CIBC PRIVATE WEALTH MANAGEMENT

CIBC Private Wealth Blog

The Advantages of Dividend Growth Investing and our Equity Income Strategy

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January 25, 2018

Oftentimes, when investors think about dividends, they do so within the context of the traditional equity income fund. These funds typically invest in well-established, blue chip companies that can be relied on to make consistent dividend payments. While these funds can generate a reliable income, they rarely invest in high-growth companies. And recently, we've seen traditional dividend managers underperform the Russell 1000 (the broadest and most inclusive large cap index) as dividend stocks have fallen out of favor. In fact, according to Morningstar, 98% of equity income focused funds underperformed the benchmark Russell 1000 year to date as of September 30, 2017.

A dividend growth investing strategy, however, focuses on creating a diversified portfolio of companies that not only pay out dividends, but increase their dividends over time. Our proprietary Equity Income Strategy, with a focus on total return, invests in high-quality securities that exhibit dividend growth at a rate greater than the market. A look at S&P 500 returns over time shows that the annualized total return for dividend growth stocks from January 1972 to December 2016 was 9.9%, compared to 7.4% for stocks with steady dividends and 2.4% for shares that didn't pay dividends. Our strategy has outperformed both the Russell 1000 and large blend peers since its inception in 2003, and year to date through September 2017 had returned 15.14% (net-of-fees) compared to 14.17% for the Russell 1000.

Year End	Total Firm Assets (millions)	Composite Assets		Annual Performance Results				
		U.S. Dollars (millions)	Number of Accounts	Composite		S&P 500	Russell 1000	Composite Dispersion
				Gross	Net			
2016	7857	273	350	8.92%	7.68%	11.96%	12.05%	0.3%
2015	7832	318	386	(5.35%)	(6.36%)	1.38%	0.92%	0.3%
2014	7819	411	518	10.20%	8.96%	13.69%	13.24%	0.4%
2013	7331	348	424	28.05%	26.66%	32.39%	33.11%	0.6%
2012	5717	205	292	8.41%	7.27%	16.00%	16.42%	0.3%
2011	5099	193	254	10.87%	9.77%	2.11%	1.50%	0.7%
2010	4452	131	171	20.55%	19.25%	15.06%	16.10%	0.8%
2009	3389	61	116	23.34%	21.98%	26.46%	28.44%	1.4%
2008	2775	48	67	(34.61%)	(35.34%)	(37.00%)	(37.59%)	0.8%
2007	3629	159	179	5.09%	3.99%	5.49%	5.77%	0.6%
2006	2788	116	107	29.33%	27.93%	15.80%	15.46%	0.4%
2005	2279	17	30	6.99%	5.76%	4.91%	6.26%	0.6%
2004	1425	14	24	18.19%	16.85%	10.90%	11.40%	N/A
2003	832	6	16					

Dividend growth stocks also offer another compelling benefit in that they have demonstrated lower volatility over time as well as outperformance. Looking at the standard deviation in total returns for S&P 500 shares over the January 1972 to December 2016 period, dividend growth stocks demonstrated a standard deviation of 16% compared to 18% for steady dividend payers and 24% for stocks that paid no dividends.

Our investment team has developed a meticulous process to identify the most attractive names for the Equity Income portfolio. Our portfolio managers and analysts employ bottom-up, fundamental research to build a high-conviction portfolio of around 40 companies. We emphasize above-average revenue, cash flow and earnings growth, all of which fuel growth in dividend payouts.

As part of the stock selection process, we seek to identify quality businesses that enjoy significant competitive advantages, high incremental margins and significant pricing power in their markets, as well as the benefit of high barriers to entry to help them maintain their strong positions. We emphasize a growth rate that exceeds the market growth rate, as well as access to businesses operating in growing markets. Proven, high quality growth is essential, as is a robust balance sheet.

In addition to common stocks, our mandate includes Real Estate Investment Trusts (REITs) and Master Limited Partnerships (MLPs). We seek to carefully manage risk in the portfolio, and do so by continuously monitoring position size, sector weightings, cash exposure, and exposure to ADRs, MLPs and REITs and holding these components within specified parameters.

As of November 30, 2017, the Equity Income Strategy outperformed the Russell 1000 on a number of factors, including revenue growth (7% vs 4% for the index), EPS growth (11% vs 7%), dividend yield (2.7% vs 1.7%), and return on equity (23% vs 14%).

Our Equity Income Strategy, with its objective of an attractive risk adjusted total return and a dividend yield in excess of the broader market, could be an effective strategy for clients interested in both growth and income. Please speak to your CIBC Atlantic Trust wealth advisor to learn more about dividend growth investing and our Equity Income Strategy.

Gordon Scott is an equities portfolio manager for CIBC Atlantic Trust Private Wealth Management with 24 years of industry experience. Before joining Team Geneva Advisors, which became part of CIBC Atlantic Trust in 2017, Gordon spent nine years at Rail-Splitter Capital Management, most recently as a principal overseeing the firm's investments in services, industrials and financials.

- *N.A. - Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year.*
- *The Firm referred to in this document as "CIBC Atlantic Trust" includes Atlantic Trust Company, N.A. (a limited-purpose national trust company); Atlantic Trust Company of Delaware (a Delaware limited-purpose trust company); and AT Investment Advisers, Inc. (a registered investment adviser), which also operates under the name "Geneva Advisors," all of which are wholly-owned subsidiaries of Atlantic Trust Group, LLC. All of these entities are indirectly wholly owned by Canadian Imperial Bank of Commerce, a Canadian-based financial institution whose shares are publicly traded. ATIA, formerly known as "Stein Roe Investment Counsel, Inc.," became a subsidiary of ATG on March 1, 2004. ATIA is the successor organization to the Private Capital Management Division of Stein Roe & Farnham Incorporated. Prior to January 1, 2006, ATC and ATIA were two different firms for performance reporting purposes. Subsequent to January 1, 2006, the two firms were merged, their portfolios were aligned and the firm was redefined as "Atlantic Trust." Total firm assets reflect the integration of the investment management platforms at CIBC Atlantic Trust, which includes ATC, ATCD and ATIA.*
- *Equity-Income Strategy Composite contains fully discretionary, eligible equity-income strategy accounts (i.e., those accounts that formally follow the Equity-Income Strategy; there are other accounts that invest in a similar manner but which are not included in the composite because they invest in other securities than those of the Equity-Income Strategy as a result of client instructions or other circumstances). The strategy uses a disciplined approach to generating high current income and a modest amount of appreciation. This strategy offers wide flexibility in types of securities used to generate a current income yield. One area of focus is well-managed real estate investment trusts (REITs) because of their attractive yields and lower historic volatility. We also invest in attractive master limited partnerships (MLPs) and utilities. For comparison purposes, the Geneva Equity-Income Strategy Composite is measured against the S&P 500 Index, which is a capitalization-weighted measure of the common stocks of 500 large U.S. companies and is an unmanaged group of stocks that differs from the composition of the Geneva Equity-Income Strategy. The Russell 1000 Index is shown for additional information only. The minimum account size for this composite is $250 thousand. Prior to January 1, 2004, the minimum account size was $95 thousand.*

- *CIBC Atlantic Trust claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS® standards. CIBC Atlantic Trust has been independently verified for the periods December 31, 2004 through December 31, 2015 by Ernst & Young LLP. From January 1, 1998 to December 31, 2003 CIBC Atlantic Trust was verified by another independent verifier. Prior to the acquisition, Geneva Advisors was verified from January 14, 2003 through March 31, 2017 by another independent verifier. The Geneva Equity-Income Composite has been examined for the periods April 1, 2003 through June 30, 2017 by another independent verifier. The verification and performance examination reports are available upon request. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS® standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS® standards. The Geneva Equity-Income Composite was created April 1, 2003.*
- *For 2011/2012/2013/2014/2015/2016, the three year ex-post annualized standard deviation for the composite is 14%/13%/12%/9%/11%/11%, the S&P 500 is 19%/15%/12%/9%/11%/11% and the Russell 1000 is 19%/15%/12%/9%/11%/11%.*
- *Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Beginning January 1, 2004, non-fee-paying accounts are not included in this composite. Prior to January 1, 2004, non-fee-paying accounts were included in this composite and represented 18% of the composite assets as of December 31, 2003. Composite policy requires the temporary removal of any portfolio incurring a client initiated significant cash inflow or outflow of 10% or greater of portfolio assets. Past performance is not indicative of future results.*
- *Initial public and secondary offerings may have been used in the accounts that comprise the composite, which may impact performance. Public offerings may not be suitable or available for certain accounts.*
- *The U.S. Dollar is the currency used to express performance. Effective 9/1/2017 Net of fee performance is calculated using the actual management fee or using the following annual investment advisor model fee schedule: Up to $5,000,000 - 1.00%, Above $5,000,000 to $10,000,000—0.80%, Above $10,000,000 - 0.60%. This model tiered fee represents the highest possible fees applicable to this composite. Prior to 9/1/2017 monthly net of fee returns were calculated on the actual management fee. The typical annual fee was 1.5% on the value of all assets. The annual composite dispersion presented is an asset-weighted standard deviation calculated for the accounts in the composite the entire year. The policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.*