

THE TRUTH ABOUT DIVIDENDS

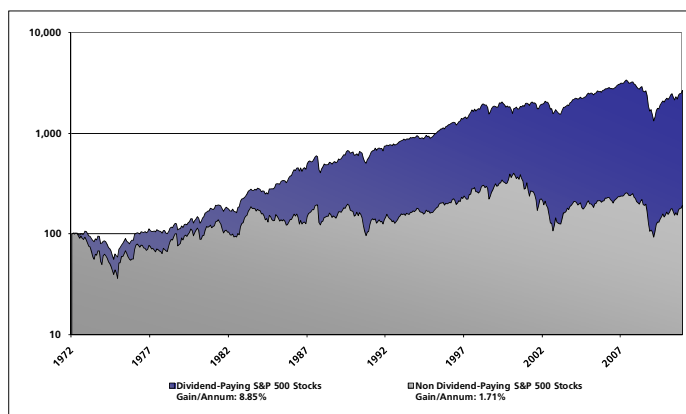


Misconceptions about dividend-paying stocks keep some investors from exploring their full potential. Below we reveal the truth about dividend-paying stocks and how we believe they can enhance portfolio returns.

FACT: Dividend-paying companies outperform non-dividend-paying companies over time

According to Ned Davis Research, from 1972 to 2010 the index of equal-weighted dividend-paying S&P 500 companies returned +8.8% annualized, versus +1.7% for non-dividend-paying companies. Over that same time period, the equal-weighted index of firms that increased or initiated their dividend returned +9.6% annualized, versus +7.4% for companies that left their dividend unchanged.

While the outperformance of dividend payers has been consistent over time, it has often proven to be important during periods of poor market performance. For example, during the bear market of 2000 to 2003, firms that paid a dividend increased +17% while non-dividend payers declined -49%.



Data shown from January 1972—June 2011 and includes reinvestment of dividends. Source: Ned Davis Research, Inc.

FACT: Companies with high payout ratios grow earnings faster than companies with low dividend payouts

Conventional wisdom holds that higher retained earnings correlate with higher earnings growth potential. While retained earnings may create the “potential” for growth, the opposite tends to be true in practice. Two prominent research papers published by the CFA Institute examined the relationship between dividend payout levels and future earnings growth. One study, conducted by Arnott & Asness¹ in 2003, focused on this relationship market-wide. A follow-up study by Zhou & Ruland² in 2006 examined the relationship at the company level, concluding that companies with high dividend payouts typically experience a higher level of future earnings growth than companies with low dividend payouts.

FACT: Dividend-paying companies include more than just Banks and Utilities

Primarily focusing on Banks and Utilities greatly diminishes the diversification and total return opportunities available for income-oriented investors. While the Financials sector is clearly an important component of the equity income universe, a simple examination of U.S.-listed firms with a yield in excess of 2% reveals numerous sectors with potentially attractive investment opportunities. Even the Financials sector presents opportunities to diversify into high yielding non-bank equities, such as insurance companies, REITs, and registered investment companies.

Sector	# of Companies	Wtd. Avg. Yield ¹	Total Mkt. Cap (in \$B)
Consumer Discretionary	84	2.98%	\$433
Consumer Staples	61	3.35%	\$1,400
Energy	113	3.63%	\$1,731
Financials	431	4.04%	\$1,751
Health Care	34	3.84%	\$1,161
Industrials	103	2.70%	\$922
Information Technology	49	2.69%	\$610
Materials	44	2.92%	\$298
Telecommunication Services	49	2.69%	\$1,280
Utilities	102	4.39%	\$595

Data shown as of January 7, 2011. ¹Universe: U.S. listed common stocks and ADRs; 40%>yield>2%; mkt cap >\$1 million. Source River Road Asset Management, LLC and FactSet Research Systems, Inc.

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FACT: Smaller companies tend to have higher dividend yields than larger companies

Contrary to popular belief, market capitalization is *inversely* related to dividend yield. As illustrated in the chart on the right, the highest yielding companies tend to be small. Additionally, the small cap universe has more high yield companies and is widely considered more inefficiently priced than large cap. Thus, investors seeking high current income, **plus** the potential for capital appreciation would be well served by investing in a portfolio with exposure to small and mid cap equities.

	# of Firms	Wtd. Avg. Yield ¹
Mkt. Cap < \$2B	632	4.88%
\$2B < Mkt. Cap < \$15B	294	4.11%
Mkt. Cap > \$15B	144	3.55%

Data as of January 7, 2011. Universe: U.S.-listed equity; yield >2%, mkt cap >\$1 MM. Source: FactSet Research Systems, Inc.

We believe dividend-paying stocks are poised for continued outperformance

According to Ned Davis Research, since 1929, 45% of the annualized total return from equities has been attributable to dividends. Since 1926, the payout ratio for the S&P 500 has averaged over 58.5%. In the fourth quarter of 2010, the payout ratio for the S&P 500 was just 30.5%.

We believe a slowdown in economic growth supports a strong relative outlook for the Dividend All-Cap Value Strategy.

With corporate balance sheets flush with cash and payout ratios near record lows, dividend growth could begin to accelerate. **Additionally, in a low growth environment, dividends could provide an increasingly significant portion of the expected total return of equity ownership.** Combined with increased demand for income from retiring baby boomers, we believe high dividend equities are in the early stages of a potential long-term uptrend.

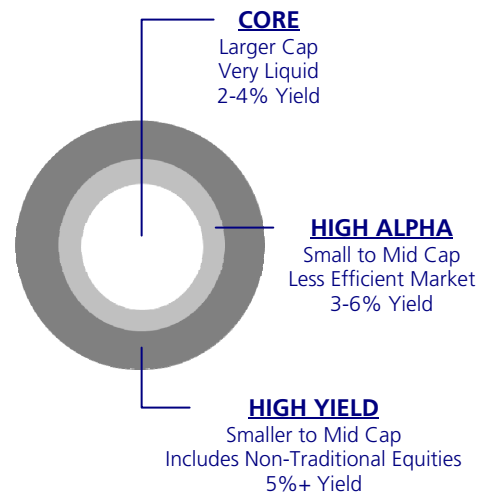
River Road's Dividend All-Cap Value Portfolio was designed to address these misconceptions

River Road's Dividend All-Cap Value (DAV) Portfolio was designed to capture the broad and often unrecognized opportunities that exist among high income equity securities. The DAV investment process incorporates diversification that addresses the breadth of opportunities across: **1) Market Capitalization, 2) Security Type, 3) Industry Sector, and 4) Corporate Sovereignty.**

This diversification, combined with River Road's Absolute Value investment philosophy, results in a portfolio of equity securities that combines:

- The liquidity of large cap stocks, with
- The high alpha potential of small and mid cap stocks, and
- The high yield opportunities available outside of traditional common shares.

We believe the interaction of these three groups results in **balanced diversification, high current income,** and the opportunity for a **competitive total return.**



¹ – Arnott, Robert D. and Asness, Clifford S. 2003. "Surprise! Higher Dividends = Higher Earnings Growth." *Financial Analysts Journal*, (January/February): 70-87.

² – Zhou, Ping and Ruland, William. 2006. "Dividend Payout and Future Earnings Growth." *Financial Analysts Journal*: (May/June): 58 – 69.

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RIVER ROAD ASSET MANAGEMENT, LLC
 The Meidinger Tower
 462 South Fourth Street, Suite 1600
 Louisville, KY 40202 U.S.A.
 tel 502-371-4100

