HAMLIN
CAPITAL MANAGEMENT, LLC

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Dividend Investing 3.0

Why Hamlin Invests in High Income Equities

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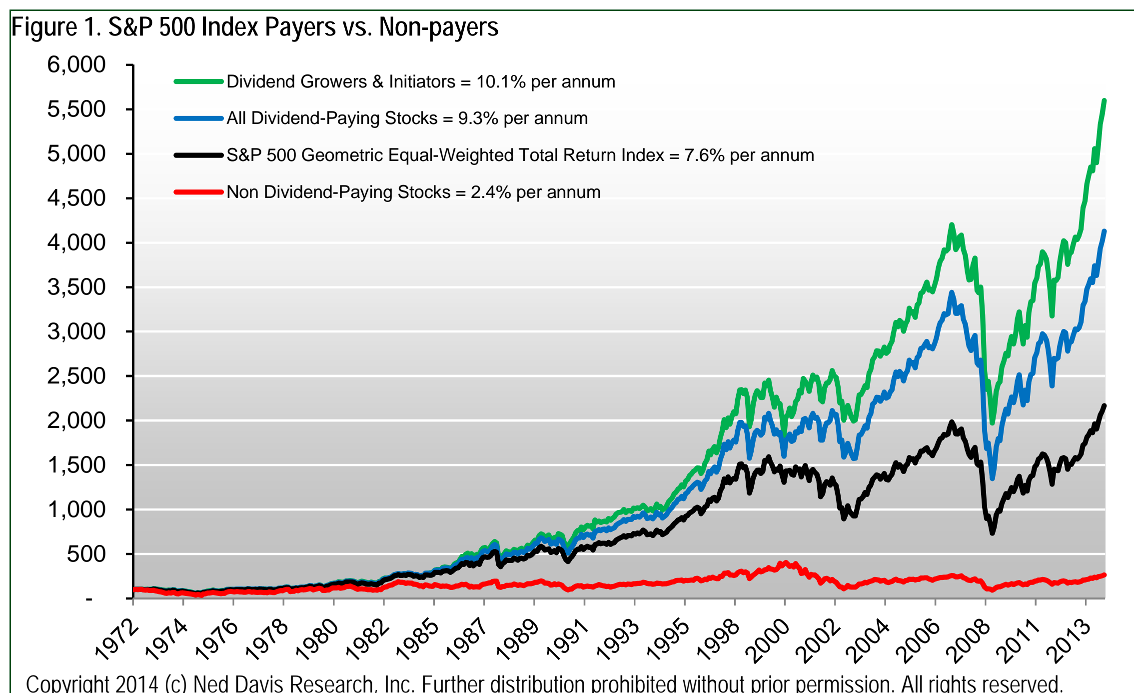
Dividend Investing 3.0

At Hamlin, we have always pursued a seemingly antiquated strategy: make an investment and get paid a return. Ben Graham wrote in 1934, "The prime purpose of a business corporation is to pay dividends to its owners. A successful company is one that can pay dividends regularly and presumably increase the rate as time goes on." While a logical philosophy, we are among the relatively few investment firms dedicated exclusively to income investing. We lived in obscurity until recently. You have surely noticed that dividends have become topical. *The Wall Street Journal, Barron's* and *CNBC* are rife with pro-dividend articles and income equities investment advice.

Popular interest in dividend-paying equities at this juncture makes sense because yield is scarce and many expect a more difficult equity investing backdrop. Distributions could certainly represent a larger portion of total stock market returns than they have in the last five years. While getting a significant portion of equity returns "up front" makes sense after a 177% rally in the S&P 500,[1] Hamlin believes that dividend investing works in almost every investment climate.

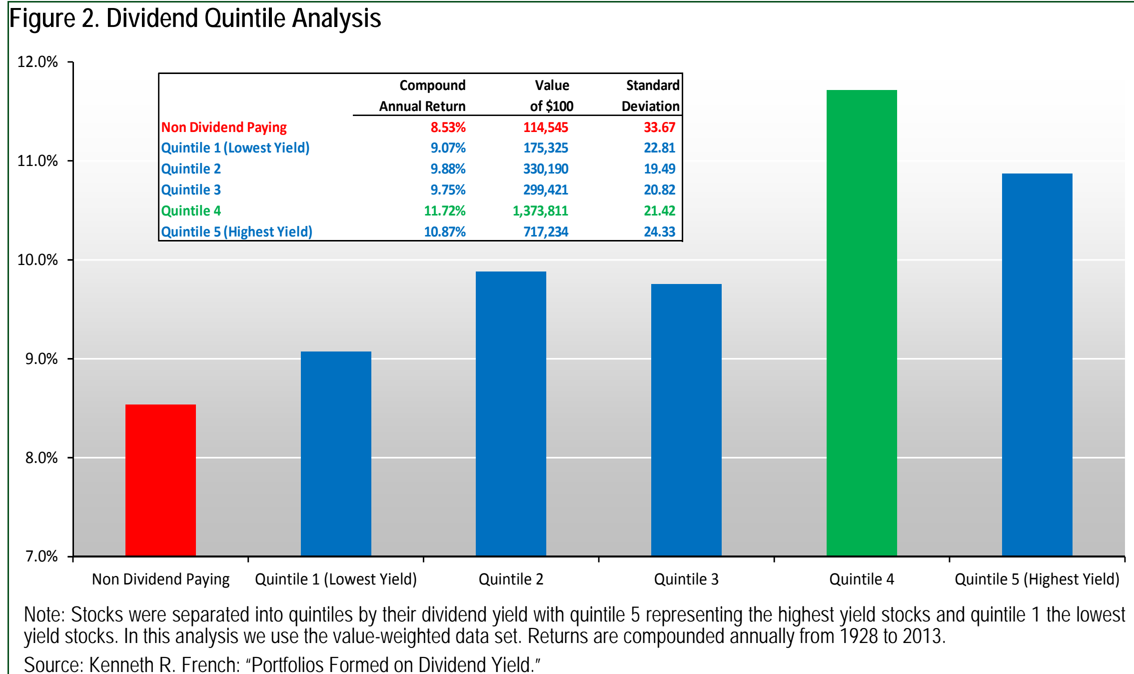


Dividend-paying stocks (blue line) tend to outperform over time; note the 170 basis points of annual excess return relative to the S&P 500 Index (black line) from 1972 through the end of 2013. Importantly, dividend *growers* perform even better, rising 10.1% per year since 1972, according to the data above from Ned Davis Research. Kenneth French provides a broader and longer-term view of the same phenomenon. He analyzes the performance of all stocks within the NYSE, Amex, and Nasdaq since 1928, segmenting stocks into six buckets by dividend policy: five quintiles of dividend payers (Q5 stocks yielding the most) and one group of non-dividend payers. The chart below shows that the two highest yielding quintiles trounced the

[1] 177% rally refers to S&P 500 Index level increase from 676.53 on March 9, 2009 to 1,872.34 on March 31, 2014. Source: Factset.

non-payers. Equally alluring: the path toward this strong performance has been less bumpy. The standard deviation data show that Quintiles 4 and 5, on average, were almost one-third less volatile than the non-payers. Note that Quintile 4, highlighted in green in Figure 2, has the strongest combination of return and volatility. Quintiles 4 and 5 are Hamlin's traditional area of focus.

Figure 2. Dividend Quintile Analysis

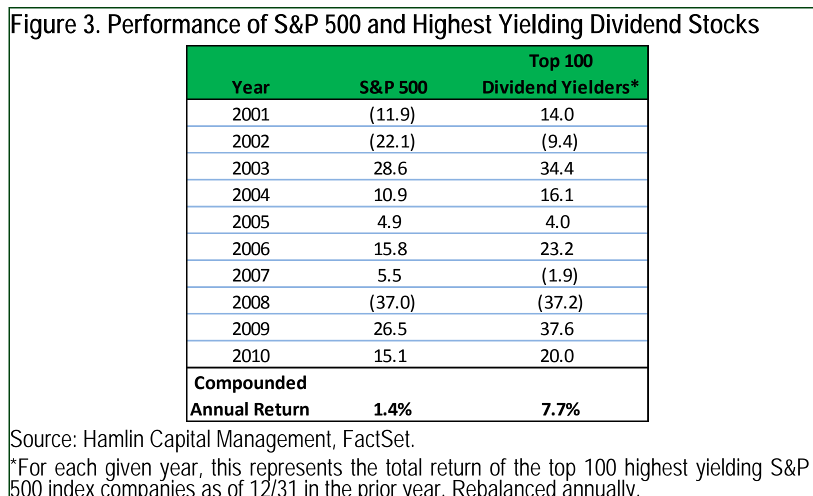


	Compound Annual Return	Value of $100	Standard Deviation
Non Dividend Paying	8.53%	114,545	33.67
Quintile 1 (Lowest Yield)	9.07%	175,325	22.81
Quintile 2	9.88%	330,190	19.49
Quintile 3	9.75%	299,421	20.82
Quintile 4	11.72%	1,373,811	21.42
Quintile 5 (Highest Yield)	10.87%	717,234	24.33

Note: Stocks were separated into quintiles by their dividend yield with quintile 5 representing the highest yield stocks and quintile 1 the lowest yield stocks. In this analysis we use the value-weighted data set. Returns are compounded annually from 1928 to 2013.
Source: Kenneth R. French: "Portfolios Formed on Dividend Yield."

Finally, let's take a look at the "Lost Decade" from 2001 to 2010. The table below shows that a simple dividend equity quant strategy -- in which a computer purchased the top 100 highest dividend-yielding stocks within the S&P 500 Index, rebalancing annually and *excluding management fees and trading costs* -- would have dwarfed the market's return over the period.

Figure 3. Performance of S&P 500 and Highest Yielding Dividend Stocks

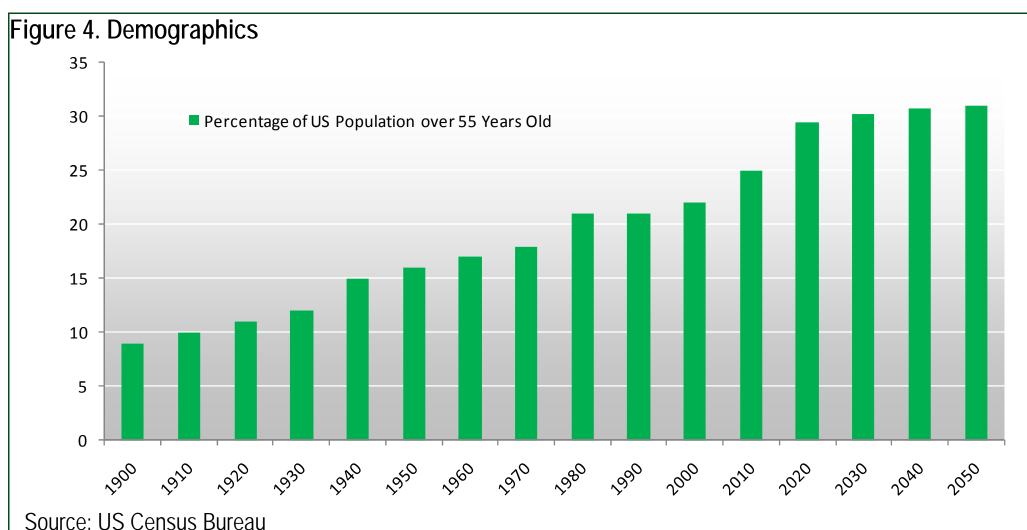


Year	S&P 500	Top 100 Dividend Yielders*
2001	(11.9)	14.0
2002	(22.1)	(9.4)
2003	28.6	34.4
2004	10.9	16.1
2005	4.9	4.0
2006	15.8	23.2
2007	5.5	(1.9)
2008	(37.0)	(37.2)
2009	26.5	37.6
2010	15.1	20.0
Compounded Annual Return	**1.4%**	**7.7%**

Source: Hamlin Capital Management, FactSet.
*For each given year, this represents the total return of the top 100 highest yielding S&P 500 index companies as of 12/31 in the prior year. Rebalanced annually.

Here follow some possible explanations for the strong returns of the dividend equity asset class and actively managed dividend equity portfolios.

1. **Demographics**. Americans have been aging steadily, and we suspect that their demand for income has contributed to the outperformance of income-generating equities. Ten thousand Baby Boomers are retiring daily in the United States. More importantly, the expected rise in 85-year-olds shows that life expectancy is increasing. Miniscule money market interest rates are confounding income-hungry retirees. We think that aging Americans and their investment advisors will continue to favor the very same high-income stocks that we are purchasing for our clients.



2. **Tax Advantage.** The top qualified dividend income taxation rate of 23.8%, including the 3.8% ObamaCare surtax on passive income, remains at a substantial discount to the top 43.4% marginal income tax rate on savings accounts, taxable bond interest, and rental income. While we welcome this important tailwind for the sector, dividend taxation could always change for the worse. We note that dividend-paying stocks, as measured by the Dow Jones Dividend Index, delivered a strong 28.8% total return last year when the top dividend tax rate rose by 830 basis points. Dividend payers actually beat the market from 1990 through 1993 when dividend tax rates climbed steeply from 28% to 39.6%. Finally, investors should note that dividends were taxed at the marginal *income* tax rate for much of the time period of strong relative performance displayed in Figures 1 and 2.

3. **Bird in the Hand Smoothes Returns.** Dividends explain 42.6% of S&P 500 Index compound annual returns since 1929. Yet many professional and individual investors spend most of their energy researching growth stocks, in search of the "next Google." Why wouldn't investors prefer a stock that pays them to own it? The incoming cash is always a positive contributor to performance. Essentially, we start every investment year with some wind at our

backs. Dividend income tends to smooth returns in down markets and generally reduces portfolio volatility.[2] Dividends also tend to fall more slowly than earnings, and often remain steady or even slightly increase during down cycles. In fact, 18 of our holdings increased their dividend payments in 2009 (the worst year for dividend cuts since the S&P began tracking this data in 1955) in the face of declining earnings. Finally, a steady stream of income can compensate for the occasional bad investment that needs to be sold at a loss. The table below illustrates how dividend paying stocks fared during post-World War II bear markets.

Figure 5. Equity Performance in Bear Markets

	Total Return			
Date Range	S&P 500	Non-Dividend Payer	Average Dividend Payer	High Income Equities*
5/31/1946 - 5/31/1947	(21.2%)	(50.3%)	(23.0%)	(21.2%)
6/30/1948 - 5/31/1949	(10.4%)	(27.4%)	(11.0%)	(12.9%)
7/31/1956 - 10/31/1957	(12.7%)	(24.0%)	(11.8%)	(13.7%)
12/31/1961 - 6/30/1962	(22.3%)	(34.0%)	(20.4%)	(12.7%)
1/31/1966 - 9/30/1966	(15.7%)	(12.2%)	(16.5%)	(18.8%)
11/30/1968 - 6/30/1970	(29.2%)	(60.8%)	(30.9%)	(28.5%)
12/31/1972 - 9/30/1974	(42.8%)	(62.8%)	(40.5%)	(31.2%)
11/30/1980 - 7/31/1982	(16.7%)	(36.0%)	(13.2%)	2.7%
8/31/1987 - 11/30/1987	(29.6%)	(36.8%)	(28.8%)	(24.3%)
3/31/2000 - 9/30/2001	(29.2%)	(60.7%)	2.6%	27.2%
12/31/2001 - 9/30/2002	(28.1%)	(38.2%)	(21.4%)	(15.4%)
10/31/2007 - 11/30/2008	(40.7%)	(48.1%)	(38.3%)	(37.4%)
12/31/2008 - 2/28/2009	(18.1%)	(10.0%)	(20.7%)	(28.2%)
Average	**(24.4%)**	**(38.6%)**	**(21.1%)**	**(16.5%)**
Median	**(22.3%)**	**(36.8%)**	**(20.7%)**	**(18.8%)**

Source: Kenneth R. French – Data Library, Ned Davis Research.

* High Income Equities defined as top 40% of dividend-paying stocks as ranked by dividend yield (i.e. quintiles 4 and 5). Bear market date ranges based on periods with 20%+ declines in the S&P 500. With French dividend quintile data available only on a monthly basis, date ranges were rounded to month ends to reflect the steepest S&P 500 decline.

Our experience has been similar. Over the last ten years, on average, the Hamlin equity composite experienced 36% of the drawdown of the S&P 500 Index's down quarters, while capturing 86% of the performance in up quarters.[3]

[2] Warning! Dividend stocks do fall in bear markets. Ours is an equity strategy, and clients should expect occasional double digit declines in portfolio values. However, dividend stocks' total returns tend to undercut the market sell offs as the incoming distribution payment offsets a portion of the stock price decline. We also believe that growth, value, and long-short portfolio managers are likely to sell our type of companies more slowly when raising cash in bear markets. Dividend payers generate cash flow and reward shareholders, two traits that are universally valued by money managers.

[3] Past performance does not guarantee future results. Clients should not count on these historical Upside/Downside Capture percentages continuing in perpetuity. They should expect Hamlin dividend equities to lag in strong markets and appreciate that Hamlin portfolio managers aim to outperform in down markets.

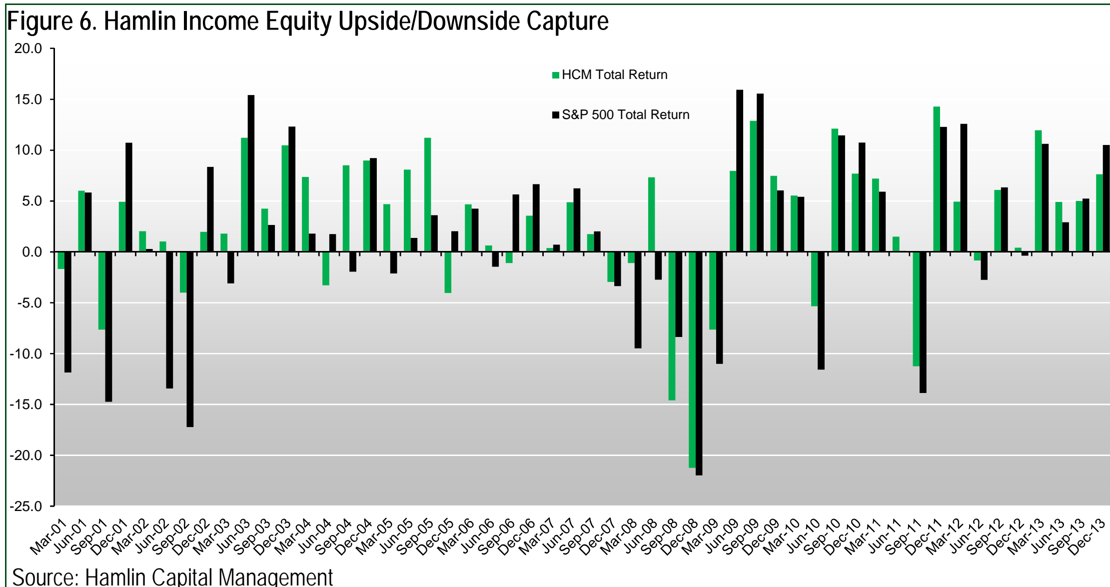


Figure 6. Hamlin Income Equity Upside/Downside Capture

Source: Hamlin Capital Management

4. **Compounding Income**. Einstein reportedly called compound interest the "ninth wonder of the world." Monthly and quarterly dividend payments allow us to reinvest in more dividend-paying shares that should, in turn, pay more dividends. The compounding of dividend payments explains more than 40% of the market's long term annual gain.

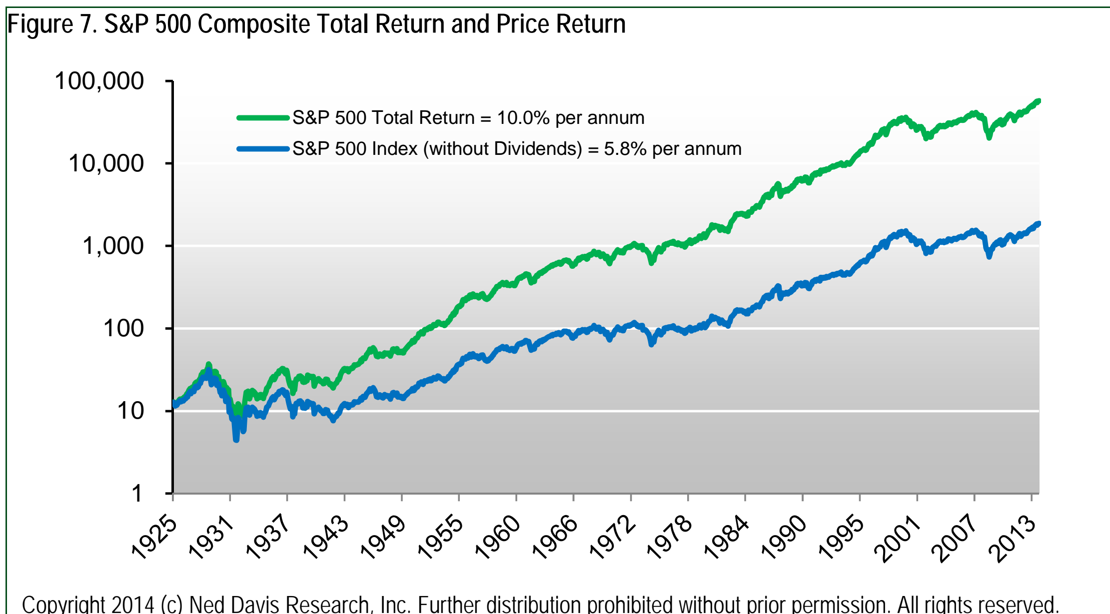


Figure 7. S&P 500 Composite Total Return and Price Return

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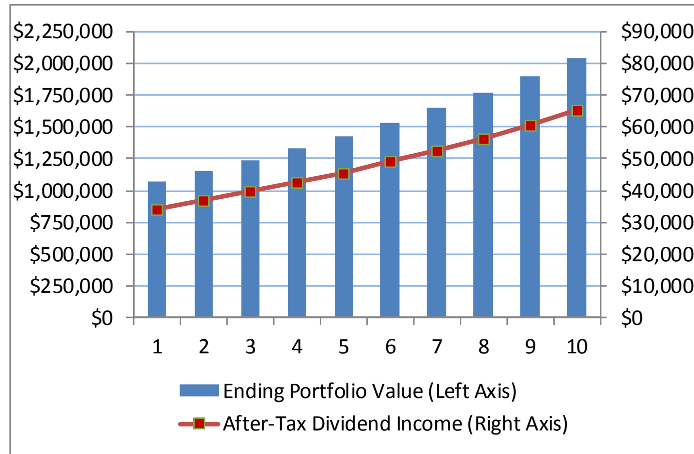
The mechanics of income reinvestment combined with expected annual increases in our companies' dividend payments can transform our portfolios into cash flow engines. The table below illustrates the power of compounding income. This hypothetical portfolio generates a 4.5%

gross yield taxed at 23.8%, experiences 5% annual capital appreciation,[4] and pays a 1% management fee.

Figure 8. Hypothetical High-Income Portfolio Assuming Full Income Reinvestment

Year	Starting Portfolio Value	After-Tax Dividend Income	Capital Appreciation	Ending Portfolio Value
1	1,000,000	34,290	50,000	1,074,040
2	1,074,040	36,829	53,702	1,153,562
3	1,153,562	39,556	57,678	1,238,972
4	1,238,972	42,484	61,949	1,330,705
5	1,330,705	45,630	66,535	1,429,231
6	1,429,231	49,008	71,462	1,535,051
7	1,535,051	52,637	76,753	1,648,706
8	1,648,706	56,534	82,435	1,770,776
9	1,770,776	60,720	88,539	1,901,884
10	1,901,884	65,216	95,094	2,042,700



Note: Hypothetical portfolio with $1 million initial investment. Portfolio assumptions: 4.5% yield, 23.8% dividend tax rate, 5% annual capital appreciation, full reinvestment of dividend income into portfolio. Ending portfolio value is net of 1% management fee.

Source: Hamlin Capital Management.

5. **Flexibility and Psychological Advantage for Portfolio Manager**. The steady stream of cash flow also provides the portfolio manager with options. We can reinvest incoming cash dividends into the same company, reinvest into a different stock in the portfolio, or allow cash to build for defensive purposes. Should a general market sell-off provide an opportunity to invest in a new company, we usually have internally generated cash to deploy. We don't need to sell depressed stocks to raise cash for the new investment. Hamlin clients also have access to capital without forcing the sale of a security at a gain or loss. This enhanced portfolio manager flexibility element stands in sharp contrast to corporate share repurchases. Here the corporate managers and boards "reward" shareholders by buying shares in the open market for the treasury account. They hope to increase existing shareholders' ownership in the company and earnings per share by shrinking the overall company share count. However,

[4] Our 5% capital appreciation assumption compares with the S&P 500's 5.8% annual price appreciation since 1925, as shown in Figure 7.

companies tend to repurchase stock at high valuations, when corporate cash flow has been strengthening for years. When stock prices are low, economic news flow is often negative, and boards are likely to conserve the cash designated for buybacks. According to Standard & Poors, S&P 500 Index companies repurchased $172 billion in Q3 2007 (the market peak) and only $31 billion in Q2 2009 (the bottom). Shareholders cannot take this "return of capital" to the bank, nor can they control the timing of the reinvestment.

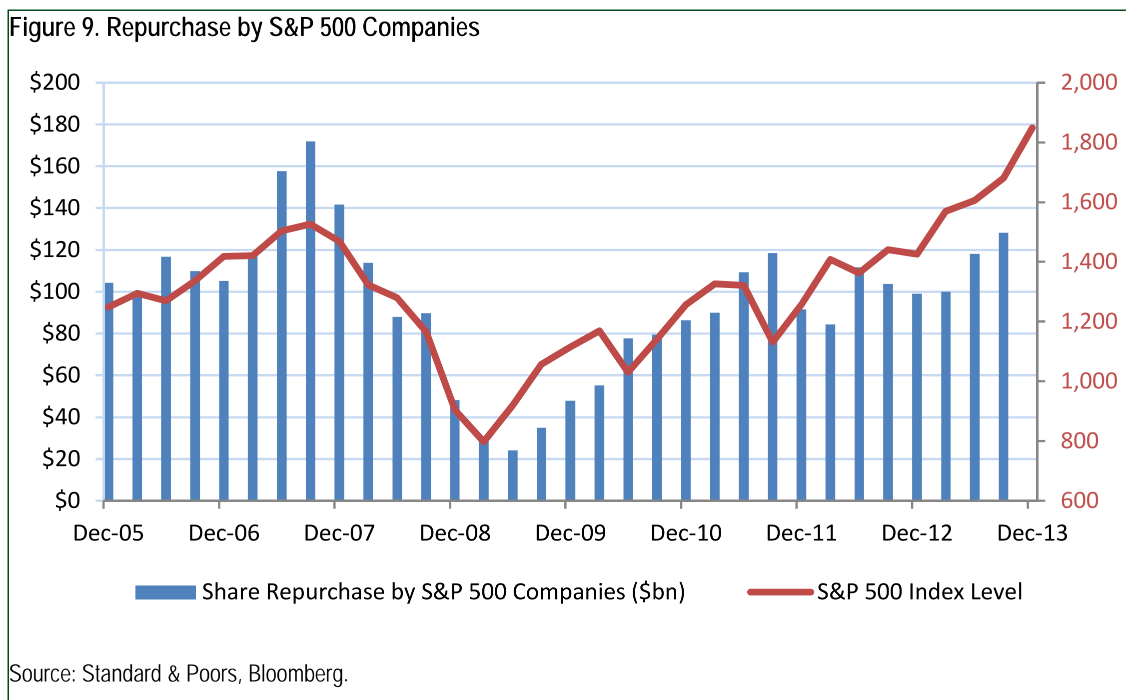


Figure 9. Repurchase by S&P 500 Companies

Source: Standard & Poors, Bloomberg.

Finally, we believe that we enjoy a natural advantage over our non-dividend-focused competitors. Our confidence often *rises* during bear markets. As human beings, our sense of self-worth can improve during down markets because our relative performance vs. the S&P and other active managers often looks better. We feel a little better about our investment acumen, and energy levels are high. As a result, we tend to be on offense. The synapses are firing and the pace of research work often intensifies. Thanks to the lower volatility of our asset class, we think we can be more opportunistic in turbulent waters -- taking advantage of lower prices for our clients.

6. **A Quasi Alternative to Bonds.** While dividend stocks should certainly be more volatile than many fixed income securities, after-tax yields on high-dividend stocks are often higher than on taxable bonds. Better yet, dividends can offer inflation protection because dividend payments typically are set as a percentage of earnings by company boards of directors. As prices rise, earnings rise, and dividends rise -- while bond coupon payments remain fixed. Unlike bonds, our stocks have motivated executives behind them working day and night to grow their cash flows. As interest rates begin to rise, a portion of 2009-2012's record $1.0 trillion in investor bond fund purchases could experience capital loss. We expect some of

these investors to switch a portion of their bond investments into equities and, perhaps, into high-yielding equities. It appears that retail equity fund flows are beginning to turn, with $34.4 billion in domestic equity inflows from January 2013 through the end of February 2014.[5]

7. **Dividends Endorse Recent Accounting Statements**. In a post-Enron/Worldcom/Madoff environment, individual and professional investors aren't sure whom they can trust. We interpret every dividend payment from our companies as proof of the accuracy of recent quarterly earnings and cash flow reports. If management were cooking the books, they probably couldn't pay a consistent and growing dividend to shareholders. We suspect that PE multiples for dividend companies remain firm over time because investors are willing to pay a tad more for each dollar of earnings in return for a sense of security.

8. **Governor on Capital Allocation**. Dividends are a very public promise of reward to shareholders. Management teams are loath to breach this agreement; to do so is a public admission of poor execution, poor planning, and often a recipe for sustained stock price weakness. As a result, dividend-paying management teams tend to run their businesses with greater discipline. A public obligation to return 30-70% of company cash flow to shareholders imposes greater pressure to perform. Moreover, at the end of the year, dividend-paying management teams simply have less cash lying around with which to make mistakes. Our executives are less capable of making large dilutive acquisitions, as each share issued increases the annual dividend liability.[6] They cannot recklessly expand operations when saddled with a dividend obligation. We believe that the governor on capital allocation is the most important driver of dividend stock outperformance. We suspect that more prudent investment decisions may explain dividend stocks' best kept secret: they tend to grow earnings *faster*. Contrary to the widely-held opinion that dividend-paying companies are stodgy, mature dinosaurs, Clifford Asness and Bob Arnott's white paper showed that the higher the dividend payout rate, the higher the next 10 years' earnings growth.

Figure 10. The Higher The Dividend Payout, the Higher Next Year's Earnings Growth

S&P 500 Index 1946 - 1991		**10-Yr Average Earnings Growth Rate**		
Payout Ratio		Average	Worst	Best
Lowest	Quartile 1	-0.40%	-3.40%	-3.20%
	Quartile 2	1.30%	-2.40%	5.70%
	Quartile 3	2.70%	-1.10%	6.60%
Highest	Quartile 4	4.20%	0.60%	11.00%

Source: Robert D. Arnott and Clifford Asness, January/February 2003 AIMR[7]

Note: S&P 500 Index components were divided into four equal groups, with Quartile 4 having the highest payout ratios and Quartile 1 having the lowest payout ratios.

[5] Fund flows data source: ICI.

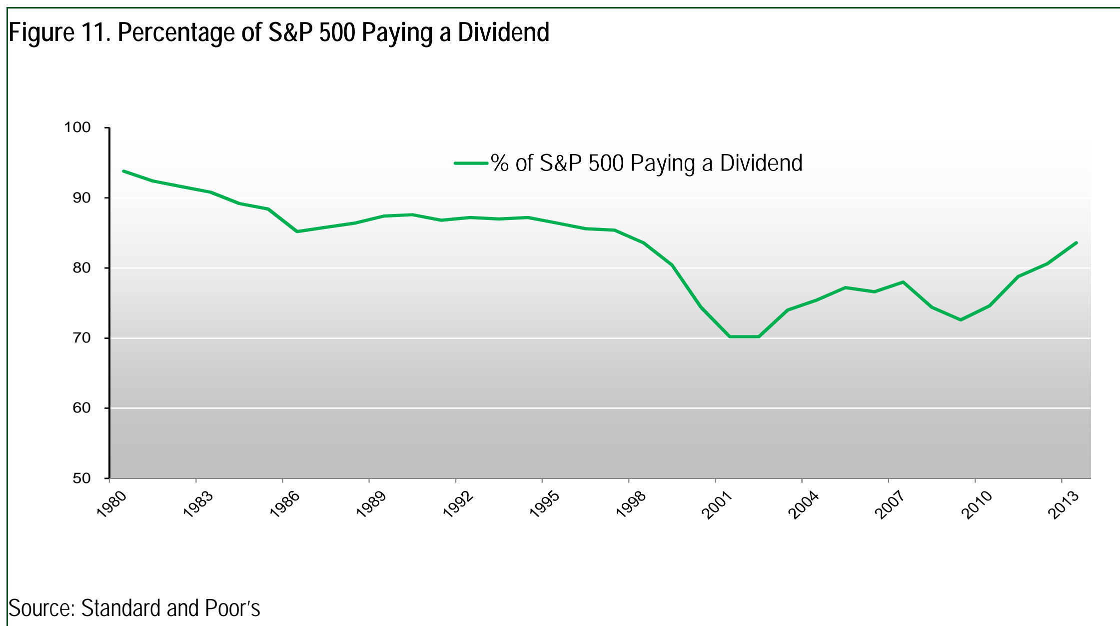
[6] Hamlin is wary of large M&A deals: according to the Wall Street Journal, of the largest 25 mergers from 2000 through December 2009, only 9 companies (or 36% of the total) had a stock price higher than on the date of the deal announcement ("Looking Back on Ten Years and 316,657 Transactions," The Wall Street Journal, December 8, 2009).

[7] See also: Ping Zhou and William Ruland, *Dividend Payout and Future Earnings Growth*, May/June 2006 FAJ.

Current Dividend Investing Environment

At this juncture, we remain sanguine about our asset class for several reasons. We think dividend payment growth can exceed earnings growth. With the exception of the disappointing 2008-2009 Great Recession period, the percentage of U.S. companies paying dividends (about 85% of the S&P 500 companies currently pay) has been rising since 2002.

Figure 11. Percentage of S&P 500 Paying a Dividend



Source: Standard and Poor's

There is room for improvement here, as more than 90% of companies in the index paid dividends as recently as 1980. We expect this trend to accelerate. Corporate cash balances remain historically large, with cash and marketable securities for the S&P 500 ex-financials rising to $1.41 trillion at the end of 2013.[8] This is up 13.9% year-over-year, driven by strong cash flows and a reluctance to invest aggressively in expansion. That means there is cash to pay out, especially if tax law changes to allow for repatriation of overseas earnings. Payout ratio analysis suggests there is precedent for more generous return of this cash. The 2013 S&P 500 Index payout ratio was 34.9%, well below the average payout ratio of 57.7% since the beginning of 1926.[9]

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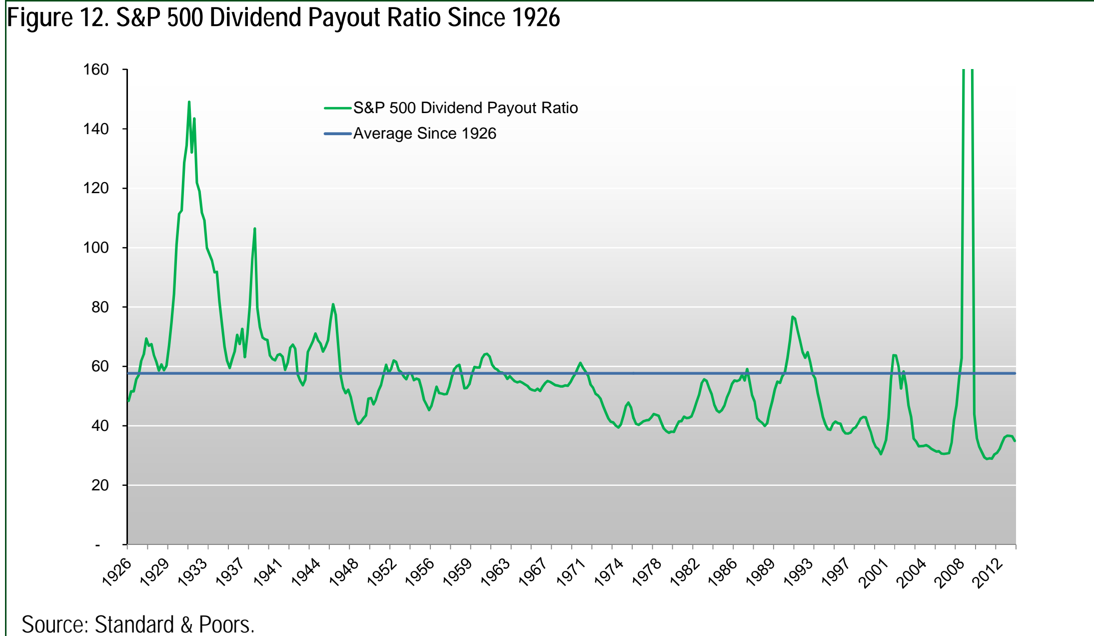
[8] Source: FactSet.

[9] The implications here for the S&P 500 Index are interesting. Should the payout ratios rise to, say, 40% of Factset's 2015 EPS estimate of $126.59, S&P 500 Index dividends would rise from 2013's $35.30/share annual rate to $50.63. Were one to apply the trailing 25-year average market dividend yield of 2.25% (well above today's 1.95% yield), the S&P 500 Index could trade 20% higher to 2,250 in two years' time.

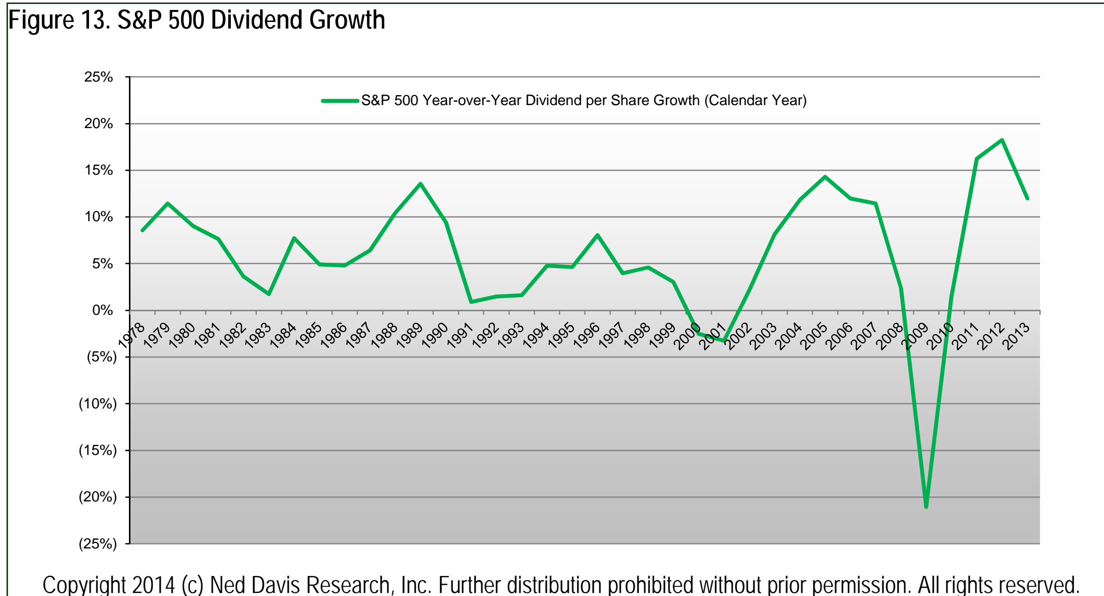
Figure 12. S&P 500 Dividend Payout Ratio Since 1926



Source: Standard & Poors.

The underpinnings for accelerating dividend growth are in place, and Figure 13 shows that the S&P 500 Index is already experiencing faster than average annual distribution growth. Big increases and new dividend initiations replenish our watch list or "On Deck Circle" of future investments. Although PE's have risen for both the market and the sector, this phenomenon helps keep our hunting grounds fertile.

Figure 13. S&P 500 Dividend Growth



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While the payout mechanics appear attractive, dividend-paying stocks are not immune from the business cycle. At Hamlin, we expect higher global short rates, possibly higher inflation, and higher Treasury bond

yields in the future. Bond proxy stocks -- utilities, REITs and telecom stocks -- are likely to react negatively to these developments.[10] However, should history repeat itself, dividend-paying stocks may drop less than the market overall. The table below shows the performance of high-yielding stocks during periods of rapidly increasing Fed Funds, CPI and 10-Year Treasury yields.

Figure 14. High Yield Dividend Performance in Rising Rate Environments

Periods of Fed Funds Rate Increases	Fed Funds Rate Low - High	Period of Largest S&P 500 Drawdown	Largest S&P 500 Drawdown (Peak-Trough)	Quintiles 4 + 5 (Average)	Quintiles 4 + 5 Outperformance
2/29/1972 - 10/28/1974	3.5% - 9.3%	12/31/1972 - 9/30/1974	(42.6%)	(31.2%)	11.5%
3/31/1976 - 3/31/1980	4.8% - 20.0%	12/31/1976 - 2/28/1978	(14.3%)	(2.4%)	11.9%
7/31/1980 - 12/31/1980	9.5% - 18.0%	2/28/1980 - 3/31/1980	(9.7%)	(9.0%)	0.7%
4/29/1983 - 8/31/1984	8.5% - 11.8%	11/30/1983 - 5/31/1984	(7.4%)	(3.9%)	3.5%
3/31/1987 - 2/28/1989	6.0% - 9.8%	8/31/1987 - 11/30/1987	(29.6%)	(24.3%)	5.3%
1/31/1994 - 2/28/1995	3.0% - 6.0%	1/31/1994 - 3/31/1994	(7.0%)	(7.1%)	(0.1%)
6/30/2004 - 6/30/2006	1.3% - 5.3%	12/31/2004 - 4/30/2005	(4.0%)	(0.7%)	3.3%
Average			**(16.4%)**	**(11.2%)**	**5.1%**
Periods of Rising 10-year Treasury Yields	**10yr Treasury Yield Low - High**	**Period of Largest S&P 500 Drawdown**	**Largest S&P 500 Drawdown (Peak-Trough)**	**Quintiles 4 + 5 (Average)**	**Quintiles 4 + 5 Outperformance**
1/31/1972 - 9/30/1975	6.1% - 8.5%	12/31/1972 - 9/30/1974	(42.6%)	(31.2%)	11.5%
8/31/1977 - 2/28/1980	7.1% - 12.7%	6/30/1977 - 2/28/1978	(10.3%)	(6.9%)	3.5%
6/30/1980 - 9/30/1981	10.1% - 15.8%	11/30/1980 - 9/30/1981	(13.8%)	2.5%	16.2%
4/29/1983 - 5/31/1984	10.3% - 13.8%	11/30/1983 - 5/31/1984	(7.4%)	(3.9%)	3.5%
2/27/1987 - 9/30/1987	7.2% - 9.6%	8/31/1987 - 11/30/1987	(29.6%)	(24.3%)	5.3%
8/31/1993 - 11/30/1994	5.4% - 7.9%	1/31/1994 - 3/31/1994	(7.0%)	(7.1%)	(0.1%)
9/30/1998 - 1/31/2000	4.4% - 6.7%	6/30/1998 - 8/31/1998	(15.4%)	(10.0%)	5.3%
Average			**(18.0%)**	**(11.5%)**	**6.5%**
Periods of Rising CPI	**CPI YoY Low - High**	**Period of Largest S&P 500 Drawdown**	**Largest S&P 500 Drawdown (Peak-Trough)**	**Quintiles 4 + 5 (Average)**	**Quintiles 4 + 5 Outperformance**
8/31/1973 - 2/28/1975	3.3% - 11.7%	8/31/1973 - 9/30/1974	(36.3%)	(22.8%)	13.6%
2/28/1978 - 6/30/1980	6.2% - 12.0%	2/28/1980 - 3/31/1980	(9.7%)	(9.0%)	0.7%
6/30/1983 - 5/31/1984	2.9% - 5.2%	11/30/1983 - 5/31/1984	(7.4%)	(3.9%)	3.5%
2/28/1987 - 1/31/1991	3.8% - 5.6%	8/31/1987 - 11/30/1987	(29.6%)	(24.3%)	5.3%
Average			**(20.8%)**	**(15.0%)**	**5.8%**

Source: Kenneth French, Bloomberg, and Hamlin Capital Management

The numbers above are encouraging. High dividend-yielding stocks, as defined by Kenneth French's Quintiles 4 and 5, appear to have outperformed the S&P 500 during nearly every interest rate/inflation-driven market correction. While history has shown that dividend stocks outperform during bear markets, many investors worry that dividend stocks, like other income securities, could trade on a "spread basis" to Treasuries during a rising rate environment. We think that the outperformance of our chosen asset class reflects the dividend-paying company's ability to protect purchasing power with dividend *increases* (as opposed to bonds' fixed coupons); the shorter duration of high-dividend stocks when compared to "coupon-free" growth stocks; and the stronger balance sheets of many dividend-paying companies that may

[10] How would a Hamlin dividend portfolio react? We suspect that the initial reaction could be challenging. Our most recent performance in a bond market sell-off was comforting. From April 30, 2013 to August 31, 2013, the 10-year Treasury yield rose from 1.67% to 2.78%. Over the same period, the S&P 500 generated a total return of +3.0%, compared to +4.1% for the Hamlin equity composite and an average total return of -1.0% for a group Hamlin's peers (Aston River Road Dividend All Cap Value Fund (ARDEX), Cullen High Dividend Equity Fund (CHDEX), Federated Strategic Value Dividend Fund (SVAAX), and iShares Select Dividend ETF (DVY)). Source: Factset.

make portfolio managers slower to sell them relative to other portfolio holdings during market downturns. Keep in mind that the market corrections above reflect equities' reaction to the most severe spikes in rates, inflation and fed funds over the last forty years. Stocks in general have actually reacted quite well to most increases in rates and inflation, as higher rates typically signal better economic trends and stronger earnings growth. In fact, since 1998 the S&P 500 Index appears to have experienced a positive correlation with 10-year Treasury yields.

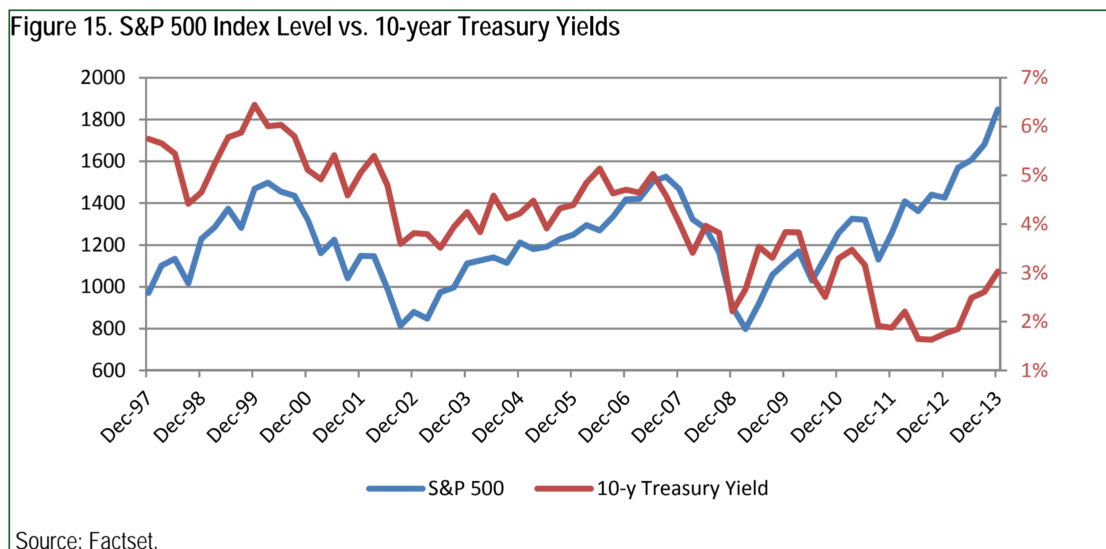
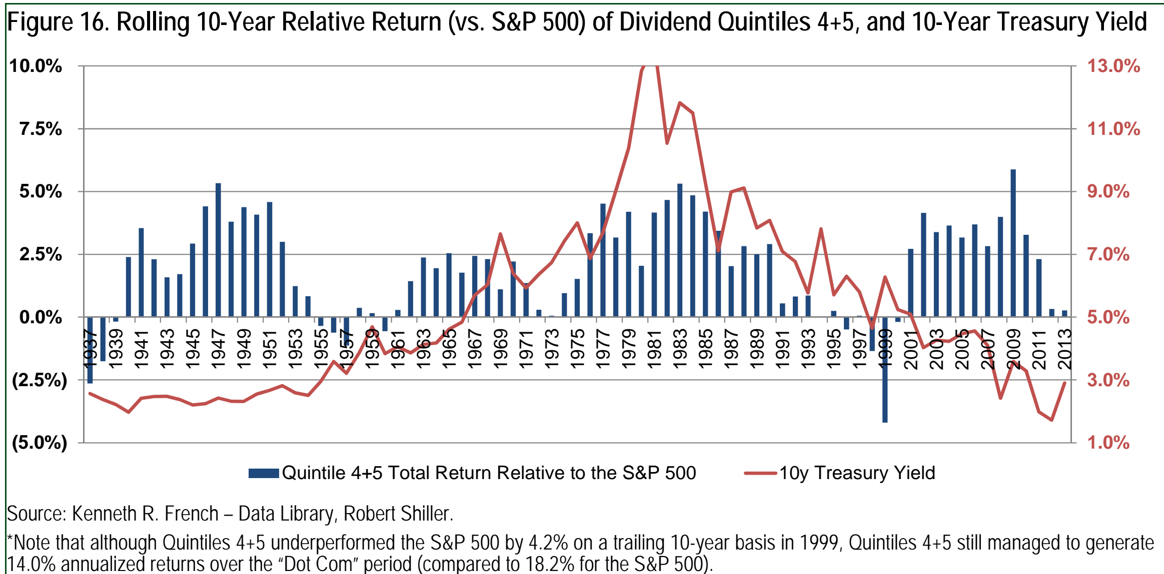


Figure 15. S&P 500 Index Level vs. 10-year Treasury Yields

Source: Factset.

Finally, we believe that our strategy might be timely in the context of the current market cycle. This Bull is aging, rising 180% and lasting 1,851 days since the March 9, 2009 abyss. Since 1928, there have been 26 bull markets (defined as a 20%+ S&P 500 Index increase), according to Ned Davis Research. The average bull lived 919 days, and only three bull markets lasted longer than the current one. We suspect that the next five years may be tougher for stocks than the preceding five-year 21.2% compound annual S&P 500 Index return. Although another double digit percentage gain for the stock market is plausible, we think future returns are likely to revert to the mid to high single-digit range. Increased volatility and a bear market await somewhere on the horizon. We submit that a strategy that has received nearly half of its annual total returns in "up front" cash while exhibiting some downside protection may make sense at this point. While ours is an equity strategy that will certainly rise and fall with the market, the final chart below suggests that rolling returns for the asset class relative to the broader market over the longer term have been rather attractive. The 10-year Treasury Yield overlay makes us feel better about the risk of higher rates. Generally, and perhaps counter-intuitively, we see little correlation between rates and our group.

Figure 16. Rolling 10-Year Relative Return (vs. S&P 500) of Dividend Quintiles 4+5, and 10-Year Treasury Yield



Source: Kenneth R. French – Data Library, Robert Shiller.

*Note that although Quintiles 4+5 underperformed the S&P 500 by 4.2% on a trailing 10-year basis in 1999, Quintiles 4+5 still managed to generate 14.0% annualized returns over the "Dot Com" period (compared to 18.2% for the S&P 500).

Conclusion

The eight factors detailed on pages 4 through 9 explain why the Hamlin equity investment team shows up each day with enthusiasm and confidence. While the stock market will remain capricious, our chosen strategy puts some wind at our backs. Please call us at (212) 752-8777 with any questions or comments. We are passionate about the dividend-paying asset class and welcome any discussion on the topic.

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Hamlin Capital Management, LLC
Equity Only Composite
Annual Disclosure Presentation
January 1, 2001 through December 31, 2013

Year	Total Firm Assets (mm)	Composite Assets (mm)	Number of Portfolios	Composite Net Return	S&P 500 Return	Internal Dispersion	Composite 3-Yr St Dev	S&P 500 3-Yr St Dev
2013	2,703	1234	624	32.72%	32.39%	1.04%	10.19	11.94
2012	2,029	798	480	11.03%	16.00%	1.12%	12.39	15.09
2011	1,623	584	388	10.16%	2.11%	0.71%	14.11	18.71
2010	1,033	191	220	20.65%	15.06%	2.22%		
2009	714	30	51	20.98%	26.46%	2.69%		
2008	584	12	30	-28.57%	-37.00%	4.45%		
2007	734	18	31	3.97%	5.49%	2.86%		
2006	869	29	48	7.90%	15.79%	5.93%		
2005	716	31	42	20.80%	4.91%	4.90%		
2004	501	19	26	22.80%	10.88%	7.67%		
2003	130	8	24	30.40%	28.68%	9.87%		
2002	49	5	29	0.90%	-22.06%	6.15%		
2001	21	6	34	0.99%	-11.93%	10.69%		

Equity Only Composite consists of fully discretionary accounts that are comprised of any amount of common stocks and cash. There is no minimum amount or time period to be included in the composite. Returns include the effect of foreign currency exchange rates. The exchange rate source for the composite is IDSI/IDC – FT Interactive Data Corporation. The S&P 500 index is provided solely as widely recognized indices. They are no way indicative of the strategy employed in this composite. It is Hamlin's position that a meaningful benchmark is not available for this strategy due to the frequent and customized changes in allocation in individual accounts

Hamlin Capital Management, LLC is an independent registered investment advisory firm. Hamlin invests in fixed income and equities for separately managed accounts, as well as funds. In January 2004, Hamlin Capital Management, LLC, merged with RRH Capital Management Inc. and the performance returns are linked. The firm maintains a complete list and description of composites, which is available upon request.

Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Composite performance is presented net of foreign withholding taxes, where applicable. Past performance is not indicative of future results.

The U.S. Dollar is the currency used to express performance. Returns are presented net of custodial and management fees and includes the reinvestment of all income. Net of fee performance was calculated using actual management fees. The annual composite dispersion is an asset-weighted standard deviation calculated for the accounts in the composite the entire year.

The management fee schedule is as follows: 1.00% on all assets. Actual investment advisory fees incurred by clients may vary.
The Equity Only Composite was created April 1, 2006. Hamlin Capital Management, LLC claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Hamlin has been independently verified for the periods January 1, 2001 through December 31, 2008 by Ashland Partners & Company LLP. ACA Performance Services began verification for Hamlin on January 1, 2009 through December 31, 2013. 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 Equity Only Composite has been examined for the periods beginning January 1, 2001 through December 31, 2013. The verification and performance examination reports are available upon request. The policies for valuing portfolios, calculating performance and preparing compliant presentations are available upon request.