Why Dividend Growth Matters

According to the Cambridge Dictionary, a dividend is a payment by a company of a part of its profit to the people who own shares in the company. A part of the profit indeed! But how big a part? Some companies with plenty of profit don't even pay a dividend. Others, with little or no profit, pay a dividend that exceeds the company's profit. Why the disparity?

Tandem has always believed that dividend policy tells investors a great deal about the way a company treats its shareholders. Each company must decide what, if any, dividend it will pay to shareholders, and how much profit is appropriate to share.

Some companies prefer to retain all of their earnings to reinvest them in the business. These companies tend to have greater opportunities for growth than most, or they exist in a hyper-competitive and ever-changing industry. There is merit to this decision, but for this conversation, we will focus on those companies that do share a portion of their profit.

POTENTIAL BENEFITS

- If a company can increase the cash flow it pays to investors in the form of dividends, the value of that company is likely to grow.
- Since the end of World War II, roughly 40% of the S&P 500's total return can be attributed to dividends.
- Dividend growth is a by-product of good corporate management, which we require.
- We seek companies that grow and reinvest in future growth. This makes dividend growth sustainable.

Dividends can be quite impactful on total return. In fact, since the end of World War II, roughly 40% of the S&P 500's total return can be attributed to dividends. They are clearly an important component of total return. Some investors value dividends chiefly for the income they produce. Dividend yield is what they seek and growth would just be icing on the cake. Others believe that dividend growth is the Holy Grail and the best way to potentially produce consistent and superior returns. Tandem falls in the growth camp, not the income camp.

Tandem pays little attention to dividend yield. In fact, we find that many (though certainly not all) high dividend stocks pay such a high dividend for one of two unfortunate reasons: either they choose not to reinvest enough earnings to provide for future growth, or the dividend is potentially in danger of being reduced.

Many dividend growth investors value dividend growth so much that they make it their primary objective in screening stocks. There is even an index called S&P 500® Dividend Aristocrats® that includes all S&P 500 companies that have paid and grown their dividend annually for at least 25 years. There are currently 57 companies that meet this criteria and are included in the index.

Tandem takes a considerably different view of dividend growth. While we require dividend growth for any company in the Fund, we do not seek dividend growth. We seek companies that consistently grow earnings, revenues and cash flow through any economic environment. For these companies, dividend growth is a by-product of good corporate management. Unlike most dividend growth investors, we do not seek dividend growth, we require it. More importantly, we seek companies that grow and reinvest in future growth. This makes dividend growth sustainable.

It is our belief that companies producing the results that we demand may produce a more consistent, repeatable investment experience. It is our opinion that if a company can increase the cash flow it pays to investors in the form of dividends, the value of that company is likely to grow. And if that company can repeat this growth in dividends year after year, it is even more likely that the value of the company will increase.

And this is the beauty of Tandem's approach to dividend growth. We don't seek it. We don't try to identify it. We simply demand it of any company that grows earnings, revenues and cash flow over any economic cycle. Without all these qualities, a company cannot be in the Fund.

We believe that Tandem's distinct approach to dividend growth - identifying growing companies rather than growing dividends, and then demanding dividend growth - may produce a consistent, repeatable and less volatile experience. Less volatility means that investors are more likely to stay invested, even in the most volatile times. Some may enjoy the excitement of being the hare, but we all know that the tortoise wins the race.

The opinions expressed are those of the Fund's Sub-Adviser and are not a recommendation for the purchase or sale of any security.

S&P 500® Dividend Aristocrats® measure the performance of S&P 500 companies that have increased dividends every year for the last 25 consecutive years.

The Fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The prospectus contains this and other important information about the Fund, and it may be obtained by calling 1-877-743- 7820, or visiting www.castleim.com. Read it carefully before investing. Distributed by Rafferty Capital Markets, LLCGarden City, NY 11530.

The risks associated with the Fund are detailed in the Fund's Prospectus. Investments in the Fund are subject to common stock risk, sector risk, and investment management risk. The Fund's focus on large-capitalization companies subjects the Fund to the risks that larger companies may not be able to attain the high growth rates of smaller companies. Because the Fund may invest in companies of any size, its share price could be more volatile than a fund that invests only in large-capitalization companies. Fund holdings and asset allocations are subject to change and are not recommendations to buy or sell any security.