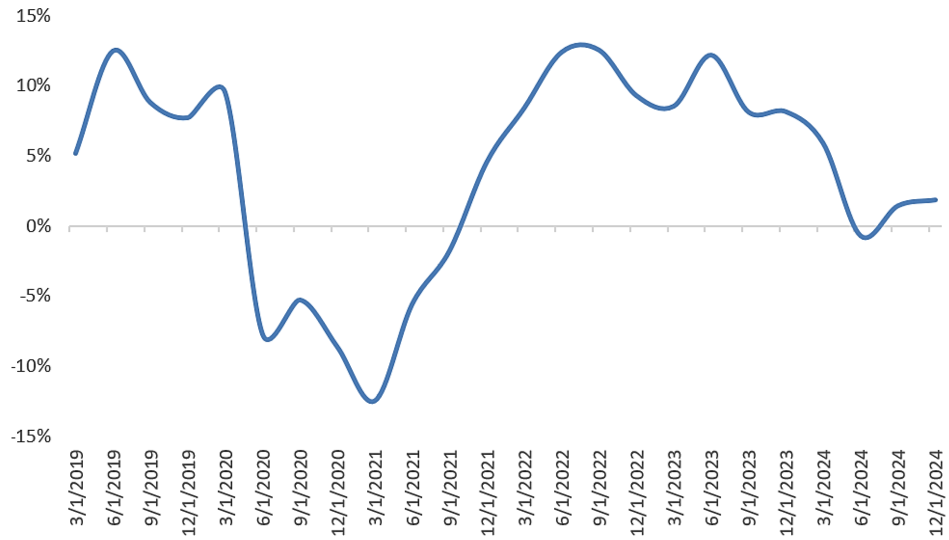
Looking for More

The Lead | February 2025

Russell 1000® Value Index Quarterly Dividend Growth



Source: Bloomberg L.P.

This month, our discussions with clients involved their search for dividends and dividend growth. Some have searched in the value universe where overall dividend growth has recently been tepid at less than 2% year-over-year. Within the value universe, they have narrowed their search to the fastest growers. We are also attracted to companies that grow their dividends, but we look for more than just fast dividend growth. Why look for more beyond headline dividend growth?

First, we believe identifying sustainable dividend growth is important. The table to the right shows the top ten fastest dividend growers in the value space over the past year. There are several familiar names on the list such as General Electric and Disney. Why are they among the fastest growers? The companies in bold recently paid dividends and cut them. Since 1973, Ned Davis Research data notes that companies that have cut their dividends posted a negative absolute return.

The Sterling Capital Equity Income strategy employs a discipline that seeks dividend consistency versus inconsistency. We believe the characteristic of sustainable dividend growth is important especially considering how the overall Russell 1000 Value dividend growth declined to 2.0% last quarter compared to 8.0% this time last year, according to Bloomberg L.P.

Top Ten Fastest Dividend Growers with Dividend Yield – Russell 1000 Value, 2024

PG&E Corp	0.4%
T-MOBILE US INC	1.2%
VERALTO CORP	0.4%
COCA-COLA CONSOLIDATED INC	0.4%
VESTIS CORP	1.0%
GENERAL ELECTRIC	0.6%
WALT DISNEY CO/THE	0.8%
PROGRESSIVE CORP	0.2%
DELTA AIR LINES INC	0.8%
AMKOR TECHNOLOGY INC	3.0%
S&P 500	1.3%

Source: Bloomberg L.P. Data is as of 01.31.2025.
Annual dividend yield on regular dividends.

We also look for meaningful dividend yield to reward investors with as part of their total return equation. For example, in the list of top ten dividend growers, only Amkor Technology (3.0%) boasts a dividend yield greater than S&P 500® Index (1.3%). The rapid dividend growth of several of these companies may be seen as a path to reinstate a dividend yield comparable to its level before the dividend was cut.

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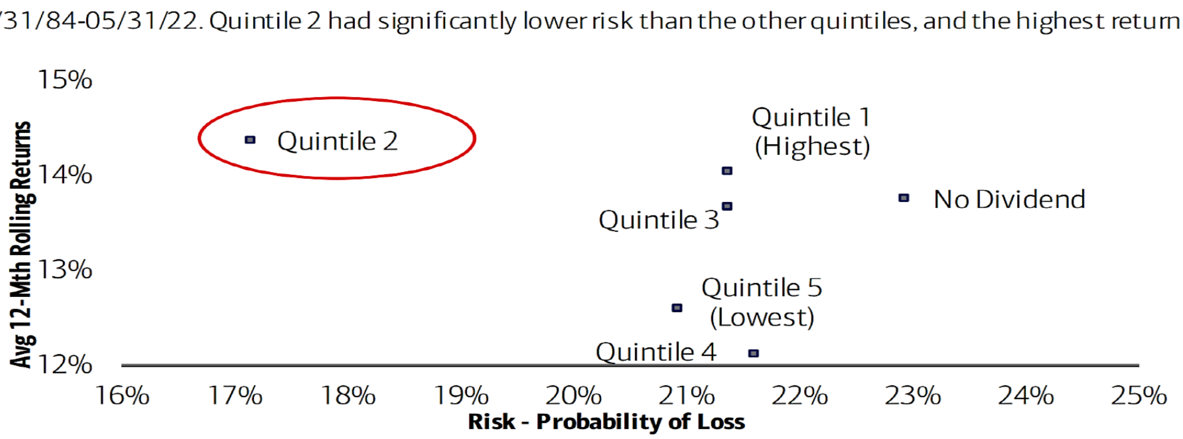
Average Annual Returns versus Downside Risk of Russell 1000® Index Quintiles by Dividend Yield



Note: Average 12-month performance in the above exhibit is based on backtested results from 01.31.1984 through 09.28.2010 and actual performance from 09.28.2010 to present and does not represent the actual performance of any account of fund. Backtested performance depicts the theoretical (not actual) performance of a particular strategy over the time period indicated. No representation is being made that any actual portfolio is likely to have achieved returns similar to those shown herein. Disclaimer: the screen identified as Quintile 2 is intended to be an indicative metric only and may not be used for reference purposes or as a measure of performance for any financial instrument or contract or otherwise relied upon by third parties for any other purpose without the prior written consent of BofA Global Research. This screen was not created to act as a benchmark. Sources: BofA Global Research; Russell.

We found the work of Bank of America Global Research informative to identify an attractive combination of dividend yield to contribute to total return, juxtaposed with dividend growth. In their work, they focus on the attractive return characteristics of the second quartile of equity dividend yield stocks (circled in red) that offer attractive returns combined with lower risk.

For Sterling Capital Equity Income clients, we search for those distinguished securities that combine attractive elements of growth, yield, and risk-adjusted returns.

As always, thank you for your interest and trust managing your investments.

Charles J. Wittmann, CFA®, Executive Director, joined Sterling Capital Management in 2014 and has investment experience since 1995. Chip is Co-Portfolio Manager of the Equity Income strategy. Prior to joining Sterling, he worked for Thompson Siegel & Walmsley as a portfolio manager and (generalist) analyst. Prior to TS&W, he was a founding portfolio manager and analyst with Shockoe Capital, an equity long/short hedge fund. Chip received his B.A. in Economics from Davidson College and his M.B.A. from Duke University's Fuqua School of Business. He holds the Chartered Financial Analyst® designation and served as President of CFA Society Virginia from 2012-2013.

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Important Information

Disclosures

Past performance is not indicative of future results. Any type of investing involves risk and there are no guarantees that these methods will be successful. Economic charts are provided for illustrative purposes only. The information provided herein is subject to market conditions and is therefore expected to fluctuate.

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The volatility of an index varies greatly. All indices are unmanaged and investments cannot be made directly in an index.

The Russell 1000® Index measures the performance of the large-cap segment of the U.S. equity universe. It is a subset of the Russell 3000® Index and includes approximately 1,000 of the largest securities based on a combination of their market cap and current index membership. The Russell 1000® represents approximately 92% of the U.S. market. The Russell 1000® Index is constructed to provide a comprehensive and unbiased barometer for the large-cap segment and is completely reconstituted annually to ensure new and growing equities are included.

The Russell 1000® Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000® companies with lower price-to-book ratios and lower expected growth values. The Russell 1000® Value Index is constructed to provide a comprehensive and unbiased barometer for the large-cap value segment. The index is completely reconstituted annually to ensure new and growing equities are included and that the represented companies continue to reflect value characteristics.

The S&P 500® Index is a readily available, carefully constructed, market-value-weighted benchmark of common stock performance. Currently, the S&P 500 Composite includes 500 of the largest stocks (in terms of stock market value) in the United States and covers approximately 80% of available market capitalization.

Dividend-focused strategies may underperform strategies that do not limit their investment to dividend-paying stocks. Stocks held strategy may reduce or stop paying dividends, affecting the strategy's ability to generate income.

Dividend Growing, No-Change-in-Dividend, and Dividend Cutting: Each dividend-paying stock is further classified into one of the three categories based on changes to their dividend policy over the previous 12 months. Dividend Growers and Initiators include stocks that increased their dividend anytime in the last 12 months. Once an increase occurs, it remains classified as a grower for 12 months or until another change in dividend policy. No-Change stocks are those that maintained their existing indicated annual dividend for the last 12 months (i.e., companies that have a static, non-zero dividend). Dividend Cutters and Eliminators are companies that have lowered or eliminated their dividend anytime in the last 12 months. Once a decrease occurs, it remains classified as a cutter for 12 months or until another change in dividend policy. (Source: Ned Davis Research).

Technical Terms: **Dividend Risk:** Dividend yield is one component of performance and should not be the only consideration for investment. Dividends are not guaranteed and will fluctuate. This report should not be regarded by the recipients as a substitute for the exercise of their own judgment. It is important to review your investment objectives, risk tolerance and liquidity needs before choosing an investment style or manager. **Dividend Yield**: a financial ratio that measures the annual value of dividends received relative to the market value per share of a security. In other words, the dividend yield formula calculates the percentage of a company's market price of a share that is paid to shareholders in the form of dividends. (Technical definitions are sourced from Corporate Finance Institute and Investopedia.)

The **Chartered Financial Analyst® (CFA)** charter is a graduate-level investment credential awarded by CFA Institute — the largest global association of investment professionals. To earn the CFA charter, candidates must: 1) pass three sequential, six-hour examinations; 2) have at least four years of qualified professional investment experience; 3) join CFA Institute as members; and 4) commit to abide by, and annually reaffirm, their adherence to the CFA Institute Code of Ethics and Standards of Professional Conduct.

Since we began publishing The Lead in 2015, our primary purpose has been to communicate our investment philosophy and process as an investment advisor in the context of changing markets. In creating portfolios that differ from our benchmarks by focusing on characteristics that have a long term history of attractive relative returns according to Ned Davis Research, the portfolios are different from the benchmarks and as a result there can be periods where results differ including below benchmark performance. Since strategies are oriented toward the long term characteristics, if those characteristics are out of favor over a period of time, the given strategy's performance could be challenged in terms of relative performance. While Sterling believes active professional investment management that employs a consistent process with a long term orientation and aligned with client interests offers benefits, management fees to support the active approach can be higher than certain alternatives. When hiring an investment manager we believe it is important to monitor the investment risks taken including sector concentrations, portfolio turnover, and the impacts of dividend policy changes.

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