



Quarterly review

The GGFS Dividend Buster Strategy gained 2.7% before fees in Q2 2018 compared to gains of 3.6% and 1.0% for the S&P 500 (SPY) and Dow Jones Industrial Average (DIA), respectively. For the year-to-date period, the GGFS Dividend Buster Strategy declined 0.3% compared to a gain of 2.5% for the SPY and a decline of 0.9% for DIA.

Volatility subsided in Q2 from elevated levels seen in the first quarter but investor optimism about tax cuts faded into concerns about trade. The US seems intent on upending the global trading landscape but its ultimate goal remains unclear.

Focusing solely on the trade deficit provides an incomplete view of US economic performance. For many countries, persistent trade deficits can be a sign of inefficiency or industrial stagnancy and are often a precursor to currency declines. The US economy, however, is exceptional in that its relative legal and political stability and abundant high quality corporations make it a desirable destination for global investors. Even central banks hold a large component of their official reserves in US dollar securities. A trade deficit occurs when a country imports more goods and services than it exports. However, a trade (or current account) deficit is only one side of the balance of payments equation. The capital account is the other side and is driven by global investment flows. Any country running a trade deficit must also incur a capital account surplus and any country running a capital account surplus must also incur a trade deficit. There is no way to assign causality to either balance. We believe the US trade deficit is a result of the US' attractiveness as an investment destination and not due to industrial decline or unfair trade rules. Working to eliminate it is akin to making the US a less desirable investment destination. Higher interest rates, lower asset prices and a weaker economy are likely to result.

Strategy review

The Dividend Buster Strategy performed in line with market benchmarks during the quarter with strong relative contributions from the energy, utilities and healthcare sectors offset by weakness in technology and consumer staples. From a factor perspective, low beta, alpha and momentum were the largest contributors to return while size, value and liquidity all detracted in Q2.

Royal Dutch Shell (RDS.A/B) was the largest contributor for Q2 adding 80 basis points (bp) of return. RDS benefited from rising oil prices and from increased operating cash flow as it began to realize gains from last year's \$70 billion BG Group acquisition. General Motors (GM) contributed 51bp for Q2 despite a late-quarter drawdown on trade war concerns. The US automaker continues to beat on earnings and consensus earnings forecasts continue to rise. GM is benefiting from product refreshes and improving fortunes in overseas markets.

Philip Morris International (PM) detracted 22bp of return last quarter as the cigarette maker reported weaker than expected earnings and lowered guidance for the year. The stock sold off as the company experienced sharp volume declines in its core Europe and Middle East markets.

Portfolio changes

Positions were added in shares of Garmin Ltd (GRMN), Kraft Heinz Company (KHC), Las Vegas Sands Corp (LVS), LyondellBasell Industries NV (LYB) and WEC Energy Corp (WEC). Boeing Corp (BA) was exited in 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
Royal Dutch Shell PLC	7.2%
Verizon Communications Inc.	6.8%
TotalFinaElf, S.A.	6.8%
BCE, Inc.	6.1%
AT&T Inc.	5.8%
General Motors Company	5.6%
Duke Energy Corporation	5.3%
Pfizer, Inc.	5.3%
PPL Corporation	5.2%
Southern Company (The)	4.0%
Total	58.1%

Style map



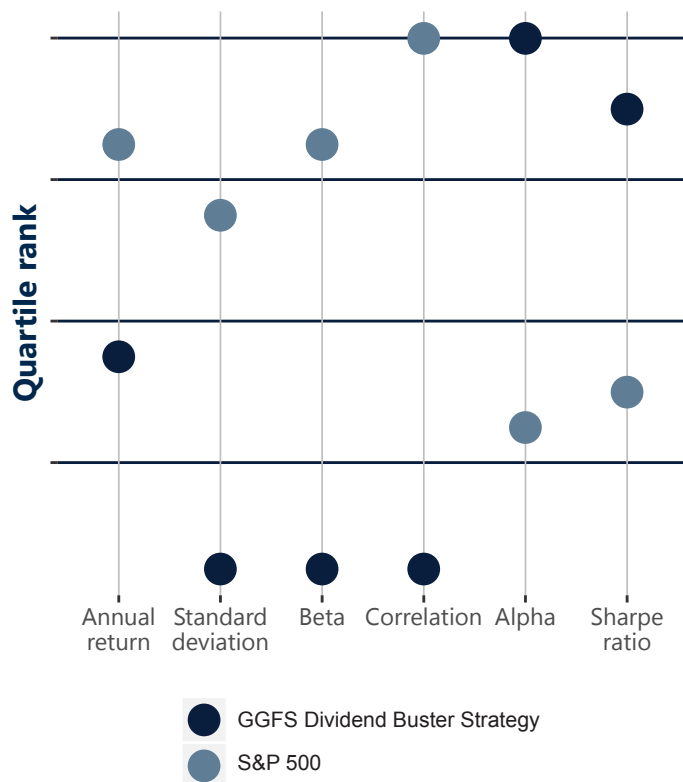


Performance summary

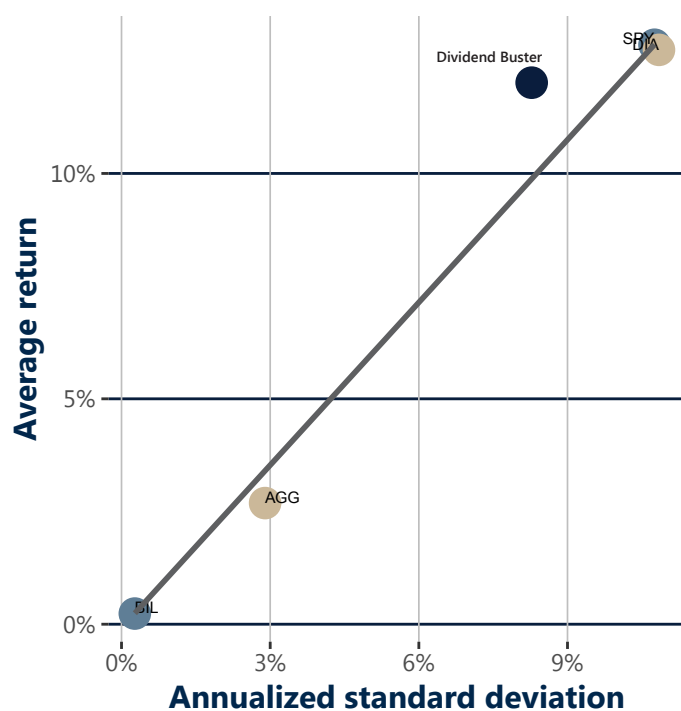
Annualized returns	Dividend Buster	S&P 500	DJI Average
Q2 2018	2.7%	3.6%	1.0%
Year to date	-0.3%	2.5%	-0.9%
Last one year	8.5%	14.3%	16.2%
Last three years	10.4%	11.9%	14.0%
Last five years	10.6%	13.3%	12.8%
Since inception	12.1%	12.9%	12.7%

Annual returns	Dividend Buster	S&P 500	DJI Average
2018	-0.3%	2.5%	-0.9%
2017	15.3%	21.7%	28.1%
2016	14.6%	12.0%	16.4%
2015	0.4%	1.3%	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

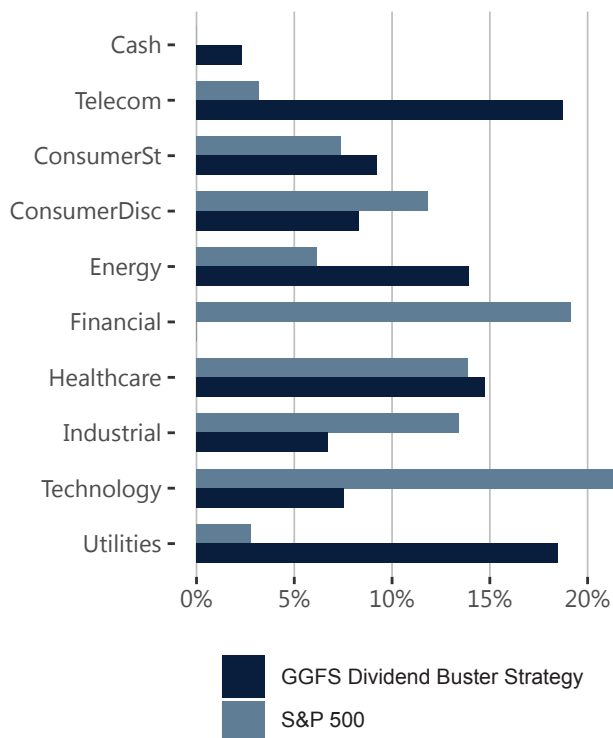


Performance statistics

Metric	Dividend Buster	S&P 500	DJI Average
Return			
Average annualized return	12.1%	12.9%	12.7%
Annualized alpha	6.0%	-0.0%	0.3%
Sharpe ratio (0% rf)	1.45	1.20	1.18
Sortino ratio (0% rf)	2.03	1.66	1.64
Risk			
Annualized standard deviation	8.3%	10.8%	10.8%
Beta	0.47	1.00	0.97
Beta, down markets	0.29	1.00	1.03
Maximum drawdown	-6.3%	-16.2%	-13.9%
Fit			
Correlation	61.3%	100.0%	96.1%
Skew	-9.2%	-5.3%	-7.1%



Sector allocation



Portfolio characteristics

Metric	Dividend Buster	S&P 500	DJI Average
Value			
Market capitalization (\$m)	\$111,454	\$88,646	\$304,197
Price / next year's earnings	13.8	18.0	16.6
Enterprise value / EBITDA	10.7	16.0	13.8
Enterprise value / Sales	3.6	4.8	3.7
Strength			
Net long-term debt / EBITDA	2.1	1.5	0.3
Cash / market capitalization	8.0%	4.9%	4.3%
Dividend yield	4.4%	1.7%	2.4%
Dividend coverage	3.3	5.4	4.1
Quality			
Return on equity	17.7%	19.0%	40.4%
EBITDA margin	29.9%	27.8%	26.4%
Earnings variability	35.8%	46.2%	33.4%
EBITDA growth	5.1%	10.1%	6.8%

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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