After volatility spiked at the end of 2018, many clients, prospects and consultants that we’ve spoken with were reminded that portfolios need ballast during challenging market environments. Epoch’s Shareholder Yield strategy provides a portfolio ballast, in both stable and volatile markets, and can be used as a core holding or as a standalone solution.

Take a moment to learn more about the architecture of the strategy, the investment approach and its key attributes.

I. Genesis of the Strategy

In order to understand the merits of the Global Equity Shareholder Yield strategy and why it is relevant today, it is helpful to have a little perspective about its genesis. If one were to disaggregate the contributors to returns of the stock market over the past 90 years, they would find that:

- Earnings and dividends have been the primary contributors to equity returns
- Valuations have waxed and waned, adding little to returns over the long run

The strategy launched in 2006 when expectations were that rates would rise and equity valuations would fall. While the opposite happened, the strategy still achieved its goals of:

- A yield competitive with Treasuries
- A target return goal (enhanced by share repurchases and debt reduction) that was attractive compared to market returns
- Less volatility than the market

Today, the environment for the strategy looks even more attractive than at launch:

- Treasury yields have fallen and bonds are less attractive today than at launch
- The yield on global equities has increased, but the yield on the strategy remains above 4%
- The cash flow growth rate of the strategy has accelerated

Source: Factset Research Systems
II. Shareholder Yield – Solution Oriented Strategies

Following the success of the Global Equity Shareholder Yield strategy, and in response to client demand, we launched the U.S. Equity Shareholder Yield strategy in 2012:

• The strategies share an investment team, philosophy and process
• Each seeks roughly two-thirds of its return from shareholder yield—dividends, share buybacks and debt reduction—and the other third from cash flow growth

The difference in target returns reflect that:

• While many U.S. companies pay attractive, growing dividends, yields tend to be lower in the U.S. than globally
• U.S. companies have embraced share buybacks more enthusiastically than the rest of the world

The return targets included in this presentation are not intended as, and must not be regarded as, a representation, warranty or prediction that any client will achieve any particular rate of return over any particular time period or that any client will not incur losses. Although Epoch believes, based on these factors, that the referenced return targets are reasonable, return targets are subject to inherent limitations including, without limitation, the fact they cannot take into account the impact on future trading and investment decisions of future economic events.

III. Key Attributes of the Shareholder Yield Strategies

Shareholder Yield Performance in Down Markets

When Markets Were Negative
(47 of 154 periods)
The strategy outperformed
81% (Gross)
79% (Net)
of the time by an average of
3.6% (Gross)
3.5% (Net)

When Markets Were Down More Than 5%
(27 of 154 periods)
The strategy outperformed
96% (Gross)
93% (Net)
of the time by an average of
4.1% (Gross and Net)

DOWNSIDE MARKET CAPTURE
Smaller Drawdowns
• Our holdings are often global champions with dominant industry positions and the ability to generate and grow free cash flow in both challenging and strong market environments
• The strategy has a since inception downside capture ratio of 75% and smaller than market drawdowns driven by:
  – Having a focus on higher quality companies with, strong fundamentals and business models, highly-regarded management and disciplined capital allocation policies
  – Investing in dividend paying stocks
  – Implementing a risk management process, which seeks to limit the impact any company can have on the overall portfolio by restricting position sizes to a maximum of 2.5% and diversifying the portfolio across sources of return

Performance in Down Markets
• Since the strategy launched, there have been 154 rolling three-month periods, 47 of which were negative for the market
• The strategy outperformed in the majority of those periods
• The strategy outperformed in nearly every period where the market was down more than 5% in USD terms.

Sources: Epoch Investment Partners and Factset Research Systems. As of 12/31/18.
Importance of Downside Protection

The benefit of downside protection can be illustrated through percentage return needed to get back to even and/or the time it takes to do so:

- In the largest drawdown the market and strategy experienced (during the financial crisis) the strategy drew down 43% in U.S. dollar terms while the index drew down 54%
- $100 million invested directly before the drawdown began would have turned into $57 million in the strategy and $46 million if the assets had been invested passively in the MSCI World
- From that point, the strategy needed a return of 75% to get back to even, while the index needed a whopping 117% return
- From that drawdown it took the strategy 26 months to recover, while the MSCI World needed more than double that amount of time – 53 Months
- In the other period where the market was down more than 10%, (February 2016) the strategy took 3 months to recover, while the index needed 9 months

Time to Recovery After Drawdowns


III - 2. Lower Volatility

Less Volatility Than The Market

- While the strategy does not target lower volatility than the Index, that has been an outcome over the strategy’s lifespan
- This is due, in large part, to the nature of the high quality companies we invest in, coupled with our active fundamental research, portfolio construction and risk management processes

Lower Volatility of Dividend Payers

- Stocks with stable or growing dividends have had lower volatility than those that cut their dividends or did not pay one
- As an added bonus, they have performed better as well

Source: Ned Davis Research December 31, 2018. Based on equally weighted compound total returns of dividend and non-dividend paying MSCI World stocks. Each of the four portfolios were reconstituted at the beginning of each year based on the actual dividends paid over the previous year.

Benefits of Active Management

- Not all dividend stocks are created equal; a high dividend yield can be a sign of a company in distress (dividend yield rises as a stock’s price falls)
- The cause of the stock price drop may also lead a company to cut or cancel their dividend
- Identifying companies with the highest dividend is easy, determining whether those dividends are sustainable is harder
- Our analysts conduct rigorous fundamental research on each company in the portfolio to gauge the sustainability of their dividend and their commitment to returning cash to shareholders
The Importance of Volatility

- Volatility impacts wealth; an identical average annual return, but with less volatility, mathematically leads to a higher end value.
- A strategy with a return of 50% one year and -40% the next and one with a return of 20% in year 1 and -10% in year 2 have the same average return of 5%, but the second strategy ends up with more money in the end.

Volatility in the Peer Group

Versus the eVestment World Large Stock category since its inception the strategy has:

- A lower standard deviation than 93% of strategies
- A lower beta lower than 90% of strategies
- A sharpe ratio higher than 81% of strategies.

eVestment collects information directly from investment management firms and other sources believed to be reliable. eVestment does not guarantee or warrant the accuracy, timeliness, or completeness of the information provided and are not responsible for any errors or omissions. Performance results may be provided with additional disclosures available on our systems and other important considerations such as fees may be applicable.

Which Would You Prefer?

Both investments have the same average annual return of 5%.

The Importance of Volatility

- Volatility impacts wealth; an identical average annual return, but with less volatility, mathematically leads to a higher end value.
- A strategy with a return of 50% one year and -40% the next and one with a return of 20% in year 1 and -10% in year 2 have the same average return of 5%, but the second strategy ends up with more money in the end.


Abundant and Steady Income

A consistent theme since the end of the global financial crisis has been the search for yield, particularly with bond yields remaining at historic lows.

- Global Equity Shareholder Yield has delivered a greater and steadier yield than global equities and other income generating investments, such as investment grade credit, real estate and infrastructure.
- The consistency is driven by:
  - The characteristics of companies in which we invest
  - Our fundamental research that analyzes the sustainability of dividends
  - Our portfolio construction and risk management process which seeks to minimize the impact any one stock can have on the overall yield of the portfolio.

The Importance of Dividend Growers

- Another major reason that the strategy has been able to consistently generate a high level of income is that year in and year out a large portion of the companies it invests in have raised their dividends.
- In 2018, 84 of the portfolio’s 109 holdings raised their dividends.
- Roughly half of the companies in the portfolio raised their dividends each year, with more than half doing so in more recent years.

<table>
<thead>
<tr>
<th>Year</th>
<th>Dividend raisers</th>
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<tbody>
<tr>
<td>2018</td>
<td>84</td>
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<tr>
<td>2017</td>
<td>79</td>
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<td>1998</td>
<td>62</td>
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</tbody>
</table>

* Several companies increased their dividends more than once in each year.

Source: Epoch Investment Partners, Inc. The data shown above is for a representative account. Such data may vary for each client in the strategy due to market conditions, client guidelines and diversity of portfolio holdings. The data is unaudited and may change at any time. The data is supplemental to the composite presentation, is shown for informational purposes only, and is not indicative of future portfolio characteristics or returns.

III - 4. Targeted Return

Average Annual Return in Rolling 5 Year Periods

- The strategy is not a relative return strategy, it does not set out to beat a benchmark.
- Instead it targets a 9% per annum return over a full market cycle with two-thirds coming from shareholder yield—cash dividends, share buybacks and debt reduction—and one-third from cash flow growth.
- The length of a full market cycle—trough to peak and back to trough varies from cycle to cycle and is unknown until the cycle is over, but a five-year time period may be used as a good proxy.
- There have been 86 overlapping five-year periods since the strategy’s inception and, in a majority, the strategy’s average annual return was above its 9% target.
- The arithmetic mean or average of the 86 average annual returns comes to 10.2% comfortably above its target return.

Source: FactSet Research Systems

* This value is an arithmetic average of a series of 5 year geometric average annualized returns at each month-end since inception.

III - 5. Portfolio Fit

Exposure to Value and Quality Factors Relative to Peers

- We believe the characteristics of the strategy and its quality value bias lend themselves to a wide range of applications from an income generator to a core portfolio building block.

Source: Style Analytics; as of 12/31/18. Peer group is the Morningstar Institutional World Stock Category.
Defensive characteristics help with active return diversification making it complementary to passive equity as well as higher beta satellite managers.

Exposure to Defensive Factors Relative to Peers

- Lower exposure to growth factors illustrate the strategy’s complementary position to growth strategies.

Exposure to Growth Factors Relative to Peers

- Low correlation to value equities and negative correlation to growth indexes, make the strategy an effective diversifier for a global equity allocation.

Correlation to Global Equities

- Potential for capital appreciation, driven by cash flow growth, make the strategy attractive in most market environments.

- Strategy expected to perform well in fundamentally driven markets and potentially lag in more speculative, momentum and growth driven markets.

Source: Style Analytics; as of 12/31/18. Peer group is the Morningstar Institutional World Stock Category.

Source: Morningstar Direct as of 12/31/18.
IV. Investment Approach

Companies Maximize Returns Through Disciplined Capital Allocation

- The bedrock of our philosophy is that the growth and applications of free cash flow represent the best predictor of long-term shareholder return.
- Our security selection process is focused on free-cash-flow metrics and capital allocation as opposed to traditional accounting-based metrics such as price-to-book and price-to-earnings.

A company should reinvest capital if the expected return on invested capital is greater than the company’s cost of capital. Remaining free cash flow should be returned to shareholders via shareholder yield.

Proprietary Quantitative Screen Evaluates Stocks For

- High current yield
- No dividend cancellations
- Cash from operations that exceed dividends (or cash returned) over trailing three years
- Growth in cash flow from operations over trailing five years
- Market cap > $500 million with trading liquidity

The strategy has a disciplined investment approach consisting of quantitative screen that helps us identify companies that are capable of generating sustainable free cash flow.

Fundamental Research, Evaluating:

- Business
  - Revenue growth drivers
  - Cost cutting initiatives
  - Working capital improvements
  - Capex cycle
- Management Quality
  - Demonstrated track record
  - Reputation
- Financial Strength
  - Leverage
  - Regulatory capital position
- External Factors
  - Regulation
  - Macro considerations
  - Geopolitics
  - Technological change
- Capital Allocation Policy
  - Track record of shareholder-friendly cash distributions
  - Transparent distribution policy

• Fundamental research evaluates whether a company’s cash flows are sustainable and can support a growing dividend plus share buybacks and debt reduction.

Global Equity Shareholder Yield: A Portfolio Cornerstone for an Uncertain World
Portfolio Construction and Risk Control

- Maximum 25% allocation to any sector
- Maximum income contribution per security: 3%
- Position size between 0.5% and 2.5%
- Inverse risk weighting

Factor exposures

- Maximum contribution to cash flow growth per security: 5%
- Maximum 25% allocation to any country other than the U.S.

Ongoing Evaluation and Sell Discipline

- Changes in fundamentals
- Changes in capital allocation policy
- Alternatives with better risk/return characteristics

Portfolio construction and risk management that diversifies across the sources of return and seeks to ensure the strategy meets its goals.

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