



Epoch Investment Partners, Inc.

# Shareholder Yield: Past, Present and Future

PRESENTED BY



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October 6, 2015 | The webinar replay will be available on our website: [www.eipny.com](http://www.eipny.com)

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## Grounded in Principles of Finance

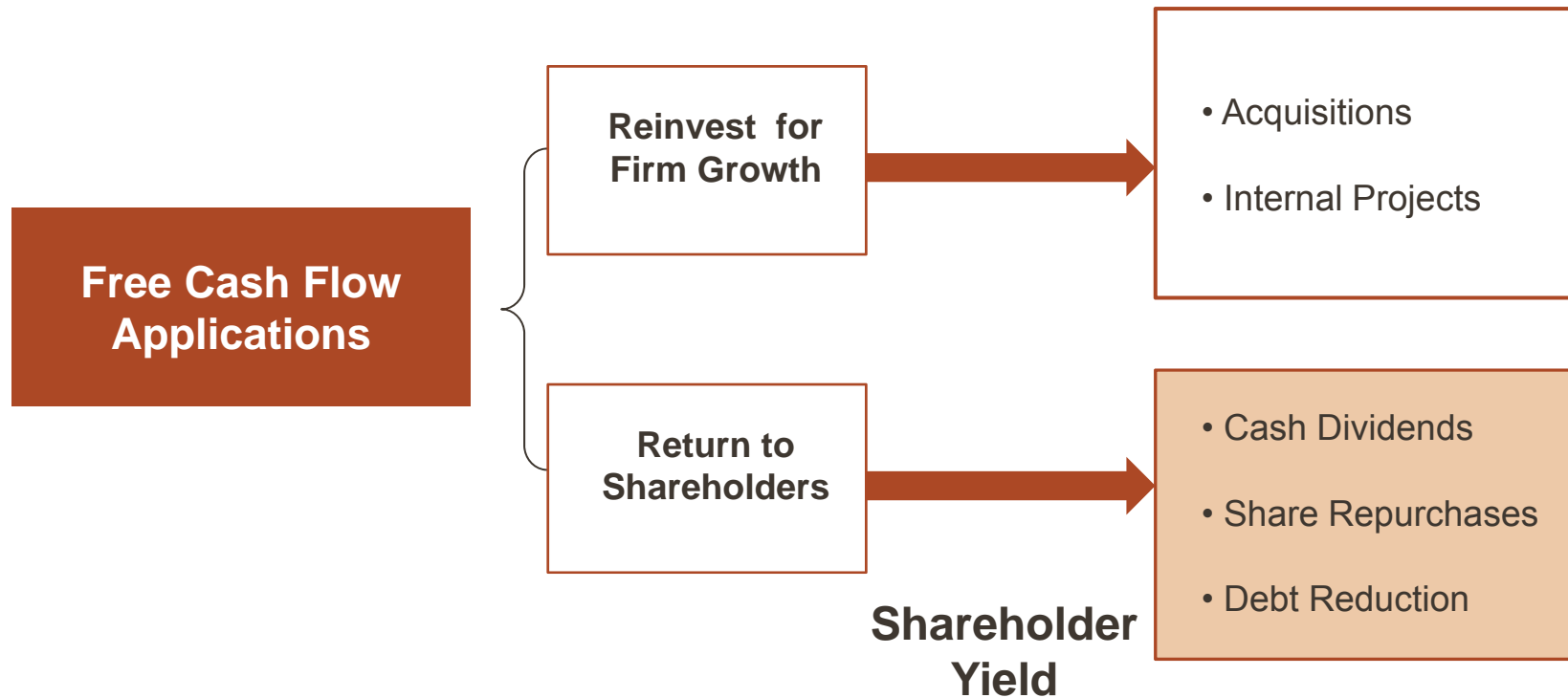
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### Financial metrics are more meaningful than accounting metrics

- Most investors focus on accounting, earnings and accounting-based valuation metrics (P/E ratios, P/B ratios).
- Accounting figures are inherently flawed as a measure of how a business is performing:
  - Revenues and expenses often not recognized when actually incurred;
  - Timing of that recognition often based on faulty assumptions.<sup>1</sup>
- Free cash flow: a better measure of corporate success: *how a company allocates its free cash flow* is what determines whether the value of the business rises or falls.
- Reported earnings can grow even as a company is destroying shareholder value.
- Accounting-based valuation ratios tell you nothing about how well a company allocates capital.

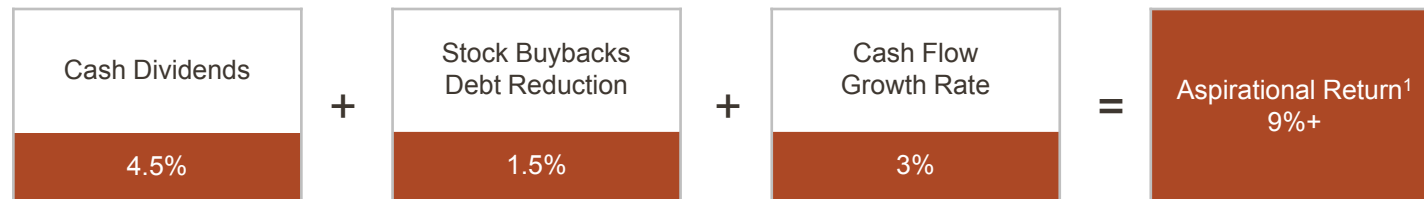
<sup>1</sup>See "Feathered Feast: A Case," by Jack L. Treynor, *Financial Analysts Journal*, November/December 1993. This is available on our website at [www.eipny.com](http://www.eipny.com) as an appendix to our white paper entitled "Mixing Financial Principles with Accounting Standards – A Slippery Slope," August 8, 2005.

# Companies Maximize Returns By Allocating Capital Well



## Capture "Shareholder Yield"

Invest in companies that grow and pay

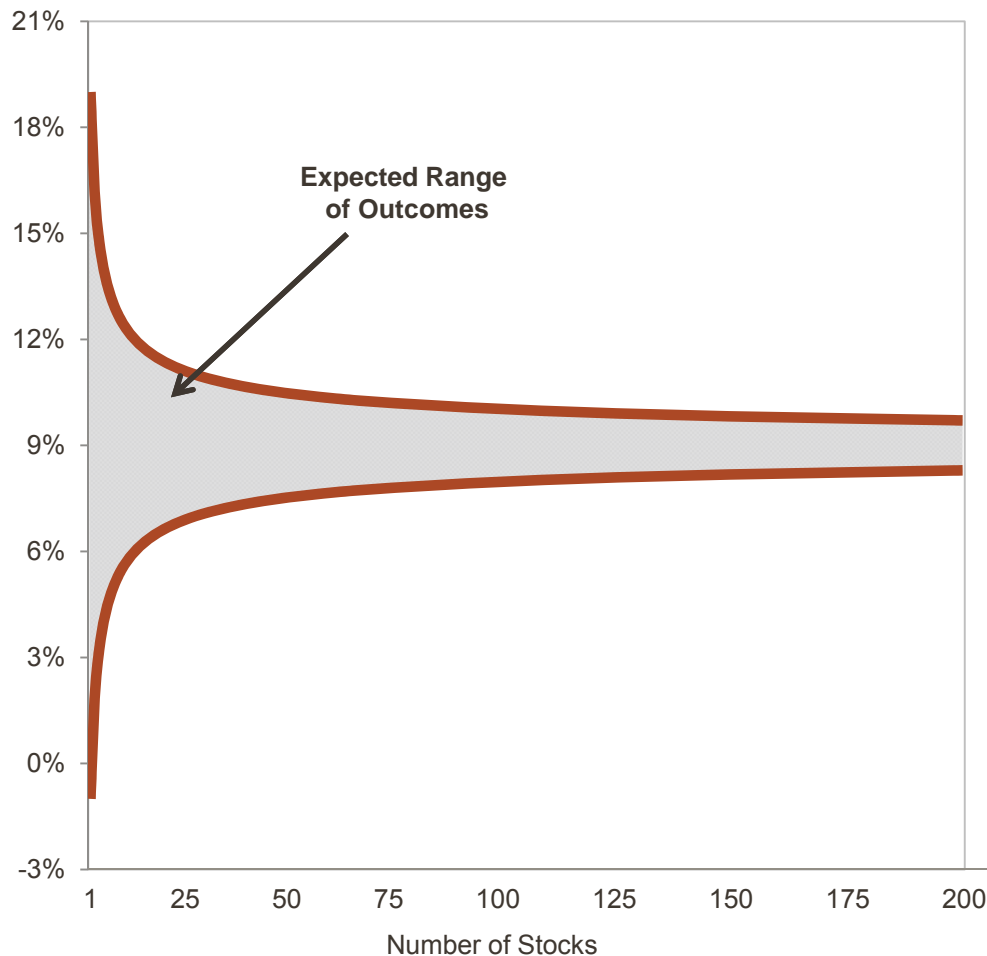


- Stocks must contribute to portfolio goals for dividends, buybacks, debt reduction and free-cash-flow growth
- Companies must have capital allocation policies that emphasize sustainable and growing shareholder yield
- Cast a wide net

<sup>1</sup> 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.

# Minimize the Variance of Expected Returns

## The more stocks the better



- Diversify sources of shareholder yield
- Minimize influence of individual stocks by limiting:
  - Position size
  - Income contribution per security
  - Cash flow growth contribution per security

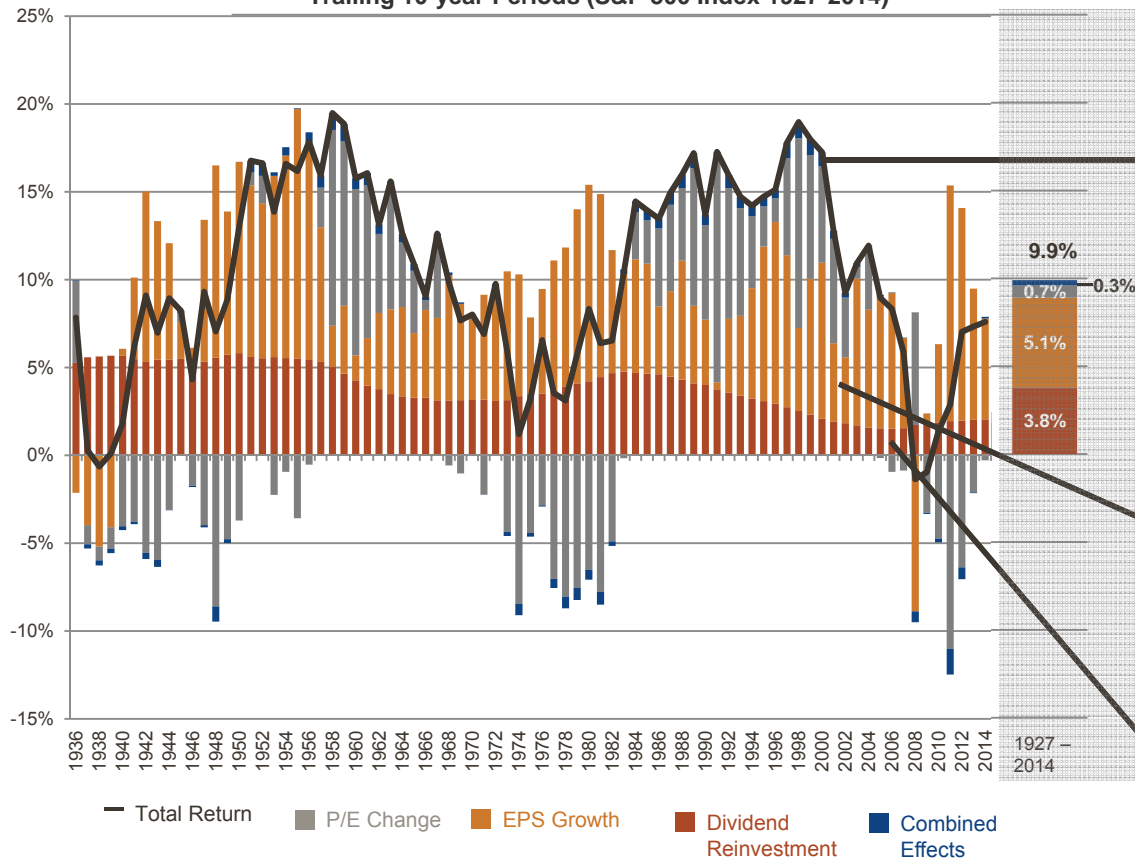
## Objectives Based on Long — Term Market Observations

**In the long run, dividend yield and earnings growth are the primary driver of stock returns**

Yield	Growth	Portfolio Construction
<ul style="list-style-type: none"> <li>• MSCI World Yield in 2005: 2.0%                             <ul style="list-style-type: none"> <li>• Premium over global index</li> <li>• Capture additional yield from share repurchases</li> </ul> </li> <li>• 10-Year Treasury yield in 2005: 4.3%</li> <li>• Competitive with Treasury yields</li> <li>• Yields were more likely to go up instead of down</li> </ul>	<ul style="list-style-type: none"> <li>• Capture growth from equities</li> <li>• Globalization was turbo-charging growth</li> </ul>	<ul style="list-style-type: none"> <li>• Ran simulations from 1993 to 2005</li> <li>• Desired maximum diversification                             <ul style="list-style-type: none"> <li>• Global</li> <li>• Large number of securities</li> <li>• Focus diversification around sources of return                                     <ul style="list-style-type: none"> <li>– Dividend Yield</li> <li>– Growth</li> </ul> </li> </ul> </li> <li>• Results were quite positive and seemed achievable                             <ul style="list-style-type: none"> <li>• Yield on average was around 4.5%</li> <li>• Growth was around 6%</li> </ul> </li> </ul>

# The Components of Equity Returns

Components of Compound Annual Equity Returns for Trailing 10-year Periods (S&P 500 Index 1927-2014)



Valuations expand and contract!

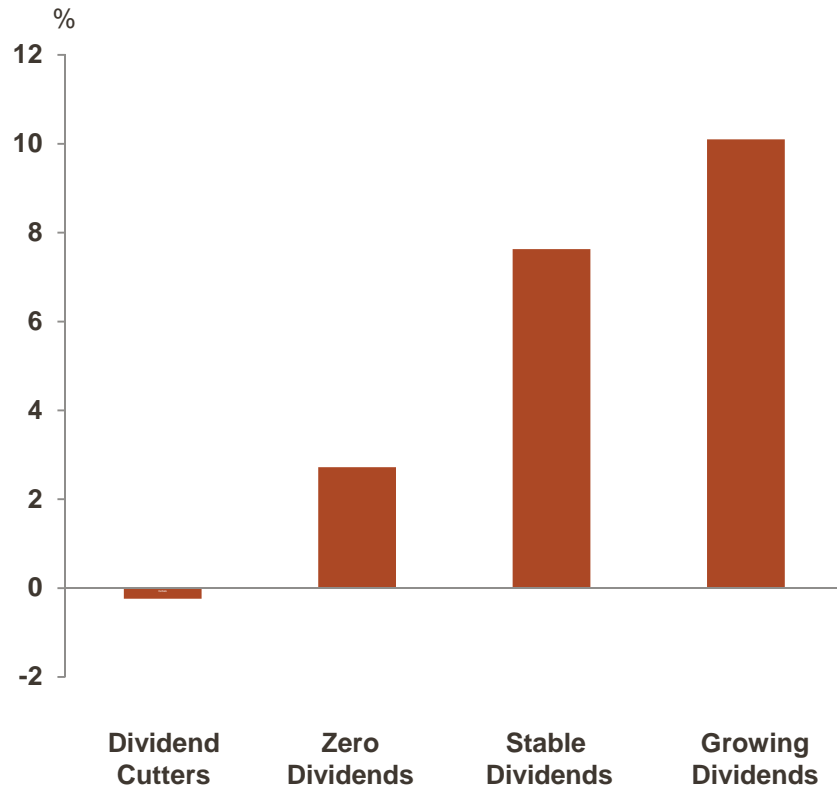
Earnings (in the long run a proxy for free cash flow) are more consistent and have almost always been positive over 10-year periods.

Dividends, a key source of return for this strategy, have always been positive over every 10-year period.

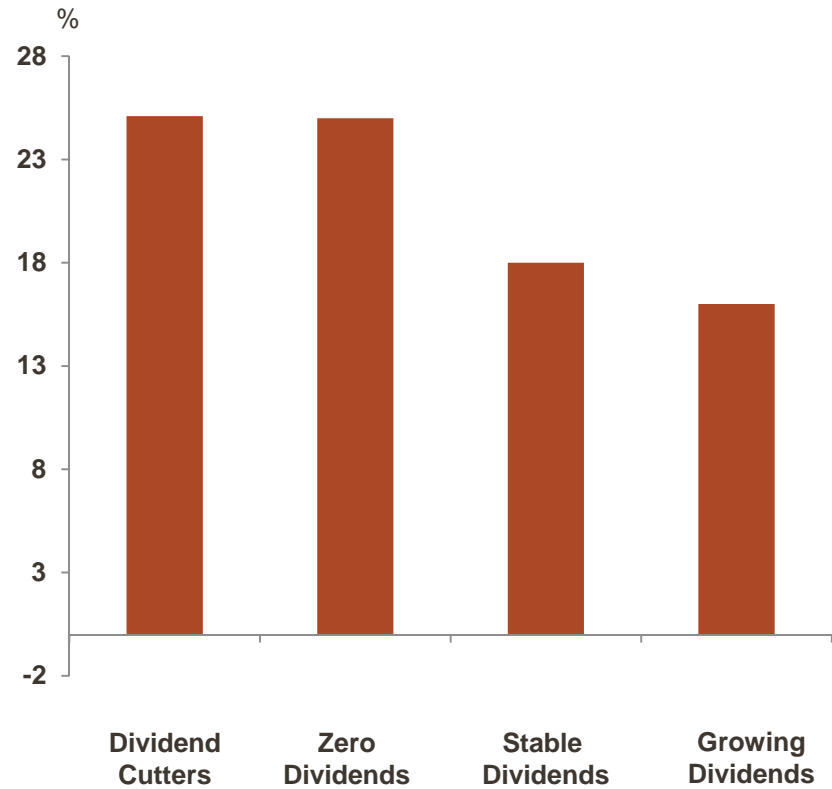
Sources: Epoch Investment Partners, Inc.; Standard & Poor's.

# Dividend Payers: Higher Returns, Lower Volatility

**Annual Compound Return:  
January 1973 – June 2015**



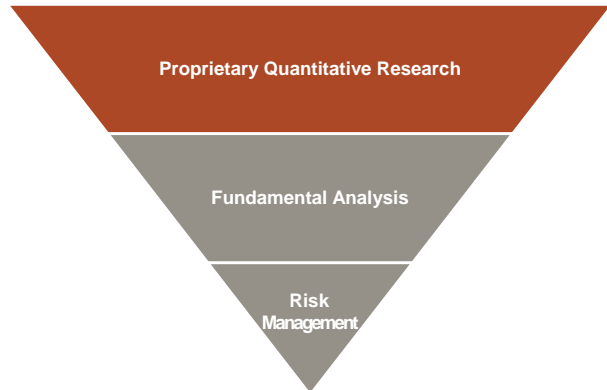
**Annual Standard Deviation:  
January 1973 – June 2015**



*Based on equally weighted compound total returns of dividend and non-dividend paying S&P 500 stocks. Each of the four portfolios were reconstituted at the beginning of each year based on the actual dividends paid over the previous year. Source: Ned Davis Research June, 2015*



# Proprietary Quantitative Research

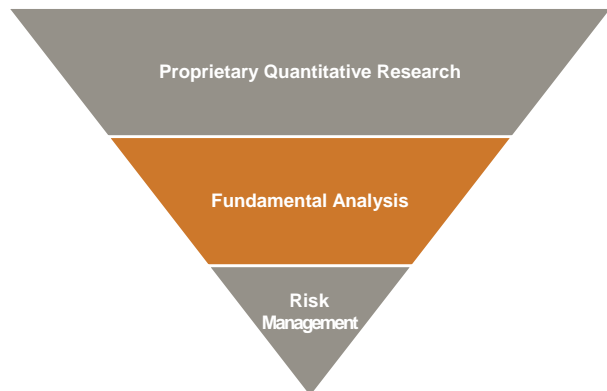


## Key Research Metrics

- High current income – yield
- Cash from operations exceeds dividends (or cash returned) over trailing 3 years
- Growth in cash flow from operations over the last 5 years
- No dividend cancellations in available financial history
- Market capitalization > \$500M with sufficient trading liquidity

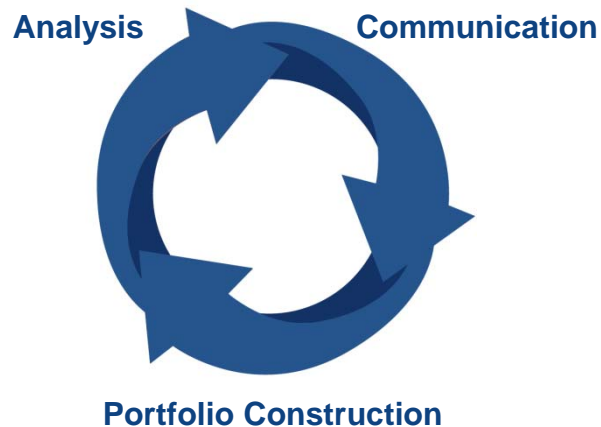
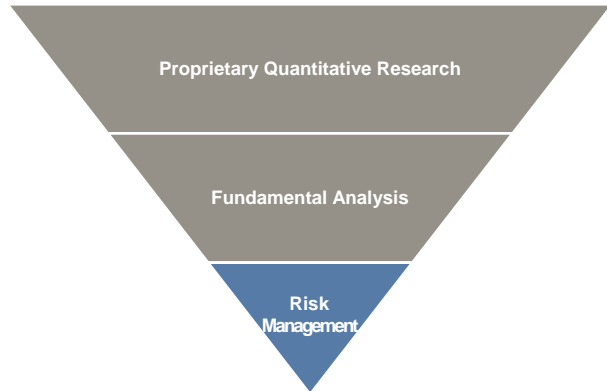
**Results in 5-10 new investment candidates / week**

# Fundamental Research



CATEGORY	EXAMPLE
<b>Management Quality</b> Does management have integrity, competence, and a capital allocation policy that favors shareholder yield?	CEO has a long history of returning cash to shareholders
<b>Business Evaluation</b> Are the company's fundamental factors, especially free cash flow sound?	Industry has high barriers to entry and the company is the market leader, giving it pricing power
<b>Financial Strength</b> Are the company's financials robust and transparent, and is shareholder yield funded by growing free cash flows?	Cash flow sources relatively predictable and diversified across geography and sector
<b>External Factors</b>	Regulatory environment is positive

# Portfolio Construction and Risk Management



## Portfolio Construction – Risk Control

- Minimize stock specific risks while capturing portfolio objectives
  - Position size: 0.5% - 2.5%
  - Maximum income contribution per security: 3.0%
  - Maximum contribution to cash-flow growth per security: 5.0%
- Inverse risk weighting
- Barra risk model measures factor exposures
- Liquidity considerations

## Diversified Portfolio Created

Global Equity Shareholder Yield (90-120)

## Ongoing Stock Evaluation

Sell Discipline Reflects:

- Risk to the dividend policy
- Changes in fundamentals
- Alternative choices with a better risk-reward outcome

RESULTS

## Risk Return Metrics

Global Equity Shareholder Yield	1 Year	3 Year	5 Year	Since Inception <sup>1</sup>
Returns (gross-of-fees)	-5.3	8.4	9.8	7.6
Returns (net-of-fees)	-5.7	8.0	9.4	7.1

*As of September 30, 2015*

Global Equity Shareholder Yield	Since Inception <sup>1</sup>
Standard Deviation	13.0 <i>(as of September 30, 2015)</i>
Sharpe Ratio	0.49 <i>(as of September 30, 2015)</i>
Dividend Yield	4.5 <i>(as of June 30, 2015)</i>
Number of holdings that increased dividends this year	56 <i>(as of June 30, 2015)</i>

<sup>1</sup>Since Inception: December 31, 2005

Performance for the most recent quarter is preliminary and subject to change. The risk statistics are shown as supplemental information only and supplement the Composite presentation which is located within the Disclosure section of the presentation.

RESULTS

# The Portfolio Stays The Same; The Market Moves Around

## GICS Sector Attribution

### First Half

December 31, 2014 – June 30, 2015

	Account		Benchmark		Attribution		
	Average Weight	Return (%)	Average Weight	Return (%)	Allocation Effect	Stock Selection	Total Effect
Consumer Discretionary	5.9	-1.2	12.8	7.0	-0.3	-0.5	-0.8
Consumer Staples	14.7	7.0	9.9	1.3	-0.1	0.8	0.7
Energy	8.9	-8.2	7.6	-5.1	-0.1	-0.3	-0.4
Financials	14.0	-0.9	20.6	2.3	0.0	-0.5	-0.5
Health Care	7.0	2.0	13.2	9.7	-0.4	-0.5	-0.9
Industrials	6.7	-0.7	10.9	0.7	0.1	-0.1	-0.1
Information Technology	3.8	-6.1	13.3	1.4	0.1	-0.3	-0.2
Materials	5.7	0.7	5.2	1.1	-0.0	-0.0	-0.0
Telecom	14.4	1.0	3.3	5.4	0.3	-0.6	-0.3
Utilities	16.0	-9.1	3.2	-7.9	-1.4	-0.2	-1.6
Cash	2.8	0.9	--	--	-0.1	--	-0.1
Unassigned	--	--	0.2	97.5	-0.1	--	-0.1
<b>Total</b>	<b>100.0</b>	<b>-1.6</b>	<b>100.0</b>	<b>2.6</b>	<b>-1.9</b>	<b>-2.3</b>	<b>-4.2</b>

Biotech Heats Up

Interest Rate Fears Rise

### Third Quarter

June 30, 2015 – September 30, 2015

	Account		Benchmark		Attribution		
	Average Weight	Return (%)	Average Weight	Return (%)	Allocation Effect	Stock Selection	Total Effect
Consumer Discretionary	5.1	-8.3	13.2	-6.4	-0.2	-0.1	-0.3
Consumer Staples	13.3	5.4	10.0	-1.1	0.2	0.8	1.1
Energy	10.8	-15.9	6.7	-18.1	-0.4	0.3	-0.2
Financials	16.1	-3.8	21.0	-9.5	0.1	0.9	1.0
Health Care	6.0	-6.6	13.7	-9.4	0.1	0.2	0.2
Industrials	6.8	-2.7	10.6	-9.2	0.0	0.4	0.5
Information Technology	4.1	-5.1	13.4	-5.1	-0.3	0.0	-0.3
Materials	5.3	-21.8	4.7	-19.6	-0.1	-0.1	-0.2
Telecom	15.2	-8.2	3.4	-8.3	-0.0	0.0	0.0
Utilities	15.7	6.6	3.1	0.0	1.1	1.0	2.0
Cash	1.6	-0.5	--	--	0.2	--	0.2
Unassigned	--	--	0.1	2.2	-0.0	--	-0.0
<b>Total</b>	<b>100.0</b>	<b>-4.5</b>	<b>100.0</b>	<b>-8.4</b>	<b>0.6</b>	<b>3.4</b>	<b>4.0</b>

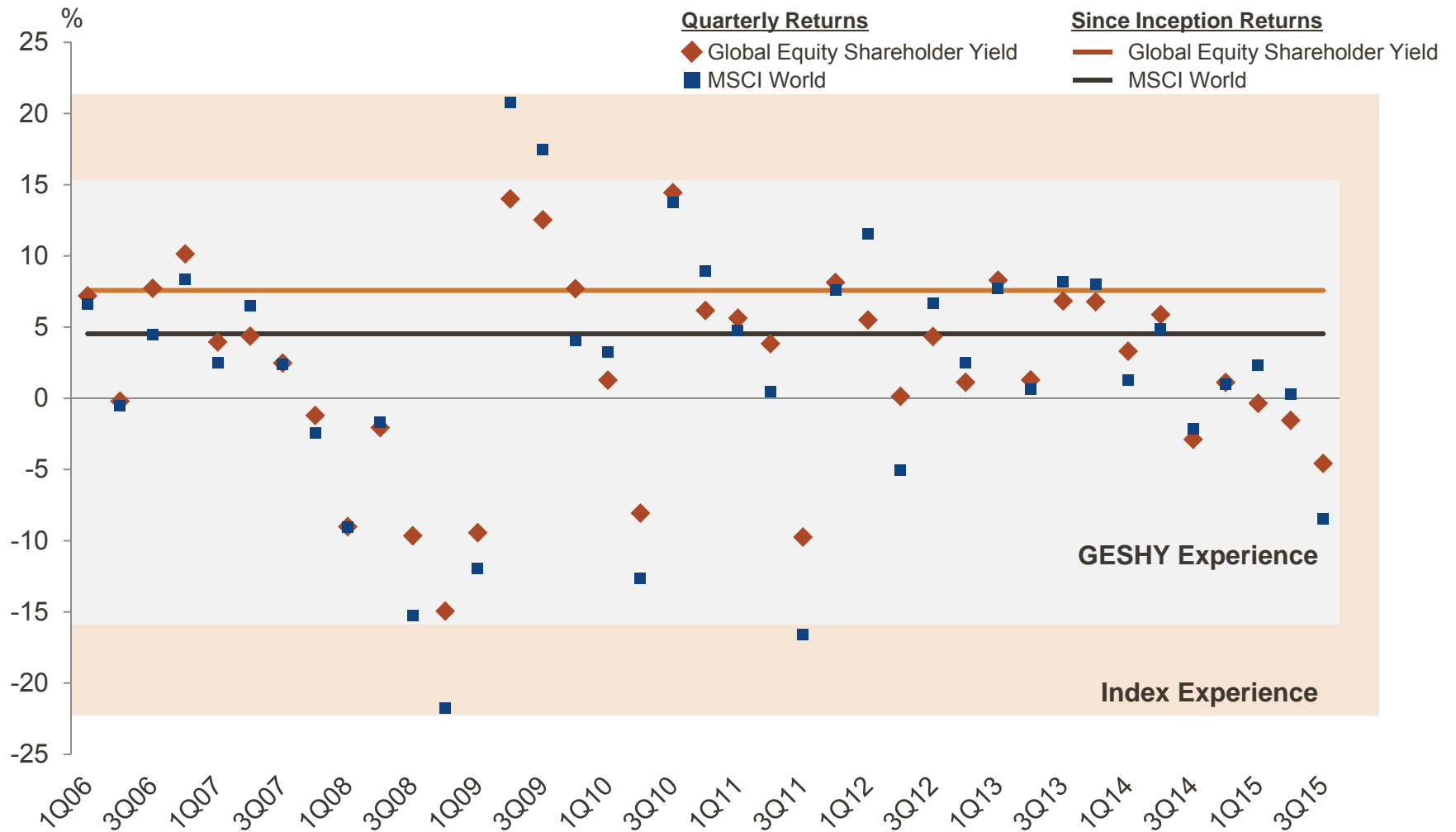
Biotech Cools Down

Interest Rate Fears Subside

RESULTS

# A History of Low Volatility

## Quarterly Rolling Returns Epoch Global Equity Shareholder Yield Composite

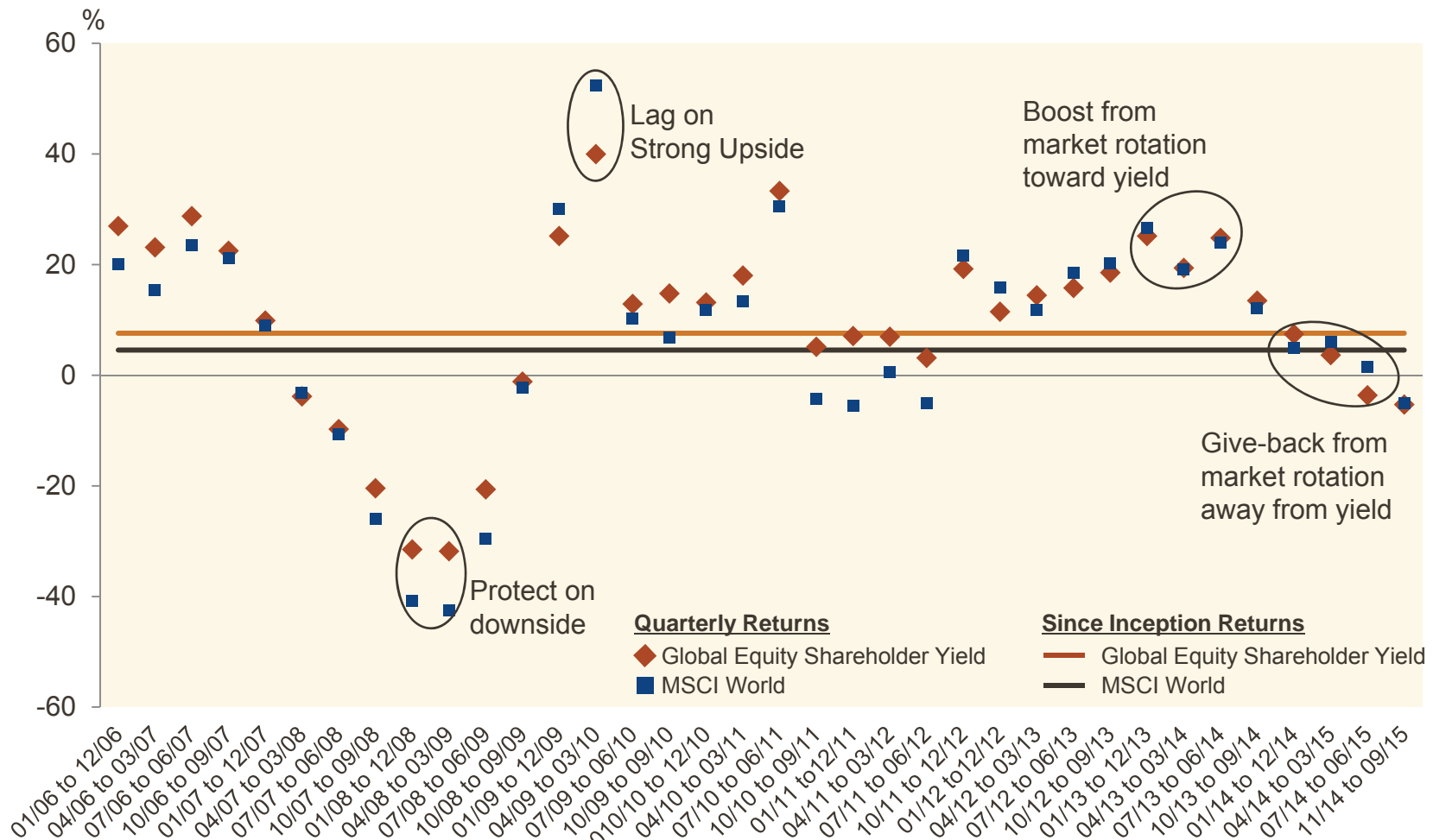


Source: FactSet Research Systems. Epoch Investment Partners; September 2015

RESULTS

# Stepping Back, a Clearer Picture Emerges

## Rolling 1- Year Returns Epoch Global Equity Shareholder Yield Composite

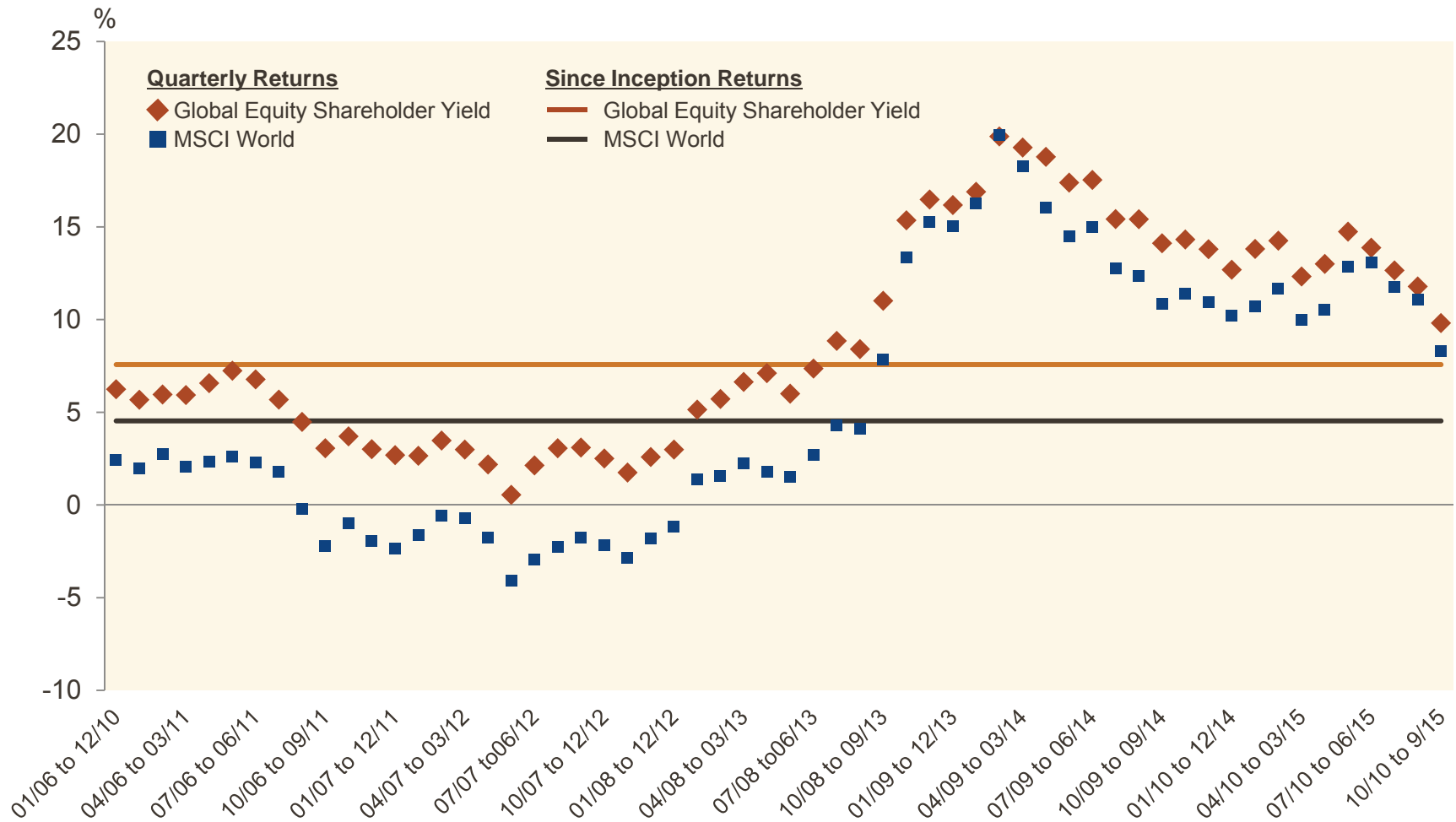


Source: FactSet Research Systems. Epoch Investment Partners; September 2015

RESULTS

# Consistency Over the Long Term

## Rolling 5- Year Returns Epoch Global Equity Shareholder Yield Composite



Source: FactSet Research Systems; Epoch Investment Partners; September 2015



## Exposure Within Sectors Vastly Different Than the Index

### Utilities sector as an example:

Emphasis on regulated utilities over unregulated

- Predictability of cash flows
  - Regulator-approved pricing
  - Stable demand with steady incremental growth

Interested in sustainable yield, not the highest yield

- Only holds two of the top-10 yielding utilities in the index
- Only holds four of the top-10 by market cap

Different return patterns than the Index

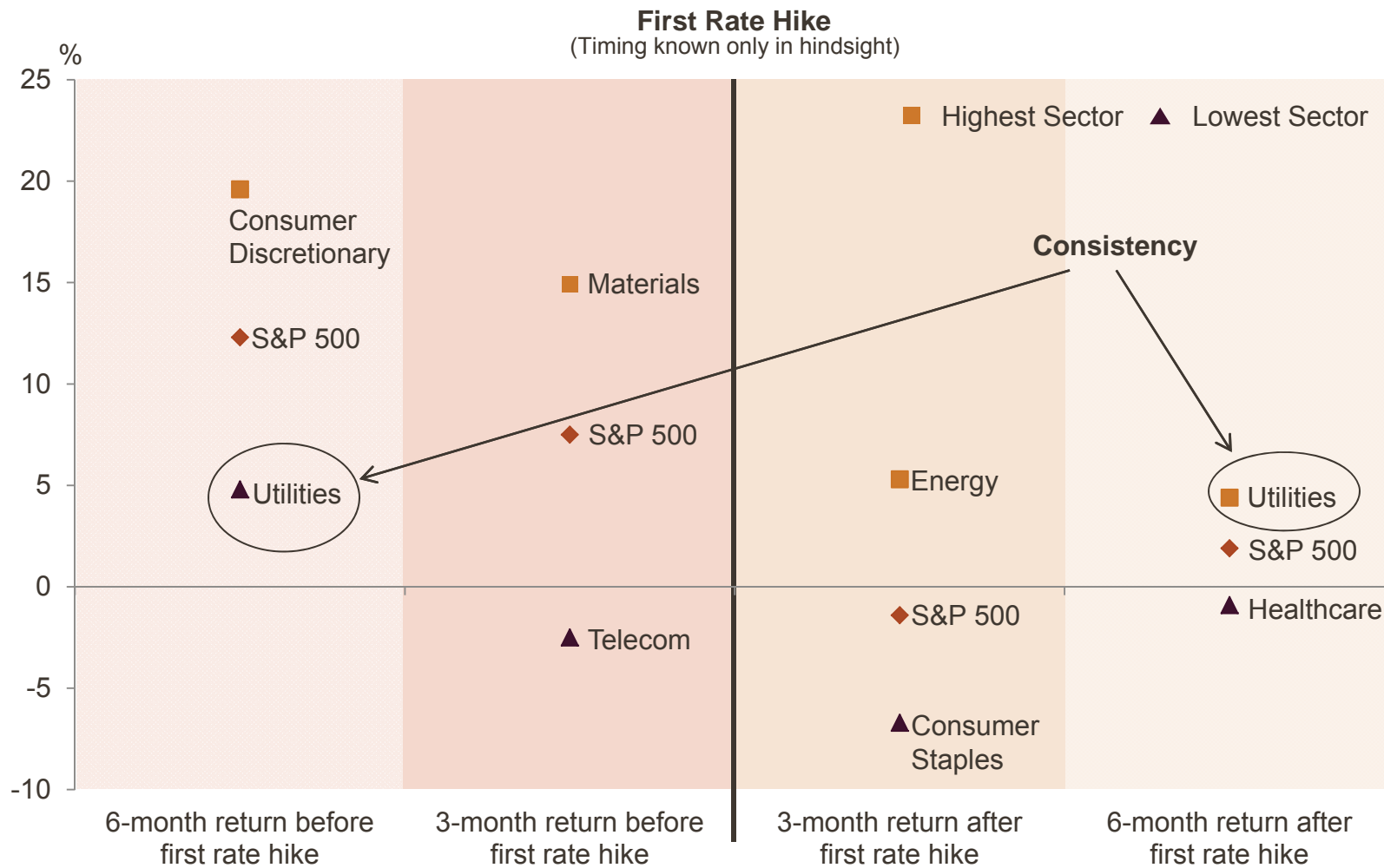
	YTD <sup>1</sup>	2014	2013	2012	2011	2010	2009	2008	2007	2006
GESY Utilities	-3.1	14.3	17.7	9.3	15.7	10.8	18.8	-23.0	18.9	35.3
MSCI World Utilities	-7.9	15.2	12.6	1.7	-3.7	-0.9	6.0	-29.0	21.7	36.3

\*YTD ending September 30, 2015

SECTORS

# Utilities Have Characteristics Beneficial to the Strategy

Consistent returns despite flip-flopping between best and worst relative to other sectors



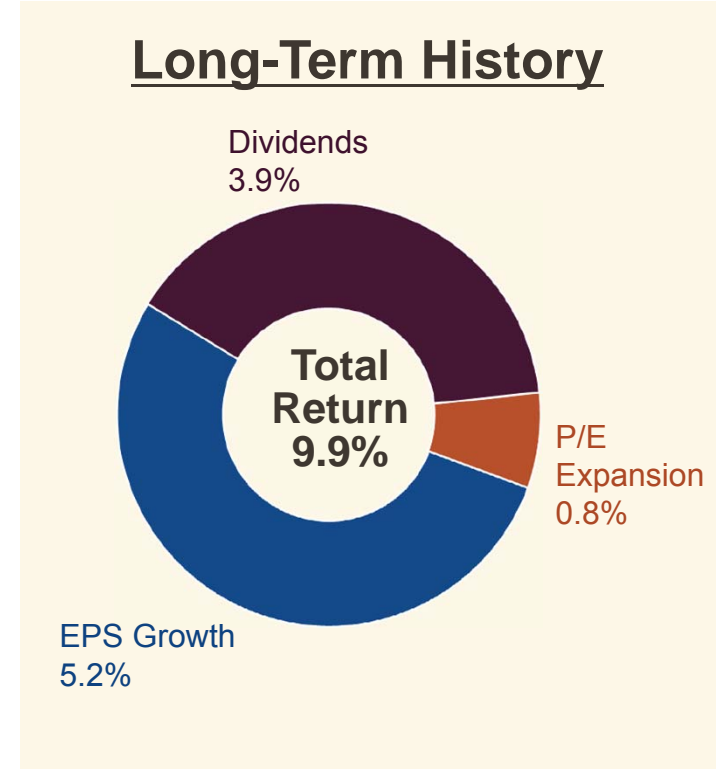
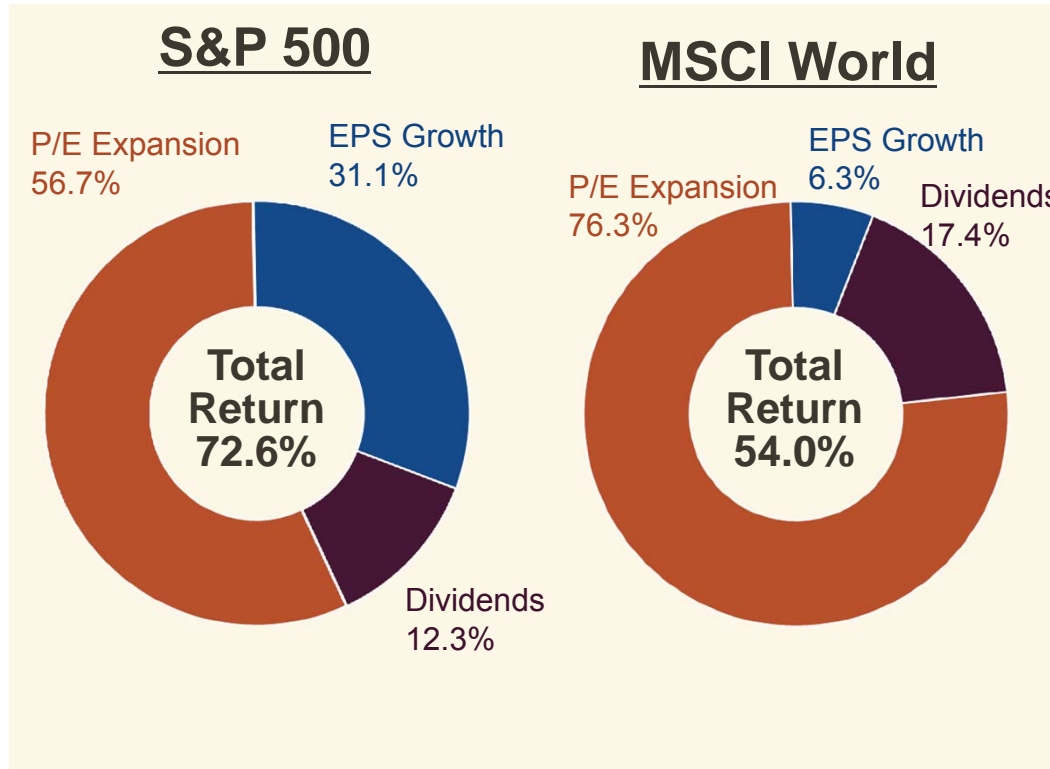
Source: Strategas Research Partners; Average returns taken from time periods following previous six recessions circa: 1971, 1975, 1980, 1983, 1994, 2004.

OUTLOOK

# P/E Expansion Has Driven Market Returns<sup>1</sup>

Cumulative Contribution to Return 2012 through 2014

Annualized Return 1927 through 2014



Numbers may not total due to rounding.

Source: Standard & Poor's; MSCI; Epoch Investment Partners; December 2014





1. Please see our White Paper dated May 29, 2015: **The Power Of Zero + The Power Of The Word**

[http://www.eipny.com/epoch\\_insights/papers/the\\_power\\_of\\_zero\\_the\\_power\\_of\\_the\\_word](http://www.eipny.com/epoch_insights/papers/the_power_of_zero_the_power_of_the_word)

OUTLOOK

## 2% Is The New 4% For Mature Economies

### GDP Components

	Growth In The Work Force	Productivity	Real GDP
 <b>U.S.</b> (23% of Global GDP)	1.6	0.7	2.3
 <b>Euro Area</b> (24%)	0.8	0.6	1.4
 <b>Japan</b> (6%)	0.3	0.3	0.6
<b>Mature Economies<sup>1</sup></b>	<b>1.1</b>	<b>0.9</b>	<b>2.0</b>
+			
 <b>China</b> (13%)	-0.2	6.7	6.5
<b>Developing Economies<sup>2</sup></b>	<b>1.2</b>	<b>2.7</b>	<b>3.9</b>
=			

1. Includes all 28 members of the European Union as well as Iceland, Norway and Switzerland, Australia, Canada, Hong Kong, Israel, New Zealand, Singapore, South Korea, Taiwan  
 2. Includes China, India, Bangladesh, Cambodia, Indonesia, Malaysia, Myanmar, Pakistan, Philippines, Sri Lanka, Thailand, Vietnam, Argentina, Barbados, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Guatemala, Jamaica, Mexico, Peru, St. Lucia, Trinidad & Tobago, Uruguay, Venezuela, Algeria, Bahrain, Egypt, Iran, Iraq, Jordan, Kuwait, Morocco, Oman, Qatar, Saudi Arabia, Sudan, Syria, Tunisia, United Arab Emirates, Yemen, Angola, Burkina Faso, Cameroon, Cote d'Ivoire, DR Congo, Ethiopia, Ghana, Kenya, Madagascar, Malawi, Mali, Mozambique, Niger, Nigeria, Senegal, South Africa, Tanzania, Uganda, Zambia, Zimbabwe  
 Source: The Conference Board. 2015. The Conference Board Total Economy Database™, May 2015, <http://www.conference-board.org/data/economydatabase/>

## OUTLOOK

# A 9% Objective is Attractive in a Mid-Single-Digit World

And, that objective becomes more realistic if half is received in cash

### Long – Term History

1927 → 2014	
Earnings	5.2%
Dividends	3.9%
P/E	0.8%
Annualized Return <sup>1</sup>	9.9%

### Long – Term Outlook

2015 →	
Earnings	3% - 5%
Dividends	2%+
P/E	???
Expected Return	5% - 7%

### Medium-Term Considerations

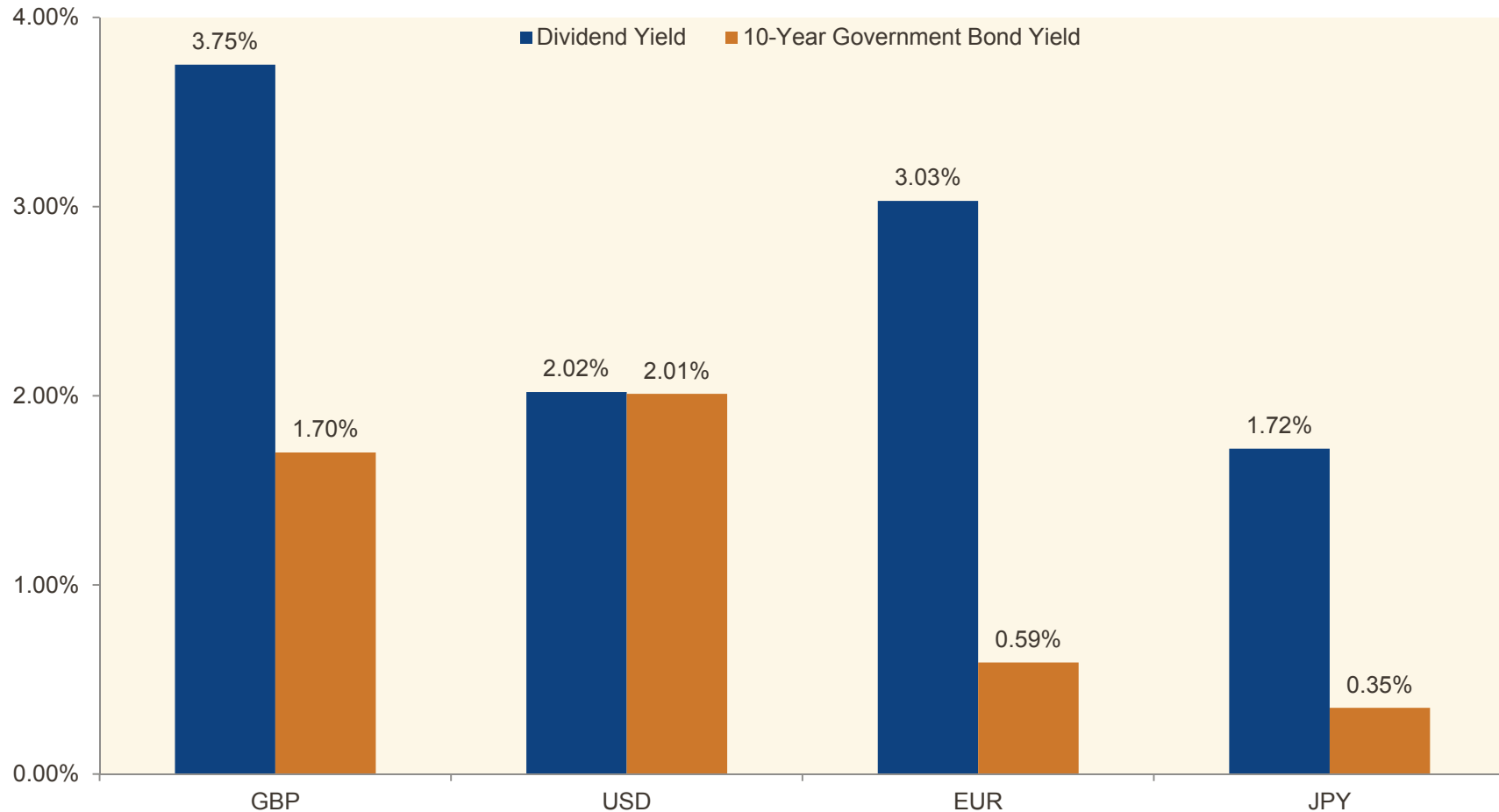
- Earnings: constrained by slowing global economic growth
- Dividends (and buybacks): increasingly favored by companies with excess cash
- Valuations: little room for improvement across most global markets, with potential to contract if earnings growth slows and interest rise from suppressed levels

<sup>1</sup> S&P 500 total return (USD)

OUTLOOK

## Better Source of Income Than Bonds, with a Growth Rate Attached

The environment is even more compelling for shareholder yield than when we launched the strategy a decade ago



Source: MSCI; Epoch Investment Partners; August 21, 2015



## Questions & Answers Section

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### Global Equity Shareholder Yield



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A replay of this presentation will be available shortly on our website

[www.eipny.com](http://www.eipny.com)

Please feel free to contact us at 212-303-7200



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*If you wish to ask a question, please click on the question mark icon located on the top of the screen.*

# Global Equity Shareholder Yield

Global Equity Shareholder Yield Composite Annual Performance Disclosures									
Year End	Total Firm	Composite Assets		Annual Performance Results				Composite 3-Yr St Dev	MSCI World (Net) 3-Yr St Dev
	Assets (Millions)	USD (Millions)	Number of Accounts	Composite Gross	Composite Net **	MSCI World (Net)	Internal Dispersion		
2014	43,617	17,209	35	7.45%	7.05%	4.94%	0.3%	9.42%	10.23%
2013	38,439	14,082	32	25.17%	24.72%	26.68%	0.3%	10.69%	13.54%
2012	24,534	9,593	24	11.50%	11.10%	15.83%	0.4%	13.28%	16.74%
2011	19,217	5,737	13	7.09%	6.71%	(5.54)%	0.4%	15.10%	20.15%
2010	14,326	2,320	10	13.16%	12.75%	11.76%	0.5%	18.00%	23.72%
2009	11,354	2,136	10	25.17%	24.65%	29.99%	0.3%	15.76%	21.40%
2008	5,348	879	6	(31.49)%	(31.79)%	(40.71)%	N.A.	13.66%	17.02%
2007	6,682	1,356	Five or fewer	9.88%	9.01%	9.04%	N.A.	N.P.	N.P.
2006	4,408	566	Five or fewer	26.97%	25.96%	20.07%	N.A.	N.P.	N.P.

N.A. - Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year. \*\*Net performance reflects the gross-of-fees return reduced by the investment management fee and performance-based fee (where applicable) incurred. Effective 1/2008, net performance is calculated by deducting the actual investment management fee incurred by each portfolio in the composite. Prior to 1/2008, net-of-fee returns reflect the deduction of the highest annual management fee, calculated on a monthly basis. N.P. - Information is not presented because 36 monthly returns are not available.

- Global Equity Shareholder Yield Composite contains fully discretionary diversified portfolios of global equity securities managed by Epoch for above average income and long-term capital appreciation. Epoch employs a research process focused on free-cash-flow generation as opposed to traditional accounting based metrics such as P/E or P/B. The portfolio consists of approximately 90-120 securities which are selected on the expectation they will generate excess free cash flow and whose management will allocate it prudently among dividends, share repurchases, debt pay downs, internal reinvestment opportunities and/or acquisitions. The minimum account size for this composite is \$500 thousand.
- For comparison purposes, the composite is measured against the MSCI World (Net) Index. [Net total return indices reinvest dividends after the deduction of withholding taxes, using (for international indices) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties]. Effective July 1, 2009, the benchmark was changed from the S&P Developed BMI Index to the MSCI World (Net) Index because it is more representative of the composite's investment strategy. This change has been applied retroactively. [Prior to October 1, 2008, the index was known as the S&P/Citigroup BMI World Index].
- Epoch Investment Partners, Inc. claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Epoch Investment Partners, Inc. has been independently verified for the periods June 21, 2004 through March 31, 2015. 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 Global Equity Shareholder Yield composite has been examined for the periods January 1, 2006 through March 31, 2015. The verification and performance examination reports are available upon request.
- Epoch Investment Partners, Inc. is a wholly owned subsidiary of The Toronto Dominion Bank. Epoch Investment Partners, Inc. ("Epoch") became a registered investment adviser under the Investment Advisers Act of 1940 in June 2004. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.
- Results are based on fully discretionary accounts under management, including those accounts no longer with the firm.
- Effective January 1, 2008, our significant cash flow policy has been removed. This policy amendment will not be applied retroactively. Effective January 1, 2006, our significant cash flow policy had been redefined as in excess of 25% of the portfolio market value. Prior to January 1, 2006, composite policy required the temporary removal of any portfolio incurring a client initiated significant cash inflow or outflow of 10% or greater of portfolio market value. This policy was not applied to the advised Epoch mutual funds, if applicable. Additional information regarding the treatment of significant cash flows is available upon request.
- Valuations are computed and performance is reported in U.S. dollars. Returns are presented gross and net of management fees and include the reinvestment of all income. Gross-of-fees returns are presented before management fees but after all trading expenses. Net performance reflects the gross-of-fees return reduced by the investment management fee and performance-based fee (where applicable) incurred. Effective 1/2008, net performance is calculated by deducting the actual investment management fee incurred by each portfolio in the composite. Prior to 1/2008, net-of-fee returns reflect the deduction of the highest annual management fee, calculated on a monthly basis. Returns include the effect of foreign currency exchange rates. Composite and benchmark (international indices) returns are presented net of non-reclaimable withholding taxes.
- Internal dispersion is calculated using an asset-weighted standard deviation of annual gross returns of those accounts that were included in the composite for the entire year. Internal dispersion figures that are not meaningful due to the limited number of accounts in the composite are annotated by N/A. The three-year annualized standard deviation measures the variability of the composite and the benchmark returns over the preceding 36-month period.
- The Global Equity Shareholder Yield Composite was created in January 2006. A complete list of composite descriptions is available upon request.
- The management fee schedule is as follows: First \$50 million: 0.80%, Next \$50 million: 0.70%. Separate Account Minimum is \$50 million. Past performance is not indicative of future results. Actual investment advisory fees incurred by clients may vary. Minimum account sizes, fees and fee structure, and other conditions may be waived or modified in the future, and have been waived or modified in the past, at the discretion of Epoch.