Second Quarter 2016

The Copeland Review

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

Beware the White Walkers

"The night is dark and full of terrors..." - Melisandre, aka Red Woman on HBO's *Game of Thrones*[1]

Seemingly odd things are happening. Not only are short-term interest rates negative in much of the developed world – investors are paying governments to loan them money?! – but, the UK has voted to leave the EU, a one-time leader in the reality TV ratings game has fought off all others on his way to the GOP Presidential nomination, and Monday morning water cooler discussions across America routinely include mention of dragons, magic, and White Walkers. We have addressed the interest rate situation in prior editions of *The Copeland Review*, noting how global monetary policy actions have lowered the cost of capital for market participants, penalized savers and, arguably, skewed asset valuations. As for the water cooler conversations, we are referring to HBO's hit series, *Game of Thrones*.

Don't worry. No monumental spoilers here. We'll stay at a high level: the White Walkers are the gruesome and nearly unstoppable supernatural beings who live north of "the Wall." In the story, the Wall was constructed thousands of years ago and is vast, running from one side of the land to the other to keep the scary beings out. The people guarding and living near the wall fear that the White Walkers are gaining strength and will soon travel south into the Kingdom of Westeros, killing everyone in their wake and recruiting the dead for their army. Meanwhile, most people in Westeros are living in denial, believing that White Walkers are mere legend, folktales told to scare children.

In our world, we deal with metaphorical "White Walkers" every day, from volatile commodity prices and foreign currencies to erratic central bank actions, political uncertainty and mounting government debt burdens. Sometimes these bogeymen actually harm investors, other times they remain elusive, only stoking fear of what might happen in the unknowable future. The good news, however, is that our Dividend Growth investment approach is a formidable defense against such risks -- our "Wall" so to speak.

The Consensus View was Wrong

Most recent among the financial "White Walkers" was the unanticipated "Brexit" outcome, which shocked Wall Street, bookmakers, and even many British citizens. Three days before the vote, bookmaker Ladbrokes PLC placed the odds of an exit vote at only 26% and said approximately 95% of all wagers in the prior 24 hours had been placed in favor of a "remain" outcome.[2] Other polls showed more balanced probabilities, yet the establishment view was that the "remain" status quo would prevail and the vote would be a non-event.

The groupthink was wrong. When the official UK outcome and news of Prime Minister David Cameron's resignation broke on Friday, June 24th, volatility spiked and global markets tumbled. Over two days, the FTSE 100 Index shed 15.8% and the MSCI ACWI ex US Index sank 8.5%, both in US dollar terms, exacerbated by marked weakening of the British Pound. The S&P 500 declined 5.3% while US Mid Cap and Small Cap stocks, as measured by the Russell Mid Cap and 2000 Indices, were down 6.4% and 7.0%, respectively.

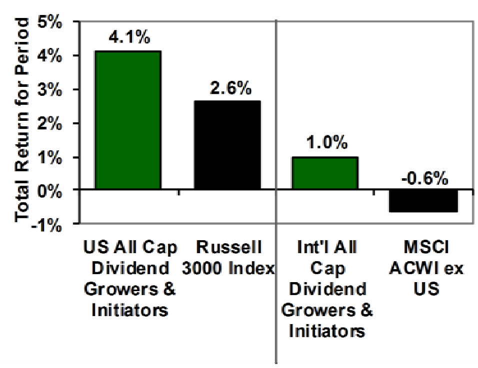
Amidst sudden chaos and an apparent leadership vacuum in the UK, various leaders and central bankers tried to mitigate panic, assuring the markets that the UK was prepared for this unlikely outcome and promising a smooth transition. On June 27th, George Osborne, the UK's well regarded Chancellor of the Exchequer, said: "We were prepared for the unexpected, and we are equipped for whatever happens. And we are determined that, unlike eight years ago, Britain's financial system will help our country deal with any shocks and dampen them, not contribute to those shocks or make them worse."[3]

The assurance helped. On June 28th, global markets began a furious rally, recovering the majority of "Brexit" losses by quarter end. The S&P 500 Index ended the June quarter up 2.5% while the MSCI ACWI ex US Index was down 0.6% on a total return basis in dollars. Notably, Dividend Growth stocks held their own during the volatile quarter, both stateside and abroad. Using data from Ned Davis Research, the US All Cap universe of Dividend Growth stocks was up 4.1% for the quarter while the International All Cap universe of Dividend Growth stocks was up 1.0% (see Chart 1).[4]

Prolonged Crisis?

To this point, certain indicators in Europe had shown modest improvement, including GDP, manufacturing production, and employment. The Markit Eurozone Composite PMI update for the month of June noted that, "Jobs growth in the euro area accelerated to a five-year record in June, with steeper increases registered at manufacturers and service providers alike. Part of the increase in employment reflected ongoing pressures on capacity, as backlogs of work rose at the quickest pace since last September."[5] Likewise, in the US, leading economic

Chart 1. Second Quarter 2016 Performance



Source: Ned Davis Research, Bloomberg Copyright 2016 Ned Davis Research, Inc. Further distribution prohibited without prior permission. All Rights Reserved. See NDR Disclaimer at www.ndr.com/copyright.html. For data vendor disclaimers refer to www.ndr.com/vendorinfo/. Returns shown 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. Dividend Growers included stocks that raised their existing dividend, or initiated a new dividend during the previous 12 months. Historical data does not guarantee similar 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. You cannot invest directly in an Index. For information on the Indexes shown above as well as other important information, please refer to the Disclosure Section.

indicators prior to Brexit suggested continued moderate economic growth.[6] In fact, certain weaker readings early in the quarter strengthened through June with bright spots in US employment data, housing starts, and consumer spending.

Now, the major "terrors" plaguing investors revolve around what happens to regional as well as global macroeconomic and political conditions. Specifically, will the UK withdrawal from the European Union – which is expected to occur over two years – result in broadly weaker capital flows, trade, and GDP growth that, in turn, brings weaker corporate earnings and dividends? Will other member countries seek withdrawal from the EU? Will the entire EU and euro currency crumble?

For what it is worth, during the two-day Brexit market crash, many research analysts at major Wall Street brokerage firms were quick to become bearish, reducing UK and Eurozone GDP growth forecasts and some also downgrading corporate earnings forecasts. In the US, a Federal Reserve rate hike by year-end seemed like a safe bet prior to "Brexit." On June 24th, those odds suddenly plunged and, instead, a rate cut now carries a higher near-term likelihood.[7] How quickly sentiment can change! Overall, the new consensus view is that growth will slow. Of course, *this stance could change before the ink on this report dries*.

Chart 2. U.S. All Cap Universe: Percentage of Dividend Growers, 6/30/96 through 6/30/16

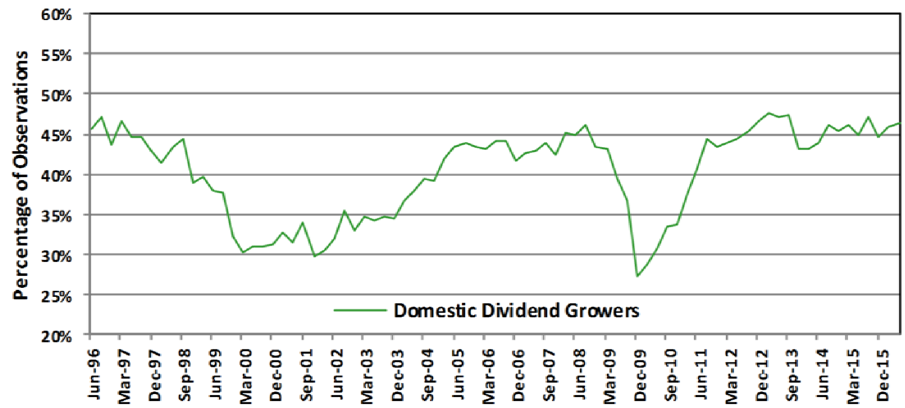
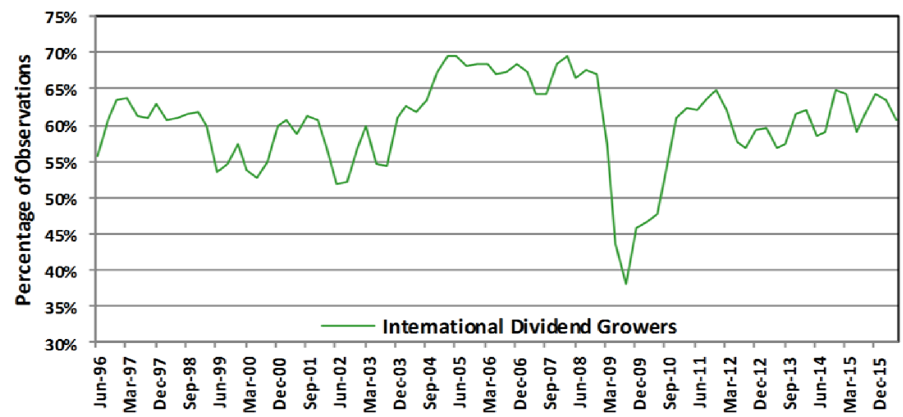


Chart 3. Int'l All Cap Universe: Percentage of Dividend Growers, 6/30/96 through 6/30/16



Source: FactSet Research, CCM. The above Charts 2 and 3 represent the number of domestic and international Dividend Growers, respectively, with market capitalizations above $250 million divided by the total number of companies with market capitalizations above $250 million. For the purpose of these Charts, dividend growers are defined as companies whose dividend is higher over the most recent twelve months versus the prior twelve months or companies whose most recent fiscal year dividend is greater than the prior year's fiscal year dividend. Historical data does not guarantee similar 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. Please refer to the Disclosure Section for additional important disclosures.

Following Dividends for Guidance

Copeland clients are familiar with the distinct emphasis we place on dividend actions. This approach enhances our ability to select the very best dividend growth stocks and, hence, to improve our performance. Management teams send a powerful signal – ignored by many—with dividend policy actions. When a company raises its dividend materially—in the face of the many "White Walkers" described above as well as company-specific risks – the action signals confidence in the future. By committing to return even more of its precious capital to shareholders, the company raises the bar for its own performance. By contrast, a management team that is genuinely fearful of the future may not wish to admit so in a press release or an earnings conference call. Nor will the team want to raise the bar so much that it has to reverse that dividend in the future and then find itself unemployed. By looking at current dividend decisions being made by corporations, can we discern whether the dividend data as a whole suggests that today's financial market "White Walkers" are just legend, or real?

To inform this subject, we used FactSet Research to evaluate the pace of dividend growth and the number of Dividend Growers in the domestic and international (World ex US) universes over the past 20 years through June 2016, which encompasses both the bursting of the tech bubble and the financial crisis, each of which led to equity market plunges that many wish to forget. Chart 2 reveals that domestically the percentage of Dividend Growers was cut substantially in both crashes. On the international side, Chart 3 shows that a significant impact was only noticeable in the 2008-2009 financial crisis. Notably, as of today, there has been only a slight decline in the number or percentage of Dividend Growers, and it has been concentrated in just a few commodity sectors and very modest in magnitude compared to these far more troublesome periods.

Furthermore, we believe the *pace* of dividend growth also serves as a strong signal of management confidence in a company's forward outlook. Significantly, at the end of the second quarter, the one-year rate of dividend growth across Copeland's domestic and international strategies exceeded the dividend growth of their respective benchmarks by anywhere from 80% to more than 600%, which we believe provides Copeland clients with a substantial leg up on the market.[8]

Since the Brexit outcome took the world by surprise so recently, it is too soon to see any related insights from dividend policy to suggest how the pace of dividend growth might be impacted. Still, we can look at the most recent pace of growth for an indication of management thinking entering 2016 and ahead of the Brexit decision. Chart 4 shows year over year dividend growth trends for US, UK and all Western European companies with market capitalizations larger than one billion dollars. It turns out that the recent pace of dividend growth was largely consistent with the prior year's pace in the UK and somewhat higher for Western European companies, both steady near 7%. It surprised us that dividends have been most compromised in the Unites States, where dividend growth has slowed from 10% a year ago to just 3% today. These growth rates are in the face of declining earnings in the US and much of the world, so that payout ratios are on the rise, to new highs in the current cycle, but not to extremely concerning levels. With the potential for slower regional or global GDP growth post Brexit, we will be watching dividend actions closely for clues as to whether the gradual UK exit process and continued accommodative monetary policies around much of the globe will allow this resilience to persist.

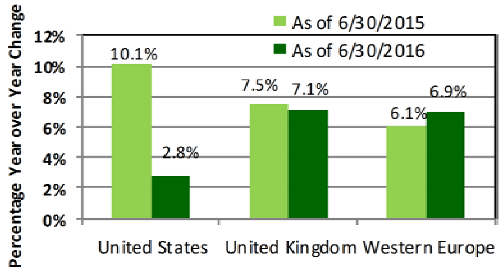
Dividend Growth as Defense Mechanism and the Facts

The true challenge for investors is that some risks are in plain sight, while others are more discreet or even completely unanticipated. But, returning to our *Game of Thrones* metaphor, Dividend Growth stocks are our "Wall" of protection, as we noted earlier. Unlike the masses in Westeros, we do not live in denial of the very real risks that surround us. We are vigilant in monitoring the factors that could derail individual holdings and our portfolios. In addition, we are resolute in seeking out and owning the best possible Dividend Growth stocks regardless of market environment and universe size.

By diligently monitoring the underlying strength and growth drivers of dividends of our portfolio companies, we aim to avoid fatal blows that might negatively impact long-term portfolio performance. The result is that our portfolios tend to experience smaller losses than the market during periods of falling share prices, and, in upward trending markets, our portfolios tend to participate in the vast majority of gains. Combined, both attributes explain why Dividend Growth stocks can outperform across market cycles *and with less risk* over time. These results are substantiated by Ned Davis Research in Chart 5 and validate why we believe Dividend Growth stocks provide an impregnable "Wall" against unknown terrors in the night.

June 30, 2016

Chart 4: Year over Year Dividend Change in the UK, U.S. and Western Europe



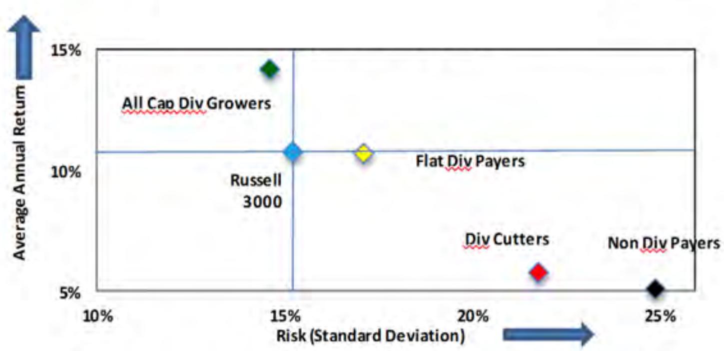
Source: FactSet Research. The chart represents the year over year change in aggregate dividends paid in the US, UK and Western Europe as of the stated date for all companies in the given region with a market capitalization over $1 billion. For the US, the change in dividend level is calculated as the total aggregate ordinary dividends paid based on the year over year change of each company's most recently paid dividend. For the UK and Western Europe, the change in dividend level is calculated as the total aggregate ordinary dividends for the most recent fiscal year compared to those for the prior fiscal year. Historical data does not guarantee similar 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. Please refer to the Disclosure Section for additional important disclosures.

[1] *Melisandre, http://gameofthrones.wikia.com/wiki/Melisandre*
[2] *Bloomberg on 6/20/16, http://www.bloomberg.com/news/articles/2016-06-20/brexit-vote-in-the-balance-as-polls-differ-over-which-side-leads*
[3] *PBS NewsHour, "The sky is not falling: World leaders look to calm the Brexit jitters," 6/27/16, http://www.pbs.org/newshour/bb/the-sky-is-not-falling-world-leaders-look-to-calm-the-brexit-jitters/*
[4] *Ned Davis Research, based on the US NDR All Cap universe and the MSCI EAFE Investable Market universe, with Dividend Growers defined as any stock that has growth in its last twelve month (LTM) dividend per share compared to the previous sequential quarter LTM dividends per share.*
[5] *Trading Economics, http://www.tradingeconomics.com/euro-area, and Markit https://www.markiteconomics.com/Survey/PressRelease.mvc/cf09a2e2e0c54c76892f039e829ef464*
[6] *The Conference Board, https://www.conference-board.org/data/bcicountry.cfm?cid=1*
[7] *Evercore ISI Group, Daily Economic Report, 6/24/16*
[8] *FactSet*

Chart 5. Fact: Better Historical Return with Far Less Risk—U.S. All Cap Universe Risk vs. Reward by Dividend Policy March 31, 1981-June 30, 2016

Category	Risk*	Return
Dividend Growers	14.6%	14.2%
Russell 3000	15.3%	10.8%
Flat Dividend Payers	17.1%	10.7%
Dividend Cutters	21.8%	5.8%
Non Dividend Payers	24.9%	5.1%

* Risk is measured by standard deviation (SD).



Source: Ned Davis Research, CCM. Copyright 2016 Ned Davis Research, Inc. Further distribution prohibited without prior permission. All Rights Reserved. See NDR Disclaimer at www.ndr.com/copyright.html. For data vendor disclaimers refer to www.ndr.com/vendorinfo/. The information presented is intended to illustrate performance of All Cap stocks according to their dividend policy. Returns shown 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. 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. 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.

Copeland Capital Management's Strategies

Domestic Strategies	Benchmark	Vehicle
Large Cap	S&P 500®	SMA, Model
Mid Cap	Russell Mid Cap®	SMA, Model
Smid Cap	Russell 2500®	SMA, Model
Small Cap	Russell 2000®	SMA, Model
Micro Cap	Russell Micro Cap®	SMA
All Cap	Russell 3000®	SMA, Model
Risk Managed	Russell 3000®	SMA, Mutual Fund
Risk Managed Long-Short	Credit Suisse Hedge Fund® Index	Limited Partnership

Global Strategies	Benchmark	Vehicle
International All Cap	MSCI ACWI Ex-US®	SMA
International Small Cap	MSCI World Ex-US Small Cap®	SMA, Mutual Fund
International Risk Managed	MSCI ACWI Ex-US®	Mutual Fund
Global Equity	MSCI ACWI®	Limited Partnership

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

Past performance is not a guarantee of future results. Results shown are not the performance of the firm and there is no guarantee that investors will experience the type of performance reflected. There is no guarantee that companies will declare dividends or, if declared, that they will remain at current levels or increase over time.

Market Risk: *Overall securities market risks may affect the value of individual securities in which the Copeland strategies invest. Factors such as foreign and domestic economic growth and market conditions, interest rate levels, and political events affect the securities markets.*

Ned Davis Research Additional Disclosures: *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.*

Index Disclosures – You cannot invest directly in an Index.

*The **FTSE 100 Index** is a market-capitalization weighted index of UK-Listed blue chip companies.*

*The **MSCI All Country World Ex-US® Index ("MSCI ACWI Ex-US")** is a market capitalization-weighted index designed to provide a broad measure of stock performance throughout the world, with the exception of U.S.-based companies. It includes both developed and emerging markets. Morgan Stanley Capital International is the owner of the trademark service marks and copyrights of the MSCI ACWI® Ex-US.*

*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 3000 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 **S&P 500® Index** consists of 500 stocks chosen for market size, liquidity and industry group representation. It is a market value weighted index with each stock's weight in the Index proportionate to its market value.*

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