Third Quarter 2016

The Copeland Review

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

Answering to the Bobs

"Well, what would you say… you **DO** here?" - Character of Bob Slydell, in *Office Space*, 1997

Bob Slydell and Bob Porter are two consultants brought in to assess operations at Initech, the fictional technology company in the 1997 comedy, *Office Space*. During their informational interview with an employee named Tom Smykowski, nerve-ridden Tom is unable to articulate his role at the company. He quickly becomes flustered and overly emotional in responding to the consultants. Tom is subsequently fired as part of Initech's downsizing efforts.

Fortunately, unlike Tom, we have no trouble explaining what we "do here." We identify and invest in companies with steadily rising dividends – period, end of story.

Why? Because we believe that stocks with sustainable dividend growth consistently outperform the market with less risk. This belief is supported by decades of portfolio management experience as well as ample empirical research that we have shared in prior versions of *The Copeland Review*. Nonetheless, we frequently speak with befuddled investors who question what Dividend Growth investing represents and how it differs from other approaches.

Tackling Common Misperceptions

Some mistake our approach for "Dividend Yield" investing, while others assume that it is simply a version of a "Value" approach. A third, not necessarily mutually exclusive group, has recently emerged that is anxious about buying into "Low Beta" strategies after "they've already been bid up." Let's unravel these misperceptions one at a time.

1. Dividend Growth does not equal Dividend Yield!

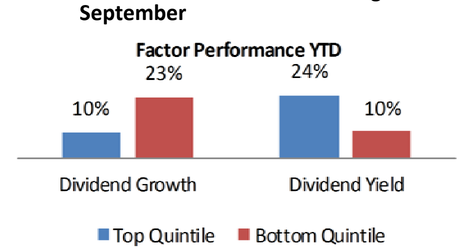
When people think of "Dividend Yield" strategies, they traditionally think of yields in the 4% or 5% range or higher. The Utilities and Telecom sectors – ripe areas to find such stocks – were up 16% and 14%, respectively, year-to-date through September, versus the S&P 500 Index® up only 8% over the same time period, all on a total return basis.

While dividends are central to our investment philosophy and required for each portfolio holding, the annual pace of dividend growth is what matters most to us, much more so than the level of yield. Copeland's portfolios typically yield only a modest premium to their respective benchmarks. Yet, the aggregate pace of dividend growth in our portfolios is often double or even triple the rate of dividend growth of the relevant benchmark. We expect that delta to aid performance as share prices tend to move higher with dividend growth over time.

With the continued ultra-low interest rate environment pushing more investors to seek income from high yielding stocks, a massive amount of capital has flowed into this space over the past few years. This has been a headwind for Copeland, not a tailwind.

Since the beginning of this year, the top yielding quintile of all US stocks with market capitalizations greater than one billion dollars has outperformed the lowest yielding quintile of stocks by 1,400 basis points! Meanwhile, the top quintile of Dividend Growth companies (the highest dividend growers) has underperformed the lowest growth quintile by 1,300 basis points (see Chart 1). Put simply, High Dividend Yield stocks have been bid up in the search for income, NOT dividend growth stocks.

Chart 1. Drivers of 2016 Returns Through September



Source: FactSet - this chart compares the performance of the highest quintiles of Dividend Growth and Dividend Yield to the bottom quintiles of Dividend Growth and Dividend Yield from 12/31/15 to 9/30/16. The dividend growth factor is defined as the percentage change in dividends per share over the trailing 12 months. The dividend yield factor is defined as the indicated dividend divided by the share price. All US traded companies with market capitalization larger than one billion dollars are included in the analysis. This chart does not illustrate the performance of any Copeland strategy.

As a consequence, at the end of September, the top quintile of Dividend Growth stocks traded at only a 5% premium to the top quintile of High Dividend Yield stocks based on the price to earnings multiple of each group, *well below the 34% historic average premium that Dividend Growers usually enjoy.*[1] The stark valuation compression experienced recently suggests that Dividend Growth stocks may be undervalued gems relative to High Dividend Yield stocks. Further, consider that companies with the highest dividend yields often have the weakest dividend coverage ratios, the highest risk of dividend cuts and little cash left over for reinvestment to drive future growth. They also tend to struggle as interest rates rise.

2. Dividend Growth does not equal Value investing…although today, Dividend Growers ARE trading at attractive valuations!

When many people hear the words "dividend growth," they immediately associate it with value investing and ignore the importance of "growth." Perhaps that is because high yield stocks often trade cheaply on traditional valuation measures such as price-to-earnings. Or, it could reflect an understanding of the importance of dividends in discounted cash flow valuation and intrinsic value analysis as theorized by the late economist, John Burr Williams. Or, it could simply be because of a faulty view that all companies that pay a dividend are neglecting reinvestment in their business and thus can't be growth stocks.

We've already addressed the first point, noting that Dividend Growth stocks traditionally trade at a premium to the highest dividend yielders.

On the second point, we concur with the view that a company's excess cash flow generation and dividends support the underlying value of its business. Yet, those who invoke Williams's theory to categorize dividend investing as strictly the purview of "value investors" miss a critical point. When laying out the early framework of the Dividend Discount Model, subsequently expanded upon by Myron Gordon, Williams recognized that an investment's value should reflect not just the current level of cash flows and dividends, but the value of all future expected cash flows and dividends. Thus, it should come as no surprise that companies which consistently increase both – such as those we hold in the Copeland strategies – should trade at premium valuations to those stocks with little or no cash flow or dividend growth. This latter group is most often found among the high yield segment of the market.

In our experience, as demonstrated in prior editions of *The Copeland Review*, dividend growth and earnings growth are joined at the hip. Indeed, in our own strategies, the pace of *both measures* usually exceeds the corresponding growth rates for the pertinent benchmark, often by a wide margin (see Chart 2). Our companies tend to deliver robust earnings growth while simultaneously paying a rising dividend AND prudently reinvesting to sustain growth.

Nevertheless, at the end of September, the top quintile of Dividend Growth was trading at a 17% *discount* to the Russell 3000 Index® versus its historic median *premium* of 11% (see Chart 3). In combination with the significant relative valuation compression that Dividend Growers have seen recently versus High Dividend Yield stocks, we believe this data suggests a compelling entry point for Dividend Growth strategies.

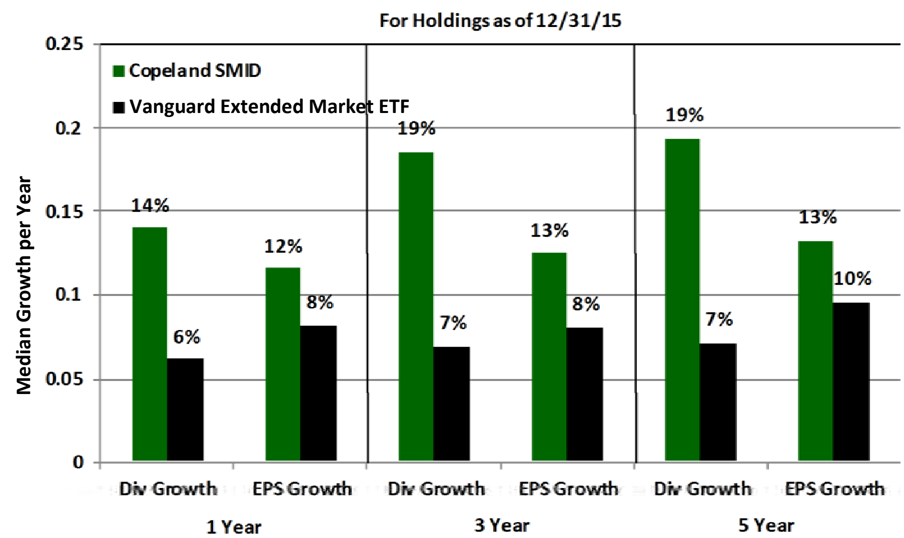
3. Dividend Growth stocks <u>are not</u> strictly defensive investments and, as noted above, remain attractively valued.

For much of the last two years, traditionally conservative utilities and staples stocks, outperformed the S&P 500 Index® by a wide margin, creating a popular narrative that any investment vehicle with defensive characteristics must be overvalued. Therefore, when we speak with clients and prospective investors we frequently encounter a huge misperception that Dividend Growth stocks must also be caught up in this phenomenon. As highlighted above, however, this simply isn't accurate.

It is true that Copeland's domestic and international strategies tend to have lower betas (a popular measure of their sensitivity to market moves) than their respective benchmarks. This is a direct result of the strong competitive market positions and resilient cash flows that the stocks in our portfolios generally enjoy, the same factors that support rising dividends year after year. Collectively, these attributes frequently make shares of Dividend Growth companies more stable during periods of market weakness, yet also allows them to enjoy significant upside during market rallies as well.

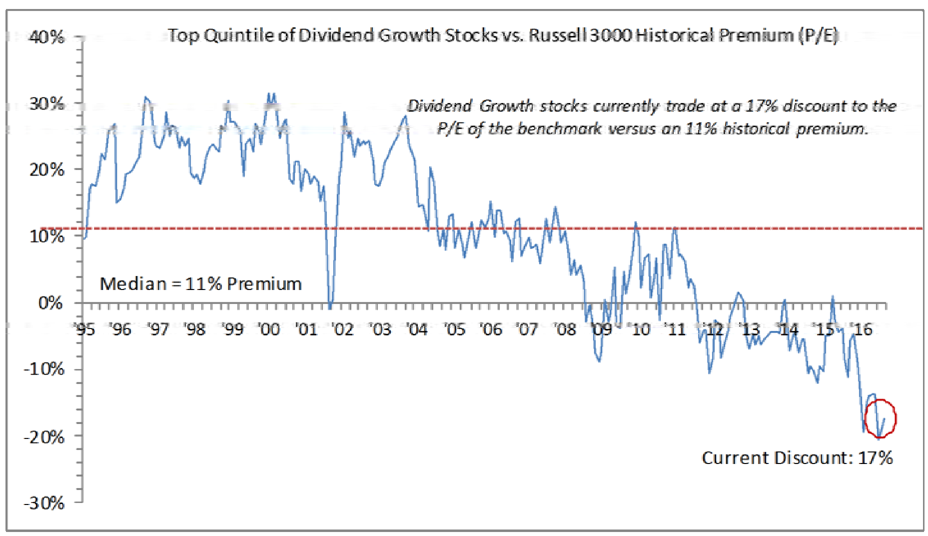
The year 2013 provides a worthwhile case study in that regard since it offered investors the most robust annual returns since the market crash of 2008. During that year, the Russell 2000® and the Russell Mid Cap® Indices were up 39% and

Chart 2. Smid Cap: Median Dividend Growth and Earnings Growth



The chart above shows the median dividend growth and median earnings growth for the Copeland Smid Cap Dividend Growth strategy and the Vanguard Extended Market ETF for 1, 3 and 5 years. The calculations were determined using 12/31/2015 holdings for the strategy and for the ETF.

Chart 3. Dividend Growth Severely Discounted (as of 9/30/2016) Relative to Historic Levels



Source: FactSet. Valuation discounts or premiums do not guarantee future returns will be greater or lower than the benchmark. 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.

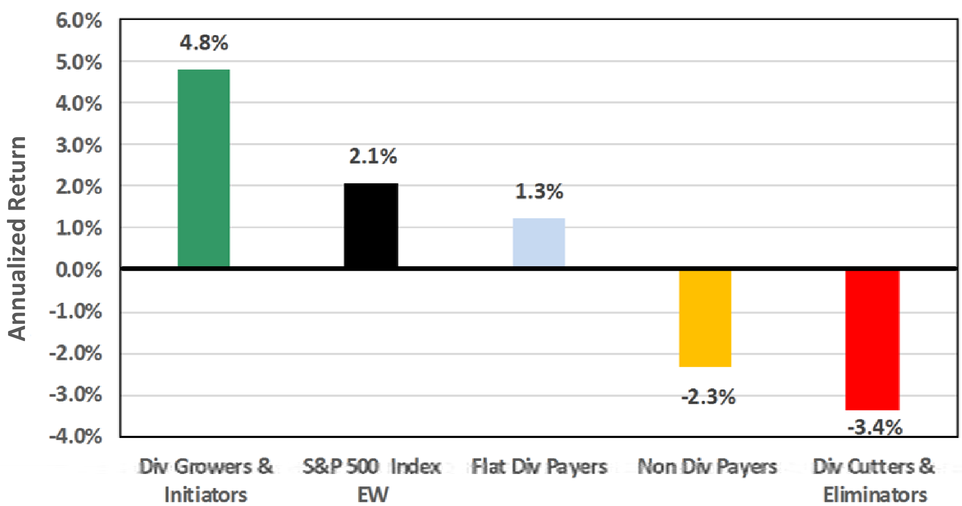
35%, respectively. Copeland's Small Cap and Mid Cap strategies were both able to outperform those benchmarks over the course of that year by only owning Dividend Growth stocks. Also notable, during 2013, the yield on the 10 Year US Treasury surged to almost 3.0% from 1.7% over a very short time frame. The rapid spike in interest rates caused "Value" and "Yield" stocks to lag in 2013, while Dividend Growth stocks performed very well.

But, in 2016, masked by the longer-term outperformance of conservative names, there has been a "stealth rally" in high beta names. We used FactSet to evaluate the performance of high beta versus low beta in 2016, and found that from the market bottom in early February through the end of September, the highest beta quintile of domestic stocks with market caps over one billion dollars returned 40% versus only 16% for the lowest beta quintile! Chart 4

Chart 4: High Beta Outperformed Low Volatility in the Third Quarter and Year-to-Date

Source: FactSet. Copeland cannot guarantee the performance of PowerShares S&P 500 Low Volatility and PowerShares S&P 500 High Beta Portfolios and relied solely upon FactSet's information in the creation of this chart. Past performance is not indicative of future results. Please refer to the Disclosure Section for important information

Chart 5. Performance of Stocks by Dividend Policy During Rising Rate Periods from January 31, 1972 through December 31, 2015



Source: Ned Davis Research, Copeland Capital Management
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 Large 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 and Initiators 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 Cutter and Eliminators 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.

demonstrates that outperformance, comparing the PowerShares S&P 500 High Beta Portfolio ETF (Ticker: SPHB) to the PowerShares S&P 500 Low Volatility Portfolio ETF (Ticker: SPLV). This type of rally is a common early occurrence following market bottoms, but it does not tend to persist unless economic growth continues to surprise the market positively, which we feel is a low risk at this point in the macro cycle.

As the World (*Market*) Turns

The coincident flood of money into both higher yielding and high beta equities has been challenging for Dividend Growth investors in recent months. Still, unlike many investors who are constantly chasing the latest "hot" trend, we are akin to a tiger that cannot change its stripes. We know exactly what we do and have enough confidence, based on past experience, not to drift from our disciplined, time-proven Dividend Growth philosophy every time a new fad comes along.

This confidence is backed by the strong investment performance Copeland has enjoyed even with the wind in our faces during this period of prolonged low interest rates. When that wind will reverse is anyone's guess. However, regardless of the rate backdrop, we believe the sharp valuation discount that Dividend Growers offer today could prove to be a very attractive entry point, especially since Dividend Growers offer significantly greater earnings and dividend growth potential compared to the sluggish prospects of the overall market.

If rates do eventually rise, Dividend Growth stocks should benefit on a relative basis compared to all other types of equities. Chart 5 demonstrates how large cap equities, broken down by dividend policy using S&P 500 Index® constituents, have performed during historical rising rate environments. As illustrated, Dividend Growers have historically been the best performers.

We firmly believe that our strategy is an all-weather strategy that should outperform across a full market cycle. Whether the bull market continues or stumbles, our strategies should ably navigate ever evolving market circumstances. We assume that "the Bobs" would now fully understand that:

- Dividend Growth is not Dividend Yield,
- Dividend Growth is not Value, and
- Dividend Growth is not strictly defensive.

September 30, 2016

[1] *FactSet.*

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 Copeland 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 Copeland and there is no guarantee that investors will experience the same type of performance.*

Index & Fund Disclosures – *You cannot invest directly in an Index.*

The PowerShares S&P 500® Low Volatility Portfolio *is an exchange-traded fund based on the S&P 500® Low Volatility Index, an Index compiled, maintained and calculated by Standard & Poor's that consists of the 100 stocks from the S&P 500 Index® with the lowest realized volatility over the past 12 months.*

The PowerShares S&P 500® High Beta Portfolio *is an exchange-traded fund based on the S&P 500® High Beta Index, an Index compiled, maintained and calculated by Standard & Poor's that consists of the 100 stocks from the S&P 500® Index with the highest sensitivity to market movements, or beta, over the past 12 months.*

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 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.*

The S&P 500 EW® Index *consists of 500 stocks. It is an equal weighted Index which gives the same weight, or importance, to each stock in a portfolio or index fund. The smallest companies are given equal weight to the largest companies in an equal-weight index fund or portfolio.*

The Vanguard Extended Market ETF *is an exchange-traded share class of Vanguard Extended Market Stock Index® Fund, which employs a passive management/indexing investment approach designed to track the performance of the Standard & Poor's Completion Index®, a diversified index of stocks of small and medium sized U.S. companies.*

Definitions

Beta *is a measure of the volatility, or systematic risk, of a security or a portfolio in comparison to the market as a whole.*

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

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

EPS Growth *or Earnings Per Share Growth illustrates the growth of earnings per share over time.*

P/E Ratio *or Price-to-Earnings Ratio of a stock is a measure of the price paid for a share relative to the annual net income or profit earned by the firm per share.*

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 not intended to be a guarantee of future events nor as a basis for any investment decisions. It should 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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