Equity Perspectives

An Ameriprise Investment Research Group publication

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Dividend Dynamics: Sector Perspectives

This is the third in a series of new dividend reports, Dividend Dynamics, each focusing on different attributes and considerations impacting decisions to use dividend-paying securities as part of a diversified equity portfolio.

Dividends are a cash return on investment, as well as potential indicators of quality, value, and future growth. A dividend is a distribution of a portion of earnings or free cash flow, which the Board of Directors declares for shareholders to participate in the company's growth. Companies pay dividends in cash, additional shares, or other property (e.g., the spin-off of a subsidiary).

Whether investors are striving for growing income or an attractive total return, dividends can contribute meaningfully. Quarterly payments can provide a steady stream of current income, while reinvestment and compounding can fuel long-term wealth accumulation. Scientist Albert Einstein reputedly said compound interest was "*…the most powerful force in the universe…"* while famed investor Warren Buffett often attributes his success to compound interest. Furthermore, an increasing dividend rate may provide a hedge against inflation and the loss of purchasing power. In our opinion, using dividends in your equity allocation can make the difference in achieving your long-term retirement goals.

This report, "*Sector Perspectives*," discusses the finer points and unique attributes that exist across the eleven sectors of the S&P 500 Index. As we will explore, some sectors can carry mandatory dividend payout thresholds, target specific dividend payout ratios, or pay annual variable dividends based on profitability. However, in more growth-oriented sectors such as Consumer Discretionary and Communication Services, some constituents do not pay dividends due to reinvesting and expansion efforts.

In our view, investors could generate higher levels of dividend income and growth by focusing on sectors with mature business models, generating high free cash flow. We also favor growth-oriented sectors that have just begun paying dividends. We believe these segments could experience more rapid dividend growth as their business models mature. In our opinion, dividend-oriented investors should modestly de-emphasize sectors that are not focusing on cash shareholder returns.

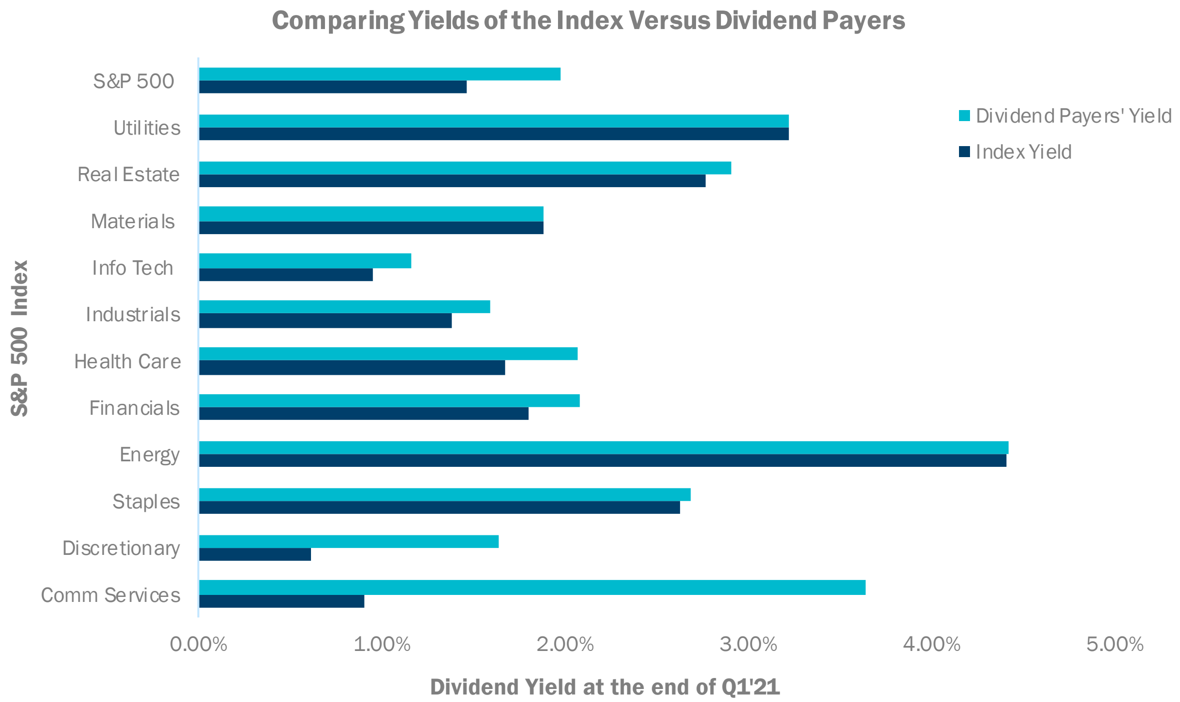
Key Takeaways

- While only 79% of the S&P 500 Index pays a dividend, according to S&P Dow Jones Indices, the $20.3 billion in cash dividends declared in Q1'21 was the largest quarterly increase in nearly a decade.
- At the end of Q1'21, the yield on the S&P 500 Index was 1.47%. However, seven of the 11 sectors yielded quarter-end figures above that blended rate.
- In our view, Info Tech and Financials offer investors attractive dividend growth potential, while Consumer Staples, Utilities, and Health Care can offer dividend stability.
- Notable risks include the fact that dividend payments are not guaranteed, and can be negatively impacted by taxes and inflation. Dividend stocks also tend to be value-oriented investments.

NOTE: FOR IMPORTANT DISCLOSURES, INCLUDING POSSIBLE CONFLICTS OF INTEREST, PLEASE SEE THE DISCLOSURE PAGES AT THE END OF THIS DOCUMENT. For further information on any of the topics mentioned, please contact your financial advisor.

Dividend Kaleidoscope

Aristotle is quoted as saying, "*the whole is greater than the sum of its parts*." In the case of the S&P 500 Index's 1.47% yield (at the end of Q1'21) or the whole, arriving at the figure carries a vast array of parts with very different dividend yields. We look to highlight sectors with favorable shareholder and dividend attributes and some of the more common externalities associated with each sector. Based on *S&P Dow Jones Indices (SPDJI)* data, at the end of Q1'21, 79% of the S&P 500's constituents paid dividends, with Materials and Utilities posting the highest payer rate at 100%. SPDJI indicated Q1'21 dividend increases totaled $20.3 billion, reflecting the largest quarterly increase since Q1'12. In our view, the Q1'21 hikes reflected a combination of factors including better than anticipated earnings in 2020, corporate balance sheet strength, and the improving economic outlook.



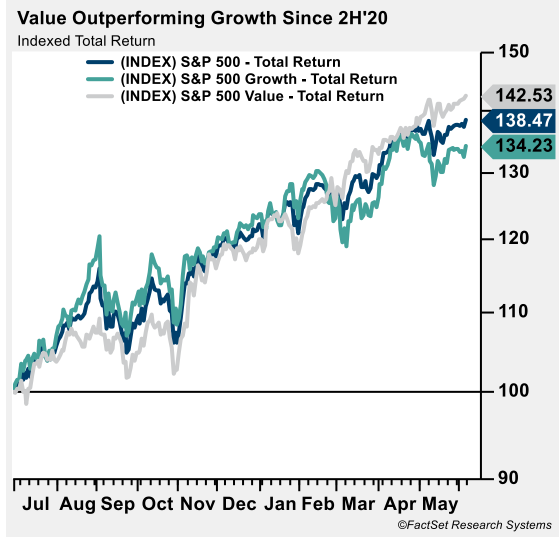
Source: SPDJI and American Enterprise Investment Services Inc. Data as of 03/31/2021.
Past performance is no guarantee of future results and this example is for illustrative purposes only. It is not possible to invest directly in an index.

Growth Versus Value – Technically a Business Model Debate

Despite headlines calling for a long-awaited comeback, Value stocks posted lackluster performance versus their Growth rivals throughout the 2010s. Value stocks are typically well-established companies in the mature to declining stages of the corporate life cycle. In contrast, growth companies are capitalizing on unmet needs or developing markets in the earlier years. As companies typically move from growth to maturity, their free cash flow generation moves from negative to positive and growing, paving the way for potential dividend initiation and increases. Value stocks trade at a discount to the broader market and their perceived intrinsic value. Investors are willing to pay a premium for growth stocks since their earnings are increasing or expected to increase faster than the overall market.

The global economic shutdown and the seemingly instantaneous shift to the at-home lifestyle fueled continuing gains for growth stocks in the 1H'20. However, the performance trend reversed in the 2H'20 due to positive vaccine developments and improving economic data. This trend has continued year-to-date amid a rebound in corporate earnings and increasing signs of pre-pandemic life returning. The chart on page 3 illustrates the performance of the S&P 500 Value and Growth Indices since the 2H'20.

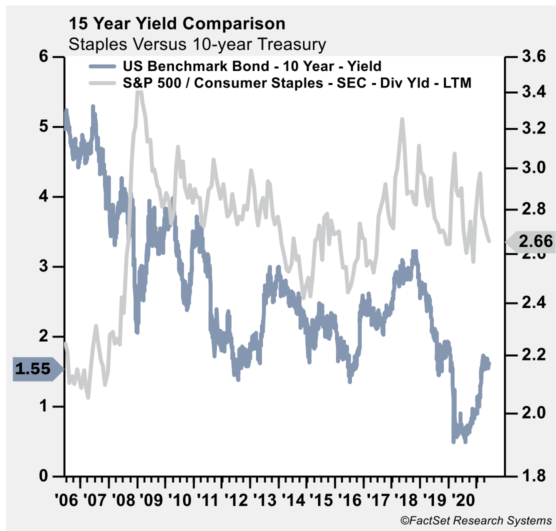
The S&P 500 Value Index is weighted more towards the economically sensitive sectors, such as Financials and Industrials, which often outperform in the early stages of an economic recovery. Data from SPDJI indicates these two sectors represented 31% of the Value Index at the end of May, compared to an 18% weighting in the broader S&P 500.



As we discussed in our *Equity Perspectives*, "*Dividend Dynamics: Focus on Quality"* (published on April 30, 2021), the current market environment of improving economic growth and shifting investment styles is ideal for establishing a dividend investment strategy. In our view, Value stocks in Financials, and Consumer Staples could be poised to increase their dividends. In contrast, the pullback in Growth stocks offers investors an attractive entry point in high-quality dividend growers, particularly in the Technology sector.

Consumer Discretionary & Staples

The descriptors cyclical and defensive readily describe the difference between the Consumer Discretionary and Consumer Staples sectors. With **Amazon** and **Tesla** accounting for nearly 43% of the sector's market capitalization, Consumer Discretionary tilts towards Growth and ranks low in terms of dividend yield versus the broader S&P 500. Travel restrictions and the closing of non-essential retailers in 2020 spurred dividend reductions, suspensions, and eliminations. Per FactSet data, analysts forecast the sector's dividend per share to rebound gradually in 2021 and top its pre-pandemic rate in 2022.



With relatively consistent earnings growth, mature business models, and yields exceeding the broader market, we view Consumer Staples as an attractive sector for dividend growth opportunities. As a result of these attributes, investors often deem Consumer Staples a "bond proxy." Since the onset of the financial crisis and quantitative easing (2008-2010), the sector's dividend yield has exceeded the yield on the 10-year Treasury. Although the sector's current valuation multiple of 21.0x forward earnings (versus the S&P 500's multiple of 21.3x) is somewhat lofty given its slower earnings growth, we believe its defensive traits provide dividend investors a favorable risk/reward trade-off.

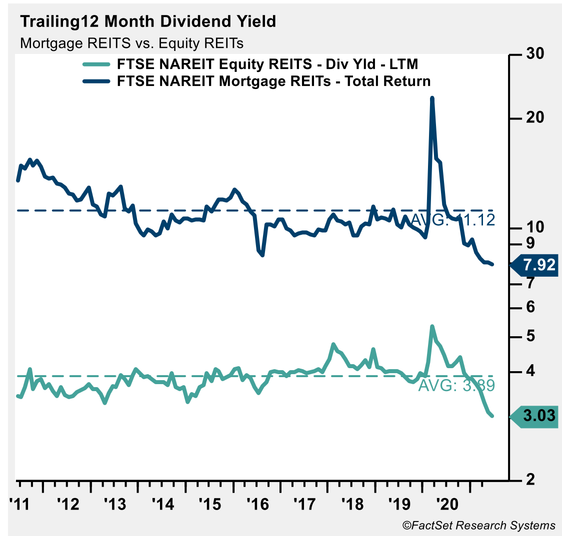
Financials

Over a decade ago, Congress passed Dodd-Frank ushering in sweeping changes for Financials. The law mandated heightened regulatory oversight and restrictions on capital management for banks, the sector's largest industry. Large bank holding companies must undergo a forward-looking stress-test by the Federal Reserve and submit a capital plan outlining dividend payments and share repurchases (formally known as the Comprehensive Capital Analysis and Review (CCAR)). These exercises are conducted annually or bi-annually, depending on the bank's asset size and operational complexity. In aggregate, nearly half of the sector's constituents are subject to the Fed's CCAR. With the stressed capital buffer (SCB) adoption in 2020, the Fed eliminated its CCAR instruction encouraging banks to maintain conservative dividend payout ratios of approximately 30%. Leading up to the financial crisis, the dividend payout ratios of large banks ranged from 50% to 80%. However, since the SCB is an annual assessment, we believe payout ratios could remain in the 30% range. In our view, the lower payout ratio increases a bank's capital management flexibility while enhancing the sector's overall dividend stability. Due to their capital requirements and underwriting risks, insurers also favor a flexible approach to capital management.

In 2020, the Fed temporarily restricted large bank holding companies from increasing their dividends due to the economic uncertainty stemming from the pandemic. If the banks "pass" this year's stress test, these restrictions will end after June 30, 2021. Due to balance sheet strength and upside surprises for earnings and credit trends in 2020, we anticipate this year's stress test participants to announce healthy dividend increases in the 2H'21. With limited acquisition opportunities for the nation's largest banks, **JPMorgan Chase**, **Bank of America**, **Wells Fargo**, and **Citigroup** (approximately 28% of the sector's market capitalization) and the likelihood of a rising interest rate environment, we view Financials as one of th e most attractive sectors for dividend growth in the coming years.

Real Estate

Twenty-eight of the twenty-nine constituents of the S&P 500 Real Estate sector are real estate investment trusts (REITs). Created by an act of Congress in 1960, a REIT is a company focused on owning and developing income-generating real estate. REITs allow individual investors the ability to diversify their investment portfolios, generate income, and benefit from professional management without sacrificing the liquidity of traditional equities. One of the critical requirements for qualifying as a REIT is the company must pay at least 90% of its taxable income to shareholders in the form of dividends. Most REIT dividends are taxed as ordinary income. However, some dividends can be allocated to capital gains and return of capital, each of which may be taxed at a different rate.



The two classifications for REITs are either equity or mortgage. Equity REITs, which own various properties such as warehouses, shopping centers, and hotels, generate most of their revenue from rental payments. The REITs in the S&P 500 Real Estate Index are equity REITs. Mortgage REITs, which provide the financing for income-generating properties by purchasing mortgages or mortgage-backed securities, earn their revenue from the interest on their investments. In comparing their dividend yields, the yields of mortgage REITs are typically higher than equity REITs due to the use of leverage. When investing for dividend growth and stability, we prefer equity REITs over mortgage REITs due to better revenue visibility stemming from recurring rental payments and leases (ranging from days to decades).

Due to their dividend payout requirements and the benefits of compounding, REITs have historically generated attractive long-term returns relative to other equities and fixed income securities. In our view, REITs are a compelling opportunity for investors pursuing either a dividend growth or high yielding dividend strategy. Using the broader FTSE Nareit indices, on page 5 we illustrate the average annual returns over the last 20 years ending 03/31/2021. We note, the FTSE Nareit All REITs Index consists of all publicly traded U.S. REITs, while the FTSE Nareit All Equity REITs Index, excludes mortgage REITs.

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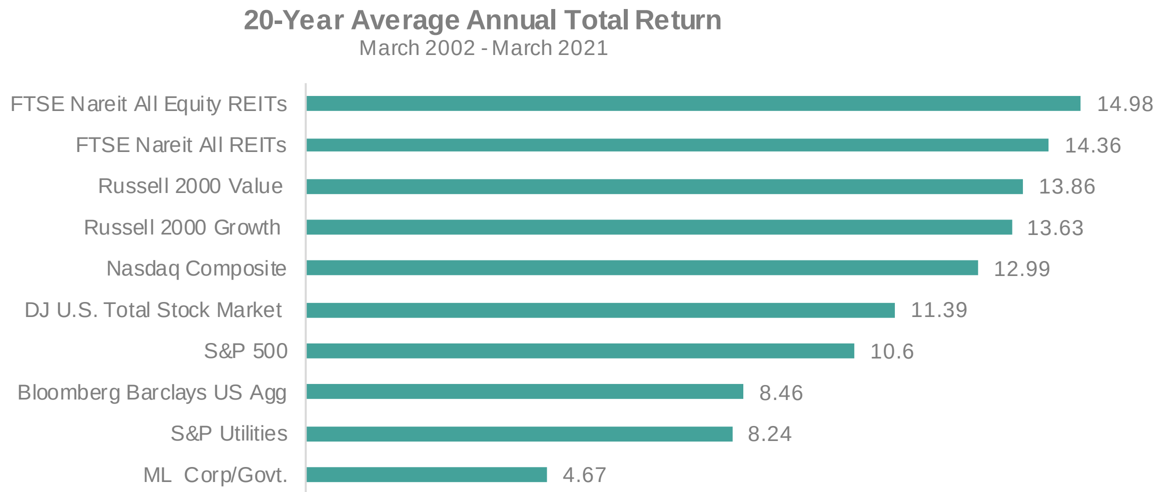


Source: Nareit and American Enterprise Investment Services Inc. Please note the return of the Nasdaq Composite is price only. *Past performance is no guarantee of future results and this example is for illustrative purposes only.* It is not possible to invest directly in an index.

Information Technology & Communication Services

The pairing of Information Technology (Info Tech) and Communication Services (Comm Services) is an interesting dichotomy, akin to a tale of two business models. Investors perceive Info Tech as a sector with slightly less mature business models and a well-above-average dividend growth outlook versus the broader S&P 500. Formed in Q3'18, Comm Services combines the legacy Telecommunications Services sector with companies in Consumer Discretionary and Info Tech to reflect the modern evolution of communications and media. The constituent reshuffling resulted in an Index with the descendants of Ma Bell (**AT&T** and **Verizon**) with faster growing social media-focused companies **Alphabet** and **Facebook**. In our view, the sluggish earnings growth rates of "old school" telecoms coupled with the non-dividend paying newer constituents results in an unattractive dividend profile. In our opinion, Comm Services' annual dividual increases (including those of the legacy Telecom sector) are paltry in comparison to Info Tech. We believe AT&T's planned dividend cut in 2022 will likely be another setback for the sector's dividend profile vis-à-vis the broader Index. The table below highlights the recent dividend streams for all 11 sectors. We note Info Tech's dividends have more than doubled since 2012, which we view as compelling.

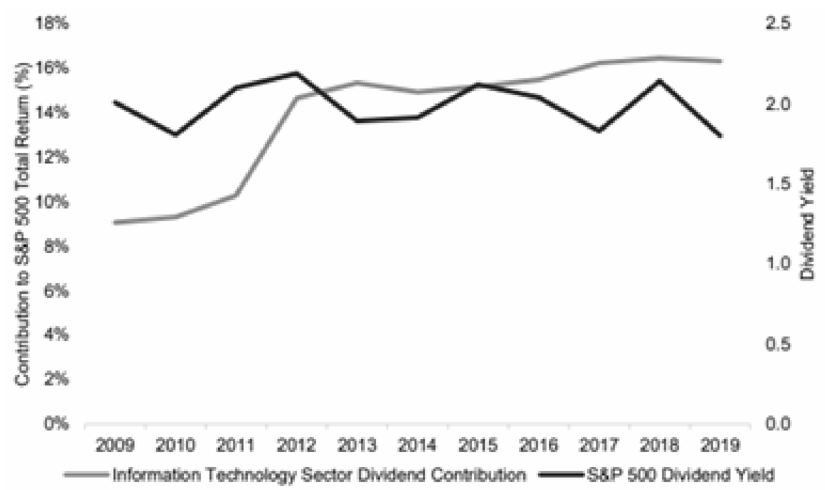
S&P 500 Dividend Stream

Sector	2012	2013	2014	2015	2016	2017	2018	2019	2020
Communication Services	$23.34	$24.63	$25.46	$27.65	$30.88	$30.39	$34.71	$34.32	$32.59
Consumer Discretionary	$20.58	$22.17	$27.43	$31.35	$32.56	$31.32	$33.09	$34.42	$26.86
Consumer Staples	$47.31	$46.11	$48.80	$54.50	$55.02	$58.49	$56.97	$57.70	$63.51
Energy	$30.76	$36.28	$42.14	$45.29	$37.76	$37.80	$41.11	$44.93	$42.72
Financials	$32.20	$35.08	$41.66	$46.71	$49.81	$56.44	$66.86	$74.41	$72.76
Health Care	$35.09	$35.16	$40.25	$45.24	$48.18	$53.16	$58.36	$62.10	$69.09
Industrials	$32.63	$34.08	$39.58	$42.93	$43.95	$47.22	$46.61	$50.03	$42.94
Information Technology	$37.12	$47.54	$56.46	$57.20	$64.60	$67.36	$75.02	$79.53	$91.60
Materials	$10.41	$13.16	$13.15	$12.45	$12.08	$12.52	$13.31	$13.08	$15.54
Real Estate	$8.93	$9.89	$13.81	$15.62	$21.84	$20.93	$23.36	$24.92	$24.44
Utilities	$18.47	$19.07	$19.57	$20.60	$21.32	$22.98	$23.75	$26.61	$28.55
Total	$296.85	$323.17	$368.32	$399.55	$418.01	$438.62	$473.15	$502.03	$510.59

Source*:* WisdomTree and American Enterprise Investment Services Inc. Note dividends exclude specials except for those where identified as directly related to a spin-off. *Past performance is no guarantee of future results and this example is for illustrative purposes only. It is not possible to invest directly in an index.*

The chart below indicates since the great recession, the S&P 500's dividend index has remained relatively stable. However, Info Tech's contribution to total return rose from 9.1% in 2009 to 16.3% of the S&P 500 Index's annual total return in 2019. In our view, one of the drivers of the improved returns was 26 Info Tech companies initiating dividends and 59 companies boosting their dividends. Although Info Tech is the highest weighted sector in the S&P 500, we caution investors about buying a dividend index based exchange-traded fund for Info Tech exposure. While increasing dividends have boosted Info Tech's contribution to the S&P 500's overall total return, the sector's current weighting in the S&P 500 Dividend Aristocrat Index is only 3% at the end of May. The weighting for Comm Services is 1.4%, compared to an 11% weighting in the S&P 500. Recall, the S&P 500 Dividend Aristocrat Index consists of index members who have increased their dividend every year for the last 25 consecutive years. We believe a proper understanding of sector and index exposures is key to wealth accumulation, especially when it comes to Info Tech given its prospects for potential dividend initiation and growth.

Info Tech's Contribution to the S&P 500 Total Return and Dividend Yield



Source*:* SPDJI and American Enterprise Investment Services Inc. Data as of December 2009 to December 2019.
Past performance is no guarantee of future results and this example is for illustrative purposes only. It is not possible to invest directly in an index.

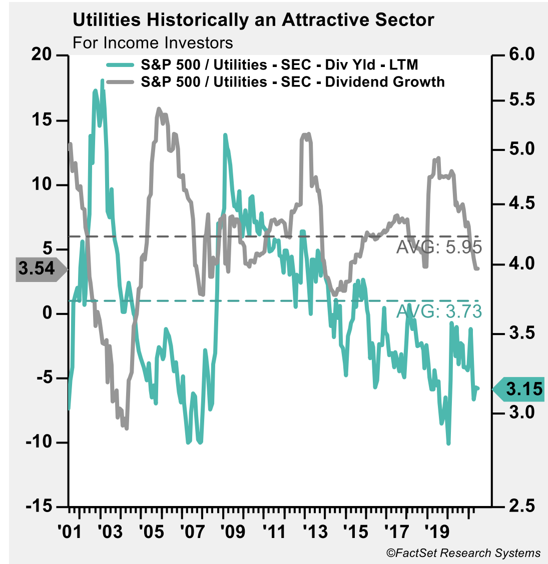
Energy & Materials – Super Cyclicals Offer New Wrinkles

We deem the Energy and Materials sectors as "super cyclicals" since their fortunes are tied directly to daily commodity prices. Historically, their inherent earnings volatility could not support consistent and increasing cash returns to shareholders. However, both segments are moving towards a variable rate cash dividend structure. When operating conditions are favorable, investors' outlook for dividend growth could become more optimistic. This is the trade-off for receiving lower or de minimis dividends when commodity prices drive operating losses or break-even earnings. We view their variable structure as analogous to share repurchase programs. Boards of Directors often declare buybacks, which typically vary annually, during times of excess profits and free cash flow.

For example, we highlight the recent announcement by **Pioneer Resources** (PXD), an oil and gas company. On May 5, 2021, William Foley, ASIP, Director – WMS Research, wrote about PXD's decision to move to a variable rate dividend by saying, "*PXD announced a fixed plus variable dividend structure earlier this year. The company's goal is to pay out up to 50% of prior year free cash flow (FCF) to shareholders in 2022 (and up to 75% of FCF thereafter) through dividends, with the variable component paid out quarterly. FCF not paid out in dividends will be used mostly to reduce debt, with stock buybacks reserved for periods of share price weakness. We believe the variable dividend structure is appropriate for commodity price-sensitive sectors and could be a positive catalyst for the stock*."

We agree with our colleague's assessment that variable dividend structures are appropriate for commodity price-sensitive sectors. We expect more uptake from Boards in the future as they reassess capital management structures following years of commodity price swings and sluggish global economic growth. In the Materials sector, we believe more companies could emulate the decision by gold mining companies to tie their payout to the commodity price. While varying structures are not right for every sector, we believe this new wrinkle could potentially become status quo for the Energy & Materials sectors and possibly expand their shareholder base. This could also be a credit rating positive move for energy companies. With smaller financial burdens to endure in down cycles, the credit rating agencies might view this secular shift as positive.

Utilities – Regulated Finances



Historically, Utilities are one of the more stable sectors for income-oriented investors. Regulated by both state and federal agencies, Utilities operate as natural monopolies. Utility companies spend money expanding and upgrading public service systems like water, electricity, and natural gas and then turn those expenses in to state regulators. Regulators then assign a long-term return on equity (ROE) for those funds spent, enabling the entities to slowly recover their investments over the life of the operating asset. This regulated ROE structure leads to highly predictable annual revenues and earnings, albeit weather can annually impact seasonal results to both the upside and downside.

When it comes to stock selection, we prefer Utilities offering investors annual dividend increase potential in the range of 7% to 10%, supported by a reasonable dividend payout ratio. We believe payout ratios of approximately 65% are appropriate for the sector, implying a high percentage of earnings returned to shareholders while leaving capacity for future dividend growth. Utilities' profits have historically grown at a slow pace, which is why payout ratios are key. A utility with a high dividend payout ratio has limited capacity for growth, which could reduce the shares' long-term total return vis-à-vis peers and other dividend payers.

Industrials

Conglomerates with large market capitalizations and decades of dividend history support the backbone of the U.S. economy. Their inherent economic sensitivity drives income-oriented investors to a cyclical segment like Industrials. While profits tend to improve during periods of high economic expansion, most Industrial firms are mature companies with high levels of free cash flow, helping them endure slowdowns and recessions. The range of dividend payments comes from Aerospace & Defense, which accounts for approximately 20% weighting in the S&P 500 Industrials Index and derives nearly all its revenue from government spending. We consider government spending to be one of the more durable annual spending cycles. Industrials also capture exposure to transportation firms leveraged to e-commerce, pure manufacturing of heavy machinery & durable goods, and business & employment services (what we deem as "non-industrial industrials") as well as farm and construction equipment. We view Industrials' various sources of end-market demand as a unique attribute, which supports higher annual dividend increases versus other economic segments. In the table, we point to the top three weights within the Industrial sector (they account for 43.5% of the entire sector), which offer relatively attractive valuation and dividend levels. We are particularly attracted to companies in the Aerospace & Defense industry and Railroads for income-oriented investors.

	Top Industrial Sector Exposure	
Constituent	Dividend %	EV/EBITDA
S&P 500 / Aerospace & Defense	1.5%	20.0x
S&P 500 / Industrial Conglomerates	1.6%	18.6x
S&P 500 / Railroads	1.5%	15.4x
S&P 500 / Industrials	**1.3%**	**19.8x**

Source: FactSet and American Enterprise Investment Services Inc. (data as of June 4, 2021)

Health Care

Although economic uncertainty can spur equity market volatility, these patterns generally do not impact the growing number of annual emergency room trips, the number of aspirin, vitamins, or daily supplements taken. Bandages, prescriptions, and treatment regimens provide a steady base of cash flow generation for the major pharmaceutical companies, making Health Care one of the more formidable sectors for income. Some segments, such as biotechnology and life sciences tools, offer investors little or no income steams since they allocate most of their capital to research and development. However, a vast majority of the Health Care sector offers investors modest dividend growth and stable yields, in our view.

As the table on page 5 shows, the absolute level of cash payments on a per share level for Health Care stocks ranks as the second highest category, only behind Info Tech, which we view favorably.

Further Reading on Dividend Dynamics

This report is part of the Investment Research Group's series on dividend investing. We believe that the topics discussed in this report, in conjunction with the entire series, help build the framework for providing the development and implementation of a sound dividend growth and/or dividend yield strategy. For further reading on other aspects of dividend investing topics, see the reports and resources in the table to the right.

Conclusion

Dividend investing has become a larger proportion of the benefit of owning equities, in our view. Dividends have the potential to significantly improve total returns and enhance risk-adjusted returns to help mitigate volatility. Dividend growth and income can potentially neutralize inflation, produce tax shields, and take advantage of compounding and reinvestment that is generally not available in other income producing investments (particularly fixed income). Our advice remains to start small, grow over time, and remain in the right dividend strategies. Use this report to help determine if specific sectors of the economy make more sense toward achieving long-term investment goals. Whether investing for higher growth dividend profiles or stable income generating sectors, this report should serve as a helpful guide in starting a discussion with your financial advisor.

Additional Resources

- *Attractive Yields & Stable Payouts*
- *Recommended List Investment Strategies*
- *Equity Recommended List and Company Notes*
- *Starting Point Recommended List*
- *Ameriprise Model Portfolios*

Use these reports with your financial advisor to help plan a path for wealth accumulation

Public companies mentioned in the report: Amazon.com (NASDAQ; AMZN; $3,198.01), Tesla (NASDAQ; TSLA; $605.13), JPMorgan Chase (NYSE; JPM; $165.66), Bank of America (NYSE; BAC; $43.12), Citigroup (NYSE; C; $79.31), Wells Fargo (NYSE; WFC; $47.11) AT&T (NYSE; T; $29.08), Version (NYSE; VZ; $57.20), Alphabet (NASDAQ; GOOGL; $2,402.30), Facebook (NASDAQ; FB; $336.58), and Pioneer Resources (NYSE; PXD; $170.71) .

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For additional information on individual companies in this report, see Ameriprise Investment Research Group (IRG) reports and available third-party research which provides additional investment highlights, a price chart and a company description. Also included are key statistics covering income statement and balance sheet metrics, debt ratings, issue data, and consensus estimates. SEC filings may be viewed at sec.gov.

Tactical asset class recommendations mentioned in this report reflect The Ameriprise Global Asset Allocation Committee's general view of the financial markets, as of the date of the report, based on then current conditions. Our tactical recommendations may differ materially from what is presented in a customized long-term financial plan or portfolio strategy. You should view our recommendations in conjunction with a broader long-term portfolio strategy. Not all products, services, or asset classes mentioned in this report may be available for sale at Ameriprise Financial Services, LLC. Please consult with your financial advisor.

Ameriprise Recommended List equities are equities that our analyst(s) believe offer attractive total return potential within their coverage universe based on current conditions. Your financial advisor can assist you with determining the risk profile of the Recommended List companies within the context of your overall investment portfolio. Additions and deletions are at the discretion of the analyst(s) covering the sector, with changes based upon such fundamental factors as valuation, competitive position, market conditions, etc. Furthermore, we have an internal sell discipline designed to potentially improve Recommended List performance and reduce risk. A Recommended List company that has generated returns in the bottom quartile of its respective S&P economic sector for three consecutive months will be flagged for review for possible removal from the Recommended List.

The Sector Recommended List is not designed to be a complete portfolio, but instead to assist in the selection of securities for the equity portion of a well-diversified portfolio. We believe it is important for investors to diversify their investments across asset classes, economic sectors and industries in order to help reduce risk. Please consult with your financial advisor to assist in creating a diversified portfolio that is consistent with your investment objectives.

Recommended List selections and securities markets in general could experience significant volatility due to several factors, including but not limited to: changes in global economic conditions, movements in interest & foreign exchange rates, fluctuations in commodity prices, geopolitical risks, changes in the regulatory & legislative environment (e.g. regulatory capital requirements, changes in tax rates, Medicare, etc.), catastrophes & natural disasters, labor issues, disruptions in the supply chain, merger integration issues, patent expiration, cybersecurity issues, litigation risks, headline risks, changes in distribution, and the loss of key personnel. For additional information please refer to third party research reports. You may experience a loss of principal by investing in equities.

Securities included on our Recommended Lists are selected from the universe of companies covered by AEIS. Approved third party research providers (e.g., CFRA powered by data from S&P Global, Morningstar, Reuters) generally provide additional information on Recommended List companies.

Recommended List selections reflect securities that our analysts believe represent good value based on current conditions. If a security is added to a Recommended List, we deem it to be appropriate for investment. If a security is removed from a Recommended List and you choose to hold the removed security in your investment portfolio, you should continue to review available third-party research sources in order to obtain an investment opinion, price target, and additional fundamental analysis.

For ratings definition purposes, securities included on our Recommended Lists most closely correlate with an investment opinion of "Buy"; therefore, 100% of the securities on our Recommended Lists meet this definition. For purposes of constructing our Recommended List, a rating of "Buy" is defined as those securities that our research analysts believe represent good value based on current conditions. Additionally, we note that each of our respective approved third-party research providers utilizes its own unique rating system, which is disclosed and defined in its own research reports.

RISK FACTORS

Dividend and interest payments are not guaranteed. The amount of dividend payment, if any, can vary over time and issuers may reduce or eliminate dividends paid on securities in the event of a recession or adverse event affecting a specific industry or issuer. Should a company be unable to pay interest on a timely basis a default may occur and interruption or reduction of interest and principal occur.

Investments in a narrowly focused sector may exhibit higher volatility than investments with broader objectives and is subject to market risk and economic risk.

Income Risk: We note that dividends are declared solely at the discretion of the companies' boards of directors. Dividend cuts or eliminations will likely negatively impact underlying company valuations. Published dividend yields are calculated before fees and taxes. Dividends paid by foreign companies to ADR holders may be subject to a withholding tax which could adversely affect the realized dividend yield. In certain circumstances, investors in ADR shares have the option to receive dividends in the form of cash payments, rights shares or ADR shares. Each form of dividend payment will have different tax consequences and therefore generate a different yield. In some instances, ADR holders are eligible to reclaim a portion of the withholding tax.

Quantitative Strategy Risk: Stock selection and portfolio maintenance strategies based on quantitative analytics carry a unique set of risks. Quantitative strategies rely on comprehensive, accurate and thorough historical data. The Ameriprise Investment Research Group utilizes current and historical data provided by third party data vendors. Material errors in database construction and maintenance could have an adverse effect on quantitative research and the resulting stock selection strategies.

PRODUCT RISK DISCLOSURES

American Depository Receipts (ADR) are securities issued by a U.S. bank that typically represent a foreign company's equity and that trade similarly to domestic equities, and are either listed on an exchange or over-the-counter. As with any equity investment, ADRs are subject to market and company specific risks. ADRs will also be subjected to foreign market risks. These risks include possible losses due to foreign currency translation, geopolitical instability, and deviations in the market value of an ADR compared to that of the underlying common shares in its primary market. ADRs may suffer from a lack of investor protection and recourse. In the event of a liquidation of the underlying company, the holders of its ADRs are not guaranteed of being able to enforce their right of claim and therefore they may lose their entire investment. Investors of ADRs may also take on risks associated with the parties involved with the sponsoring Bank.

Growth securities, at times, may not perform as well as value securities or the stock market in general and may be out of favor with investors.

Value securities may be unprofitable if the market fails to recognize their intrinsic worth or the portfolio manager misgauged that worth.

International investing involves certain risks and volatility due to potential political, economic or currency instabilities and different financial and accounting standards. Risks are enhanced for emerging markets.

Master Limited Partnerships (MLPs) concentrate investments in the natural resource sector and are subject to the risks of energy prices and demand and the volatility of commodity investments. Damage to facilities and infrastructure of MLPs may significantly affect the value of an investment and may incur environmental costs and liabilities due to the nature of their business. MLPs are subject to significant regulation and may be adversely affected by changes in the regulatory environment.

Like real estate, REITs are subject, but not limited to illiquidity, valuation and financing complexities, taxes, default, bankruptcy and other economic, political, or regulatory occurrences.

The products of **technology companies** may be subject to severe competition and rapid obsolescence, and their stocks may be subject to greater price fluctuations.

Generally, **large-cap companies** are more mature and have limited growth potential compared to smaller companies. In addition, large companies may not be able to adapt as easily to changing market conditions, potentially resulting in lower overall performance compared to the broader securities markets during different market cycles.

Investments in **small- and mid-capitalization companies** involve greater risks and volatility than investments in larger, more established companies.

DEFINITIONS OF TERMS

Beta: A measure of the risk arising from exposure to general market movements as opposed to company-specific factors. Betas in this report, unless otherwise noted, use the S&P 500 as the market benchmark and result from calculations over historic periods. A beta below 1.0, for example, can suggest the equity has tended to move with lower volatility than the broader market or, due to company-specific factors, has had higher volatility but generally low correlations with the overall market.

Correlation: Correlation is a statistical technique that is used to measure and describe the strength and direction of the relationship between two variables. The correlation statistic is computed using daily price movements from the preceding 12 months.

The **FactSet Consensus** price target represents the average projected price over the next 6 to 12 months, for a particular security, from a universe of broker research that contributes to FactSet. By default, consensus estimates calculated by FactSet are based on estimates that have been validated via broker research within the past 100 days. Brokers who have "dropped coverage" are excluded for all fiscal periods that are not completed.

Price/Book: A financial ratio used to compare a company's market share price, as of a certain date, to its book value per share. Book value relates to the accounting value of assets and liabilities in a company's balance sheet. It is generally not a direct reflection of future earnings prospects or hard to value intangibles, such as brand, that could help generate those earnings.

Price/Earnings: An equity valuation multiple calculated by dividing the market share price, as of a certain date, by earnings per share. Trailing P/E uses the share price divided by the past four-quarters' earnings per share. Forward P/E uses the share price as of a certain date divided by the consensus estimate of the future four-quarters' EPS.

Price/Sales: An equity valuation multiple calculated by dividing the market share price, as of a certain date, by the company's sales per share over the most recent year.

Standard Deviation: In statistics, the standard deviation is a measure that is used to quantify the amount of variation or dispersion of a set of data values. The standard deviation statistic is computed using daily price movements from the preceding 12 months.

Volatility: A statistical measure of the dispersion of returns for a given security or market index. Commonly, the higher the volatility, the riskier the security.

INDEX DEFINITIONS

An index is a statistical composite that is not managed. It is not possible to invest directly in an index.

Definitions of individual indices mentioned in this report are available on our website at ameriprise.com/legal/disclosures/ in **the Additional Ameriprise research disclosures** section, or through your Ameriprise financial advisor.

DISCLOSURES OF POTENTIAL CONFLICTS OF INTEREST

One or more members of the research team who prepared this research report may have a financial interest in securities mentioned in this research report through investments in a discretionary separately managed account program.

DISCLAIMER SECTION

Except for the historical information contained herein, certain matters in this report are forward-looking statements or projections that are dependent upon certain risks and uncertainties, including but not limited to, such factors and considerations as general market volatility, global economic and geopolitical impacts, fiscal and monetary policy, liquidity, the level of interest rates, historical sector performance relationships as they relate to the business and economic cycle, consumer preferences, foreign currency exchange rates, litigation risk, competitive positioning, the ability to successfully integrate acquisitions, the ability to develop and commercialize new products and services, legislative risks, the pricing environment for products and services, and compliance with various local, state, and federal health care laws. See latest third party research reports and updates for risks pertaining to a particular security.

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