



# PURSUING INCOME IN TODAY'S MARKET

When it comes to generating income, bonds are not the only option. A range of income-generating assets may offer more yield and the time-tested benefits of diversification.

Financial advisors use income-generating investments for clients who are retired or approaching retirement. Such investments represent a source of reliable income that retirees can count on. But reliable income isn't the only attractive feature of this strategy. Studies have shown that income can be an important driver of total returns for most asset classes — not just bonds. While bonds are a traditional source of income, they can be risky and overvalued at times, underscoring the potential benefit of a multi-asset approach that includes stocks.

### Income drives investment returns

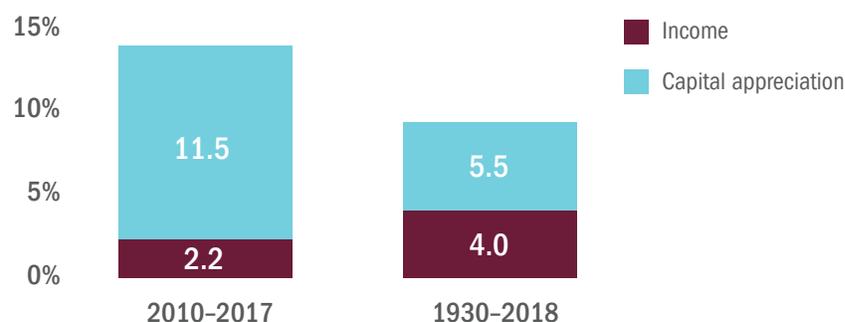
It may come as a surprise to some, but income is a significant component of equity returns. In the short term, equity market returns are driven by movement in stock prices. But over longer periods of time, dividends — the income-generating component of equities — can provide even greater returns than stock price appreciation. In fact, dividend income accounted for over 40% of equity returns since 1930. More recently, stock appreciation has been strong, and dividends have played a less important role in total return. From 2010–2017, dividends contributed just over 15% of total return, because it was a bull market and stock prices were increasing. As we return to more normal expectations for equity growth, dividends may again make up a larger portion of investors' total return.

Melda Mergen, deputy global head of equities, often discusses how finding income in equity markets doesn't mean you need to focus solely on the sectors that tend to deliver higher dividends, such as consumer staples or utilities. Income is an important component of equity returns across the entire stock market.

For fixed income, over a period as short as five years, well over 90% of the returns comes from the coupon, which is the income component of bonds. Since this will primarily determine returns, the focus within fixed income tends to be on finding sectors that provide the best value.

### U.S. EQUITY MARKET AVERAGE ANNUAL RETURNS: INCOME VS. CAPITAL APPRECIATION

Going back to 1930, more than 40% of returns have come from dividend income.



Source: Ned Davis Research as of 12/31/18. U.S. equities represented by the S&P 500 Index, which tracks the performance of 500 widely held, large-capitalization U.S. stocks. Past performance is not a guarantee of future results. It is not possible to invest directly in an index.

### Diversify your income sources

Diversification is as important for an income-generating strategy as it is for any other investment goal. A well-diversified multi-asset portfolio may generate more income for the risk taken compared with stocks or bonds alone. It's the result of thoughtfully combining asset classes with low correlation to each other. As many of us know, too much exposure to one part of the market can be dangerous.

Advisors often gravitate toward parts of the financial market that have an attractive yield component, even though these areas can contain significant volatility. This is true within the fixed-income portion of a multi-asset income portfolio. As Colin Lundgren, global head of fixed income, says, "I worry that investors stretch for yield at the wrong time. They're taking a risk in some of the lowest quality rungs of the corporate bond market or investing in emerging market countries they can't point to on a map."

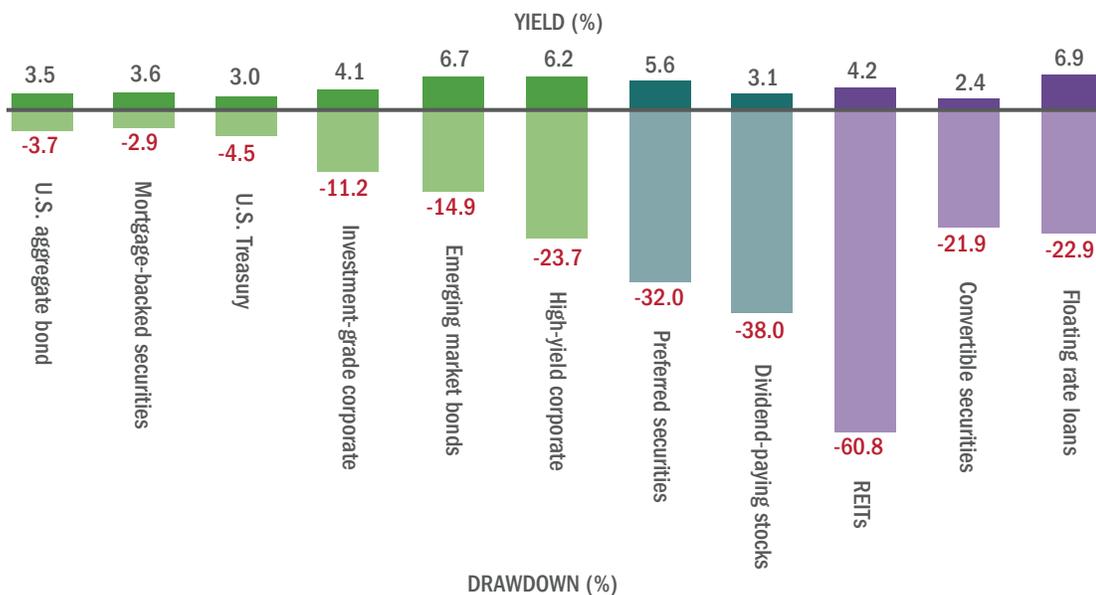
It's critical to recognize the potential for volatility when it comes to a portfolio focused on single asset classes. A portfolio based around a multi-asset framework can achieve higher income and lower its overall volatility by holding bonds, equities and less traditional asset classes.

### Tactical portfolio management

There are other, less conventional ways of eking out more income. One strategy is to invest in preferred and convertible securities, which, over the long term, may improve the performance of portfolios while potentially reducing the level of overall risk. Indeed, a well-structured multi-asset portfolio can access income from across the entire capital structure of a company's balance sheet.

### CURRENT YIELD AND 10-YEAR MAX DRAWDOWN ACROSS ASSET CLASSES

Higher yielding assets can have bigger losses, measured by drawdowns.



Source: Bloomberg, FactSet, Barclays, Columbia Threadneedle Investments. As of 09/30/18. Current yield represented as yield to worst for fixed income and current dividend yield for equity. Using weekly data. Updated on a quarter lag. See disclosure for indices used to represent asset classes. Drawdown represents a peak-to-trough decline in values during a specified time period.

Active management of an income portfolio is critical. Our preference is to be thoughtfully tactical so you're able to capitalize on compelling opportunities when they arise — for example, underweighting bonds when they appear overvalued and overweighting other assets in higher yielding parts of the market when they've reached a desired value.

A multi-asset approach that's tactically managed may give investors access to a more secure, less volatile income stream.

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## 4 Fundamentals of Dividend Investing

### 1. Dividend growth.

When investing for dividends, it's important to consider a disciplined strategy that focuses on dividend growth rather than just yield. A high-yield strategy doesn't necessarily translate into a reliable stream of income because the highest yields may not be sustainable. We believe the best opportunity for success in a dividend strategy is with the stocks of companies that can sustain and grow their dividend over time. Additionally, returns from these stocks generally have less variability.

### 2. Sustainable free cash flow.

Companies need cash, not only to pay dividends but also to grow their business. If a corporation generates cash returns that exceed what it needs to grow its asset base (i.e., if the company is left with free cash flow), then it will have the firepower for dividend growth. Dividends that aren't supported by free cash flow may not be sustainable.

### 3. Payout ratio.

Investors often look to the payout ratio based on a company's earnings, but this can be misleading since earnings are based on accrual accounting, which can be manipulated. To assess a company's true potential to grow dividends and avoid dividend cuts, we prefer to focus on the percentage of annual operating free cash flow consumed by the dividend.

### 4. Active management.

Assessing a company's ability to raise its dividend is critical. A history of paying dividends doesn't necessarily mean a company can increase or even maintain a dividend in the future. For example, many banks had a long history of paying and even growing dividends prior to the great financial crisis, but excess leverage forced most of them to cut or eliminate them. Active management, supported by fundamental sector research, can help identify and avoid these types of situations.

Dividend payments are not guaranteed and the amount, if any, can vary over time.

## Columbia Dividend Income Fund earns 2019 Lipper Fund Award | Institutional 3 Class shares

### A top-performing fund in five-year performance

We are pleased to announce that Columbia Dividend Income Fund received a prestigious 2019 U.S. Lipper Fund Award for top performance in Lipper's Equity Income Funds category (118 funds, 5-year performance). The award is presented to one fund in each category for consistently strong risk-adjusted performance against category peers.



## LIPPER FUND AWARDS FROM REFINITIV

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### Past performance is not a guarantee of future results.

Institutional 3 Class shares are sold at net asset value and have limited eligibility.

Source: Lipper, Inc. for the five-year period as of 12/31/18, Class Institutional 3 shares. A Lipper Fund Award is awarded to one fund in each Lipper classification for achieving the strongest trend of consistent risk-adjusted performance against its classification peers over the five-year period ended 12/31/18.

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**Investing includes risk, including the risk of loss of principal.**

**Diversification does not assure a profit or protect against loss.**

Columbia Threadneedle Investments does **not** offer tax or legal advice. Consult with a tax advisor or attorney.

**Investment risks:**

**Market risk** may affect a single issuer, sector of the economy, industry or the market as a whole. **Value** securities may be unprofitable if the market fails to recognize their intrinsic worth or the portfolio manager misgauged that worth. **Foreign** investments subject the fund to risks, including political, economic, market, social and others within a particular country, as well as to currency instabilities and less stringent financial and accounting standards generally applicable to U.S. issuers. **Dividend** payments are not guaranteed and the amount, if any, can vary over time. A rise in **interest rates** may result in a price decline of fixed-income instruments held by the fund, negatively impacting its performance and NAV. Falling rates may result in the fund investing in lower yielding debt instruments, lowering the fund's income and yield. These risks may be heightened for longer maturity and duration securities. The fund may invest significantly in issuers within a particular **sector**, which may be negatively affected by market, economic or other conditions, making the fund more vulnerable to unfavorable developments in the sector.

The shown asset class descriptors reference the following indices: Bloomberg Barclays U.S. Aggregate Bond Index (Aggregate Bonds), Bloomberg Barclays U.S. Mortgage-Backed Securities Index (Mortgage-backed securities), Bloomberg Barclays U.S. Treasury Index (U.S. Treasury Bonds), Bloomberg Barclays U.S. Aggregate Corporate Bond Index (Investment Grade Corporate), JP Morgan Emerging Markets Bond Index Global (Emerging Market Bonds), Bloomberg Barclays U.S. High Yield Corporate Bond Index (High yield), S&P U.S. Preferred Stock Index (Preferred stocks), MSCI USA High Dividend Yield Index (Dividend paying stocks), MSCI U.S. REIT Index (Real estate investment trusts), BofAML All Convertible All Qualities Index (Convertible securities), Credit Suisse Leveraged Loan Index (Floating rate loans).

The **Bloomberg Barclays U.S. Aggregate Corporate Bond Index** consists of publicly issued, fixed-rate, nonconvertible, investment-grade debt securities. The **Bloomberg Barclays US Aggregate Bond Index (U.S. Aggregate)** is a broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and non-agency). The **Bloomberg Barclays U.S. Mortgage-Backed Securities Index** includes 15- and 30-year fixed-rate securities backed by mortgage pools of Government National Mortgage Association (GNMA), Federal Home Loan Mortgage Corporation (FHLMC) and Federal National Mortgage Association (FNMA). The Bloomberg Barclays US Treasury Index ("U.S. Treasuries") measures US dollar-denominated, fixed-rate, nominal debt issued by the US Treasury. The **JPMorgan Emerging Market Bond Index** tracks total returns for traded external debt instruments in emerging markets and is an expanded version of the JPMorgan EMBI+. As with the EMBI+, the EMBI Global includes U.S.-dollar-denominated Brady bonds, loans and eurobonds with an outstanding face value of at least \$500 million. It covers more of the eligible instruments than the EMBI+ by relaxing somewhat the strict EMBI+ limits on secondary market trading liquidity. The **Bloomberg Barclays U.S. High Yield Corporate Bond Index** represents the universe of fixed rate, non-investment grade debt. The **S&P U.S. Preferred Stock Index** is designed to serve the investment community's need for an investable benchmark representing the U.S. preferred stock market. Preferred stocks are a class of capital stock that pays dividends at a specified rate and has a preference over common stock in the payment of dividends and the liquidation of assets. The **MSCI High Dividend Yield Index** aims to capture the high dividend yield equity opportunity set within a standard MSCI parent index by including only securities that offer a higher than average dividend yield (i.e. at least 30% higher) relative to that of the parent index and that pass dividend sustainability and persistence screens. The **MSCI US REIT Index** is a free float-adjusted market capitalization weighted index that is comprised of equity Real Estate Investment Trusts (REITs). The **Bank of America Merrill Lynch All Convertibles All Qualities Index** is a widely used index that measures convertible securities' performance. It measures the performance of U.S. dollar denominated convertible securities not currently in bankruptcy with a total market value greater than \$50 million at issuance. Floating rate loans are represented by the **Credit Suisse Leveraged Loan Index**, also known as the Bank Loan Index, which provides broad and comprehensive total return metrics of the universe of syndicated term loans.

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The **Standard & Poor's 500 Index (S&P 500 Index)** is an unmanaged list of common stocks that includes 500 large companies.

The **Bloomberg Barclays U.S. Aggregate Index** is an index composed of approximately 6,000 publicly traded bonds, including U.S. government, mortgage-backed, corporate and Yankee bonds with an average maturity of approximately 10 years. The index is weighted by the market value of the bonds included in the index. This index represents asset types, which are subject to risk, including loss of principal.

\* In U.S. dollars as of December 31, 2018. Source: Ameriprise Q4 Earnings Release. Contact us for more current data.

Past performance does not guarantee future results. It is not possible to invest in an index.

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