



**Quarterly review**

The GGFS Dividend Buster Strategy declined 2.9% before fees in Q1 2018 compared to declines of 1.1% and 1.9% for the S&P 500 (SPY) and Dow Jones Industrial Average (DIA), respectively.

After a long stretch of relative calm, volatility dramatically returned to equity markets in Q1 as investors shifted attention away from tax-cut-driven earnings gains to brewing trade tensions and scandal involving prominent technology companies. After experiencing only four days of market declines below -1% in all of 2017, markets surpassed that mark 11 times in Q1 alone. Last year, the S&P 500 showed a standard deviation of daily returns of 6.7% annualized. That measure soared to 19.9% in Q1. At its trough in mid-February, the S&P 500 was down over 10% from its peak reached in January but recovered some of that drawdown by quarter's end.

Events in the first quarter highlighted the degree to which volatility itself has become a traded asset class like stocks, bonds or commodities. A number of ETFs and other managed products exist solely to allow investors to bet on rising or falling levels of volatility; Q1's rapid volatility spike completely wiped out some of the strategies that had profited by selling volatility into the market lull. Unusually, the tradeable volatility products seemed to be driving activity in the underlying stocks rather than the other way around. Also unusual in this downturn was that safer, more defensive companies tended to perform worse than their riskier, more cyclical counterparts. Mean reversion, low beta, value and quality were some of the factors that performed poorly last quarter when, in past market sell-offs, those areas were more likely to act as havens.

**Strategy review**

The Dividend Buster Strategy lagged broader market benchmarks in Q1 due primarily to weakness in the communications and utilities sectors. Given their relative high dividend yields these sectors tend to exhibit some interest rate sensitivity and the prospect of rising interest rates caused investors to reassess sector exposure. In addition, these sectors are sensitive to many of the factors that led the market sell-off, namely value, low beta and high dividends. Security selection overall added about 0.6% on the quarter with strong contributions from the energy and healthcare sectors. Asset allocation detracted 2.3%, primarily from the utilities and communications sectors. Dividends, low beta and value were the primary factors driving performance over the quarter with both suffering from the defensive-driven market decline.

Cisco Systems Inc (CSCO) was the largest contributor on the quarter adding 86 basis points (bp) of return. CSCO, also the largest contributor last quarter, continued to benefit from renewed earnings growth and investor enthusiasm for technology stocks. GlaxoSmithKline Plc (GSK) contributed 69 bp of return as the stock rose on news of GSK's buyout of Novartis' share of their consumer products joint venture.

BCE Inc (BCE), Bell Canada, detracted 58 bp of return in Q1. The stock fell along with weakness in the overall telecommunications sector and on conservative earnings guidance for 2018.

**Portfolio changes**

Diageo Plc (DEO) was exited during the quarter as the stock achieved price targets. Merck & Co (MRK) and Qualcomm Inc (QCOM) were added to portfolios during the quarter.

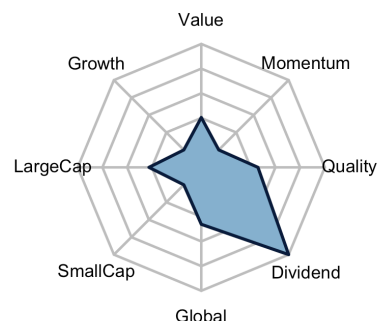
**Strategy Highlights**

- High conviction portfolio targeting high dividend-paying, large capitalization stocks
- Fundamental selection focused on valuation, financial strength and management quality
- Historically lower volatility than broad market indices resulting in higher risk-adjusted returns
- High current income stream while preserving the opportunity for capital growth
- Typically holds 15-30 positions

**Top holdings**

Name	Weight
TotalFinaElf, S.A.	6.8%
Royal Dutch Shell Plc	6.7%
BCE, Inc.	6.6%
PPL Corporation	6.6%
Verizon Communications Inc.	6.6%
AT&T Inc.	6.4%
Cisco Systems, Inc.	6.3%
GlaxoSmithKline PLC	5.6%
Southern Company (The)	5.4%
Duke Energy Corporation	5.4%
<b>Total</b>	<b>62.3%</b>

**Style map**



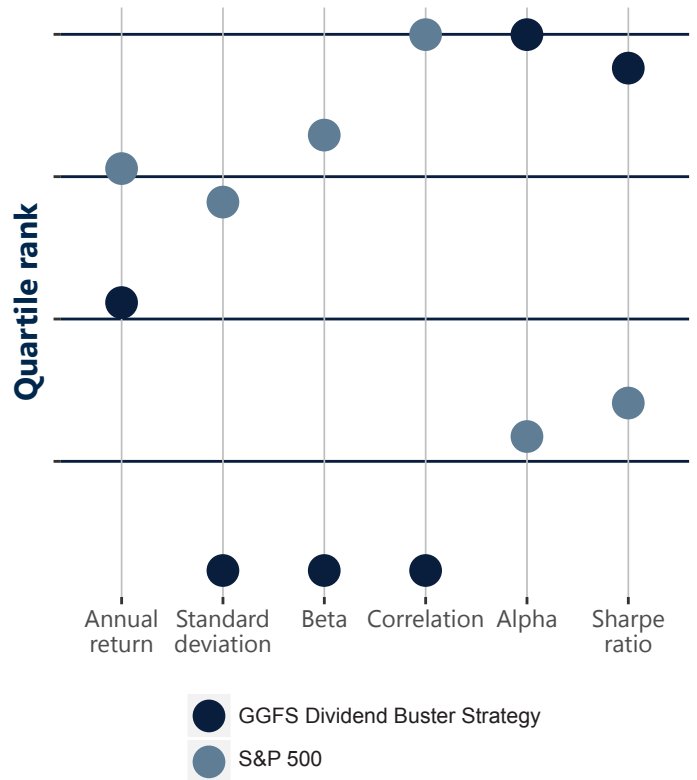


## Performance summary

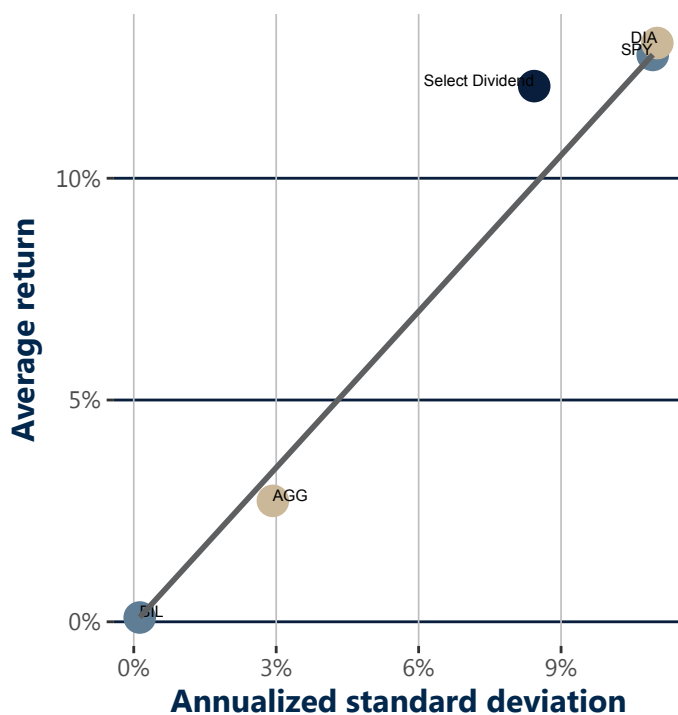
Annualized returns	Dividend Buster	S&P 500	DJI Average
Q1 2018	-2.9%	-1.0%	-1.9%
Year to date	-2.9%	-1.0%	-1.9%
Last one year	6.4%	13.8%	19.6%
Last three years	9.3%	10.6%	13.4%
Last five years	10.3%	13.2%	13.2%
Since inception	12.1%	12.8%	13.1%

Annual returns	Dividend Buster	S&P 500	DJI Average
2018	-2.9%	-1.0%	-1.9%
2017	15.3%	21.7%	28.1%
2016	14.6%	12.0%	16.4%
2015	0.4%	1.2%	0.1%
2014	12.3%	13.5%	9.8%
2013	21.0%	32.3%	29.6%
2012	8.8%	16.0%	9.9%

## Peer group analysis



## Risk / return

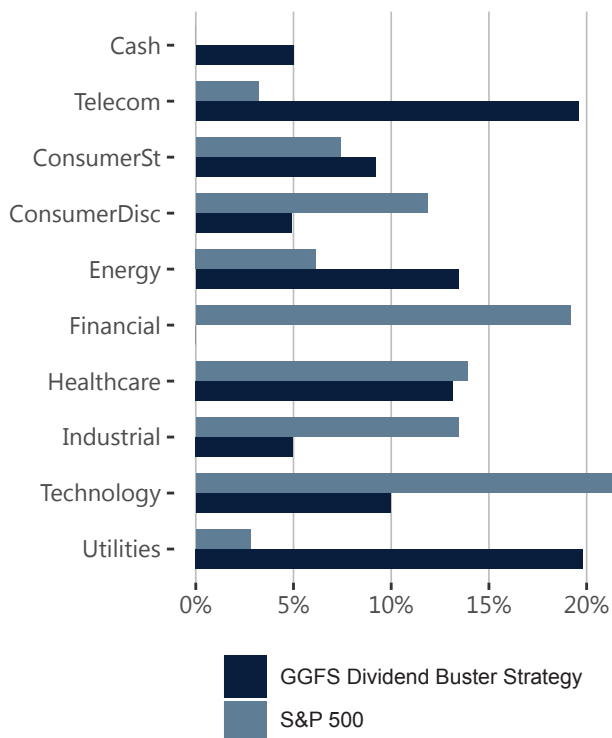


## Performance statistics

Metric	Dividend Buster	S&P 500	DJI Average
<b>Return</b>			
Average annualized return	12.1%	12.8%	13.1%
Annualized alpha	6.0%	-0.0%	0.6%
Sharpe ratio (0% rf)	1.43	1.17	1.18
Sortino ratio (0% rf)	2.00	1.63	1.65
<b>Risk</b>			
Annualized standard deviation	8.4%	10.9%	11.0%
Beta	0.47	1.00	0.97
Beta, down markets	0.29	1.00	1.03
Maximum drawdown	-6.3%	-16.2%	-13.9%
<b>Fit</b>			
Correlation	61.5%	100.0%	96.3%
Skew	-9.5%	-4.9%	-9.0%



**Sector allocation**



**Portfolio characteristics**

Metric	Dividend Buster	S&P 500	DJI Average
<b>Value</b>			
Market capitalization (\$m)	\$130,422	\$84,305	\$285,299
Price / next year's earnings	13.5	17.0	16.2
Enterprise value / EBITDA	10.8	15.2	13.1
Enterprise value / Sales	3.4	4.4	3.5
<b>Strength</b>			
Net long-term debt / EBITDA	2.2	1.5	0.5
Cash / market capitalization	7.7%	5.3%	4.5%
Dividend yield	4.3%	1.8%	2.4%
Dividend coverage	3.6	5.3	4.0
<b>Quality</b>			
Return on equity	15.0%	17.8%	36.6%
EBITDA margin	30.7%	27.0%	26.2%
Earnings variability	39.1%	46.8%	36.7%
EBITDA growth	4.5%	8.8%	6.5%

**Investment process**

**Idea generation**

Large-cap US / ADR universe

- >\$10 billion market cap
- US / developed markets

**Fundamental screens**

- Balance sheet - low and manageable debt levels
- Attractive / growing dividend stream

Internal and external research

Avoid financial sector and 'pure-play' dividend stocks (ie REITs, BDCs, MLPs).

**Research**

**Valuation analysis**

- Current valuation relative to long-term average and to sector peers

**Financial strength analysis**

- Company's balance sheet and debt level relative to long-term ability to generate cash

**Management assessment**

- Ability and willingness of management team to return capital to shareholders

**Portfolio construction**

**15-30 securities**

**Position weights**

- Typically range from 1.3% to 6.5%, at cost

**Sector diversification**

- No more than 30% in any one GICS sector, at cost

**Long-term holding period**

- Average turnover of 43% / 2.3 year average holding period

**Quarterly portfolio update**

**Risk management**

On-going coverage of portfolio companies

- Company and market news flow
- Dividend coverage and current dividend yield
- Valuation and financial strength metrics

Daily monitoring of portfolio risks

Dividend reduction results in immediate sale

Large decline triggers investment review



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