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THE WALL STREET TRANSCRIPT

Connecting Market Leaders with Investors

Preserving Capital While Growing Income Over Time

ALEX A. RUEHLE, CFA, is a Partner, Portfolio Manager and Analyst at Denver Investments. Earlier, he worked at First Western Financial Services. He has both a bachelor's degree and MBA from the University of Denver. As an undergraduate, he was elected to the Phi Beta Kappa honor society. He is a member of the CFA Institute and CFA Society Colorado.

SECTOR — GENERAL INVESTING

TWST: Could you please identify yourself?

Mr. Ruehle: Yes, this is Alex Ruehle.

TWST: And could you tell me your title and firm you work for, Alex?

Mr. Ruehle: I am a Partner, Analyst and Portfolio Manager with Denver Investments in Denver, Colorado.

TWST: And could you tell me a little bit about the firm?

Mr. Ruehle: Denver Investments is an independent, 100% employee-owned, research-driven asset management firm. We have dedicated teams that manage institutional and mutual fund assets across growth, value, quantitative, international equities and fixed income investment strategies. We serve as the investment adviser for the Westcore family of funds, and we have managed institutional assets for nearly 60 years.

TWST: Do you work on a specific fund there?

Mr. Ruehle: I work on our value equity team. We manage three domestic dividend-focused value strategies: Small Cap Value Dividend, Smid Cap Value Dividend and Mid Cap Value Dividend. We also work in close collaboration with our quantitative team to manage the Global Large-Cap Rising Dividend strategy.

TWST: Did you want to talk a little bit about the funds?

Mr. Ruehle: I'd love to highlight Global Large-Cap Rising Dividend. I think that strategy could be very interesting to your readers.

TWST: What makes that fund unique?

Mr. Ruehle: This strategy was designed to address the needs of many of today's investors in ways that other approaches do not. We know that investors broadly are seeking income. They also want to participate when the equity markets move higher, but importantly, they want downside preservation when markets decline. Moreover, they're concerned that fixed income markets will experience tremors as the Federal Reserve works toward normalizing interest rates. We've built our product with the goal of meeting these needs — helping investors preserve their capital while growing income over time. We do this by diversifying holdings globally, investing in some of the best companies in the world and focusing on these companies' ability and willingness to grow their dividend in the future.

TWST: The companies that you invest in, they're from all over the world in this fund?

Mr. Ruehle: They are, though our demand for quality franchises tends to lead us to developed markets. We really seek to invest in the cream of the crop, the best companies in the world, if you will.

TWST: Are there some specific regions you're particularly interested in?

Mr. Ruehle: Consistent with our philosophy of risk reduction, we seek to remain diversified geographically. In particular, we pay attention to the revenue exposures that our companies have and avoid making significant bets on regions. At any given time, we will hold roughly 50% of our portfolio weight in non-U.S. domiciled companies. Regions outside of the country that we are invested in include Europe, developed Asia and Australia.

TWST: Has the Brexit vote affected the holdings from Europe?

Mr. Ruehle: That's a great question. Brexit did introduce some volatility. A couple of our U.K. holdings declined disproportionately to what we felt the fundamental impact from the vote would be. So we took advantage of that opportunity and increased the strategy's weight in those positions.

TWST: Did you want to talk about a stock that you find interesting?

Mr. Ruehle: Staying on the European continent, I'd bring up **Novartis AG** (NYSE:NVS), which is a Swiss pharmaceutical company. **Novartis** maintains strong competitive positions across several key therapeutic areas, providing meaningful cash generation and diversification to their business. These areas are branded pharmaceuticals, generic pharmaceuticals, eye care and consumer products. The company controls one of the best product pipelines in all of the pharmaceutical industry, which is underappreciated by the market. In contrast with other pharmaceutical companies, they have relatively limited exposure to patent expirations.

Additionally, management has strived to create a nimble, small-company culture despite the size of the organization. This has enabled them to realize efficiencies and reduce management tiers. Currently, **Novartis** presents a 3.5% dividend yield, and our analysts forecast that their strong cash generation should support 16% dividend growth over the next five years.

TWST: How do they remain competitive with some of the other pharmaceutical companies that are out there? I mean, there are a lot of them, all trying to produce drugs.

Mr. Ruehle: An important way they do that is through their **Sandoz** division, which is one of the largest players in the biosimilar market. Biosimilars receive more intellectual property protection than single molecule drugs. Growth in biosimilars is a key differentiator for **Novartis** and we believe will be a large driver of economics in the years to come.

"The company controls one of the best product pipelines in all of the pharmaceutical industry, which is underappreciated by the market. In contrast with other pharmaceutical companies, they have relatively limited exposure to patent expirations."

TWST: Did you want to mention another company?

Mr. Ruehle: Apple (NASDAQ:AAPL), as you are probably aware, is a California-based consumer electronics company. There are two big-picture points I'd like to make. First of all, we believe the stock has a very attractive valuation. When we began looking at it as it pulled back into the $90 range we concluded that the stock was simply too cheap given the power of its brand coupled with the upcoming iPhone 7 product cycle. At that point the stock was embedding very bearish expectations: 10% annual revenue declines through 2025, while margins were priced to deteriorate from 28% down to 18% — all while we were discounting the cash flows at a conservative 10% cost of capital. This seemed wholly unreasonable and gave us a large margin of safety going into a product launch for which many had low expectations.

Secondly, the company's management team exhibits attractive capital allocation behavior. **Apple** has been reducing shares at a nice pace. Over the past three years they've actually reduced share count by 17%. Moreover, the company started their dividend policy in 2012 with a 6% payout. At the end of 2015, **Apple** was paying out just 21% of earnings in dividends. Considering the low payout, we felt the dividend policy was ripe for a change. Indeed, we have seen 11% compounded annual growth in the dividend over the past four years. **Apple** currently pays a 2% dividend yield, and we anticipate that they will increase their payment at a 10% annualized pace over the next five years.

Highlights

Alex Ruehle talks about the Global Large-Cap Rising Dividend strategy. Mr. Ruehle says this strategy is for investors that want income but also downside preservation for when markets decline. The firm does this by diversifying holdings globally. Mr. Ruehle invests in some of the best companies in the world, and focuses on their ability and willingness to grow their dividends in the future.

Companies discussed: Novartis AG (ADR) (NYSE:NVS); Apple (NASDAQ:AAPL); Koninklijke DSM N.V. (ADR) (OTCMKTS:RDSMY); Edison International (NYSE:EIX); Mondelez International Inc (NASDAQ:MDLZ) and Nestle SA (ADR) (OTCMKTS:NSRGY).

TWST: Is there anything about Apple investors don't realize? The name is certainly very familiar.

Mr. Ruehle: We believe that investors overlook **Apple** as a dividend growth vehicle. To put their dividend into perspective, the company has over $260 billion in cash. That's $47.50 per share or nearly 25 years of dividend payments just sitting in cash. Given management's past behavior, we think that future capital allocation decisions will continue to create value for shareholders.

TWST: Did you want to mention another company?

Mr. Ruehle: Apple may be well-known, but you may not have heard about **Royal DSM** (OTCMKTS:RDSMY). However, if you take vitamin E or omega-3 supplements, then you use their product. **Royal DSM** is a leading Dutch materials company that commands dominant positions in the production of essential ingredients for human and animal nutrition, along with important components used in numerous industrial applications. The company is executing on a strategic turnaround and is driving solid results across both nutrition and materials segments. Consolidated volumes are up solidly, and EBITDA margins have improved well north of 200 basis points so far this year. Cash flow is up a remarkable 70% year to date.

Within their nutrition segment, improvements are being driven by stabilization in vitamin E pricing and strengthening in their infant nutrition division. Their specialty materials segment growth has also been solid, helping both mix and margins. We believe an improved cash generation picture should translate to shareholder returns through dividend increases and share buybacks. Their payout ratio is less than half of free cash flow, and capital expenditures have been moderating. We believe dividend growth is poised to accelerate as the company's refocused strategy drives cash flow higher. They currently yield 3.2%, and we expect the company will be able to generate an annualized 11% growth in their dividend payment over the next five years.

TWST: Do you think they're benefiting from the fact that a large part of the population, at least in the developed world, is more health-conscious and aware of what's good for them or their children?

Mr. Ruehle: Absolutely. I think that's a very strong driver supporting volume growth in their nutrition segment. Their internal focus on boosting the efficiency and quality of their production should build on the strong competitive position that they have created within that growing market.

TWST: Did you want to mention another company?

Mr. Ruehle: I'd like to talk about **Edison International** (NYSE:EIX), which is a California-based public utility. Most utilities are struggling against the backdrop of efficiency improvements, environmental upgrade requirements and demand declines. However, a favorable regulatory environment in California aligns investors in **Edison International** with the state's ambitious goals to modernize the electric distribution grid, integrate rooftop and utility-scale renewable generation, develop battery storage solutions, apply energy efficiency technologies and incorporate electric vehicles. California awards its utilities some of the best allowed returns on equity of any state in the nation and has created mechanisms to ensure timely payback of capital expenditures.

Edison International's clean balance sheet, low payout, and strong and stable cash generation, which derived primarily through transmission assets and less predominantly from riskier generation sources, confer the flexibility to fund its capital program without diluting shareholders through share issuance. The company maintains a below industry-average payout ratio and will support dividend growth through investment in its productive asset base. Currently, **Edison International**

has a 2.7% dividend yield. We believe that its attractive fundamentals will drive 6% dividend growth over the next five years.

1-Year Daily Chart of Novartis AG

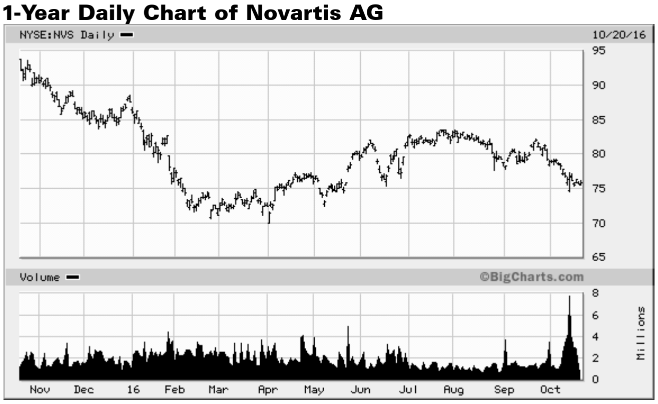

Chart provided by www.BigCharts.com

"People are worried that by investing in high dividend yielders they will be concentrating their investments in relatively few sectors: utilities, REITs, financials and the like. In contrast, a key element of our process is that we do not typically own the highest-yielding stocks within high-yield sectors."

1-Year Daily Chart of Edison International

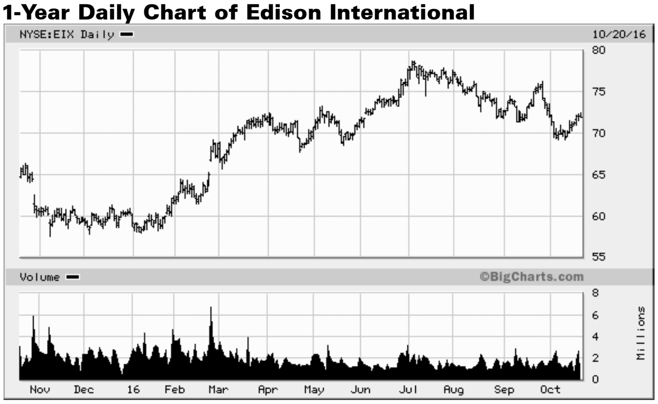

Chart provided by www.BigCharts.com

TWST: Do you think the company needs to be cognizant of what might happen nationally or even in California with any kind of upped regulatory enforcement on utilities?

Mr. Ruehle: That is certainly a risk, and a focus on the regulatory environment is very important to utility investing. We believe that the California Public Utility Commission has taken a very progressive view that balances the incentives for investors and presents a solid path forward for the state in terms of meeting its renewable energy goals.

TWST: As you talk with investors, what are some of the issues and questions that they bring up to you?

Mr. Ruehle: We hear of the need for income, income growth and, in particular, the desire to preserve capital. We've addressed those concerns by combining the best that our quantitative and fundamental teams have to offer. We draw on our quantitative expertise, which we have developed over decades of market experience, to screen for the very best companies in the world. We take an investment universe of approximately 10,000 companies and screen it down to about 100 candidates. From that starting point, our fundamental analysts dig in and focus on each company's financial ability to pay their dividend and willingness to increase it. With that data in hand, we use a proprietary quantitative tool to help us construct a portfolio that balances the prospect of a growing dividend payment and attractive total return against the risk of capital loss.

TWST: Given now where interest rates are, do issues come up related to interest rates when you talk to clients?

Mr. Ruehle: That topic does come up. People are worried that by investing in high dividend yielders they will be concentrating their investments in relatively few sectors: utilities, REITs (Real Estate Investment Trust), financials and the like. In contrast, a key element of our process is that we do not typically own the highest-yielding stocks within high-yield sectors. We accept lower starting yields when they come with more attractive valuations and the ability to grow their dividends over time. We believe this approach achieves less interest rate sensitivity for the strategy.

We have looked historically to assess how a strategy similar to ours would have performed in various inflationary or interest rate environments. This historical analysis reveals that owning large-cap stocks that grow their dividends outperforms in low inflation environments such as today's, and in elevated inflation, as it soon could be. Should the Federal Reserve continue to stimulate the economy and lose some control over the pace of inflation we believe that owning a globally diversified portfolio of dividend-growing companies would outperform the broad market. So we feel that our strategy presents an attractive balance around the risks of inflation and interest rates.

TWST: Do you think this strategy would also work well depending on who is elected president and what approach they might take, either more protectionism or more of the same that we're seeing now?

Mr. Ruehle: Certainly, protectionism and threats to trade could pose a risk to economies and equity markets broadly. That these policies are even being discussed highlights the importance of global diversification in your investments.

TWST: Do you find that those people who are retired or close to retirement also are interested in global equities to diversify their portfolios?

Mr. Ruehle: We find that there is a good appetite among investors for prudent global diversification. Global asset allocations have lost some of their luster as overseas markets have struggled, so we do hear that pushback. Nonetheless, I think that it is important for people to understand the impact that global diversification has on their portfolio over the long haul, that it reduces their risk to currency moves and to the sort of political turmoil that you mentioned earlier. Investors may have some added exposure to one-off events like Brexit, but less to any single country.

So we're finding through our conversations that investors are on the whole comfortable with owning quality businesses that happen to have their headquarters in another country. I often say that if you are considering investing in **Mondelez** (NASDAQ:MDLZ), you should also consider **Nestle** (OTCMKTS:NSRGY) because even through it is headquartered overseas it has less debt, a higher dividend yield and presently trades at a lower valuation.

TWST: How is the outlook for smaller firms as opposed to the larger investment houses for the next few years?

Mr. Ruehle: We think that there is a lot of opportunity in the market for small investment houses. There's been a flood of money into passive investments, and we have all felt the pressure. However, all of that money flow creates opportunities that we believe, as a small and nimble firm, we can take advantage of. I will give you an example. You might be able to identify three or four different passive alternatives to our Global Large-Cap Rising Dividend strategy, but they all invest in a framework that I call dividend momentum. That is, they look backward and find which companies have grown their dividends. These ETFs have crowded into a relatively small number of companies.

On the other hand, we look for companies that can afford to grow their dividends in the future, and we project those dividends forward. So it's a very different framework. Indeed, clients have enjoyed good performance since we've been managing the strategy.

TWST: Thank you. (ES)