



Dividend Growth Investing

An attractive investment opportunity and core strategy

February 2022

RBC Capital Markets, LLC / Portfolio Advisory Group – U.S. Equities

All values in U.S. dollars and priced as of February 4, 2022, unless otherwise noted

For Important Disclosures, see slide 13

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**Wealth
Management**

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Attractive investment opportunity

Dividends per share are forecasted to accelerate this year

- Economic strength and receding pandemic uncertainty are driving the dividend growth acceleration

Compelling valuation

- Dividend growth stocks are trading well below their average historical P/E ratio versus the S&P 500

Dividend stock yields are favorable compared to fixed income yields

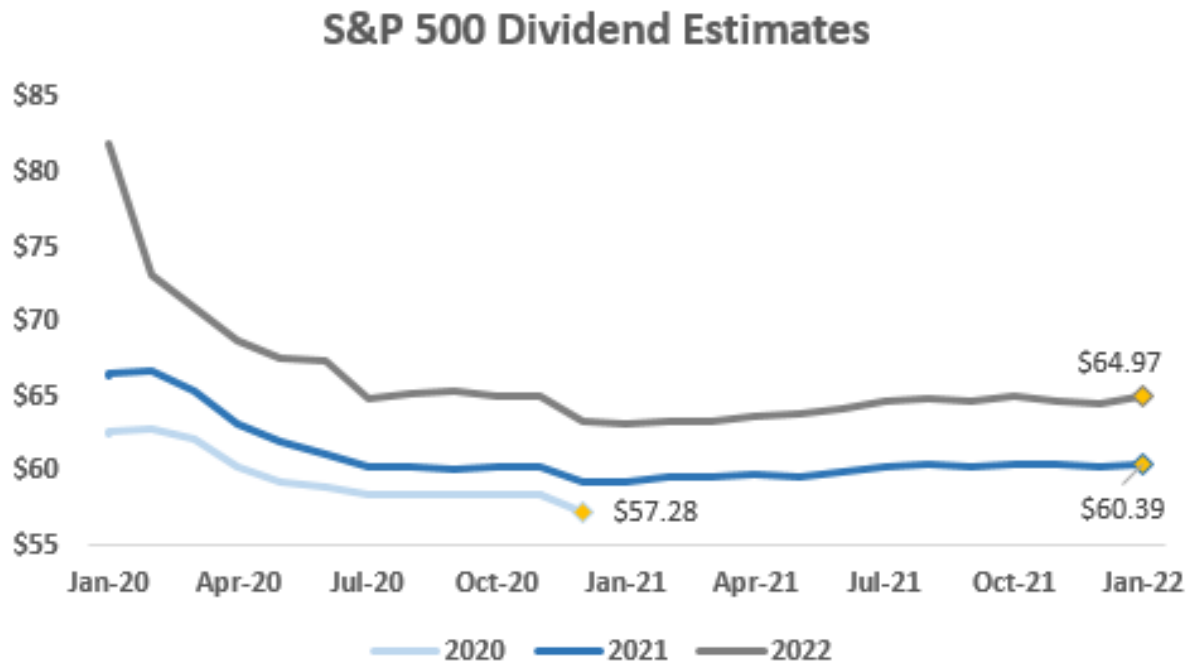
- Should drive incremental asset flows into dividend stocks (traditional 60/40 portfolio needs yield help)

Fed's monetary policy shift favors value and dividend stocks on a relative basis

- Interest rate volatility has increased as the Fed prepares to tighten monetary policy

Dividend growth accelerating

S&P 500 dividends per share grew 5% in 2021 and the consensus forecast for this year is 8%.

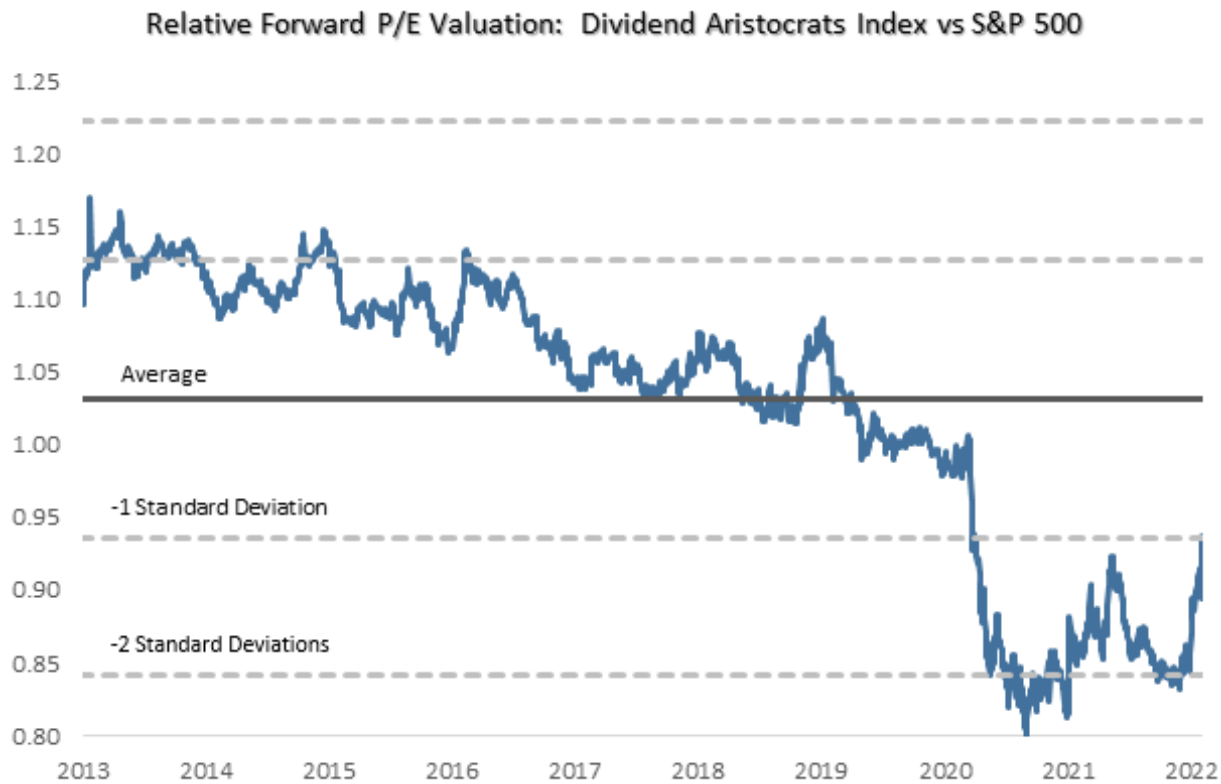


Sources - FactSet, RBC Wealth Management, data as of February 4, 2022

Attractive relative valuation

The Fed's monetary policy shift has recently helped boost dividend stocks relative to the market.

Still, the S&P 500 Dividend Aristocrats Index is trading well below its average historical forward price-to-earnings (P/E) ratio relative to the S&P 500.



Sources - Bloomberg, RBC Wealth Management; data through February 4, 2022

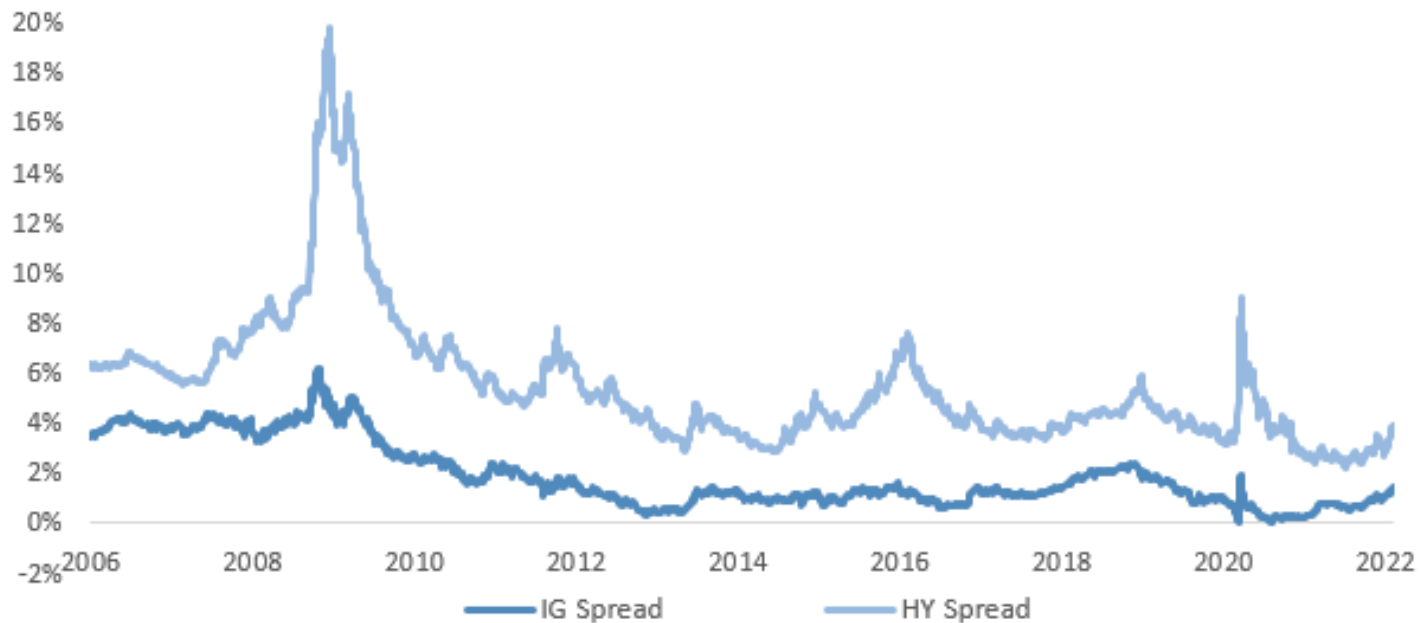
Dividend yields favorable to corporate bond yields

Equity dividend yields are historically favorable relative to corporate bond yields.

- AAA investment grade / high-yield corporates yield 2.56% / 5.31% vs. the S&P 500 dividend yield of 1.34%

The Fed's shift to tighter monetary policy has begun to pressure corporate bond prices.

Corporate Bond Spreads over S&P 500 Dividend Yield



Sources – Bloomberg; St. Louis Fed; yields as of February 4, 2022

A core portfolio strategy

Strong long-term returns for dividend growth stocks

- Dividend investing performs best when focused on dividend growth and high-quality companies
- Dividend growth stocks have generated strong long-term returns relative to the S&P 500

High-quality companies consistently grow their dividends

- Quality is a key factor that drives long-term investment outperformance

Investors of all types value growing dividend income streams

- Dividend cash flow can be reinvested or distributed for income
- Favorable demographics as retirees tend to most highly value dividends
- Purchasing power/inflation protection

The importance of dividend growth

Dividend growth stocks have significantly outperformed no growth dividend paying stocks.

Dividend growth stocks have generated strong long-term returns relative to the S&P 500.

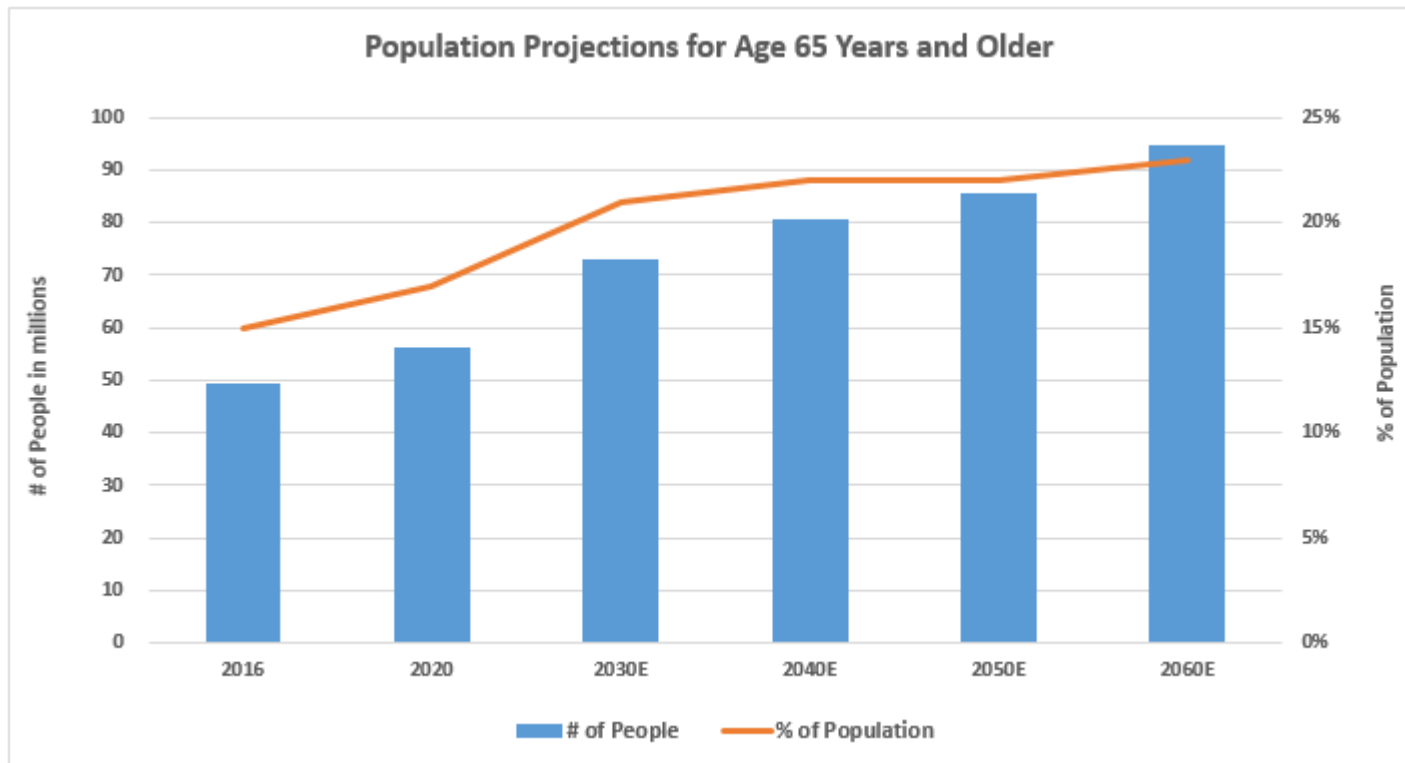


Source - Ned Davis Research; Dividend Growers & Dividend Payers are Ned Davis Research indexes. Starting at 1990, returns are indexed to 100 and calculated using daily equal-weighted averages of total returns of stocks in each index; data as of January 31, 2022

Demographics favorable for dividends

The percentage of the U.S. population age 65+ is expected to grow from 17% in 2020 to 21% in 2030.

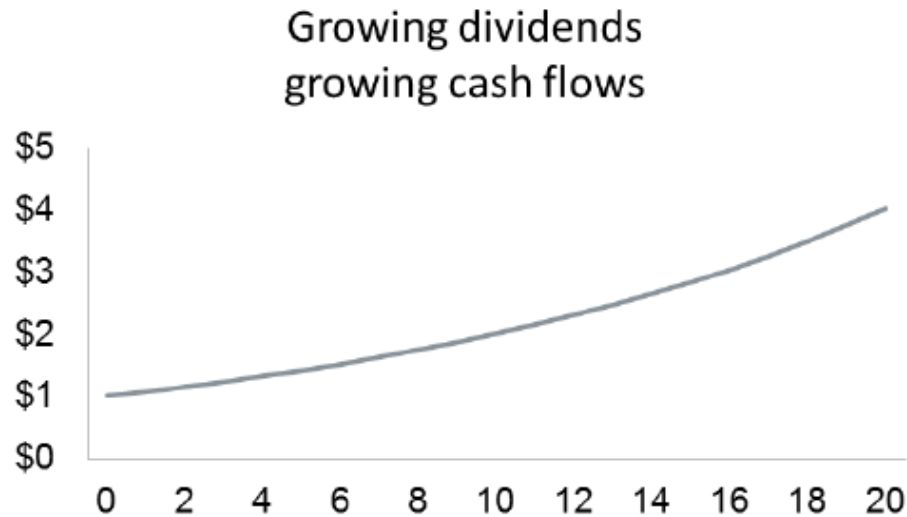
Retirees value growing dividend income streams for current income and inflation protection.



Source - U.S. Census Bureau, Demographic Turning Points for the United States: Population Projections for 2020 to 2060 - revised February 2020; RBC Wealth Management



Investors value growing dividend income streams



Investing in 1,000 shares of ABC Corporation with a \$1 dividend would provide \$1,000 of income the first year.

If ABC can grow its dividend at a 7.2% annualized rate, the dividend income stream would double to \$2,000 after 10 years and quadruple to \$4,000 after 20 years.

Source - RBC Wealth Management

Dividend investing is like owning rental property



Rental property owner's primary concerns:

Are all the units rented?

Are the tenants making rent payments on time?

Do I have the ability to raise rents at least in line with the rate of inflation?

Can I remove and replace a bad tenant?

Owners are less concerned about the value of their property on a day-to-day basis because historically real estate has appreciated in value over the long term.

Dividend investing is similar:

Are my companies making their dividend payments?

Are they growing their dividends over time?

Can I remove and replace an underperforming company?

Investors should be less concerned with day-to-day price fluctuations because historically dividend growth stocks have performed well over time on an absolute and relative basis.

Guided Portfolio: Dividend Growth

Portfolio Objectives:

- Growing dividend cash flow stream
- Long-term capital appreciation
- Modest market risk with lower volatility and lower variability of returns than the benchmark

Investment Strategy:

- Target companies with consistent annual dividend growth over the last 5 years
- Target an above market portfolio dividend yield
- Emphasize industry-leading companies with strong balance sheets and healthy dividend coverage
- Sector allocation determined by the economic cycle, relative fundamental outlook, and relative valuation

Portfolio Information:

Inception:	July 2006
Benchmark	S&P 500 Value
Holdings (#):	20
Portfolio turnover	15% - 25%
AUM* (\$ million):	\$4,402
Accounts* (#):	15,363

Investment Professionals:

Alan Robinson

Sean Naughton, CFA

Ben Graham, CFA

Jason Deleeuw, CFA

* Assets under management and accounts as of December 31, 2021



Guided Portfolio: Prime Income

Portfolio Objectives:

- Above-average current yield for a dividend strategy
- Income first focus, but also provide a growing dividend cash flow stream
- Modest market risk with lower volatility and lower variability of returns than the benchmark

Portfolio Information:

Inception:	January 2003
Benchmark	S&P 500 Value
Holdings (#):	22
Portfolio turnover	15% - 25%
AUM* (\$ million):	\$2,635
Accounts* (#):	9,616

Investment Strategy:

- Primary consideration is the stability and growth potential of dividends
- Secondary objective is capital appreciation
- Target companies with highly dependable cash flows, strong balance sheets, a track record of capital return and an attractive dividend yield
- Sector allocation determined by the economic cycle, relative fundamental outlook, and relative valuation

Investment Professionals:

Alan Robinson
Sean Naughton, CFA
Ben Graham, CFA
Jason Deleeuw, CFA

* Assets under management and accounts as of December 31, 2021



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As of December 31, 2021				
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			Count	Percent
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Disclosures

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