Quality Dividend Income –

Why We Think It's Important for Decades Ahead

Dividend income is likely to be one of the most critical investment ingredients for investment portfolios, but we find that successful results hinge upon looking *forward* and considering quality *first*. Let us explain...

Investment professionals face the task of assessing and balancing a myriad of risks for their clients. While the specific asset mix is necessarily bespoke to each investor's circumstance, the exercise of planning for future rewards against a range of possible risks, is shared in common. We think this is as true today as it was in decades prior.

Unique to today, however, we believe the challenges that investors face are even more acute. Driven by low interest rates and relatively high stock market valuations, expected returns on traditional stock/bond portfolios are lower than has been achieved in recent decades, with expected *nominal* returns for bonds amongst the lowest in documented history and negative on a real basis.

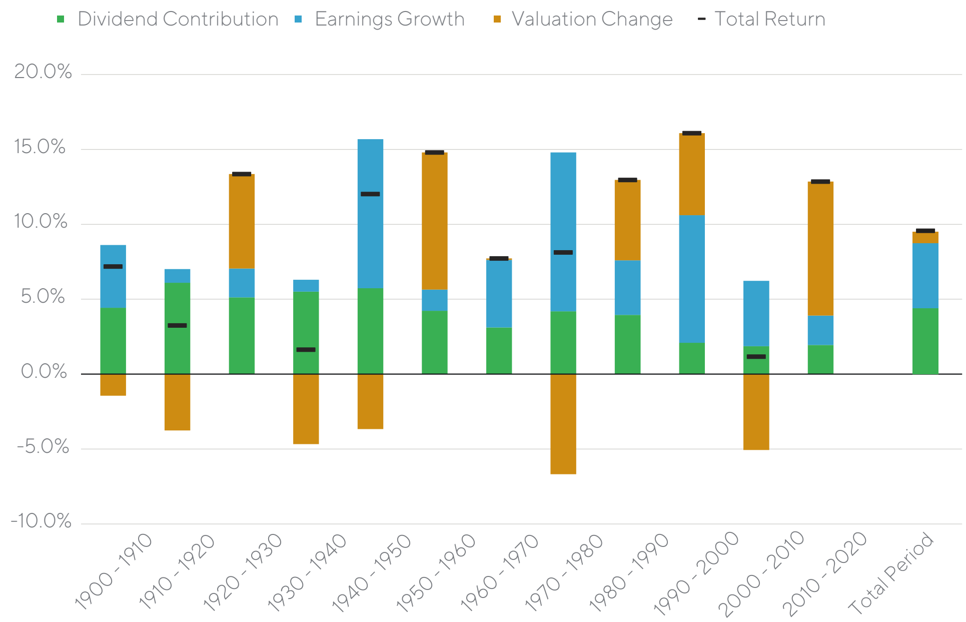
And therein lies the issue at hand— in a low interest rate world, how can investors expect resilient, sustainable income-generating portfolios that still offer sufficient enough prospects for capital appreciation, after inflation? Solving the puzzle may require a rethink of traditional approaches to asset allocation and definitions of risk, however, we think that *high-quality* dividend income is an increasingly important part of the solution for portfolios that are up-to-task for the decade(s) to come.

DIVIDEND INCOME: THE UNSUNG TOTAL RETURN HERO

Dividends may not be sexy, but we believe they are clearly important over the long run. While we, at GQG, operate with a commitment to executing on a forward-looking framework, this does not diminish the importance of historical context. An appreciation for history allows us to evaluate the primary drivers of total returns—those being dividends, earnings growth, and valuation changes– across varying periods and market cycles.

Historical analysis, augmented by lived experience, demonstrates to us the significance of dividends as a *consistent* and *growing* source of investment income, a buffer for price volatility, and a compounding engine that we believe has historically improved overall investment outcomes. While total returns have been volatile, we think that dividend income has been an unsung hero, providing a steady and reliable portfolio ballast, in good times and in bad. All told, as Figure 1 shows, over the last 120 years of the S&P 500's total nominal return of approximately 9.3%, dividends (green bars) and earnings growth (blue bars) contributed roughly 4.0% and 4.4%, respectively— and despite its contribution to total returns over the most recent decade, valuation changes (bronze bars)— or the speculative contribution to returns—has, for the most part, been an unpredictable source of price volatility.

FIGURE 1: S&P 500 TOTAL RETURN DECOMPOSITION FROM 1900 TO 2020

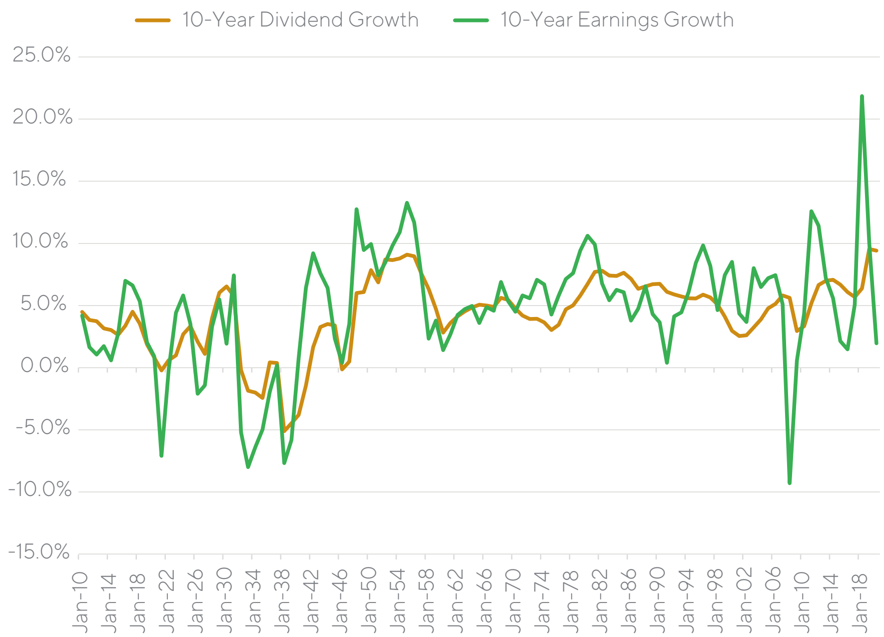


Valuation Change	-1.4	-3.8	6.3	-4.7	-3.7	9.2	0.1	-6.7	5.4	5.5	-5.1	8.9	0.8
Earnings Growth	4.2	0.9	1.9	0.8	10.0	1.4	4.5	10.6	3.6	8.5	4.4	2.0	4.4
Dividend Contribution	4.4	6.1	5.1	5.5	5.7	4.2	3.1	4.2	4.0	2.1	1.9	1.9	4.0
Total Return	7.2	3.3	13.4	1.6	12.0	14.8	7.7	8.1	13.0	16.1	1.2	12.9	9.3
	1900 - 1910	1910 - 1920	1920 - 1930	1930 - 1940	1940 - 1950	1950 - 1960	1960 - 1970	1970 - 1980	1980 - 1990	1990 - 2000	2000 - 2010	2010 - 2020	Total Period

Source: Professor Robert J. Shiller Dataset, Yale University, GQG Partners. Data supplied by Robert Shiller, GQG Partners calculated total return, valuation change, earnings growth, and dividend contribution. Rates are expressed in per cent and are annualized.

Although the total return decomposition may appear to depict a decreasing contribution to total returns from dividends over time, it is worth noting this is, in part, due to crowding out effects more recently. Moreover, the observation also belies the robust underlying growth in real dividends over time. In fact, while dividends and earnings have compounded in excess of 4.0% since 1900 (a period in which inflation measured approximately 2.9%) when one views dividend and earnings growth over rolling ten-year periods, the observably consistent and far less volatile growth in dividends, is shown in Figure 2 below.

FIGURE 2: DIVIDENDS HAVE FOLLOWED EARNINGS GROWTH, BUT WITH LESS VOLATILITY (1900 THROUGH 2020)



Source: Professor Robert J. Shiller Dataset, Yale University, GQG Partners. Data supplied by Robert Shiller. GQG Partners calculated the 10-year dividend growth and 10-Year earnings growth. The period covers January 1, 2010 to December 31, 2020.

QUALITY-FIRST DIVIDEND INCOME

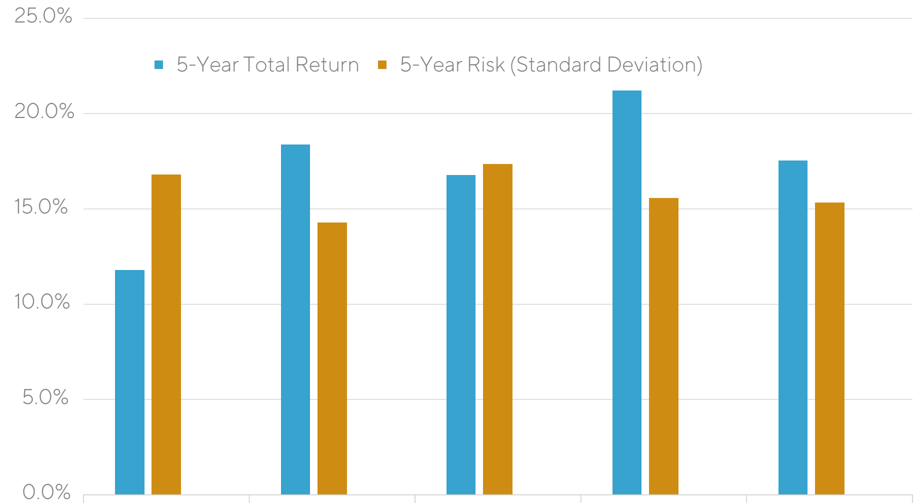
While dividend yield and dividend income are commonly used interchangeably, in reality, the two are not synonyms in our view. All dividends are not created equal. Much like earnings growth is not necessarily always good, economic, or sustainable, we think the realities of dividends are similar. And although dividend investing is generally considered a "defensive" investment style, in our view, dividends and defensibility are only synonymous at the cross-section of quality, and the presence of a high dividend yield is irrelevant absent quality.

For us, the primary investment criterion that fortifies our investment framework is quality. In our view, quality is the ultimate arbiter of investability. Whereas many enhanced index and actively-managed dividend-oriented strategies start with dividend yield first (and therefore, statistical valuation forms their starting point), quality, a necessarily forward-looking concept which aims to establish conviction around the sustainability and predictability of dividend income and growth, supported by expected company-specific competitive advantage(s) is, for us, first and foremost.

In our view, the emphasis we place on quality *first* may offer the opportunity to achieve attractive performance relative to the more common dividend yield first approaches. The reason is relatively simple: a high dividend yield can often be more indicative of distress than it is of potential dividend income. By extension, investors reaching for high dividend yield may risk taking an undue amount of risk that can be corrosive to performance—something that is observable within the performance of the S&P 500 constituents over the last five years. As Figure 3 below shows, splitting the S&P 500 into high (low) dividend yield (high dividend yield defined as +/-2.00%) and further sorting each group by return-on-equity (above/ below average) yields starkly different performance and risk results.

Whether within higher dividend yielders or comparatively lower dividend yielders, higher quality characteristics (e.g., ROE) have been associated with superior risk-adjusted return outcomes. This, to us, is intuitive and underscores our confidence in the merits of our steadfast forward-looking, quality-*first* dividend income investment framework.

FIGURE 3:
5-YEAR S&P 500 TOTAL RETURN VS 5-YEAR RISK (2011 TO 2021)



	High DY, Low ROE	High DY, High ROE	Low DY, Low ROE	Low DY, High ROE	S&P 500
	High Dividend Yield (>2.00%)		Low Dividend Yield (<2.00%)		
5-YR Return	11.8%	18.4%	16.8%	21.2%	17.5%
5-YR Risk	16.8%	14.3%	17.4%	15.6%	15.3%
5-YR Return-Risk	0.70	1.29	0.97	1.36	1.14

Source: Morningstar Direct, S&P Global, GQG Partners. Risk is defined as annualized standard deviation. GQG Partners calculated annualized return and annualized standard deviation, using tools through Morningstar Direct and data sourced from S&P. The 5-year period covers 6/30/2011 through 5/31/2021. DY represents Dividend Yield. ROE represents Return On Equity.

THE EXPECTED RETURN AND INCOME PUZZLE

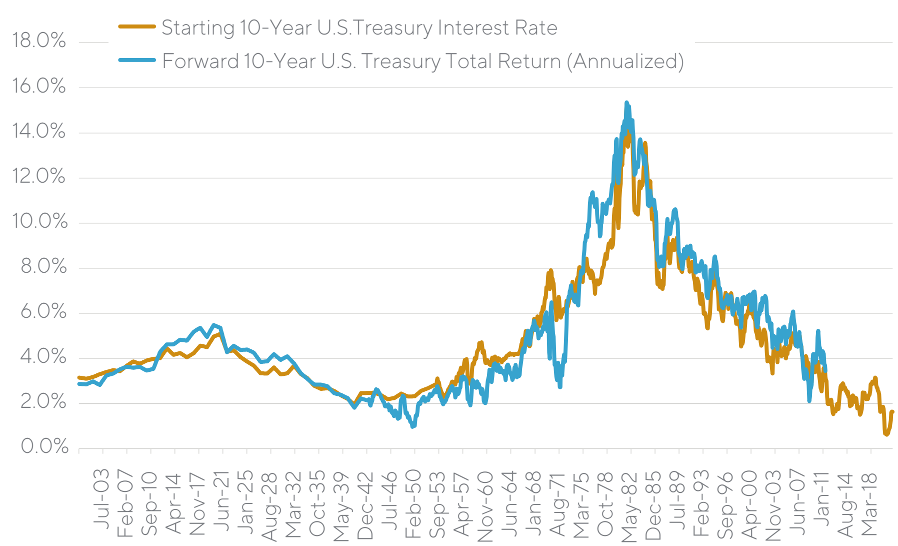
Having established that dividends matter a lot to the total return equation over time, and likewise that dividend yield buttressed by a primary focus on quality businesses has the potential to support the sustainability and growth in dividend income through superior compounding, let us now turn back to and illustrate the primary challenge investors face in the decade(s) to come by considering the forward-looking prospects for the archetypal 60% stock and 40% bond portfolio. (represented by the S&P 500 and the 10-year U.S. Treasury Interest Rate, respectively).

Generally speaking, the long-term total returns for stocks and bonds are both explained by a combination of yield (income) and price appreciation. As previously mentioned, long-term stock returns are driven by dividends, earnings growth, and valuation changes; however, in the case of bonds, the primary driver is starting interest rates. Sure, other factors, like roll yield and unexpected interest rate changes play a role too, but the starting interest rate level dominates, as can be seen through the strong historical correlation over time, of roughly 0.96, depicted in Figure 4.

At GQG we don't consider ourselves to be particularly blessed in the prediction realm, so, formulating reliable expected returns is made easier by the simple observation that 10-Year U.S. Treasuries currently yield 1.5%. Fortunately, we think this tells us most of what we need to know about their future return prospects. But unfortunately, this also means that, 1) fixed income returns are likely to pale in comparison to prior decades when rates were much higher and, 2) bond returns are expected to fall short of current inflation expectations, thereby generating an all-but-certain negative real return on capital over the next decade.

Stocks, on the other hand, in our view are a more complicated animal that require us to make some assumptions. So let's do that and plug in a few numbers to see what may be on offer from stocks at the index level. For argument sake, let's say earnings can grow at 5.0% per annum over the next decade, a slightly lower value than the level of realized EPS growth over the past two decades. Let us also assume—or rather, take a leap of faith—that valuations do not mean revert and stay at current levels for the next ten years. With the dividend yield on the S&P 500 currently at 1.4% (because interest rates are low and valuations are high), we arrive at an expected return of 6.4%. Taken

FIGURE 4: A BLEAK OUTLOOK FOR BOND RETURNS

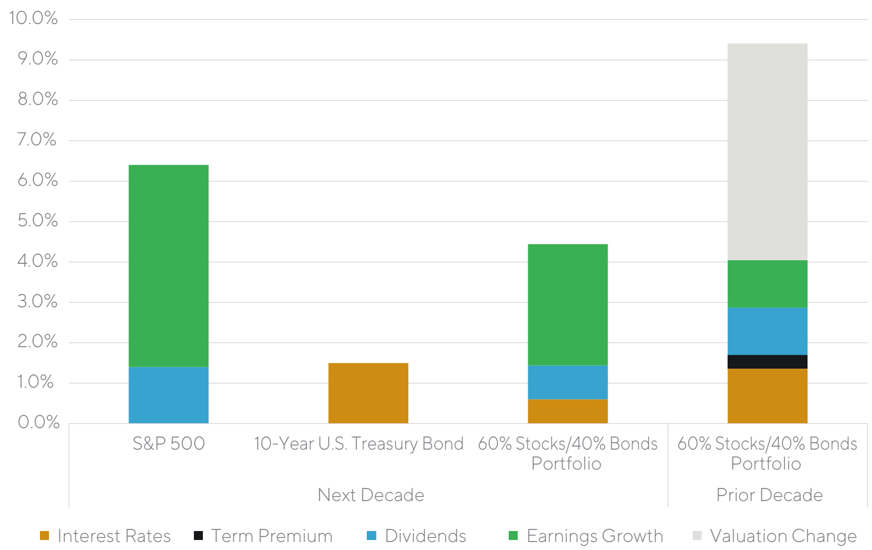


Source: Professor Robert J. Shiller Dataset, Yale University, GQG Partners. Data and underlying calculations provided by Robert Shiller. Visual display of data provided by GQG Partners. Data is from January 1, 1900 to May 31, 2021.

together, this leaves us with an expected nominal return of 4.4% on the archetypal 60% stock and 40% bond portfolio, as shown in Figure 5.

With interest rates at near to the zero-bound and severely less income generation, we feel it is also probably safe to expect a higher level of total portfolio volatility and lower expected risk-adjusted returns than the bygone days of higher interest rates. And when one considers break-even inflation rates over the next ten years, currently at 2.3%, the expected real return for the portfolio stands at just 2.1%, a far cry from the proverbial 4-5% real return (7% nominal) targets which many investors likely seek.

FIGURE 5: PAST VERSUS HYPOTETHICAL PROSPECTIVE TOTAL RETURN COMPONENTS OVER 10 YEARS ENDING DECEMBER 31, 2020



Source: Capital IQ, S&P Global, Federal Reserve Bank of St. Louis, GQG Partners. Stocks are represented by the S&P 500 index; bonds represent the 10-Year U.S. Treasury bond. Prospective 10-Year earnings growth are hypothetical in nature and estimated by GQG Partners. Prior decade total returns represent a 60/40 blend of the S&P 500 and the 10-Year U.S. Treasury annualized total returns, with data as of December 31, 2020. Next Decade and Prior Decade total rates of return are annualized. Hypothetical and past performance are not a guarantee or a reliable indicator of future results. Trailing 10-Year Treasury Bond Returns were sourced from Robert Shiller. (Shiller Dataset and calculation). Trailing 10-Year S&P 500 total return decomposition was calculated by GQG Partners using Shiller Data. Current 10-year Treasury Rate sourced from Fed Reserve Bank of St. Louis. Current S&P 500 dividend yield source through Capital IQ from S&P Global. Trailing 10-Year contribution to bond returns from term premium is estimated by GQG Partners.

FINAL THOUGHTS

With future return prospects low, investors face a difficult task in the decade(s) to come. The challenge may not be insurmountable, however, and we think a high quality, dividend income strategy could be an attractive option for investors willing and/or seeking to re-tool their income-generating exposures within their overall asset allocations.

In our view, all dividends are not created equal and investors should distinguish between current dividend yield and future dividend income by emphasizing quality first. We believe our well-established investment process, guided by our Forward-Looking Quality investment philosophy, is fine-tuned to pursue a high conviction income solution for investors who seek attractive and sustainable current income with the potential for above average levels of dividend income growth into the future.

The defensive, volatility-reducing aspects of a quality dividend income approach are manifold, in our view. In tackling the expected return and income challenge in the decade(s) to come, portfolios may stand to benefit from a quality dividend income strategy aimed at a steady and growing dividend income stream, lower volatility, and superior compounding attributes. All that may be required is a rethinking of convention and a forward-looking view.

DEFINITIONS

Interest rate - The amount of interest, as a proportion of the amount being loaned, deposited, or borrowed.

Term premium – The term premium is the amount by which the yield on a long-term bond is greater than the yield on shorter-term bonds. This premium reflects the amount investors expect to be compensated for lending for longer periods.

Dividends - A sum of money paid regularly by a company to its shareholders out of its profits or reserves.

Earnings growth – A change in an entity's reported net income reported over a specified period.

Valuation change – The daily adjustment to a company's stock price, reflecting the number of outstanding shares issued and held by investors, and impacted by factors such as supply and demand.

IMPORTANT INFORMATION

The information provided in this document does not constitute investment advice and no investment decision should be made based on it. Neither the information contained in this document or in any accompanying oral presentation is a recommendation to follow any strategy or allocation. In addition, neither is a recommendation, offer or solicitation to sell or buy any security or to purchase of shares in any fund or establish any separately managed account. It should not be assumed that any investments made by GQG Partners LLC (GQG) in the future will be profitable or will equal the performance of any securities discussed herein. Before making any investment decision, you should seek expert, professional advice, including tax advice, and obtain information regarding the legal, fiscal, regulatory and foreign currency requirements for any investment according to the law of your home country, place of residence or current abode.

This document reflects the views of GQG as of a particular time. GQG's views may change without notice. Any forward-looking statements or forecasts are based on assumptions and actual results may vary.

GQG provides this information for informational purposes only. GQG has gathered the information in good faith from sources it believes to be reliable, including its own resources and third parties. However, GQG does not represent or warrant that any information, including, without limitation, any past performance results and any third-party information provided, is accurate, reliable or complete, and it should not be relied upon as such. GQG has not independently verified any information used or presented that is derived from third parties, which is subject to change. Information on holdings, allocations, and other characteristics is for illustrative purposes only and may not be representative of current or future investments or allocations.

The information contained in this document is unaudited. It is published for the assistance of recipients, but is not to be relied upon as authoritative and is not to be substituted for the exercise of one's own judgment. GQG is not required to update the information contained in these materials, unless otherwise required by applicable law. No portion of this document and/or its attachments may be reproduced, quoted or distributed without the prior written consent of GQG.

GQG is registered as an investment adviser with the U.S. Securities and Exchange Commission. Please see GQG's Form ADV Part 2, which is available upon request, for more information about GQG.

Any account or fund advised by GQG involves significant risks and is appropriate only for those persons who can bear the economic risk of the complete loss of their investment. There is no assurance that any account or fund will achieve its investment objectives. Accounts and funds are subject to price volatility and the value of a portfolio will change as the prices of investments go up or down.

Before investing in a strategy, you should consider the risks of the strategy as well as whether the strategy is appropriate based upon your investment objectives and risk tolerance.

Where referenced, the title Partner for an employee of GQG Partners LLC indicates the individual's leadership status within the organization. While Partners hold equity interests in GQG Partners Inc., as a legal matter they do not hold partnership interests in GQG Partners LLC or GQG Partners Inc.

GQG Partners LLC is a wholly owned subsidiary of GQG Partners Inc., a Delaware corporation that is listed on the Australian Securities Exchange.

INFORMATION ABOUT BENCHMARKS

The S&P 500® Index is a widely used stock market index that can serve as barometer of US stock market performance, particularly with respect to larger capitalization stocks. It is a market-weighted index of stocks of 500 leading companies in leading industries and represents a significant portion of the market value of all stocks publicly traded in the United States. The S&P 500 Index is a product of S&P Dow Jones Indices LLC, a division of S&P Global, or its affiliates (SPDJI) and has been licensed for use by GQG Partners LLC. Standard & Poor's® and S&P® are registered trademarks of Standard & Poor's Financial Services LLC, a division of S&P Global (S&P); Dow Jones® is a registered trademark of Dow Jones Trademark Holdings LLC (Dow Jones). GQG Partners US Equity is not sponsored, endorsed, sold or promoted by SPDJI, Dow Jones, S&P, their respective affiliates, and none of such parties make any representation regarding the advisability of investing in such product(s) nor do they have any liability for any errors, omissions, or interruptions of the S&P 500 Index.

Information about benchmark indices is provided to allow you to compare it to the performance of GQG strategies. Investors often use these well-known and widely recognized indices as one way to gauge the investment performance of an investment manager's strategy compared to investment sectors that correspond to the strategy. However, GQG's investment strategies are actively managed and not intended to replicate the performance of the indices: the performance and volatility of GQG's investment strategies may differ materially from the performance and volatility of their benchmark indices, and their holdings will differ significantly from the securities that comprise the indices. You cannot invest directly in indices, which do not take into account trading commissions and costs.

NOTICE TO AUSTRALIA & NEW ZEALAND INVESTORS

The information in this document is issued and approved by GQG Partners LLC ("GQG"), a limited liability company and authorised representative of GQG Partners (Australia) Pty Ltd, ACN 626 132 572, AFSL number 515673. This information and our services may only be provided to wholesale clients (as defined in section 761G of the Corporations Act 2001 (Cth)) domiciled in Australia. This document contains general information only, does not contain any personal advice and does not take into account any prospective investor's objectives, financial situation or needs. In New Zealand, any offer of a Fund is limited to 'wholesale investors' within the meaning of clause 3(2) of Schedule 1 of the Financial Markets Conduct Act 2013. This information is not intended to be dis¬tributed or passed on, directly or indirectly, to any other class of persons in Australia and New Zealand, or to persons outside of Australia and New Zealand.

NOTICE TO CANADIAN INVESTORS

This document has been prepared solely for information purposes and is not an offering memorandum nor any other kind of an offer to buy or sell or a solicitation of an offer to buy or sell any security, instrument or investment product or to participate in any particular trading strategy. It is not intended and should not be taken as any form of advertising, recommendation or investment advice. This information is confidential and for the use of the intended recipients only. The distribution of this document in Canada is restricted to recipients in certain Canadian jurisdictions who are eligible "permitted clients" for purposes of National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations.

NOTICE TO SOUTH AFRICAN INVESTORS

Investors should take cognisance of the fact that there are risks involved in buying or selling any financial product. Past performance of a financial product is not necessarily indicative of future performance. The value of financial products can increase as well as decrease over time, depending on the value of the underlying securities and market conditions. The investment value of a financial product is not guaranteed and any Illustrations, forecasts or hypothet¬ical data are not guaranteed, these are provided for illustrative purposes only. This document does not constitute a solicitation, invitation or investment recommendation. Prior to selecting a financial product or fund it is recommended that South Africa based investors seek specialised financial, legal and tax advice. GQG PARTNERS LLC is a licensed financial services provider with the Financial Sector Conduct Authority (FSCA) of the Republic of South Africa, with FSP number 48881.

NOTICE TO UNITED KINGDOM INVESTORS

GQG Partners is not an authorised person for the purposes of the Financial Services and Markets Act 2000 of the United Kingdom ("FSMA") and the distri¬bution of this document in the United Kingdom is restricted by law. Accordingly, this document is provided only for and is directed only at persons in the United Kingdom reasonably believed to be of a kind to whom such promotions may be communicated by a person who is not an authorised person under FSMA pursuant to the FSMA (Financial Promotion) Order 2005 (the "FPO"). Such persons include: (a) persons having professional experience in matters relating to investments; and (b) high net worth bodies corporate, partnerships, unincorporated associations, trusts, etc. falling within Article 49 of the FPO. The services provided by GQG Partners and the investment opportunities described in this document are available only to such persons, and persons of any other description may not rely on the information in it. All, or most, of the rules made under the FSMA for the protection of retail clients will not apply, and compensation under the United Kingdom Financial Services Compensation Scheme will not be available.

GQG Partners (UK) Ltd. is a company registered in England and Wales, registered number 1175684. GQG Partners (UK) Ltd. is an appointed representative of Sapia Partners LLP, which is a firm authorised and regulated by the Financial Conduct Authority ("FCA") (550103).

DI 0721 WP