

Global Portfolio Strategy June 2016

June 17, 2016

Launching the International Large-Capitalization Model Portfolio, High Dividend Yields, Worth the Price?

Using the International Stock Selection Framework to Pick Large-Cap Stocks

- We're launching an International Large-Cap Model Portfolio, the product of our quantitative model and judgment. The portfolio will be comprised of between 60 and 80 positions, with a $\pm 3.5\%$ to 6% tracking error and an investment horizon of about one year. The goal of the portfolio is to outperform by +4.5% per annum, similar to the live performance of our International Stock Selection Model that's generated +4.1% of annual alpha since its launch in June 2008. The initial portfolio is presented in Exhibit 1; the regional allocation of the portfolio is detailed in Exhibit 2.
- The portfolio has a median free cash flow yield of 10.5%, compared to just 4.8% for the large-cap universe. On a P/E basis, it's valued at 13.2x trailing earnings, while the universe is at 18.0x. In terms of profitability, the ROE is 11.1%, versus 9.9% for the universe, and also offers a free cash flow margin advantage with the portfolio at 7.9% versus 6.0% for the universe.

Dividend Yielders, a New State of Affairs

- Since the beginning of the 2000s, there's been a dramatic change in the way companies have used their cash. They're returning more of it to shareholders as payout ratios have gone up while in comparison the level of capital spending vis-à-vis dividends paid has declined steadily.
- This trend has been fully endorsed by the market. Stocks with the highest capital spending-to-depreciation ratios have fared poorly while the return of cash to shareholders has been applauded. It's consistent with our Bretton Woods II narrative; companies are more capital-light while maintaining high free cash flow margins.
- High dividend yielders are now clearly expensive. That's particularly the case when excluding the financials from the analysis; with relative forward-P/E ratios and free cash flow yields at extreme levels, in the top *percentile* of their historic range. This raises a major question mark on the high dividend yield strategy. They're now in a position where their valuations are demanding, making the upside less of a sure thing.

Dividend Sustainability is the Key for Performance

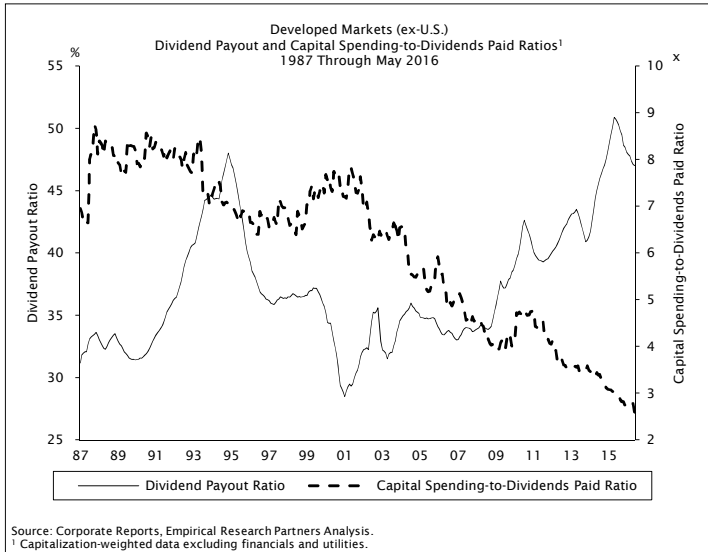
- Despite long-term alpha generation the recent performance of dividend yielders has been more erratic. This volatility combined with highly stretched valuations, are reasons to question a pure dividend yield strategy.
- Sustainability of dividend payments is of the essence. That's why the intersection between high dividend yield and quality-related factors has generated more outperformance than a simple dividend yield approach; both over the long-run and in the post-Crisis period. This approach has also provided a more stable return stream.
- We find that when combined with high dividend yields three factors have worked best in achieving a consistent and sustainable equity income strategy. The first factor is the level of cash held as a share of the market capitalization, a direct guaranty that companies will be able to pay future dividends; that factor also helps offset concerns over the higher leverage inherent among the top dividend yielders. Second, free cash flow yield, an additional valuation metric linked to the ability to pay; that assuages concerns about how expensive this cohort has become. Finally, return-on-assets has been helpful as a measure of profitability to the shareholder; the intersection of this factor with dividend yield has outperformed nearly 60% of the months since 2009, by far the best result among the factors.
- Appendix 1 on page 10 applies cash-to-market-capitalization, free cash flow yield and return-on-assets to high dividend yielding stocks producing a list of issues with strong dividend sustainability characteristics.

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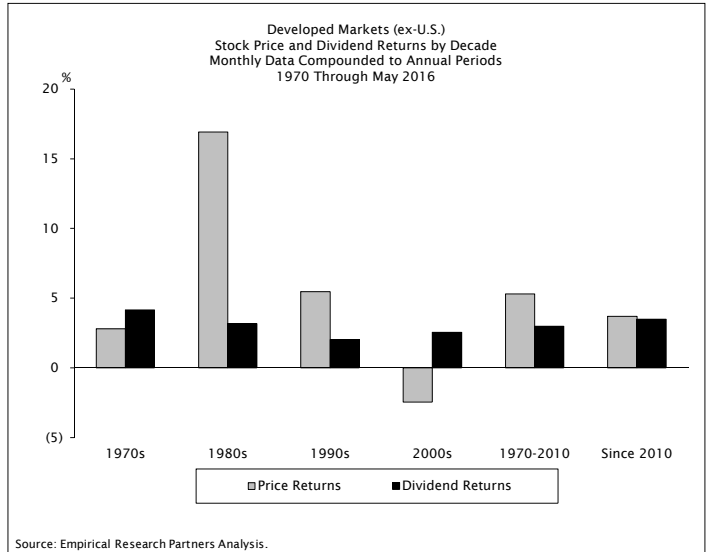
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Conclusions in Brief

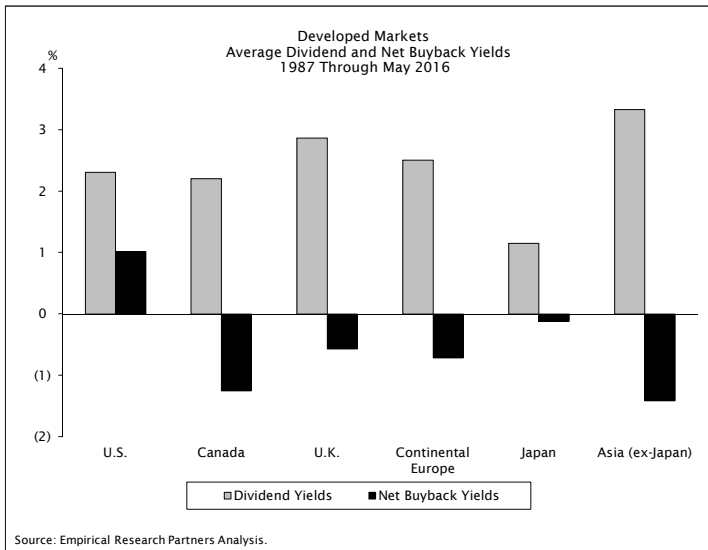
- Since the beginning of the 2000s, there's been a dramatic change in the way companies have used their cash:



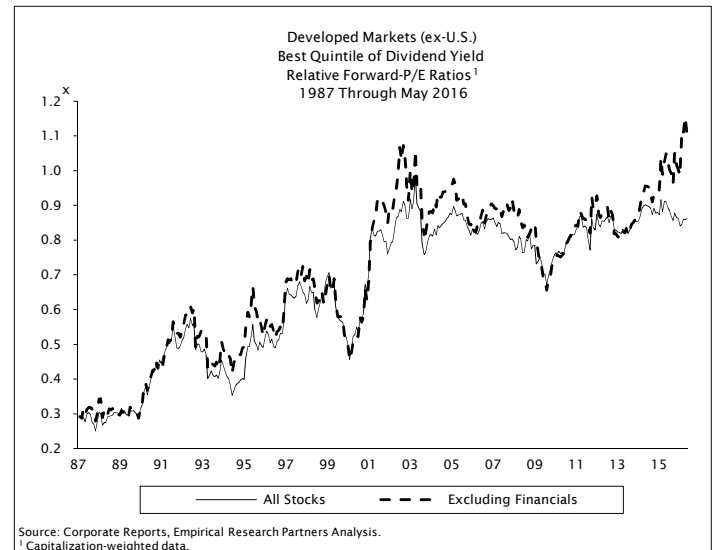
- With such a high payout ratio, dividend yield has become an increasingly important part of the stock market's total returns:



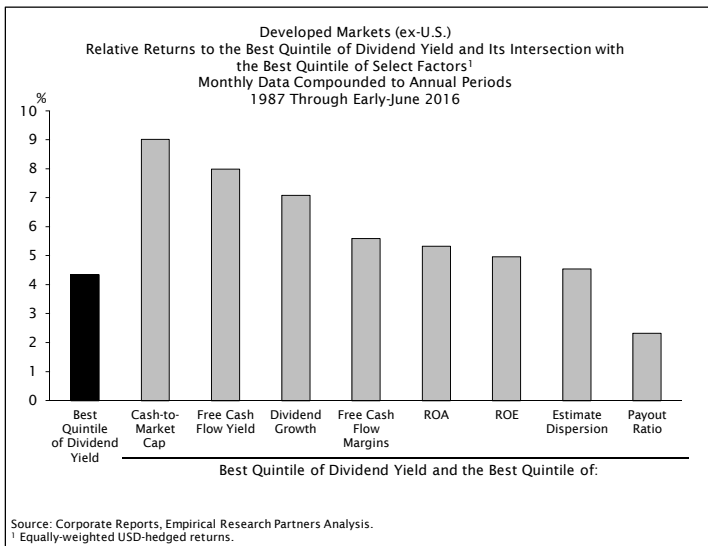
- Outside the U.S., dividends remain the preferred method of returning capital to shareholders...



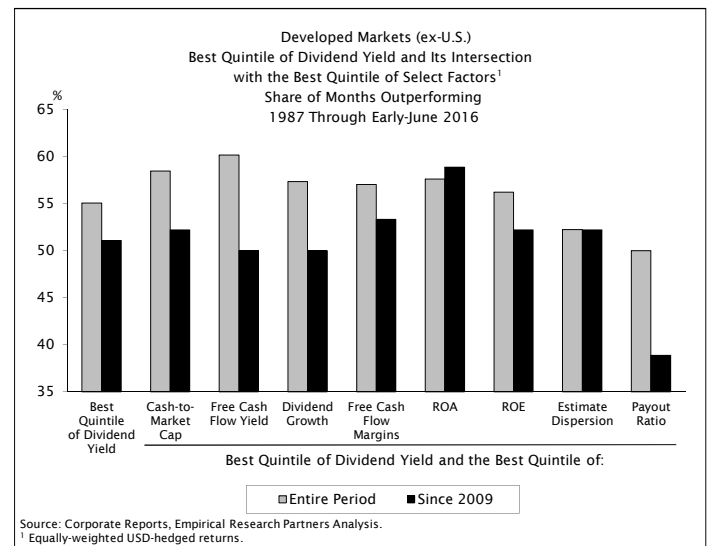
- ...But today high dividend yielders are clearly expensive:



- Sustainability of dividend payments is of the essence...



- ...With the intersection between high dividend yield and quality-related factors generating greater outperformance:



Launching the International Large-Capitalization Model Portfolio

Marrying Our Quantitative Approach and Judgment

We are launching an International Large-Cap Model Portfolio, the product of our quantitative model and judgment, comprised of between 60 and 80 positions, with a $\pm 3.5\%$ to 6% tracking error and an investment horizon of about one year. The goal of the portfolio is to outperform by between +4-5% per annum before transaction costs, in line with the live performance of the best quintile of our International Stock Selection Model since its inception in 2008.

The initial portfolio is presented in **Exhibit 1**; the regional allocation of the portfolio is detailed in **Exhibit 2**. The portfolio has a median free cash flow yield of 10.5%, compared to just 4.8% for the large-cap universe from where it's drawn. On a P/E basis, it's valued at 13.2x trailing earnings, while the universe is valued at 18.0x. In terms of profitability, the ROE of the portfolio is 11.1% versus 9.9% for the universe, and also offers a free cash flow margin advantage of +1.9 percentage points against the universe's 6.0% level.

Exhibit 1: The International Large-Capitalization Model Portfolio
As of Mid-June 2016

Symbol	Company	Weight	Price at Inclusion (Local)	Price 06/13/16	Local Currency Code	Developed Markets (ex-U.S.) Index Weight	Symbol	Company	Weight	Price at Inclusion (Local)	Price 06/13/16	Local Currency Code	Developed Markets (ex-U.S.) Index Weight		
CYCLICALS							GROWTH-ORIENTED (Cont.)								
Consumer Cyclical							Consumer Staples								
Consumer Durables and Apparel							IMB LN Imperial Brands PLC								
UG FF	Peugeot SA	2.1 %	13.09	13.09	EUR	6.0 %	WN CT	George Weston Limited	2.1 %	112.88	112.88	CAD	12.9 %		
7261 JP	Mazda Motor Corp.	2.1 %	1,654.00	1,654.00	JPY		MEO GY	METRO AG	2.1 %	27.84	27.84	EUR			
FCA IM	Fiat Chrysler Automobiles N.V.	1.7 %	5.94	5.94	EUR		CO FP	Casino Guichard-Perrachon SA	2.1 %	50.04	50.04	EUR			
Retail and Other Consumer Cyclical							FCC NZ Fonterra Co-operative Group Limited								
JCNC SP	Jardine Cycle & Carriage Limited	0.9 %	33.15	33.15	SGD		MRW LN	Wm Morrison Supermarkets plc	2.1 %	1.81	1.81	GBP			
SW FP	Sodexo SA	0.9 %	91.78	91.78	EUR		CARLB DC	Carlsberg A/S Class B	0.7 %	612.50	612.50	DKK			
MKS LN	Marks and Spencer Group plc	0.9 %	3.60	3.60	GBP		BATS LN	British American Tobacco p.l.c.	0.6 %	41.48	41.48	GBP			
PNDORA DC	Pandora A/S	0.3 %	927.00	927.00	DKK		SAP CT	Saputo Inc.	0.4 %	37.79	37.79	CAD			
Media							OTHER								
WPP LN	WPP Plc	0.3 %	15.17	15.17	GBP		Financials								
Capital Equipment							Banks, Consumer Finance and Other								
8053 JP	Sumitomo Corporation	2.2 %	1,011.00	1,011.00	JPY	CC FP	Credit Industriel & Commercial SA	2.5 %	165.50	165.50	EUR				
ACS SM	Actividades de Construcción y Servicios SA	2.1 %	26.87	26.87	EUR	BMO CT	Bank of Montreal	2.4 %	82.52	82.52	CAD				
8002 JP	Marubeni Corporation	1.7 %	475.00	475.00	JPY	DANSKE DC	Danske Bank A/S	2.2 %	180.50	180.50	DKK				
ATCOA SS	Atlas Copco AB Class A	1.6 %	205.90	205.90	SEK	4 HK	Wharf Holdings Ltd.	2.1 %	44.35	44.35	HKD				
8015 JP	Toyota Tsusho Corp.	0.9 %	2,255.00	2,255.00	JPY	83 HK	Sino Land Co. Ltd.	2.1 %	12.04	12.04	HKD				
Commercial Services							OCBC SP Oversea-Chinese Banking Corporation Limited								
None							CM CT								
Industrial Commodities							8591 JP								
4188 JP	Mitsubishi Chemical Holdings Corporation	2.1 %	503.10	503.10	JPY	INGA NA	ING Groep NV Cert. of Shs	1.3 %	9.97	9.97	EUR				
4005 JP	Sumitomo Chemical Co. Ltd.	1.0 %	453.00	453.00	JPY	8304 JP	Aozora Bank Ltd.	1.1 %	354.00	354.00	JPY				
UPM1V FH	UPM-Kymmene Oyj	0.6 %	16.66	16.66	EUR	POLI IT	Bank Hapoalim BM	1.1 %	18.89	18.89	ILS				
Transports							8316 JP								
LHA GY	Deutsche Lufthansa AG	2.1 %	11.29	11.29	EUR	HSBA LN	HSBC Holdings plc	0.4 %	4.31	4.31	GBP				
RMG LN	Royal Mail plc	1.6 %	5.19	5.19	GBP	Capital Markets									
9201 JP	Japan Airlines Co. Ltd.	1.3 %	3,470.00	3,470.00	JPY	IGM CT	IGM Financial Inc.	1.6 %	36.65	36.65	CAD				
9022 JP	Central Japan Railway Company	1.3 %	18,570.00	18,570.00	JPY	III LN	3I Group plc	0.3 %	5.41	5.41	GBP				
GROWTH-ORIENTED							Insurance								
Technology							SREN VX								
Software and Services							NN NA								
OTC CT	Open Text Corporation	1.9 %	76.47	76.47	CAD	MPL AU	Medibank Private Ltd.	1.7 %	3.17	3.17	AUD				
HEXAB SS	Hexagon AB Class B	1.0 %	306.40	306.40	SEK	Energy									
SGE LN	Sage Group plc	0.7 %	6.13	6.13	GBP	Integrateds, Oil Service, Refiners and Other									
Hardware and Semiconductors							REP SM								
None							5020 JP								
Health Care							VPK NA								
Pharmaceuticals and Biotechnology							Exploration and Production								
ATLN VX	Actelion Ltd.	2.2 %	156.20	156.20	CHF	None									
LONN VX	Lonza Group AG	1.3 %	159.70	159.70	CHF	Telecommunications									
BAYN GY	Bayer AG	0.9 %	88.06	88.06	EUR	9432 JP	Nippon Telegraph and Telephone Corporation	2.7 %	4,529.00	4,529.00	JPY				
JAZZ US	Jazz Pharmaceuticals Plc	0.7 %	148.57	148.57	USD	8 HK	PCCW Limited	0.3 %	5.10	5.10	HKD				
Health Care Equipment and Services							MIC SS								
2784 JP	Alfresa Holdings Corporation	2.0 %	2,292.00	2,292.00	JPY	Millicom International Cellular SA Swedish DR									
None							5.1 %								
Utilities							9502 JP								
None							EOAN GY								
Portfolio Weight							EDF FP								
Benchmark Weight							5.7 %								
TOTAL							100.0 %								

Source: Empirical Research Partners Analysis.

Exhibit 2: The International Large-Capitalization Model Portfolio
As of Mid-June 2016

	Canada	U.K.	Continental Europe	Japan	Asia (ex-Japan)	Israel
Portfolio Weight	10.5 %	9.3 %	40.1 %	25.8 %	13.2 %	1.1 %
Benchmark Weight	7.8	14.5	43.6	22.7	10.7	0.6

Source: Empirical Research Partners Analysis.

High Dividend Yields: Worth the Price?

A New State of Affairs

Since the beginning of the 2000s, there's been a dramatic change in the way companies have used their cash. Exhibit 3 shows that excluding financials and utilities they're returning more cash to shareholders as payout ratios have gone up, while in comparison the level of capital spending vis-à-vis dividends paid has declined steadily. The pattern seems common to all sectors, the dividend payout ratios are up in most of them, particularly in the growth-oriented sectors (see Exhibit 4).

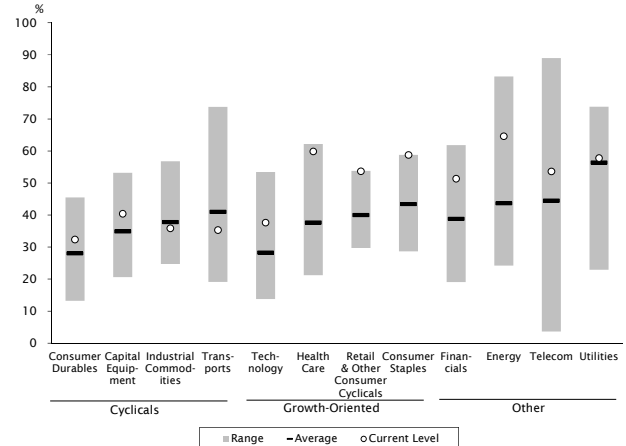
**Exhibit 3: Developed Markets (ex-U.S.)
Dividend Payout and Capital Spending-to-Dividends Paid Ratios¹
1987 Through May 2016**



Source: Corporate Reports, Empirical Research Partners Analysis.

¹ Capitalization-weighted data excluding financials and utilities.

**Exhibit 4: Developed Markets (ex-U.S.)
Payout Ratios by Sector¹
Historical Range, Average and Current Level
1987 Through May 2016**

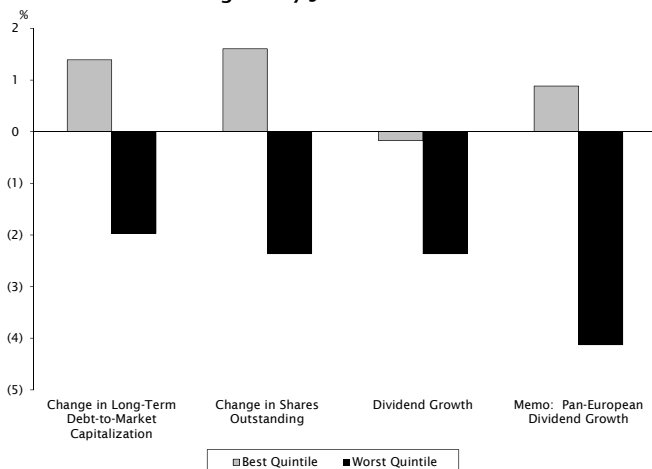


Source: Empirical Research Partners Analysis.

¹ Capitalization-weighted data. Excludes loss making period for consumer durables in 2009.

That trend has been fully endorsed by the market and the return of cash to shareholders has been applauded (see Exhibit 5). Meanwhile, stocks with the highest capital spending-to-depreciation ratios have fared poorly (see Exhibit 6). It's consistent with our Bretton Woods II narrative; companies are more capital-light while maintaining high free cash flow margins. So higher dividend payout ratios make sense and the market is rewarding that behavior. On the other hand, a lower level of capital expenditure also makes sense and again the market is penalizing those issues with high investment ratios.

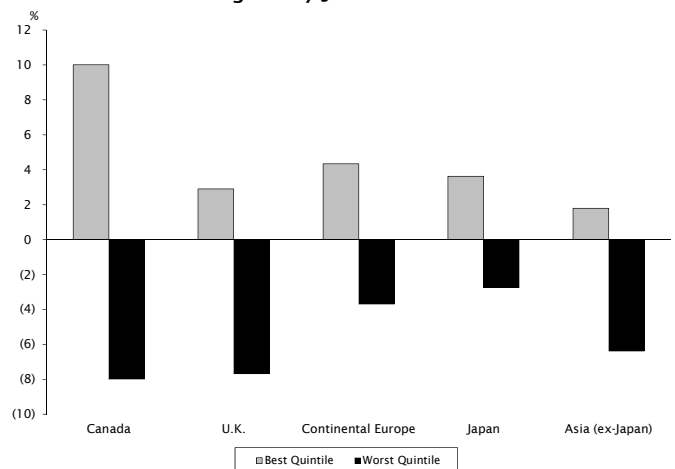
**Exhibit 5: Developed Markets (ex-U.S.)
Relative Returns to the Best and Worst Quintiles of Select Factors¹
Monthly Data Compounded to Annual Periods
2010 Through Early-June 2016**



Source: Empirical Research Partners Analysis.

¹ Equally-weighted USD-hedged returns. Stocks ranked across, and returns are relative to, the universe.

**Exhibit 6: Developed Markets (ex-U.S.)
Relative Returns to the Best and Worst Quintiles of Capital Spending-to-Depreciation by Region¹
Monthly Data Compounded to Annual Periods
2010 Through Early-June 2016**

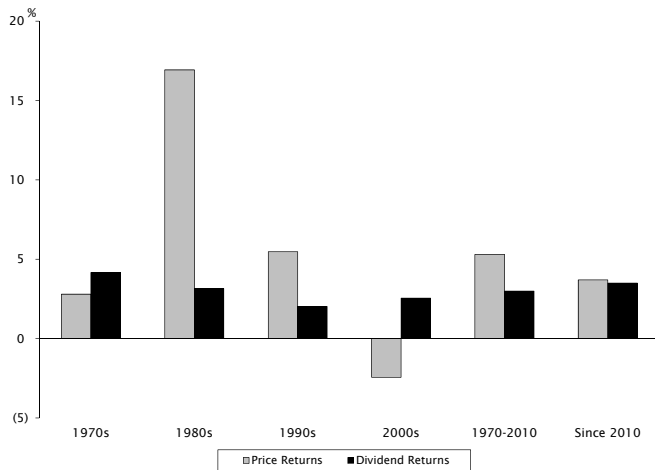


Source: Empirical Research Partners Analysis.

¹ Equally-weighted USD-hedged returns. Stocks are ranked across the universe and returns are relative to the region.

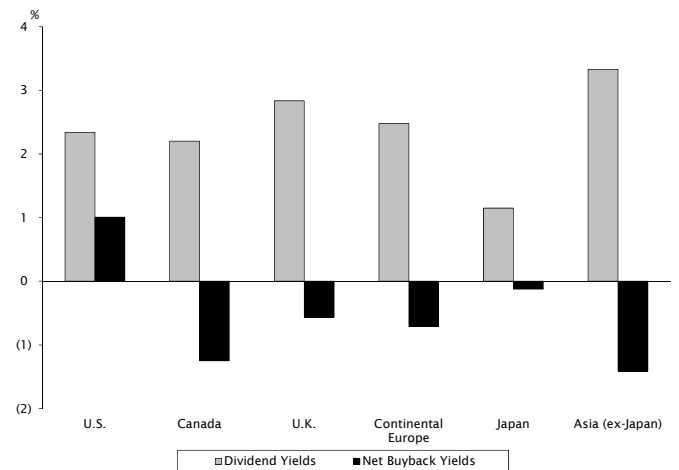
With such a high dividend payout ratio across the market, the dividend yield has become an increasingly important part of the stock market's total returns. Dividend returns accounted for only a third of the non-U.S. developed market total return during the 40 years ending in 2010, but that share's been closer to half since then (see Exhibit 7). There's a specific pattern in the U.S. where share buybacks account for a significant share of the cash returned to shareholders, but in the rest of the developed world dividends remain the preferred method of returning capital to shareholders (see Exhibit 8).

**Exhibit 7: Developed Markets (ex-U.S.)
Stock Price and Dividend Returns by Decade
Monthly Data Compounded to Annual Periods
1970 Through May 2016**



Source: Empirical Research Partners Analysis.

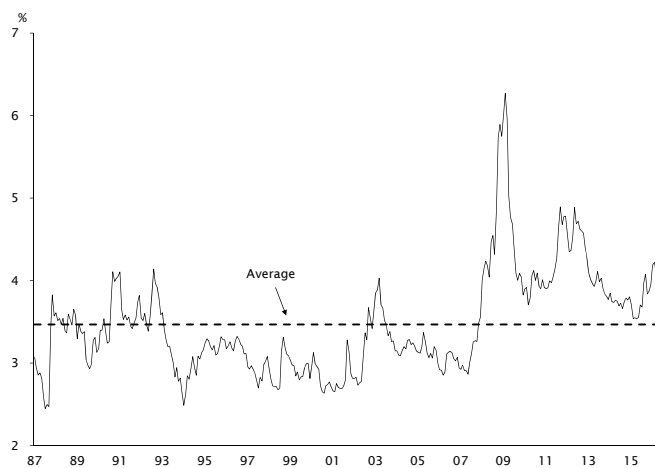
**Exhibit 8: Developed Markets
Average Dividend and Net Buyback Yields
1987 Through May 2016**



Source: Empirical Research Partners Analysis.

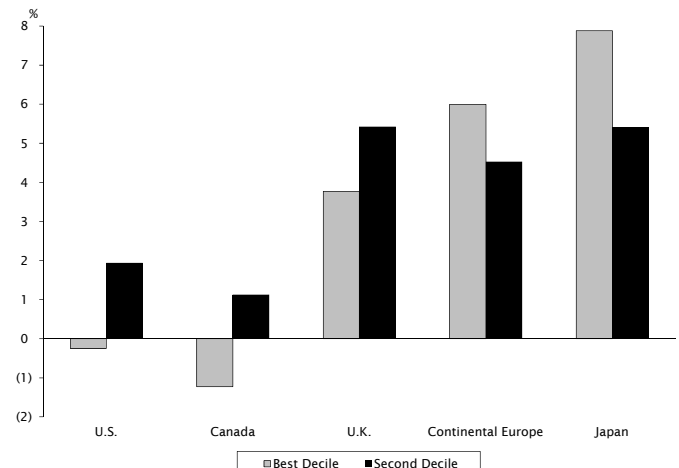
With this preference intact the hurdle rate to reach the highest quintile of dividend yield has become higher post-Crisis across the non-U.S. developed markets (see Exhibit 9). Cross-region comparisons of dividend yield are complicated by different tax regimes, shareholder attitudes and business cycles. One consequence of this divergent regional behavior is that the U.S. again stands out as dividend yield is a less useful way of quantifying what's inexpensive there (see Exhibit 10).

**Exhibit 9: Developed Markets (ex-U.S.)
Best Quintile Cutoff of Dividend Yields
1987 Through May 2016**



Source: Corporate Reports, Empirical Research Partners Analysis.

**Exhibit 10: Developed Markets
Relative Returns to the Best Two Deciles of
Dividend Yield by Region'
Monthly Data Compounded to Annual Periods
1987 Through May 2016**

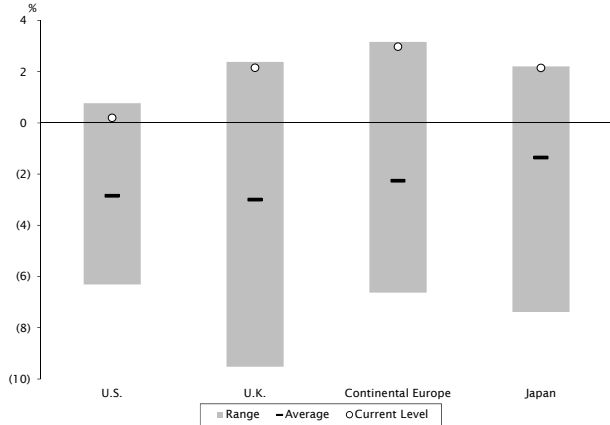


Source: Empirical Research Partners Analysis.

¹ Equally-weighted returns. Stocks ranked across, and returns relative to, the region. Data for Canada and the U.K. drawn from our expanded universes. Canadian data begins in 1990.

With dividend payout ratios and bond yields trending in opposite directions over the past two decades, the gap between them is close to a historical high in all regions (see Exhibit 11). That's one rationale investors have used to justify an investment in dividend yielders as they're supposed to behave as "bond-proxies", and indeed their performance has become more correlated with that of bonds over the last few years (see Exhibit 12). Another important attractiveness for "bond-proxy" hunters is the supposed stability of dividends as long-term dividends strips are expected to be more stable than short-term ones, this would suggest that the dividend yield has some stability built in.¹

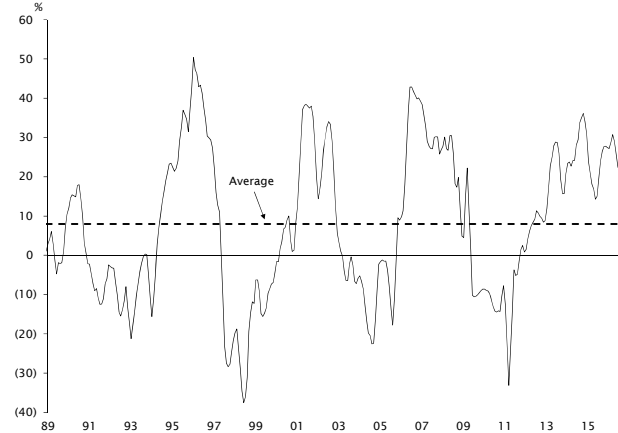
Exhibit 11: U.S., U.K., Continental Europe and Japan
Dividend Yields Relative to Ten-Year Government Bond Yields
by Region¹
Historical Range, Average and Current Level
1987 Through May 2016



Source: Corporate Reports, Empirical Research Partners Analysis.

¹ Dividend yields are capitalization-weighted. Before 1993 German bund yields are used for Continental Europe.

Exhibit 12: Developed Markets (ex-U.S.)
Correlation of Relative Returns to the
Best Quintile of Dividend Yield with the
Total Return of Long Treasury Bonds¹
1989 Through May 2016



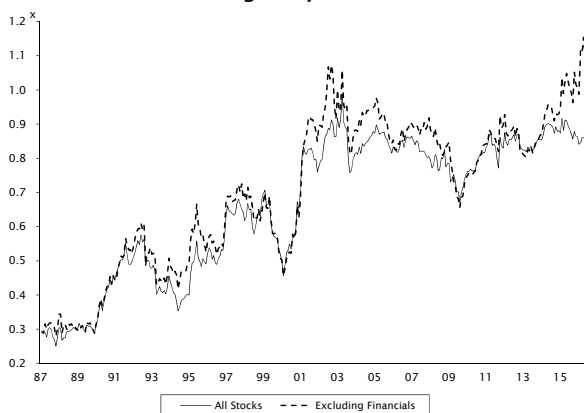
Source: Empirical Research Partners Analysis.

¹ Constructed using trailing two-year capitalization-weighted returns. Data smoothed on a trailing three-month basis.

High Dividend Yielders' Characteristics: A Different Lot

The key characteristic today of high dividend yielders is their pricing: they're clearly expensive. That's particularly the case when excluding the financials from the analysis; with relative forward-P/E ratios and free cash flow yields at extreme levels, in the top percentile of their historic range (see Exhibits 13 and 14). It's also worth highlighting that the re-rating of those stocks has been especially pronounced since the Crisis, with the change in relative valuation since 2009 being quite acute. That again suggests that the "bond-proxy" theme has played an important role as the very low bond yield environment started post-Crisis.

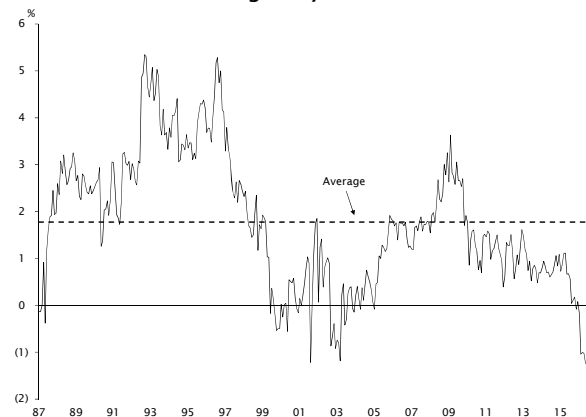
Exhibit 13: Developed Markets (ex-U.S.)
Best Quintile of Dividend Yield
Relative Forward-P/E Ratios¹
1987 Through May 2016



Source: Corporate Reports, Empirical Research Partners Analysis.

¹ Capitalization-weighted data.

Exhibit 14: Developed Markets (ex-U.S.)
Best Quintile of Dividend Yield
Relative Free Cash Flow Yields¹
1987 Through May 2016



Source: Corporate Reports, Empirical Research Partners Analysis.

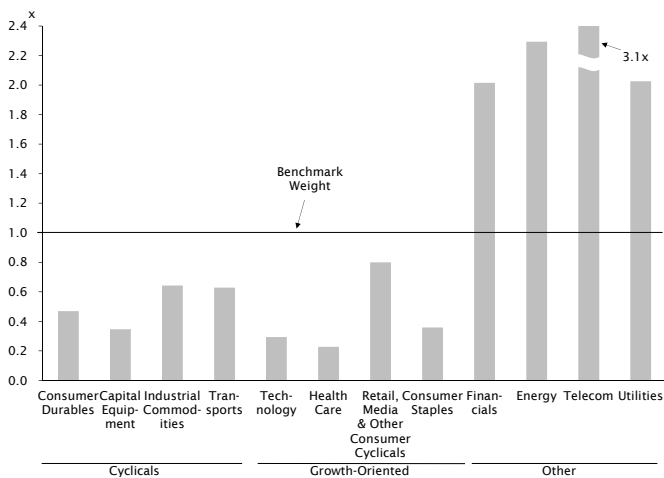
¹ Capitalization-weighted data.

¹ Belo, F., Collin-Dufresne, P. and Robert S. Goldstein, June 2015. "Dividend Dynamics and the Term Structure of Dividend Strips," The Journal of Finance, Volume 70, Issue 3.

This analysis raises a major question mark on whether the recent outperformance of high dividend yielding stocks more recently can continue, as they're now in a position where their valuations are stretched. Any upside seems less certain to us.

Investing in high dividend yielders also comes with a number of biases which are important to highlight as they create exposure to several underlying factors. We'll have to take those into account in the following section when selecting issues to invest in. Most obvious is a sector bias, among high dividend yielders we find an abundance of the usual suspects: financials, energy, telecom and utilities stocks (see Exhibit 15). On a regional basis Japan is highly underrepresented (see Exhibit 16). High yielders tend to have better free cash flow margins (see Exhibit 17), but they're at a disadvantage when profitability is measured with return-on-equity or return-on-assets (see Exhibit 18). They're also more leveraged although this is a good example of how the sector mix creates bias: on a sector-neutral approach the result is less pronounced (see Exhibits 19 and 20).

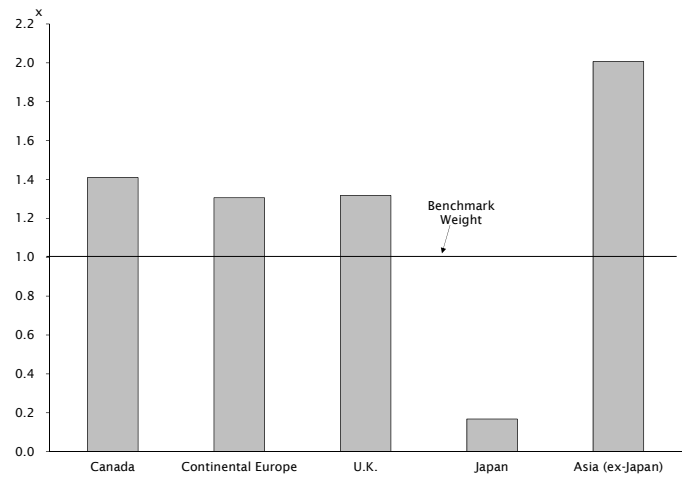
**Exhibit 15: Developed Markets (ex-U.S.)
Ratio of Stocks in the Best Quintile of Dividend Yield Relative to the Benchmark Weight by Sector¹
As of Early-June 2016**



Source: Empirical Research Partners Analysis.

¹ Equally-weighted data.

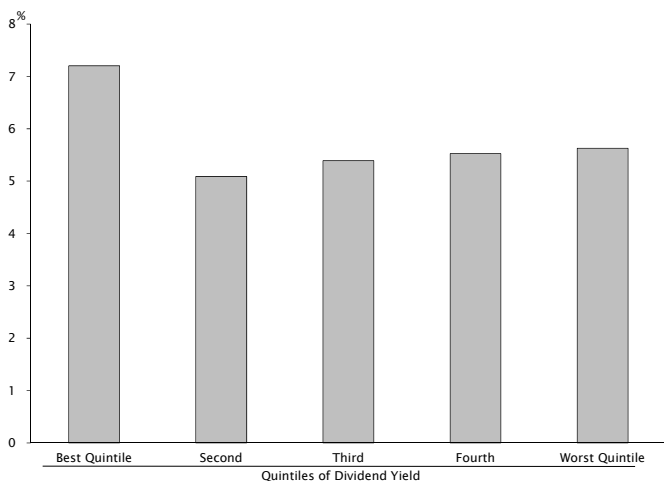
**Exhibit 16: Developed Markets (ex-U.S.)
Ratio of Stocks in the Best Quintile of Dividend Yield Relative to the Benchmark Weight by Region¹
As of Early-June 2016**



Source: Empirical Research Partners Analysis.

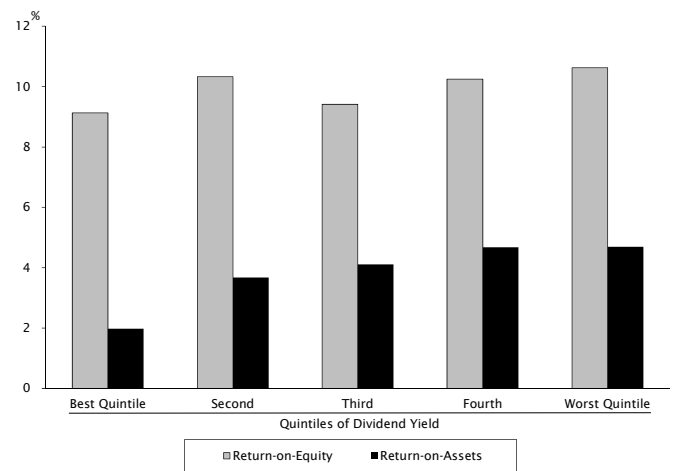
¹ Equally-weighted data.

**Exhibit 17: Developed Markets (ex-U.S.)
Median Free Cash Flow Margins by Quintile of Dividend Yield
As of Early-June 2016**



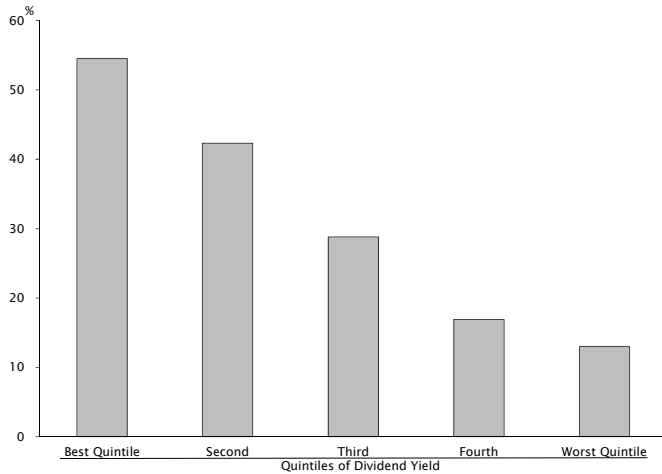
Source: Corporate Reports, Empirical Research Partners Analysis.

**Exhibit 18: Developed Markets (ex-U.S.)
Median Return-on-Equity and Return-on-Assets by Quintile of Dividend Yield
As of Early-June 2016**



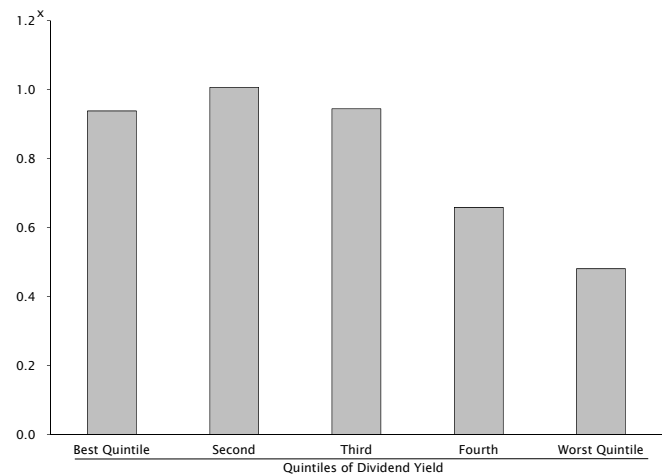
Source: Corporate Reports, Empirical Research Partners Analysis.

Exhibit 19: Developed Markets (ex-U.S.)
Median Net Debt-to-Common Equity
by Quintile of Dividend Yield
As of Early-June 2016



Source: Corporate Reports, Empirical Research Partners Analysis.

Exhibit 20: Developed Markets (ex-U.S.)
Sector-Relative Median Net Debt-to-Common Equity
by Quintile of Dividend Yield
As of Early-June 2016



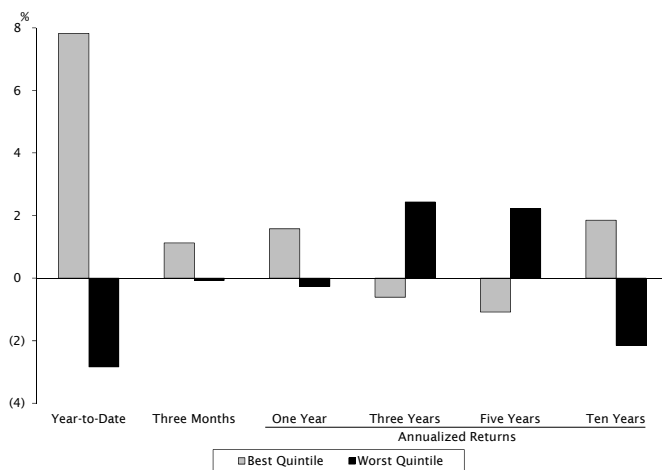
Source: Corporate Reports, Empirical Research Partners Analysis.

Conclusion: Dividend Sustainability is the Key for Performance

We showed in Exhibit 10 earlier that the performance of dividend yielders has been very good in the non-U.S. developed markets. The recent past though shows a rockier picture with an erratic performance throughout the past few years (see Exhibit 21). This is typical of the behavior of this cohort: while the long-term performance is solid, the relative performance on shorter windows has always been more uneven. It's also worth noting that due to the large share of energy issues among high dividend yielders there's been a considerable drag in performance in the last couple of years. That's an example of how the sector bias can create adverse effects for investors. This recent volatility combined with highly stretched valuations, are reasons to question a pure dividend yield trade.

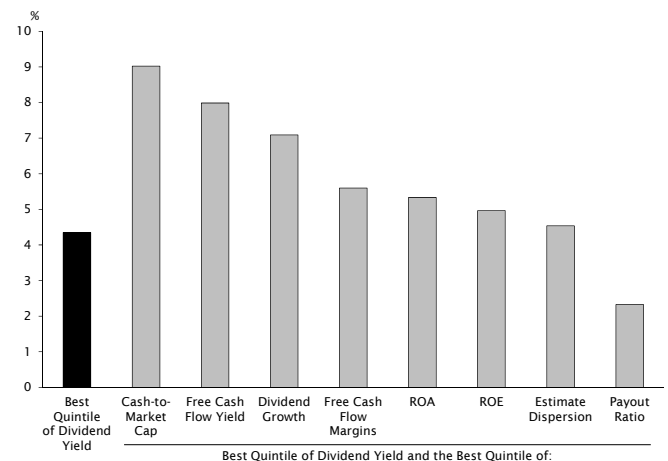
Sustainability of dividend payments is of the essence. Although these stocks are expensive on a number of metrics they are, by definition, the cheapest ones in terms of dividend yield. The risk then is to lose this last appeal if dividends are cut. That's why the intersection between high dividend yield and quality-related factors has generated much more outperformance than a simple dividend yield approach; both over the long-run and in the post-Crisis period (see Exhibits 22 and 23). This intersection has also provided a more stable return stream (see Exhibit 24).

Exhibit 21: Developed Markets (ex-U.S.)
Relative Returns to the Best and Worst Quintiles of
Dividend Yield¹
Monthly Data Compounded
Ten Years Ended Early-June 2016



Source: Corporate Reports, Empirical Research Partners Analysis.

Exhibit 22: Developed Markets (ex-U.S.)
Relative Returns to the Best Quintile of
Dividend Yield and Its Intersection with the
Best Quintile of Select Factors¹
Monthly Data Compounded to Annual Periods
1987 Through Early-June 2016

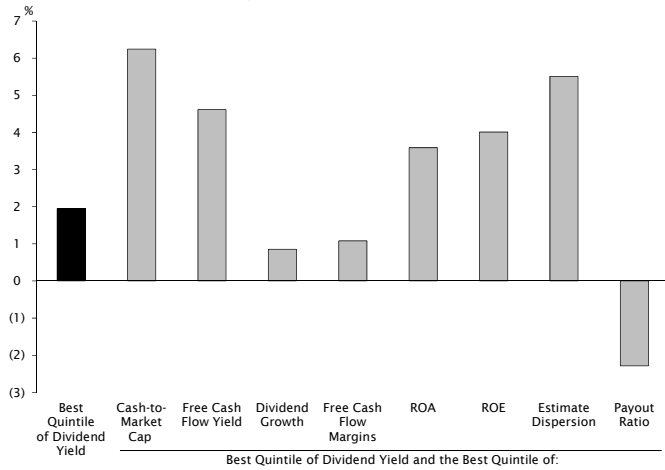


Source: Corporate Reports, Empirical Research Partners Analysis.

¹ Equally-weighted USD-hedged returns.

¹ Equally-weighted USD-hedged returns.

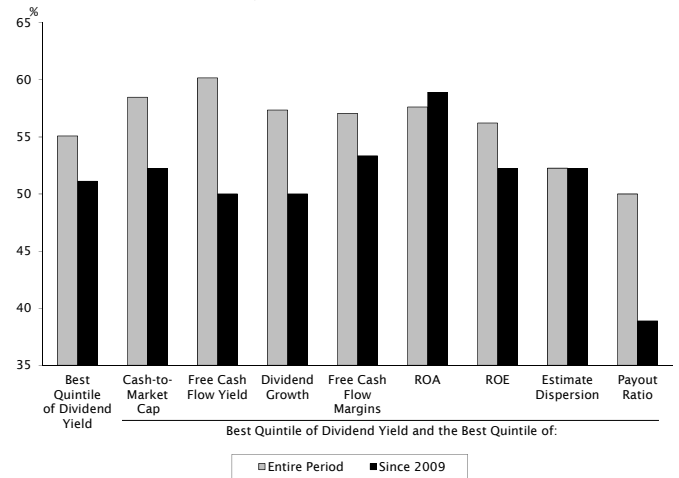
Exhibit 23: Developed Markets (ex-U.S.)
Relative Returns to the Best Quintile of Dividend Yield and Its Intersection with the Best Quintile of Select Factors¹
Monthly Data Compounded to Annual Periods
2009 Through Early-June 2016



Source: Corporate Reports, Empirical Research Partners Analysis.

¹ Equally-weighted USD-hedged returns.

Exhibit 24: Developed Markets (ex-U.S.)
Best Quintile of Dividend Yield and Its Intersection with the Best Quintile of Select Factors¹
Share of Months Outperforming
1987 Through Early-June 2016



Source: Corporate Reports, Empirical Research Partners Analysis.

¹ Equally-weighted USD-hedged returns.

We find that when combined with high dividend yields three factors have worked best in achieving a consistent and sustainable equity income strategy. The first factor is the level of cash held as a share of the market capitalization, a direct guaranty that companies will be able to pay future dividends; that factor also helps offset concerns over the higher leverage inherent among the top dividend yielders. Second, free cash flow yield, an additional valuation metric linked to the ability to pay; that assuages concerns about how expensive this cohort has become. Finally, return-on-assets has been helpful as a measure of profitability to the shareholder; the intersection of this factor with dividend yield has outperformed nearly 60% of the months since 2009, by far the best result among the factors. On the opposite side, a high payout ratio is a negative, as it is associated with sustainability issues.

In conclusion, high dividend yielders have become too expensive to be simply bought as a cohort. That highlights our fears over single factor betting as an investment approach that we touched on in recent U.S. research.² Instead investors should emphasize the sustainability of dividends for a more reliable bet. Appendix 1 on page 10 applies cash-to-market-capitalization, free cash flow yield and return-on-assets to produce a list of high-yielding stocks with strong sustainability characteristics.

² Stock Selection: Research and Results June 2016. "Picking Big Growers – What Works, Low-Beta Strategies – Duck and Cover."

Appendix 1: Developed Markets (ex-U.S.): Large and Mid-Capitalization Stocks
Best Quintile of Dividend Yield with Attractive Stability Metrics
Sorted by Sector and Composite Rank
As of Early-June 2016

Symbol	Company	Price (Local)	Local Currency Code	Dividend Yield	Quintiles (1=Best; 5=Worst)					Memo: Core Model P/E- Ratio	YTD Return (Local)	Market Capitalization (USD Million)
					Free Cash Flow Yield ¹	Cash -to-Market Capitalization	Average of the Three	ROA	Forward			
Consumer Cyclicals:												
Consumer Durables												
FR FP	Valeo SA	44.55	EUR	1	1	2	2	1.7	3	12.5 x	(4.2) %	\$11,873
PSN LN	Persimmon Plc	19.76	GBP	1	2	3	1	2.0	1	10.5	2.9	8,472
BKG LN	Berkeley Group Holdings plc	31.59	GBP	1	1	4	1	2.0	2	8.0	(14.3)	6,071
Retail and Other Consumer Cyclicals												
1880 HK	Belle International Holdings Limited	4.40	HKD	1	1	1	1	1.0	1	8.9 x	(24.4) %	\$4,697
FLT AT	Flight Centre Travel Group Limited	32.20	AUD	1	2	1	1	1.3	2	12.7	(18.1)	2,378
WMH LN	William Hill PLC	2.94	GBP	1	1	3	1	1.7	2	13.0	(23.9)	3,614
MKS LN	Marks and Spencer Group plc	3.67	GBP	1	1	4	2	2.3	1	11.4	(15.1)	8,325
TUI1 GY	TUI AG	12.57	EUR	1	1	2	4	2.3	2	11.3	(22.1)	8,201
494 HK	Li & Fung Limited	3.93	HKD	1	1	4	2	2.3	1	12.6	(22.7)	4,293
TAH AT	Tabcorp Holdings Limited	4.40	AUD	1	1	5	1	2.3	2	19.3	(3.9)	2,733
Media												
PSM GY	ProSiebenSat.1 Media SE	42.96	EUR	1	1	3	1	1.7	2	16.9 x	(8.1) %	\$10,576
ETL FP	Eutelsat Communications SA	15.77	EUR	1	1	2	2	1.7	1	11.3	(42.9)	3,967
TL5 SM	Mediaset Espana Comunicacion SA	11.09	EUR	1	1	4	1	2.0	1	19.2	14.7	4,551
SESG FP	SES SA FDR (Class A)	18.56	EUR	1	1	4	2	2.3	4	14.5	(24.0)	11,472
MMB FP	Lagardere SCA	20.28	EUR	1	1	2	4	2.3	1	11.3	(21.9)	2,999
SKT NZ	SKY Network Television Limited	5.07	NZD	1	1	5	1	2.3	3	14.2	14.7	1,416
Capital Equipment												
MEO1V FH	Metso Oyj	21.11	EUR	1	1	2	1	1.3	4	18.2 x	7.0 %	\$3,521
BOKA NA	Royal Boskalis Westminster N.V.	30.30	EUR	1	1	2	2	1.7	2	13.9	(15.6)	4,404
8053 JP	Sumitomo Corporation	1,049.50	JPY	1	1	1	4	2.0	1	8.0	(13.6)	12,007
SKAB SS	Skanska AB Class B	175.70	SEK	1	1	2	3	2.0	2	13.9	11.4	8,916
8002 JP	Marubeni Corporation	492.80	JPY	1	1	1	4	2.0	1	5.6	(19.8)	7,909
659 HK	NWS Holdings Limited	12.04	HKD	1	2	2	2	2.0	2	10.7	6.4	5,943
54 HK	Hopewell Holdings Limited	24.80	HKD	1	na	2	2	2.0	2	14.7	(9.0)	2,824
8031 JP	Mitsui & Co. Ltd	1,291.50	JPY	1	1	1	5	2.3	1	12.3	(8.5)	21,362
EN FP	Bouygues SA	27.65	EUR	1	2	1	4	2.3	2	17.7	(20.2)	10,708
Industrial Commodities												
EVK GY	Evonik Industries AG	25.92	EUR	1	1	2	2	1.7	3	14.0 x	(11.7) %	\$13,651
UPM1V FH	UPM-Kymmene Oyj	16.90	EUR	1	1	3	2	2.0	1	11.8	3.2	10,132
ILCO IT	Israel Corporation Ltd.	699.50	ILS	1	1	1	4	2.0	1	NM	(0.9)	1,409
YAR NO	Yara International ASA	284.00	NOK	1	2	4	1	2.3	3	9.6	(22.0)	9,324
Transport												
BPOST BB	bpost SA	23.89	EUR	1	2	2	1	1.7	1	14.6 x	6.5 %	\$5,433
293 HK	Cathay Pacific Airways Limited	12.08	HKD	1	2	1	3	2.0	1	7.7	(8.1)	6,162
HPHT SP	Hutchison Port Holdings Trust	0.45	USD	1	2	4	2	2.3	2	19.1	(10.2)	3,920
SGC LN	Stagecoach Group plc	2.51	GBP	1	3	2	2	2.3	2	9.4	(14.2)	2,047
AIR NZ	Air New Zealand Limited	2.22	NZD	1	5	1	1	2.3	1	4.8	(21.8)	1,742
Technology:												
Technology Software and Services												
SILV SP	Silverlake Axis Ltd	0.53	SGD	1	2	4	1	2.3	3	14.2 x	(18.4) %	\$1,028
Technology Hardware and Semiconductors												
ERICB SS	LM Ericsson Telefon AB Class B	61.20	SEK	1	2	1	2	1.7	2	12.9 x	(22.2) %	\$24,136
VMS SP	Venture Corporation Limited	8.41	SGD	1	2	2	2	1.7	1	14.1	9.0	1,703
303 HK	VTech Holdings Limited	85.20	HKD	1	2	3	1	2.0	2	14.0	6.0	2,734
7751 JP	Canon Inc.	3,104.00	JPY	1	3	2	2	2.3	2	16.9	(15.5)	38,449
STM FP	STMicroelectronics NV	5.08	EUR	1	2	1	4	2.3	3	27.1	(16.4)	5,194
Consumer Staples												
CCL AT	Coca-Cola Amatil Limited	8.71	AUD	1	2	2	2	2.0	2	16.2 x	(3.8) %	\$4,853
CO FP	Casino Guichard-Perrachon SA	51.46	EUR	1	1	1	5	2.3	1	17.5	28.8	6,518
Financials:												
Banks, Consumer Finance and Other												
RF FP	Eurazeo SA	56.45	EUR	1	1	na	1	1.0	1	16.9 x	(2.8) %	\$4,631
MIC CT	Genworth MI Canada Inc.	33.07	CAD	1	1	na	2	1.5	1	8.7	27.9	2,342
4 HK	Wharf (Holdings) Ltd.	45.60	HKD	1	1	na	3	2.0	1	11.6	9.6	17,847
17 HK	New World Development Co. Ltd.	7.54	HKD	1	1	na	3	2.0	1	9.6	0.2	9,169
PFG LN	Provident Financial PLC	27.31	GBP	1	3	na	1	2.0	3	15.8	(16.5)	5,697
19 HK	Swire Pacific Limited Class A	87.00	HKD	1	2	na	3	2.5	2	13.4	3.1	16,351
ASX AT	ASX Limited	44.82	AUD	1	3	na	2	2.5	2	20.1	8.1	6,382
SPSN SW	Swiss Prime Site AG	85.20	CHF	1	2	na	3	2.5	3	24.0	13.3	6,095
Capital Markets												
IGM CT	IGM Financial Inc.	36.64	CAD	1	1	na	2	1.5	1	12.5 x	5.2 %	\$6,891
CIX CT	CI Financial Corp.	27.78	CAD	1	2	na	1	1.5	3	14.2	(7.4)	5,919
ADN LN	Aberdeen Asset Management PLC	2.65	GBP	1	1	na	2	1.5	2	13.7	(1.3)	4,840
HGG LN	Henderson Group plc	2.48	GBP	1	2	na	1	1.5	2	14.9	(17.6)	3,866
PTM AT	Platinum Asset Management Ltd	6.29	AUD	1	2	na	1	1.5	2	17.3	(20.1)	2,699
PPT AU	Perpetual Limited	42.97	AUD	1	2	na	1	1.5	2	15.2	(5.0)	1,456
EMG LN	Man Group Plc	1.24	GBP	1	2	na	2	2.0	2	9.4	(27.9)	3,006
ASHM LN	Ashmore Group plc	2.86	GBP	1	3	na	1	2.0	1	18.7	13.7	2,856
GAM SW	GAM Holding AG	12.00	CHF	1	2	na	2	2.0	3	16.0	(24.4)	2,077
IFL AT	IOOF Holdings Ltd	8.12	AUD	1	2	na	2	2.0	2	13.7	(11.8)	1,783
Insurance												
ELE FP	Euler Hermes Group S.A.	76.49	EUR	1	1	na	3	2.0	1	10.4 x	(8.4) %	\$3,683
SAMAS FH	Sampo Oyj Class A	38.12	EUR	1	2	na	3	2.5	3	13.8	(14.6)	24,063
Energy:												
Integrated, Oil Service, Refiners and Other												
PFC LN	Petrofac Limited	7.26	GBP	1	1	1	5	2.3	2	8.7 x	(5.8) %	\$3,575
DLEKG IT	Delek Group Ltd.	712.00	ILS	1	1	1	5	2.3	2	23.2	(6.6)	2,204
Telecommunications												
BEZQ IT	Bezeq The Israel Telecommunication Corp. Ltd.	7.24	ILS	1	1	3	1	1.7	3	14.2 x	(12.4) %	\$5,216
FNIN GY	frenet AG	24.07	EUR	1	1	2	2	1.7	5	12.3	(18.3)	3,459
8 HK	PCCW Limited	5.13	HKD	1	1	2	3	2.0	1	15.5	16.5	5,086
PROX BB	Proximus SA de droit public	28.25	EUR	1	1	4	2	2.3	5	16.2	(3.5)	10,868
STH SP	StarHub Ltd	3.57	SGD	1	2	4	1	2.3	2	17.7	(0.6)	4,555
Utilities												
SEV FP	SUEZ SA	14.49	EUR	1	1	1	4	2.0	2	18.0 x	(12.5) %	\$8,761
ENGI FP	ENGIE SA	14.12	EUR	1	1	1	5	2.3	2	13.7	(10.3)	37,937
EOAN GY	E.ON SE	8.44	EUR	1	1	1	5	2.3	1	10.8	(0.0)	18,443
ACE IM	Acea S.p.A.	11.97	EUR	1	1	2	4	2.3	1	12.5	(15.7)	2,878

Source: Empirical Research Partners Analysis.

¹ Trailing earnings yield used for financial stocks.