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Interview with the Dividend Growth Portfolio Manager

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Interviewer: Will you tell us a little bit about your personal investment philosophy/approach?

Jon Christiansen, CFA: I am a quality-at-a-reasonable-price investor. What I mean by this is that I search for companies with above-average quality relative to their peers or sector that can also be owned at attractive relative valuations. I am a price-sensitive investor, and I am careful about what I'm willing to pay for a stock. I think about valuations relative to historical relationships but am willing to accept higher than historical valuations in cases where the underlying business quality has improved from the past. In my opinion, high-quality companies are those with sustainable, solid growth in high-profit businesses and shareholder-friendly management teams. These factors can be observed through metrics that examine free cash flow growth and stability, but also through scrutinizing management teams' capital allocation policies. I am always looking for businesses that allocate capital prudently in their dividend payments, share repurchase, balance sheet maintenance, and reinvestment back into their business models.

As the Portfolio Manager, how does your personal investment philosophy align with that of Crawford Dividend Growth strategy?

My investment philosophy is highly aligned with that of the Dividend Growth strategy, which seeks to own a concentrated group of high-quality, attractively valued, dividend-paying stocks and collectively participates in most areas of the economy. And actually, I'll add that it was the firm's strong investment philosophy coupled with the smaller/medium-size investment team that attracted me to Crawford in the first place.

What are the investment objectives the Dividend Growth strategy is seeking to satisfy?

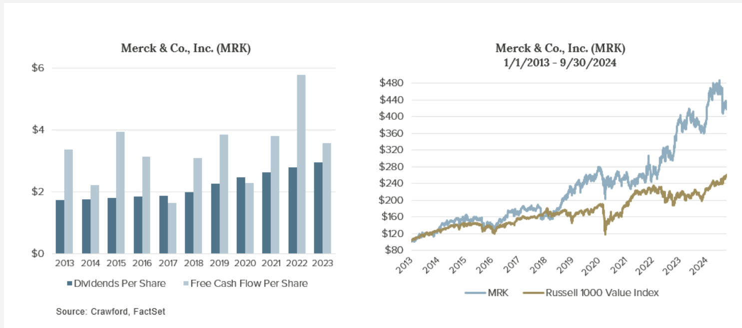
Our strategy objectives are upside participation, downside protection, and income generation. Over our forty-plus-year history, we've generated competitive investment returns in strong stock market environments, clearly outperformed in most negative market environments, and delivered an above-market level of income for our clients.

Can you talk more about how a company's dividend-paying history can be an indicator of underlying business strength and quality?

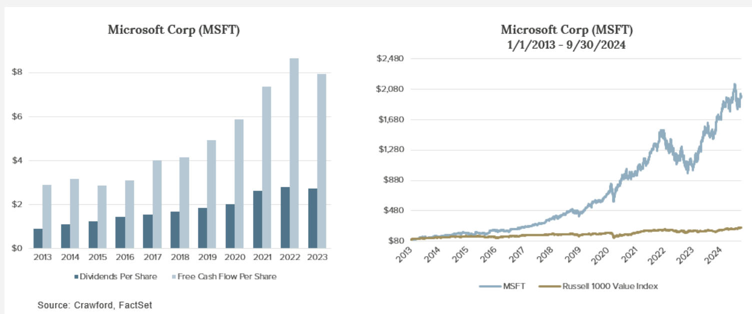
Dividends represent an obligation to return a certain portion of business success to shareholders and are funded through cash flow generation. On another note, companies who fail to deliver on this obligation by reducing or eliminating dividend payments tend to have poor stock performance. Putting these together, companies who can establish a long-term track record of paying stable to rising dividends through different types of operating environments provide evidence to investors that they possess the business strength to continue rewarding shareholders into the future.

Can you give a few examples among the strategy's current holdings?

Merck is a leading global pharmaceutical business which manufactures some of the most successful drugs in the world. Merck boasts a 45-year dividend-paying history, which includes dividend growth at a 6% rate over the past decade and 8% over the past five years. Merck's dividend growth has been easily funded through free cash flow generation most years. This has occurred alongside reinvestment in drug development to sustain future growth. As fundamental progress, including strong dividend growth, has been sustained over time, investors have taken notice, and Merck's stock price has appreciated as well.



Microsoft is a global software giant with numerous dominant market positions. Microsoft has been paying a dividend for over 20 years with 10% dividend growth over the past five and 10 years. The company's dividend growth is easily financed by steadily increasing free cash flow, and the combination of elevated growth and predictability has been clearly rewarded by the investment community.



Besides a consistent dividend-paying history, what are some other characteristics of high-quality companies?

High-quality companies possess differentiated business models. This is generally evidenced by leadership positions in growing and high entry-barrier businesses with products and services that promote high and consistent profitability, financial returns, and cash flow. Strong cash flow provides the resources for both reinvestment for future growth as well as capital return to shareholders while contributing to balance sheet strength. Management teams are important as well in terms of their degree of operational acumen, conservatism in financial planning, and shareholder friendliness.

Can you talk specifically about the Dividend Growth universe and your due diligence process? What are the initial screens? How does it work from there?

Given our belief that companies with long track records of paying stable to rising dividends indicate quality, our initial screening involves identifying businesses that have maintained or grown their dividends over at least the previous ten years. It is worth noting that we will not invest in any stock that doesn't satisfy this dividend criteria. We also control risk through a minimum market cap requirement of $5B, which tilts our universe towards larger, more established businesses that tend to have a greater propensity to successfully grow while returning capital to shareholders over time. In general, larger stocks tend to be less volatile.

While we also screen on other quality metrics such as earnings variability, financial returns, and a broader measure of shareholder-friendly behavior, the main force in our research process is our highly experienced and stable team of sector analysts. Our team investigates companies in their areas of coverage using a common investment philosophy and through the lens of quality in order to uncover the best candidates for ownership.

What is the role of Crawford's Total Shareholder Return (TSR) framework in the context of your portfolio management process?

Our TSR framework is an integral part of our decision-making process and highlights the cohesiveness and expertise of our research team. Each team member builds and maintains a multiyear fundamental outlook for revenue, profit, and earnings per share growth for all owned companies and candidates within their coverage. We also provide perspective on a reasonable course of valuation over the same time frame. This outlook, along with the stock's dividend yield, is considered to form a potential total shareholder return figure. These figures can be used to make comparisons across all other portfolio holdings and candidates to help gauge relative attractiveness. If TSR potential deteriorates for a given holding due to any combination of slowing fundamental growth, falling dividend yield, or rising relative valuations, the security is evaluated to determine if the portfolio would be better positioned by reducing the position size or selling the stock in favor of stocks with greater TSR potential. I'll also add that most of Wall Street uses price targets, and we find our methodology to be far superior because it not only defines the components of total return but also incorporates them and utilizes a rolling time horizon.

To quantify the investment opportunity you foresee at the portfolio level, can you tell me what the portfolio TSR is today and discuss the various components?

Today, the TSR for our portfolio looking out over the next three years is somewhere around 13.2%. To get this figure, we take the sum of expected earnings per share, dividend yield, and change in valuation in aggregate for the companies owned in the portfolio. The dividend yield for our strategy is around 2.4%. If we add this to earnings growth, which is around 9.3% on average for the companies owned, and factor in an average valuation expansion of around 1.5% for the companies owned, we end up at this 13.2% figure. We are looking at TSR figures for each of our individual holdings on a far more detailed basis, but maybe talking about this in aggregate for the portfolio will help you understand how it works.

How do you know when the risk/reward tradeoff for an investment is positively skewed?

We evaluate stocks based on fundamental development as well as relative valuations. A positively skewed investment case emerges when the combination of reasonable expected growth in earnings or free cash flow in the coming years and the perceived likely course of valuation clearly exceeds the downside risk if growth and valuation don't materialize as anticipated.

In conclusion, what kind of investor is the strategy appropriate for?

Our strategy is a great fit for investors who are seeking a value-oriented approach that does well when markets are strong and protects when they are weak. We tend to attract investors who appreciate what income and growth of income can do for a portfolio and those who are willing to consider risk-adjusted returns.