

Dividend Growth: A powerful multiplier for long-term investors

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- Income-oriented investors are often singularly focused on current yields. However, dividend paying equities are different from other yielding investments, such as corporate or government bonds, in one very interesting way—**investors’ yield on their initial investment may increase over time**. While a company is unlikely to voluntarily increase its interest payments to debt holders, companies in strong financial health **routinely increase their dividend payments to equity holders**.
- In a simplified scenario, **if an investor purchased a stock yielding 3% and realized 15% five-year annualized dividend growth, the yield on that initial investment would double to 6%** (Figure 1)[†].
- HOLT US Sustainable Dividend (“USSD”) focuses on high quality, blue chip companies with attractive capital appreciation potential, sustainable cash flows, and high dividend yields. Blue-chip names, such as **Johnson & Johnson** (a holding since inception), has a current yield of 3%, but a yield of 4.8% on the initial investment (Figure 2).

Figure 1.[†]

Scenario Analysis: Dividend yield of a stock with a starting dividend yield of 3%

Year	Dividend Growth				
	0%	5%	10%	15%	20%
1	3.0%	3.2%	3.3%	3.5%	3.6%
2	3.0%	3.3%	3.6%	4.0%	4.3%
3	3.0%	3.5%	4.0%	4.6%	5.2%
4	3.0%	3.6%	4.4%	5.2%	6.2%
5	3.0%	3.8%	4.8%	6.0%	7.5%

Figure 2.

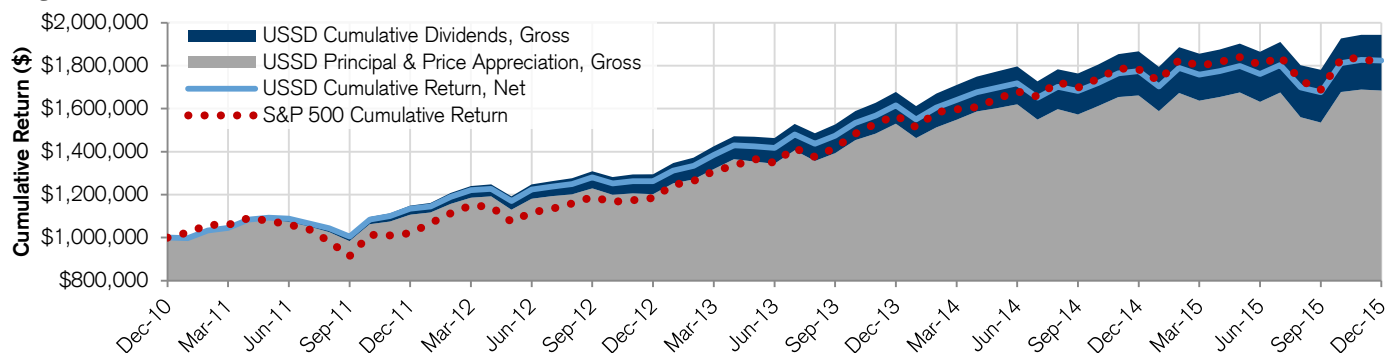
Johnson & Johnson (JNJ): Held since inception, JNJ has maintained five-year annualized dividend growth of 7.0% and a yield on initial investment of 4.8%

Year	Annual Dividend	YoY Growth	Yield on Investment
2011	\$2.25	6.6%	3.6%
2012	\$2.40	6.7%	3.9%
2013	\$2.59	7.9%	4.3%
2014	\$2.76	6.6%	4.4%
2015	\$2.95	6.9%	4.8%

Source: Credit Suisse HOLT, Bloomberg, Bank of America Merrill Lynch US Equity Strategy Report (November 2015)

- Is it too late to participate in this dividend growth? No.** USSD currently generates a 2.9%* dividend yield (vs. the S&P 500 yield of 2.3%) with projected annualized dividend growth of 7.0% over the next three years. Based on these projections, someone investing today may be earning a 3.5%-4.0% yield on their original investment in three years. Overall, USSD has realized a dividend yield between 3-4% and dividend growth over 13% over the last five years resulting in a 5-6% yield on initial investment for those that invested at inception.
- Dividend growth is a powerful multiplier for long-term investors actively seeking income.** For USSD, dividend accumulation along with stock price appreciation has driven outperformance over the S&P 500 since inception (Figure 3). Over the last five years, dividends represent over 13% of the total return realized by investors.

Figure 3.



Source: Credit Suisse HOLT, Bloomberg; GIPS composite performance

[†]Bank of America Merrill Lynch US Equity Strategy Report (November 2015); *Dividend yield as of February 1, 2016

Portfolio Management Team

Adam Steffanus, CFA
312 345 6193
adam.steffanus@credit-suisse.com

Mike Valentinas, CPA
312 345 6178
michael.valentinas@credit-suisse.com

Heather L. Kidde, CFA
212 325 7785
heather.kidde@credit-suisse.com

Sean Burns
312 750 2951
sean.burns@credit-suisse.com

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The HOLT U.S. Sustainable Dividend Composite includes all fully discretionary portfolios that are managed to the HOLT U.S. Sustainable Dividend Strategy. The objective of the strategy is to seek current income, income growth, and capital appreciation. The strategy focuses on high quality, blue chip, U.S. companies with deep defensive moats, sustainable cash flows, and attractive valuations. These cash flow rich companies have excess capital to return to shareholders and are largely focused on wealth distribution. The U.S. Sustainable Dividend Strategy leverages the Sustainable Dividend methodology powered by HOLT, an innovative stock selection method that offers a consistent, structured, and repeatable investment process. Portfolios must be materially invested to the model and hold a minimal amount of cash and other non-model assets prior to initial inclusion in the composite. Portfolios included in the composite are not necessarily 100% invested to the model for all time periods. The composite creation date is December 2014. The benchmark used for this composite is the S&P 500 Index which 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 reported returns reflect a total return for each year inclusive of dividends but exclusive of taxes and management fees.

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