

Quarterly review

The GGFS Dividend Buster Strategy gained 4.8% before fees in Q3 2018 compared to gains of 7.7% and 9.5% for the S&P 500 (SPY) and Dow Jones Industrial Average (DIA), respectively. For the year-to-date period, the Bruderman Select Dividend Strategy gained 4.5% compared to gains of 10.4% for the SPY and 8.5% for the DIA.

Markets soared in Q3 powered by exceptionally strong earnings gains across sectors. On a year-to-year basis, S&P 500 earnings increased by 19.5%, the highest rate since 2012 when the US economy was still recovering from recession. Treasury yields rose during the quarter with 10-year treasury yields closing firmly above 3%. Longterm yields, however, have not risen nearly as fast as shorter-term rates and the yield curve flattened.

The Fed continued to hike in September and its target rate now stands at 2.25%. Its stance is beginning to appear hawkish given benign inflation readings; core CPI came in at 2.17% in September producing the first real yield (+8 bps) since the financial crisis. Fed activity bears watching. It is draining liquidity at an unprecedented pace as it simultaneously raises rates and unwinds its massive crisis-era balance sheet. The Fed has no historical experience with these maneuvers but previous liquidity withdrawals have increased volatility, especially among the weakest links.

Strategy review

The Dividend Buster Strategy lagged overall market benchmarks in Q3 as rising interest rates caused investors to reassess overall dividend yields. Despite its interest sensitivity, the dividend factor appears to be meaningfully undervalued relative to both long-term treasuries and the broader equity market. The strategy's non-US exposure also detracted from returns during the quarter. Non-US stocks underperformed their US counterparts by 5.6% in Q3 which, given the Strategy's 24% exposure, detracted 140 bps of return. Sectors contributing to relative return included communications, health care and utilities but those contributions were more than offset by weakness in consumer discretionary, technology and consumer staples.

Pfizer Inc (PFE) and Merck & Co (MRK) were the largest contributors to return in Q3 adding 135 and 109 bps of return, respectively. Health care stocks rallied for both fundamental (organic growth, development pipelines) and macro reasons, with the sector viewed as a safe haven relatively immune from myriad geopolitical challenges.

General Motors (GM) detracted 80 bps of return on the quarter with the auto maker's shares falling 13.6% as a stronger US dollar and tariffs caused the company to miss earnings estimates. Although our views could change, GM remains attractive with a 4.5% yield covered more than 4 times, low leverage at its auto unit and a valuation multiple of only 2.8x EBITDA. We believe shares are overestimating the impact of macro factors and offer attractive return/risk and yields.

Portfolio changes

The portfolio was refocused in early July and so turnover was above-average. Positions were established in Eaton Corp (ETN), Lockheed Martin Corp (LMT), NextEra Energy (NEE), Occidental Petroleum (OXY), Paychex Inc (PAYX), Proctor & Gamble Co (PG) and Rio Tinto Plc (RIO). while positions were exited in Abbvie (ABBV), Emerson Electric (EMR), General Electric (GE), GlaxoSmithKline (GSK), Kraft Heinz (KHC), Las Vegas Sands (LVS), Altria (PM), Philip Morris (MO), PPL Corp (PPL) and Qualcomm (QCOM).

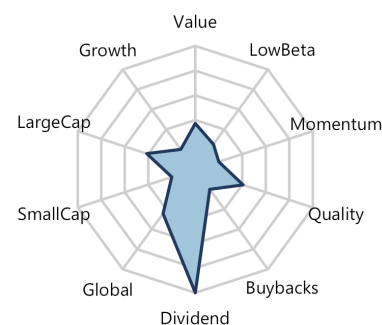
Strategy Highlights

- 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
Pfizer, Inc.	7.2%
Merck & Company, Inc.	7.0%
Cisco Systems, Inc.	6.5%
Verizon Communications Inc.	6.5%
TotalFinaElf, S.A.	6.2%
BCE, Inc.	6.1%
Duke Energy Corporation	6.0%
Royal Dutch Shell PLC	5.7%
General Motors Company	4.9%
Lockheed Martin Corporation	3.5%
Total	59.7%

Style map

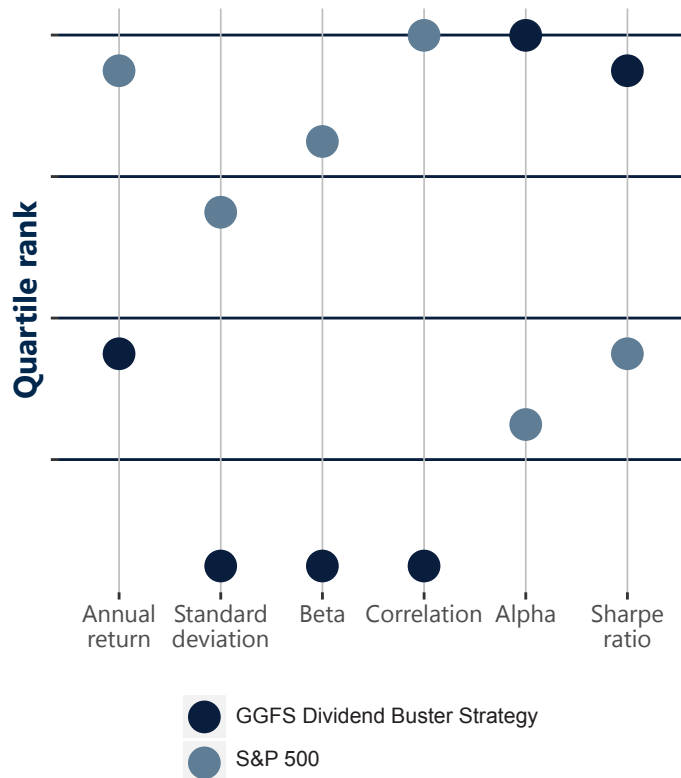


Performance summary

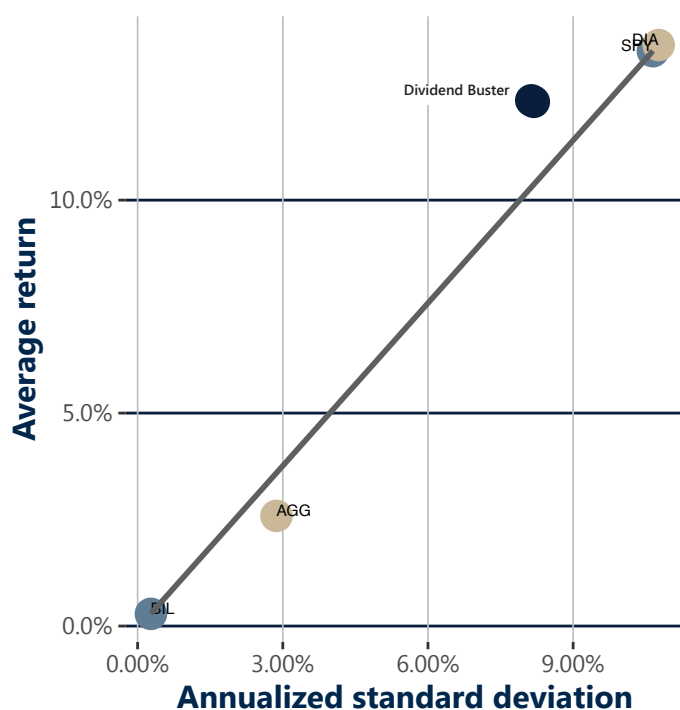
Annualized returns	Dividend Buster	S&P 500	DJI Average
Q3 2018	4.8%	7.7%	9.5%
Year to date	4.5%	10.4%	8.5%
Last one year	6.7%	17.8%	20.6%
Last three years	12.7%	17.2%	20.3%
Last five years	10.7%	13.8%	14.4%
Since inception	12.3%	13.5%	13.6%

Annual returns	Dividend Buster	S&P 500	DJI Average
2018	4.5%	10.4%	8.5%
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



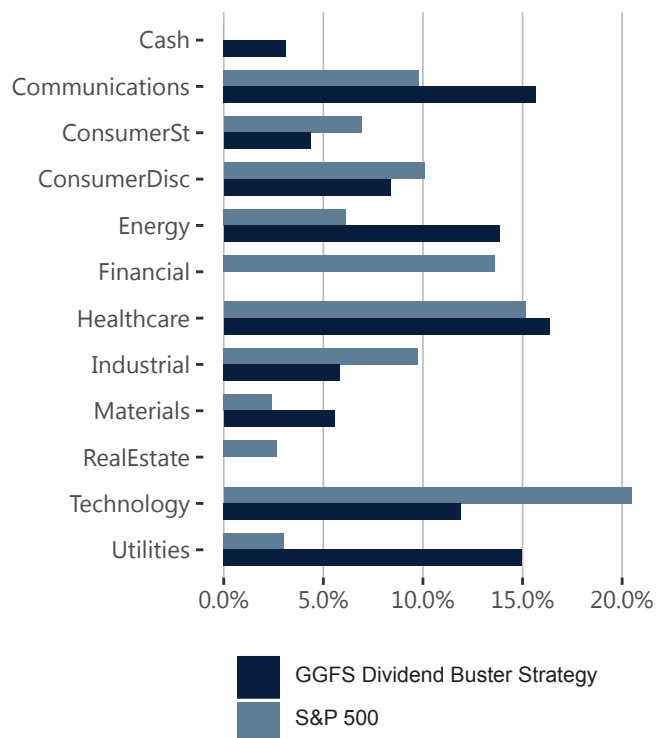
Risk / return



Performance statistics

Metric	Dividend Buster	S&P 500	DJI Average
Return			
Average annualized return	12.3%	13.5%	13.6%
Annualized alpha	6.0%	---	0.5%
Sharpe ratio (0% rf)	1.50	1.27	1.27
Sortino ratio (0% rf)	2.09	1.76	1.76
Risk			
Annualized standard deviation	8.2%	10.6%	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	61.2%	100.0%	96.0%
Skew	-11.1%	-8.8%	-11.3%

Sector allocation



Portfolio characteristics

Metric	Dividend Buster	S&P 500	DJI Average
Value			
Market capitalization (\$m)	\$119,899	\$83,565	\$291,503
Price / next year's earnings	14.1	18.4	16.2
Enterprise value / EBITDA	9.0	11.9	10.6
Enterprise value / Sales	3.2	4.0	3.3
Strength			
Net long-term debt / EBITDA	2.2	1.9	1.4
Cash / market capitalization	3.7%	4.8%	4.4%
Dividend yield	3.7%	2.2%	2.2%
Dividend coverage	3.1	4.3	4.3
Quality			
Return on equity	18.0%	24.5%	24.8%
EBITDA margin	30.0%	27.6%	27.9%
Earnings variability	5.3%	8.1%	5.5%
EBITDA growth	5.8%	10.0%	8.1%

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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Index performance returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results. The S&P 500® Index has over US \$ 4.83 trillion benchmarked, with index assets comprising approximately US\$ 1.1 trillion of this total. The index includes 500 leading companies in leading industries of the U.S. economy, capturing 75% coverage of U.S. equities. The S&P 500 is a free-float capitalization-weighted index published since 1957 of the prices of 500 large-cap common stocks actively traded in the United States.

The Dow Jones Industrial Average is the most widely used indicator of the overall condition of the stock market, a price-weighted average of 30 actively traded blue chip stocks, primarily industrials. The DJIA is computed using a price-weighted indexing system, rather than the more common market cap-weighted indexing system. The Consumer Price Index (CPI) program produces monthly data on changes in the prices paid by urban consumers for a representative basket of goods and services.

Consider the investment objectives, risks, charges and expenses before investing.