The MarketGrader Income U.S. Equity ex-REITs Index

August 2016

The MarketGrader Income – U.S. Equity Index

The objective of the MarketGrader Income Index family is to measure the performance of the highest dividend-yielding companies that satisfy MarketGrader's quality criteria as defined by our proprietary ratings.

The MarketGrader Income – U.S. Equity ex-REITS Index uses a rule-based approach to identify companies that have been consistent dividend payers and are exhibiting increasing dividend yields. The goal of index it to maximize dividend payout while sustaining overall performance.

The MarketGrader Income – U.S. Equity Index Methodology

- U.S. equity universe ex REITS; inception date: 12/31/2007

- All companies rated "Buy" & "Hold" by MarketGrader

- Liquidity screen of at least $2 million in average daily trading volume in past three months

- Annual dividend greater than $0.10; must have paid a dividend in each of the last five years

- Avg. dividend paid in the last 18 months must be greater than the avg. dividend paid in the last 60 months

- 100 companies with the highest yield; no more than 25 companies from a given sector

- Companies are equal-weighted; rebalanced and reconstituted semi-annually

- Buffer of +10 applied at reconstitution to limit turnover

MG Income U.S. Index – Growth of $100

Dividends = $147.97

Price = $$160.55

Total = $237.57
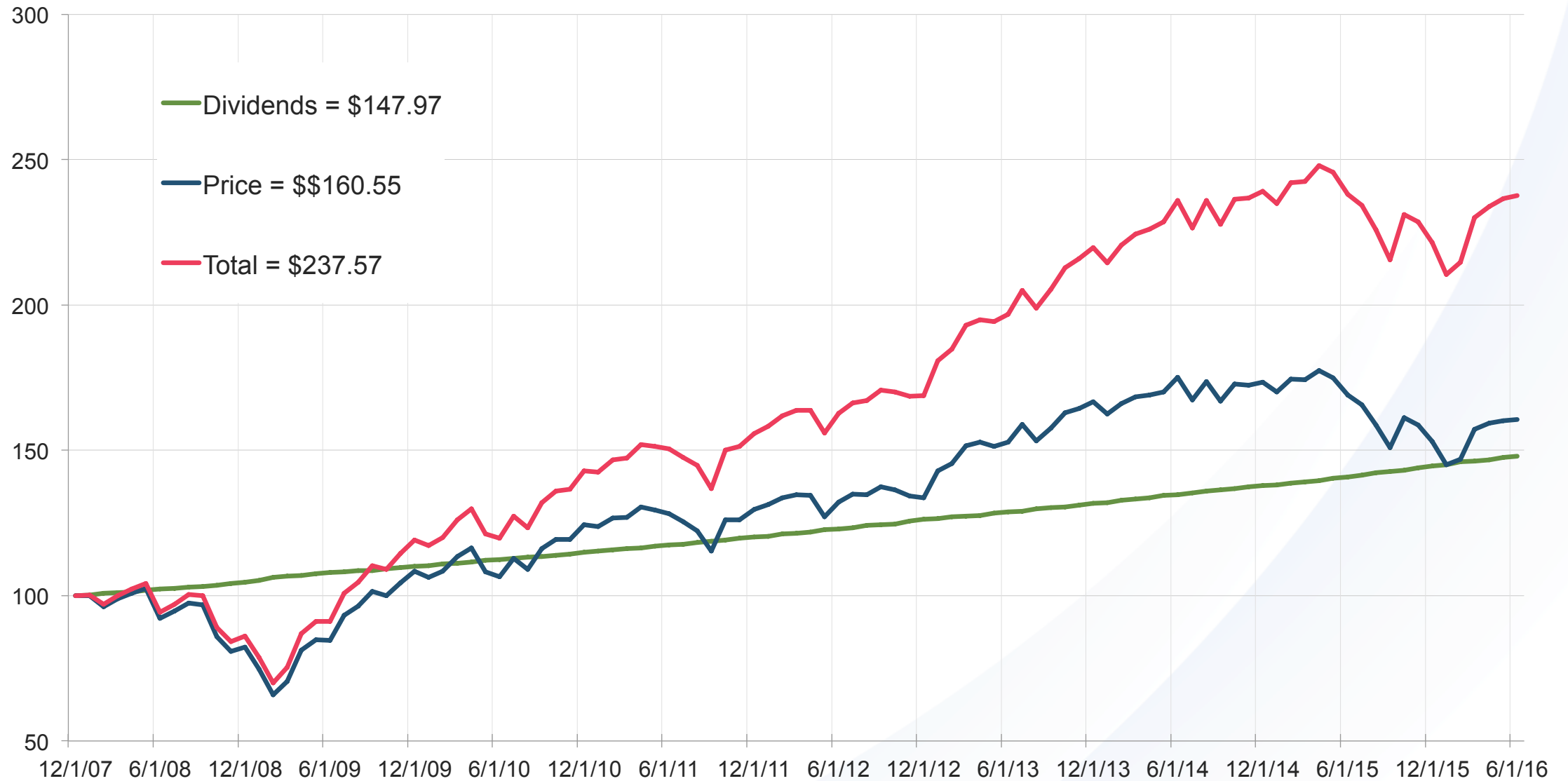
Source: MarketGrader Research.

MG Income U.S. Index: Total Return Performance

Total Return (Ending June 2016)					
	MG Income U.S.	S&P 500 Dividend Aristocrats	S-Net Sector DvdDogs	S&P 500	R1K	R2K
Calendar Year:						
2008	-13.9%	-21.9%	-33.0%	-37.0%	-37.6%	-33.8%
2009	38.4%	26.6%	48.4%	26.5%	28.4%	27.2%
2010	20.0%	19.4%	20.3%	15.1%	16.1%	26.9%
2011	8.9%	8.3%	12.3%	2.1%	1.5%	-4.2%
2012	8.4%	16.9%	11.2%	16.0%	16.4%	16.3%
2013	30.2%	32.3%	35.0%	32.4%	33.1%	38.8%
2014	8.8%	15.8%	15.6%	13.7%	13.2%	4.9%
2015	-7.4%	0.9%	-2.8%	1.4%	0.9%	-4.4%
2016	7.3%	11.5%	14.5%	3.8%	3.7%	2.2%
Annualized:						
One-Year	-0.2%	13.3%	13.4%	4.0%	2.9%	-6.7%
Three-Year	6.5%	14.5%	13.5%	11.7%	11.5%	7.1%
Five-Year	9.6%	15.3%	14.6%	12.1%	11.9%	8.4%
Since Inception	10.7%	11.8%	11.9%	6.6%	6.7%	6.4%
Cumulative:						
Since Inception	137.6%	157.7%	159.5%	72.1%	73.5%	69.4%

Sources: MarketGrader Research, Bloomberg.

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MG Income U.S. Index: Price Return Performance

Price Return (Ending June 2016)							
	MG Income U.S.	MGONE	S&P 500 Dividend Aristocrats	S-Net Sector DvdDogs	S&P 500	R1K	R2K
Calendar Year:							
2008	-17.8%	-45.5%	-24.4%	-36.2%	-38.5%	-39.0%	-34.8%
2009	31.7%	40.9%	22.2%	41.0%	23.5%	25.5%	25.2%
2010	14.8%	19.2%	15.7%	15.0%	12.8%	13.9%	25.3%
2011	4.2%	-0.6%	5.3%	7.3%	0.0%	-0.5%	-5.5%
2012	3.2%	16.6%	13.7%	6.0%	13.4%	13.9%	14.6%
2013	24.7%	41.6%	29.1%	29.5%	29.6%	30.4%	37.0%
2014	4.0%	8.5%	13.1%	11.1%	11.4%	11.1%	3.5%
2015	-11.8%	-6.5%	-1.5%	-6.6%	-0.7%	-1.1%	-5.7%
2016	4.9%	-4.4%	10.1%	12.1%	2.7%	2.6%	1.4%
Annualized:							
One-Year	-5.0%	-16.8%	10.4%	8.9%	1.7%	0.8%	-8.1%
Three-Year	1.7%	5.5%	11.8%	9.0%	9.3%	9.3%	5.6%
Five-Year	4.6%	7.5%	12.4%	9.8%	9.7%	9.6%	6.8%
Since Inception	5.7%	4.5%	8.7%	7.0%	4.3%	4.5%	4.9%
Cumulative:							
Since Inception	60.5%	45.5%	102.5%	77.4%	42.9%	45.2%	50.4%

Sources: MarketGrader Research, Bloomberg.

MG Income U.S. Index: Dividend Return Performance

Dividend Return (Ending June 2016)						
	MG Income U.S.	S&P 500 Dividend Aristocrats	S-Net Sector DvdDogs	S&P 500	R1K	R2K
Calendar Year:						
2008	4.7%	3.4%	4.9%	2.4%	2.3%	1.6%
2009	5.1%	3.6%	5.2%	2.4%	2.4%	1.6%
2010	4.5%	3.2%	4.7%	2.0%	2.0%	1.2%
2011	4.5%	2.9%	4.7%	2.1%	2.0%	1.4%
2012	5.0%	2.9%	4.9%	2.3%	2.2%	1.5%
2013	4.4%	2.4%	4.3%	2.2%	2.0%	1.3%
2014	4.6%	2.4%	4.1%	2.1%	2.0%	1.3%
2015	4.9%	2.5%	4.0%	2.1%	2.0%	1.4%
2016	2.3%	1.3%	2.1%	1.1%	1.1%	0.8%
Annualized:						
One-Year	5.0%	2.6%	4.1%	2.2%	2.1%	1.5%
Three-Year	4.7%	2.5%	4.1%	2.1%	2.0%	1.4%
Five-Year	4.7%	2.6%	4.4%	2.2%	2.1%	1.4%
Since Inception	4.7%	2.9%	4.6%	2.2%	2.1%	1.4%
Cumulative:						
Since Inception	48.0%	27.2%	46.2%	20.4%	19.5%	12.7%

Sources: MarketGrader Research, Bloomberg.

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MG Income U.S. Index: Correlations

Price (Ending June 2016)	MG Income U.S. 100	MGONE	SPDAUDT	SDOGXTR	SPX	R1K	R2K
MG Income U.S. 100	1.00	0.81	0.93	0.94	0.89	0.89	0.89
Dividend (Ending June 2016)	MG Income U.S. 100	MGONE	SPDAUDT	SDOGXTR	SPX	R1K	R2K
MG Income U.S. 100	1.00	-	0.56	0.56	0.85	0.77	0.16
Total (Ending June 2016)	MG Income U.S. 100	MGONE	SPDAUDT	SDOGXTR	SPX	R1K	R2K
MG Income U.S. 100	1.00	-	0.93	0.94	0.89	0.89	0.90

Source: MarketGrader Research.

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MG Income U.S. Index – Key Takeaways

- Price return profile superior to S&P 500, Russell 1000, Russell 2000

- Dividend return profile superior to potential income competitors

- Total return comparable to potential income competitors, 2x S&P 500, Russell 1000, Russell 2000

- Multi-cap portfolio means price returns are not beholden to performance of large caps alone

- Low correlation of dividend income to potential competitors

- Low price correlation to MGONE, making it a suitable complement in U.S. equity asset allocation

- Suitable for two fund versions:

  1. Total Return Fund – reinvestment of dividends, 10.7% annualized return
  2. Income Fund – dividend payout, 4.7% annual income + 5.7% annualized price return

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Appendix – Turnover

Rebalance Year	Rebalance Month	Turnover
2008	March	21
	September	38
2009	March	48
	September	47
2010	March	37
	September	34
2011	March	28
	September	35
2012	March	25
	September	30
2013	March	38
	September	33
2014	March	42
	September	33
2015	March	44
	September	44
2016	March	48
	September	
Average		**35**

Source: MarketGrader Research.

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