one headline or another, including head fakes around potential deals with major trading partners. There could be a positive surprise trade deal with China, or there could be a prolonged trade war leading to a recession.

Importantly, our "outie" stays focused, finds competitive moats, and follows the dividend. As Ms. Casey states, "these facts should be very pleasing." Further, they should allow us to navigate this challenging environment, balancing downside protection with the potential to participate in any eventual recovery.

April 2025

[1] *WSJ Janet Yellen https://www.wsj.com/livecoverage/stock-market-trump-tariffs-trade-war-04-10-25/card/yellen-calls-trump-tariff-plan-the-worst-self-inflicted-wound-that-i-have-ever-seen--gFPFTESBOK8TOKPQgoN9*

[2] *The White House https://www.whitehouse.gov/issues/economy/*

[3] *Street Insider https://www.streetinsider.com/Investing/Investment+commitments+in+U.S.+nears+%243+trillion+since+Trump+took+office/24538801.html*

[4] *BEA https://www.bea.gov/sites/default/files/2025-03/gdp4q24-3rd.pdf*

[5] *FactSet*

[6] *CNBC https://www.cnbc.com/2025/01/24/how-chinas-new-ai-model-deepseek-is-threatening-us-dominance.html*

[7] *Scientific American https://www.scientificamerican.com/article/why-deepseeks-ai-model-just-became-the-top-rated-app-in-the-u-s/*

[8] *Various https://www.reuters.com/technology/artificial-intelligence/chinas-deepseek-releases-ai-model-upgrade-intensifies-rivalry-with-openai-2025-03-25/, https://azure.microsoft.com/en-us/blog/introducing-the-llama-4-herd-in-azure-ai-foundry-and-azure-databricks/#:~:text=We're%20sharing%20the%20first,in%20a%20single%20H100%20GPU, https://openai.com/index/gpt-4-1/*

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The data presented herein represents past performance. 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 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 existing 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. **Flat Dividend Payers** included stocks that pay a dividend but have not raised or lowered their existing dividend during the previous 12 months. **Dividend Cutters** included stocks that lowered their existing dividend or eliminated their dividend during the previous 12 months.

Currency - Unless otherwise specified or disclosed, the currency used for data in the report is US Dollar (USD).

Certain charts herein contain publicly available data, but the data has been formatted by Copeland to allow for ease of reading.

The Indexes mentioned are unmanaged, are not available for investment, and do not incur expenses. With respect to the comparison of the Copeland strategies to their comparative benchmarks, the number of holdings and volatility of an unmanaged Index is different from that of an actively managed portfolio of Dividend Growth stocks. 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. The **Russell Microcap® Index** measures the performance of the microcap segment of the US equity market. Microcap stocks make up less than 2% of the US equity market (by market cap, as of the most recent reconstitution) and consist of the smallest 1,000 securities in the small-cap Russell 2000® Index, plus the next 1,000 smallest eligible securities by market cap. The **Russell Mid Cap® Index** is comprised of the 800 smallest companies in the Russell 1000® Index. The **Russell 2000® Index** is comprised of the smallest 2000 companies in the Russell 3000® Index. The **Russell 2500™ Index** measures the performance of the small to midcap segment of the US equity universe, commonly referred to as "smid" cap. The Russell 2500 Index is a subset of the Russell 3000® Index. It includes approximately 2500 of the smallest securities based on a combination of their market cap and current index membership. The **Russell 3000® Index** measures the performance of the 3000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market. The **MSCI World Small Cap® Index** captures small cap representation across 23 Developed Markets (DM) countries. With 3,979 constituents, the index covers approximately 14% of the free float-adjusted market capitalization in each country. The **MSCI World ex USA® Index** captures large and mid-cap representation across 22 of 23 Developed Markets (DM) countries excluding the United States. With 887 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. The **MSCI World ex USA Small Cap Index** captures small cap representation across 22 of 23 Developed Markets (DM) countries (excluding the United States). With 2,202 constituents, the index covers approximately 14% of the free float-adjusted market capitalization in each country. The **MSCI World Index** captures large and mid-cap representation across 23 Developed Markets (DM) countries. With 1,352 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

Definitions

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

Standard deviation - A measure of the variability of returns-the higher the standard deviation, the greater the range of performance (i.e., volatility).

Downside Capture – The downside capture ratio is a financial metric that measures how an investment performs relative to a benchmark index during periods of market decline.

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