

## Miles Capital

Miles Capital is an independent institutional asset manager that has combined disciplined risk management and deliberate decision-making to deliver complementary strategies and comprehensive investment solutions to clients for 29 years.

Founded in 1982, Miles Capital today manages nearly \$4 billion in assets for clients.

### For More Information:

Jake Anonson  
 Director, Business Development  
[www.miles-capital.com](http://www.miles-capital.com)  
 515.418.7448  
 1415 28th St, Suite 200  
 West Des Moines, IA 50266

Miles Capital has a long history of providing solutions to meet client needs. Dividend paying stocks enhance asset allocation by delivering both superior returns and appreciation potential with lower volatility. Miles Capital's proven equity capabilities provide a superior approach to dividend income.

## All-Cap Equity Income Strategy

In the current environment, institutions must ask more from their entire organizations. Miles Capital's AEI Strategy delivers income and total return over traditional core equity portfolios and is designed to support an organization's broader goals and objectives. Constructed on a proven investment platform, our equity process emphasizes stock selection and portfolio construction.

The objectives of this strategy are:

- Total return exceeding Russell 3000
- Yield target greater than Russell 3000 plus 1.5%
- Dynamic diversification across sector and market capitalization

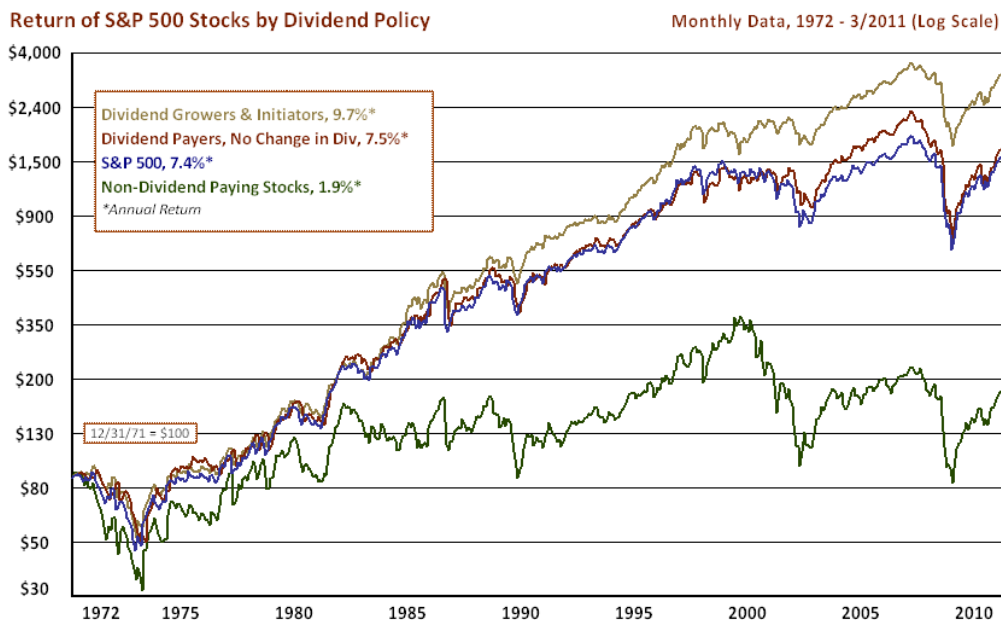
The strategy holds 55-60 stocks, with turnover between 50-75 percent, and can have international exposure up to 25%.

Given the increased market volatility, the lower market expectations of the coming years, and the historically low bond yields, investors may benefit from the stabilizing influence of an income-oriented equity strategy within their portfolio.

## Attractive Historical Returns

Dividend paying stocks have outperformed non-dividend paying stocks over an extended period of time and multiple market cycles. Even more evident is that stocks with increasing or newly initiated dividends have widely outperformed over that same time period.

In addition, the return from dividends has been a stable and significant contributor to the total return of the S&P 500. From 1930 through 2009, dividends accounted for about 44 percent of the Index's 9.3 percent average annual total return.\* Although the percentage has declined since the 1940s due to an investor preference shift to capital appreciation, dividends still accounted for about 27 percent of equity market returns over the last 20 years.



\*Source: Ned Davis Research

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# All-Cap Equity Income

## Lower Volatility

As Figure 1 demonstrates, the long-term risk-adjusted performance of dividend stocks is also better than that of the overall equity market. Dividends help offset losses during volatile equity markets, enhance corporate transparency and signal stronger corporate financial health.

The number of companies expecting to pay a dividend is also growing as they amass cash and investors refocus on the importance of dividends in their portfolios. For these reasons and more, higher yielding securities deliver a stronger return potential with a lower level of risk.

## Interest Rate Environment

With interest rates at historical lows, it is important to identify the impact of future rate movements on this market segment. Historical analysis (per Figure 2) demonstrates that dividend-paying stocks have outperformed their non-dividend paying counterparts through various monetary environments.

Figure 1

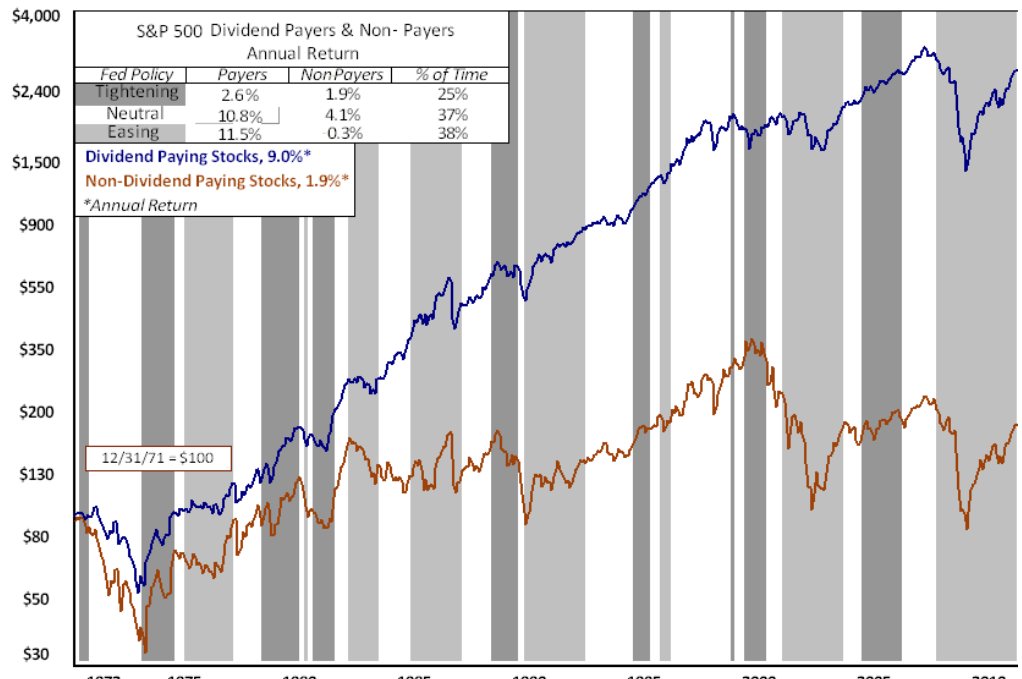
	Returns	Standard Deviation
Dividend Growers	9.70%	16.30%
All Dividend Paying Common Stocks	9.00%	17.10%
S&P 500 Index	7.40%	18.10%
Non-Dividend Paying Common Stocks	1.90%	25.80%

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Figure 2

Return of S&P 500 Stocks by Dividend Policy

Monthly Data, 1972 - 3/2011 (Log Scale)



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## Asset Allocation

Equity exposure improves return potential and increases volatility. However, dividend-payers enhance the effectiveness of asset allocation decisions.

For example, a 100 percent fixed income portfolio has an expected return of 3.50 percent and an expected standard deviation of 5.60 percent. Adding a 10 percent weight to large cap core equities (represented by the S&P 500) would increase both the portfolio return and risk, while decreasing the yield.

However, if that same equity weight were in dividend stocks, the expected return increases and risk decreases from the large cap core equity, and the yield is the same as an all bond portfolio. By allocating a portion to dividend-paying stocks, clients can greatly increase the efficiency of their asset allocation decisions.

Figure 3: Asset Allocation Efficiency

	Expected Return	Standard Deviation	Projected Yield
100% Fixed Income (Barclays Aggregate)	3.50%	5.60%	3.00%
90% Barclays Agg / 10% S&P 500	3.89%	6.85%	2.86%
90% Barclays Agg / 10% Dividend Payers	4.05%	6.75%	3.00%

Source: Zephyr Associates and Ned Davis Research.

**Past performance does not guarantee future results. This does not constitute an asset allocation or investment recommendation. Investors should consider investment objectives, risks and expenses carefully before investing. Investments are not FDIC insured and may lose value.**