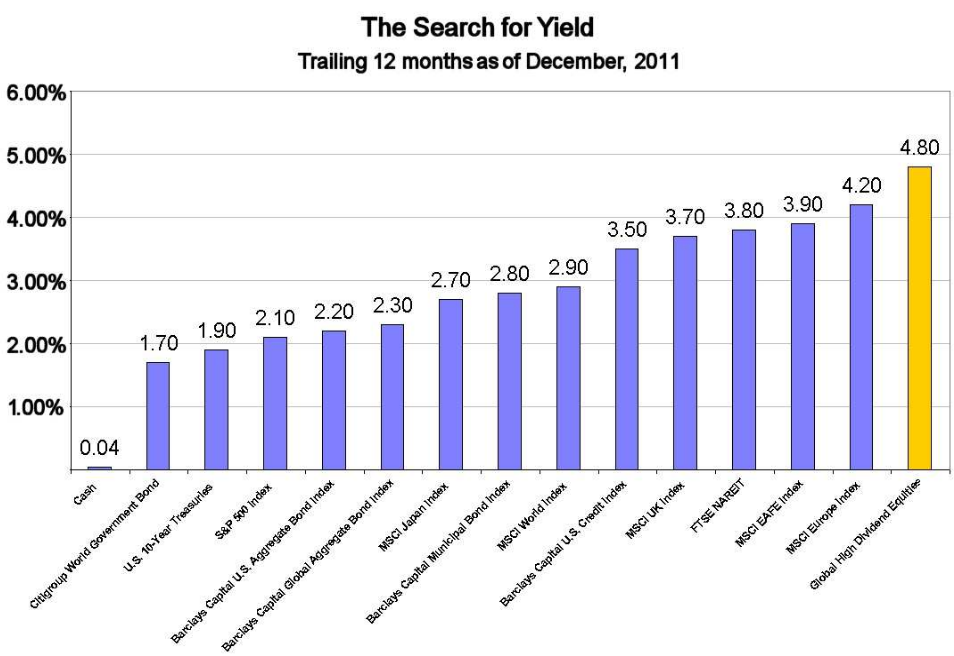
Summer 2012

BIAS Global Dividend Income Portfolios

Dividend paying companies that have a history of raising payouts annually are proven to deliver total returns superior to that of a passive large capitalization equity index over the long-term.

In addition, in the present low interest rate environment, this strategy can produce a higher level of current income than an all fixed income strategy. Moreover, the volatility or risk associated with such portfolios is much less than large cap equity indices.



Sources: Barclays Capital, MSCI, Standard & Poor's, Citigroup, FTSE, U.S. Federal Reserve Board, J.P. Morgan Asset Management, Bloomberg, FactSet. Global High Dividend Equities are represented by the top-decile yielding stocks in the MSCI World Index.
Past performance is not indicative of future results. *It is not possible to invest directly in an index.*

The Need for Income

The current trend for dividend focused investing is driven largely by aging baby boomers whose goal it is to construct 'de-accumulation' portfolios with predictable income and low volatility. Put another way, baby boomers are looking to ramp up their retirement income and touch as little capital as possible in this low interest rate environment and are turning to high dividend payers whose stock prices tend to hold up better even in poor market conditions.

Dividend Statistics Speak for Themselves

"Since 1926, dividends have contributed nearly a third of total equity return while capital gains have contributed two-thirds. Sustainable dividend income and capital appreciation potential are both important in determining total return expectations." – Standard & Poors.

When investing in equities for the long term, the optimum is to buy stable companies with a track record of increasing their dividends and then reinvest those dividends.

Even though annual dividends may only be in the 3% or 4% range, historical statistics demonstrate how effective this is:

- From 2000 to 2010, reinvested dividends were responsible for 87% of the S&P 500's total return.
- From 1990 to 2010, reinvested dividends were responsible for 43% of the S&P 500's total return.
- From 1871 to 2003, reinvested dividends were responsible for 97% of the stock market's total return.

With dividend contribution levels of this size, it makes sense to focus on a strategy that accounts for so much of the stock market's total return.

Elements of Dividend Investing

Six factors justify buying dividend paying stocks:

1. **Better estimation of risk for returns** – presence of dividends improves ability to estimate expected returns as less is left to capital gain potential.
2. **More rapid verification of return and yield estimates** – returns are provided by actual dividends quarter by quarter so return estimates are more immediately verifiable.
3. **Higher quality of earnings** – companies will only pay out dividends they can afford and from real cash flow driven earnings, not phantom profits.
4. **Better alignment of incentives between corporate executives and shareholders** – management focuses on maintaining dividends not stock option payouts linked to share price.
5. **Simplicity for retirement investors** – many investors want to live off their income only, which dividends provide.
6. **Increased attractiveness if the 'New Normal' plays out** – if Bill Gross is right about the future, economic growth will slow in the developing world and asset returns will be

more modest. Investors will favour dividends and could drive up the prices of dividend paying stocks.

Present Position

US companies are sitting on a record amount of cash at the present time -- more than $2 trillion. Most corporations are not hiring and they are not boosting spending. Much of this cash is therefore rightfully going back to shareholders. In addition, the Dow Jones Industrial Index yields more than investment grade bonds. Moreover dividend growth among US companies has averaged 10% per year over the last two years, more than double the long-term dividend growth rate.

The near term outlook is also promising. Over the last 50 years, for instance, the highest 20% yielding stocks in the S&P 500 Index returned 14.2% annually. With compounding and reinvestment, this doubles an investment every five years – or quadruples it in 10.

Not only are US companies flush with cash, but payouts are less than one-third of profits, an historic low.

This trend is playing out around the world.

What Dividend-Paying Companies Are Saying

Remarkably there are 300+ companies globally that consistently pay larger than index average and increasing dividends. In the US these companies are divided by ratings agency Standard & Poors into two categories: ***Dividend Aristocrats*** and ***Dividend Achievers***.

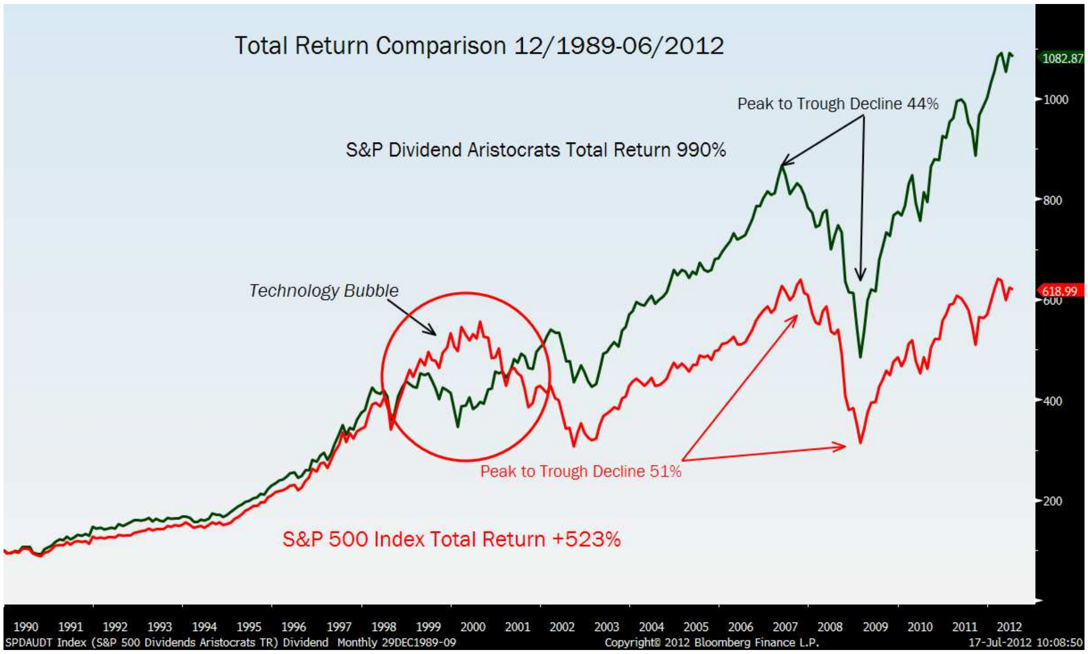
- A ***Dividend Aristocrat*** is an S&P 500 company that has raised its dividend every year for the past 25 years, has a market cap of US$3 billion and average daily trading volumes of US$5 million. More than 50 companies fulfill this amazing criterion with the longest dated company achieving in excess of 50 years.
- A ***Dividend Achiever*** has raised its dividend for the past 10 years. Nearly 100 companies in the US fulfill this criterion.

By raising dividends, companies are demonstrating that they are:

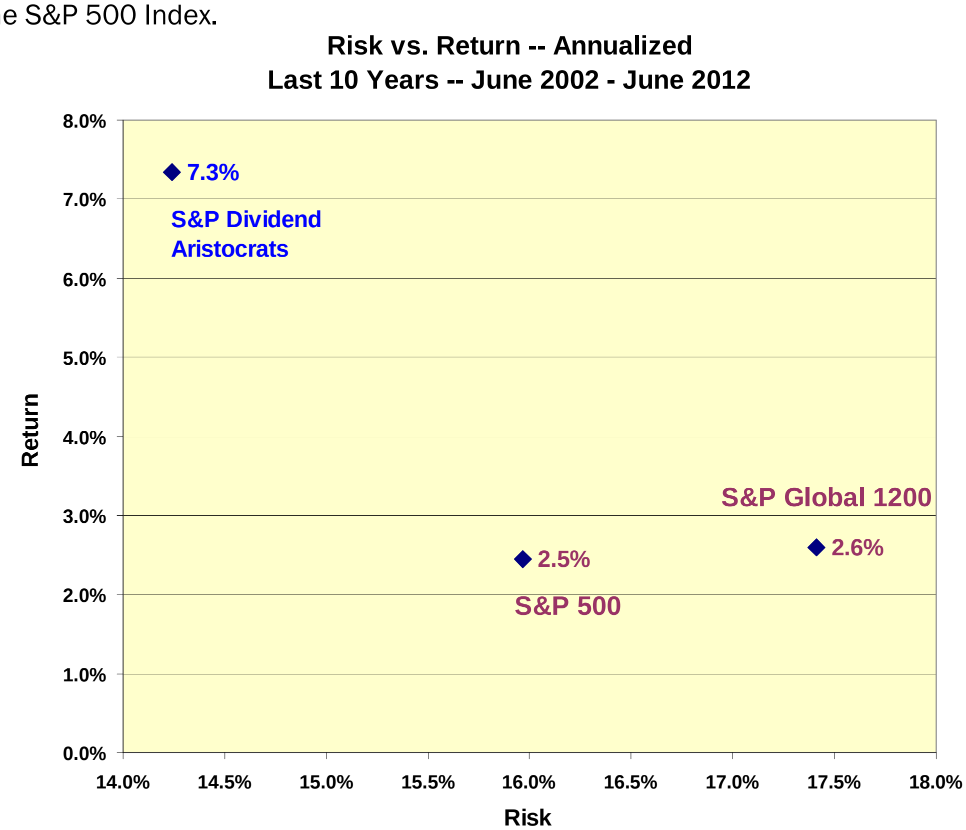
- **Committed to Shareholders:** By returning capital to shareholders, companies are rewarding your faith in their business.
- **Confident:** Raising the dividend payment shows investors that the company's management is confident in their business now and in the future.
- **Delivering** – Companies are profitable and generating significant cash flow.
- **Serious** – Companies take their dividend policy seriously. Executives are keenly aware that Wall Street doesn't like dividend cuts – and investors tend to punish companies that chop dividend accordingly.

Over time if more dividends are received every year, the yield on cost (i.e. the yield on the price originally paid) rises. For example, if for a $50 stock with a $2 annual dividend, the yield is 4%. But five years later, if the dividend has risen to $3, the yield on cost is 6%, even if the share price has changed.

The Evidence



Since December 1989, the S&P Dividend Aristocrat Index has performed nearly twice as well as the S&P 500 Index rising 990% in this time (11.20% annualized) versus 523% (8.46% annualized) for the S&P 500 Index. 426% of these returns were in the form of dividends so even excluding dividends the S&P Dividend Aristocrat Index returned 564%, still more than the S&P 500 Index.



On a Risk versus Return basis the evidence is equally compelling.

Over the last 10 years, the S&P Dividend Aristocrat Index has both out-performed the S&P 500 Index and the S&P Global 1200 Index by over 400 bps on an annualized basis and at considerably lower risk.

Whilst past performance cannot guarantee either the success of this strategy or future results, the historical statistical evidence tells a compelling story.

How to Profit From This Knowledge

BIAS' Global Dividend Income Portfolios build on the research performed by BIAS' portfolio management team that demonstrates the value of common stock dividends in the total return equation.

Analysis shows on average 40% of a stock portfolio's return is attributable to dividend income. However, during secular bear markets the average is closer to 70% and in bull markets the contribution averages 26% demonstrating that this strategy should out-perform in down and sideways markets and under-perform only in strong bull markets.

The value of this approach to investors bears repeating and is achieved by:

- **Providing a vehicle by which investors can achieve better/higher streams of income versus that currently available from only investment grade fixed income.**
- **Delivering a growing stream of income by holding a portfolio of common stocks with a history of raising dividends annually for five years as a minimum.**
- **Taking advantage of an investment strategy that has produced consistently superior total returns through both Bull and Bear Markets.**

The Universe

The universe from which BIAS will select the dividend paying companies includes the following sources:

- **Dividend Alternatives** – Preferred shares, Master Limited Partnerships (MLP) that invest in pipelines, real estate, etc., but target returning income to investors.

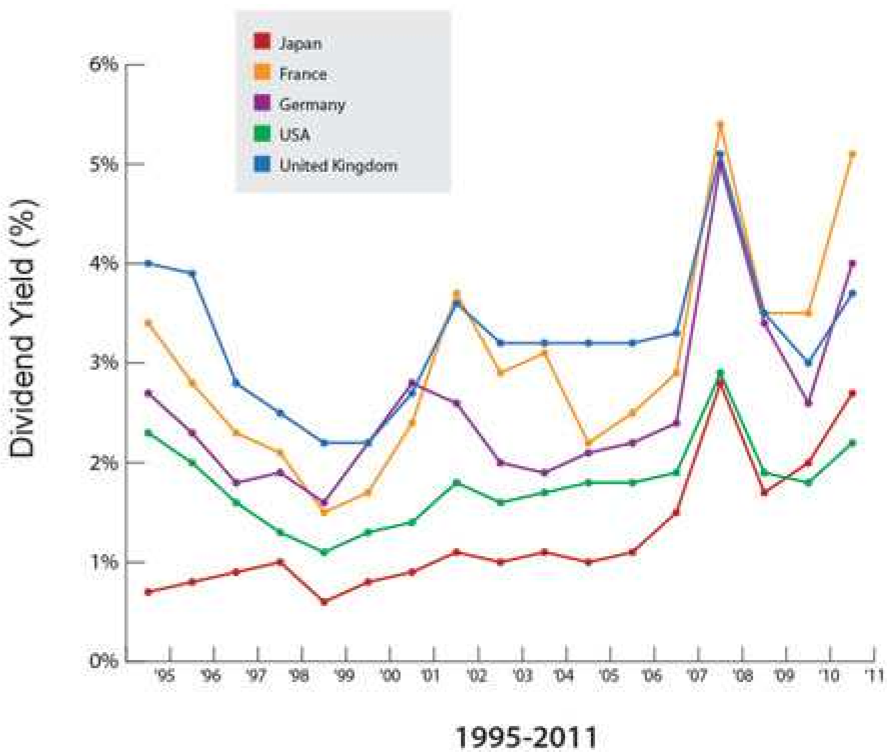
- **Dividend Aristocrats** – Companies in the US and elsewhere that fulfil the criteria of paying above index average dividends and consistently raising them each year for the last 25 years at a minimum.

- **Dividend Opportunities** – Companies that can be considered 'Champions' or 'Contenders' from all over the world who pay above index average dividends and have raised them for between 5 and 25 years. These companies are the next Dividend Aristocrats.

The trend toward dividend initiations and dividend increases by companies has become a global one as investors increasingly pressure companies around the world to pay out their cash flow. Further, with 54% of total global market capitalization outside the U.S. at the end of 2011, investors may be able to access more and greater sources of potential total return by taking a global approach to dividend income investing.

The U.S. equity market, as represented by the S&P 500 Index, had a dividend yield of 2.1% in 2011, but the dividend yield for the MSCI EAFE Index, which is designed to measure developed equity market performance across 22 countries excluding the U.S. and Canada, was 3.9%. The same trend of higher international equity yields has typically held true in the past.

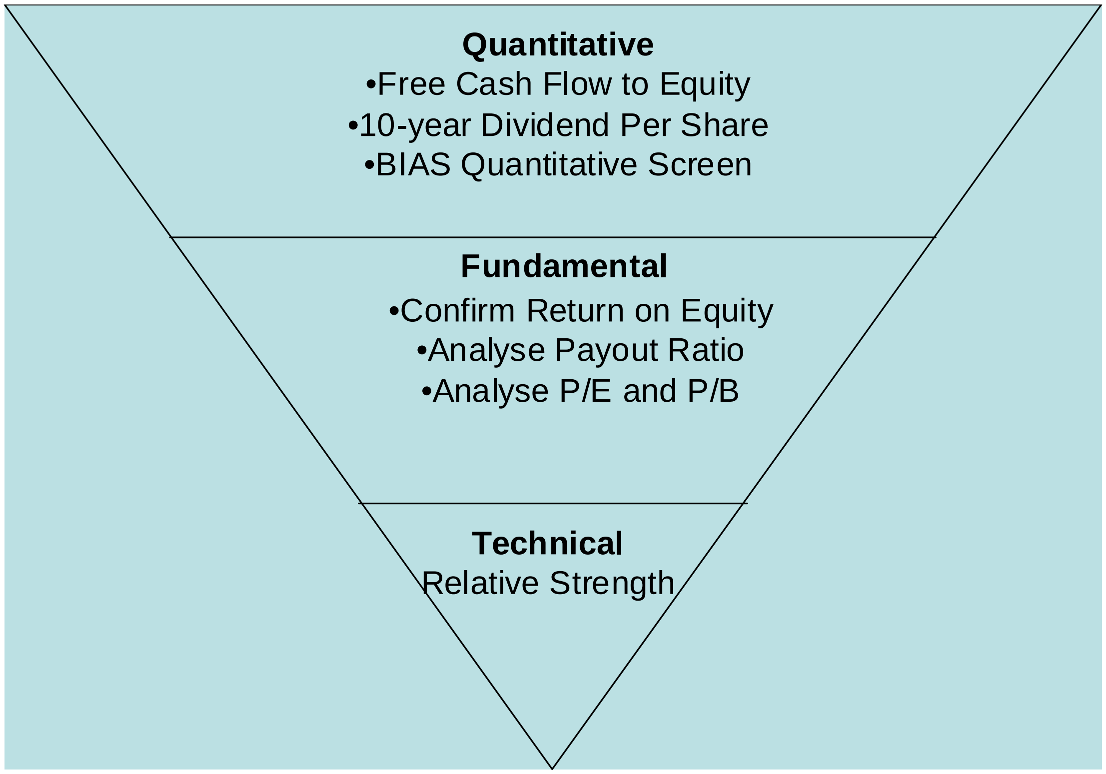
International Dividend Yields comparison based on real returns (1995 - 2011)



*Source: **MSCI. Past performance is not indicative of future results.***

We conclude that there are over 300 companies in this universe and it is from here that our screening begins for not all companies are right for the BIAS Global Dividend Income Portfolios.

The Dividend Income Process



BIAS' screening process involves proprietary quantitative, fundamental and technical analysis all aimed at selecting 40 companies for each BIAS Global Dividend Income Portfolio with the following characteristics:

- Minimum 50% US companies
- Equal weighted (i.e. 2.5% maximum position)
- Rebalancing at least annually
- Maximum sector weight 12.5%

The Result

The detailed composition of the BIAS Global Dividend Income Portfolios is proprietary information that changes from time to time according to market conditions and BIAS' then current market views. However the following aggregate statistics are in force at the time of writing:

Regional Weights

- **North America –** 72.5%
- **Europe –** 22.5%
- **Asia/Pacific –** 5%

Sector Weights – versus S&P 1200 Global Index.

- **Over weights –** Healthcare, Materials, Telecom, Utilities
- **Under weights –** Energy, Industrials, Technology, Staples, Finance, Discretionary

Portfolio Analytics

- **Average dividend yield** – 4.11%
- **P/E** – 15.12
- **P/Cash Flow** – 8.15
- **P/Book Value** – 2.33
- **ROE –** 17.71%

Technicals (all Year to Date) – all technical measures were better than the S&P Global 1200 Index.

- **Standard Deviation** – 12.27%
- **Downside Risk** – 8.51%
- **Sharpe ratio** – 1.08
- **Jensen Alpha** – 1.66
- **Treynor Measure** – 0.15
- **Beta** – 0.84
- **Correlation** – 0.9551

Performance – the BIAS Global Dividend Income strategy between 31st December 2008 and 30th June 2012 produced a total return of 83.76% versus the S&P Global 1200 Index which returned 48.59%.

Past performance should not be used as a guide for future performance and is not guaranteed. Statistics as stated are all historical and for illustration purposes only and as such no reliance should be placed on them as to the future.

Option Writing to Boost Income

BIAS will occasionally employ the very conservative strategy of covered call writing to increase the portfolio's cash flow without increasing risk. The process will be implemented only on positions held and at no time will calls be sold against stocks not in the account.

The Value Proposition

BIAS' Global Dividend Income Portfolios are available as follows:

- Segregated Accounts over $1 million within a discretionary mandate.
- A Cayman Islands listed mutual fund due to launch on 28th September 2012 under the BIAS Global Portfolios SPC range called the BIAS Global Dividend Income Fund. Minimum investment $25,000.

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