REPRINTED FROM JANUARY 21, 2013

THE WALL STREET TRANSCRIPT
Connecting Market Leaders with Investors

Investing in Attractive Valuations and Consistent Dividends

LUIS M. RAPOSO, CFA, is a Founder of Shorepoint Capital Partners and has 27 years of financial services experience. He has managed growth equity portfolios for over 14 years. As a Portfolio Manager at Choate Investment Advisors for more than seven years, he managed $400 million in client assets and the Core Equity Model. He previously worked for Gannett Welsh & Kotler as Vice President, Portfolio Manager and Director of Equity Research, and was the Lead Manager for the GWK Large Cap Growth Strategy and the GWK Large Cap Growth Fund. Mr. Raposo also worked for Fidelity Investments for almost 10 years. He held the position of Director, Equity Research, for Fidelity's investment advisory affiliate, managed a large-cap growth portfolio and performed fundamental equity research. He is a CFA charterholder and a member of the CFA Institute and the Boston Security Analysts Society. He earned an MBA from Suffolk University, where he was a member of Delta Mu Delta, the National Honor Society, and he has a B.S. from the University of Massachusetts.

SECTOR — GENERAL INVESTING

TWST: Please introduce us to Shorepoint Capital Partners, and the products and services it offers.

Mr. Raposo: I cofounded Shorepoint Capital Partners with my partner, Tim Vanech. Shorepoint is a wealth management firm, managing taxable and tax-exempt accounts. We provide financial planning services for high net worth clients and also consult for small businesses on their 401(k) retirement planning. We manage all the money internally, primarily using individual securities, supplemented with mutual funds and ETFs for diversification and to gain exposure to other asset classes. We have right now about $125 million in assets.

TWST: Tell us a little more about yourself and your background.

Mr. Raposo: I've been in financial services for about 27 years. I worked at Fidelity for almost 10 years, at Gannett Welsh & Kotler, and Choate Investment Advisors managing individual client portfolios. I got together with Tim Vanech, and we started the firm in the fall of 2009. Tim has 17 years' experience and was working at an independent broker/dealer. We emphasize personalized client service, providing financial planning and customizing investment solutions to help clients achieve their long-term goals. Tim and I are trying to address what we believe is an opportunity in the marketplace — providing clients with core portfolios of individual securities and access to the decision makers. We think our skills allow us to provide that to clients, giving them access to very experienced individuals and that provide high-touch service.

TWST: What is the investment philosophy and approach you use in building these portfolios?

Mr. Raposo: We try to maximize after-tax returns through what we consider a common-sense approach to investing. We focus on providing transparency, generating income and minimizing risk. Using a baseball analogy, we're trying to hit singles and doubles, and not trying to hit home runs. We're trying to provide consistent returns year in and year out. We blend some secular growth themes with fundamental analysis to select what we think are attractive companies that have a margin of safety, which allows us to hold companies longer term, as we try to keep costs down and turnover low. We have a very high focus on dividends and dividend growth. We invest in companies with consistent dividends that provide cash flow for our clients. We also supplement our portfolios with

other asset classes, as opportunities present themselves, such as emerging markets or small-cap stocks. Our portfolios are all individually managed, with a lot of consideration to the client's investment profile, risk tolerance, income needs and tax situation, among other things.

TWST: What do you think gives you an edge over your peers in that space?

Mr. Raposo: By taking a longer-term approach, we're not trading in and out of stocks. We're more patient. We invest in companies that are established. They tend to have a long track record of earnings growth and continued potential to grow their earnings, attractive valuations, a robust cash flow, as well as consistent dividends with an opportunity for growth. We also tend to have an allocation in each portfolio to stocks that are out of favor, either due to company-specific issues or sector basis. We think that mitigates some of the risk in the portfolios. We are very focused on risk management, which is another reason that we utilize high-quality, dividend-paying stocks. These stocks are generally 25% to 30% less volatile than the S&P 500 Index as a whole. An income focus fits in really well with our clients' cash flow goals and needs, especially in the retirement years. It minimizes worries about market volatility when we can meet most of their income needs through dividends and their other income sources.

Highlights

Luis M. Raposo, CFA, a Founder of Shorepoint Capital Partners, shares his ideas on investing, both in general and for 2013. He partners with Tim Vanech to run Shorepoint, a wealth management firm in Massachusetts that manages clients' money internally, with a focus on individual securities. Mr. Raposo discusses the benefits of dividend-paying stocks and the construction of lower-risk portfolios that provide income with a slice of growth. He also names several of his favorite stocks for 2013.
Companies include: McDonald's (MCD); Procter & Gamble (PG); Philip Morris International (PM); Alerian MLP ETF (AMLP); Vodafone Group (VOD) and Verizon Communications (VZ).

TWST: Is that focus on dividend-paying stocks something you have done regularly over the years?

Mr. Raposo: Right, we have a dividend income strategy, with a current yield of about 3.9%. Clients who want a little more growth can choose a growth-at-a-reasonable-price portfolio, with a 2.8% current yield. Both offer substantially higher yields than the S&P 500 Index, not to mention U.S. Treasuries. It also gives clients some downside protection during corrections and gets their focus away from the daily ups and downs of the market.

For example, **McDonald's** (MCD), **Procter & Gamble** (PG) and **Philip Morris International** (PM) all grew their dividends in 2008. Clients are looking for yield, especially with bond and cash so low, but by investing in solid companies with good fundamentals and attractive balance sheets, clients can focus on their goals and not the latest market headline.

TWST: How do your clients feel about the market these days? And beyond that dividend focus, how do you keep them focused on the long term?

Mr. Raposo: I think clients are generally very nervous with all the media headlines from Europe, Washington D.C., CNBC and the others adding to the nervousness factor. We attempt to keep them calm in a couple of ways. One, our performance has actually been good. A lot of them think they're losing money because of what they're hearing in the news, but when we sit down with them, they realize they're actually making money. We spend a lot of time communicating with them, providing that kind of information in newsletters, reports and our Web site. We also provide real-time information on the projected income of their portfolios. We spend most of our client meetings discussing their financial plan and goals. The investments are the means to get there. We try to keep it from being a stock-by-stock discussion, and focus on what are we trying to accomplish as a whole. I think that's much more productive. I think that resonates well with clients.

Clients are worried about being able to retire, paying college expenses or other day-to-day needs, and the big picture resonates better than worrying about whether this stock is up or this stock is down. This focus has been helpful in building relationships with our clients, and I think it's allowed them, in periods of downturns, to stay the course. Plus, as I said, the dividend portfolios have gone down less than the market during corrections. Most of our portfolios are balanced portfolios, includes a bond allocation, which enables clients to feel more comfortable in tougher economic times.

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TWST: Is that something you emphasize even more in the environment of the past few years?

Mr. Raposo: It's always been a staple of our approach, but to be honest, I think we've emphasized that more over the last couple of years. Our clients have been concerned with the volatility in the marketplace, and that's where the financial planning comes in: What are their goals? What are they trying to accomplish? What are their income sources/needs? Can we meet 100% of their income needs, between all their income sources, including portfolio dividends? If we can, then it makes the client less susceptible to the market's ups and downs. The equity market may correct 10%, but a client's income doesn't have to change as long as we're picking high-quality companies with solid track records, and paying and growing dividends.

TWST: In your third-quarter newsletter you wrote, "Overall, we're defensively positioned, although we have higher equity weightings than our target." Do you use a certain target?

Mr. Raposo: Generally, we work with each client to identify whether they should be invested in conservative, moderate or growth portfolios, and whether a high dividend or dividend-growth focus is most appropriate for them. For each portfolio, we have neutral target mix between equities and fixed income. Generally, in all of our portfolios, we're 5% to 10% overweighted in equities to our target due to the relative attractiveness of stocks versus bonds. You can actually get higher

yields in some stocks than in bonds right now, and with the added potential for dividend growth.

Obviously, cash is not really a viable investment right now. We're not a market timer, so what we try to do is make small tactical changes. You'll generally see us buying more stocks on pullbacks rather than selling on pullbacks. We spend a considerable amount of time to get the asset allocation right for each client and take a longer-term view. Generally, we've stayed overweight in equities, and on pullbacks, we've accelerated that process; our clients have benefited from our disciplined approach.

1-Year Daily Chart of McDonald's

Chart provided by www.BigCharts.com

TWST: Would you paint a broad-brush picture of your expectations for 2013?

Mr. Raposo: We're generally optimistic on the equity side. We think that valuations, dividends and potential dividend growth could drive the equity market higher from the current levels. But we also think there's going to be continued volatility, between Europe, the U.S. debt ceiling talks, and the list goes on and on. This provides a "wall of worry" for the market to climb, and the negative sentiment is reassuring to our contrarian nature. We look at pullbacks as opportunities to reallocate portfolios and/or buy individual stocks that look attractive.

We continue to be cautious on the bond side. We've generally eliminated U.S. Treasuries and redeployed proceeds into global, emerging market and mortgage-backed bonds, which we still think is attractive. That's how we look at 2013. We think the economy is still growing, albeit at a slow pace, but there are still investment opportunities to take advantage of. That's why we think the dividend story is important, because historically, dividends have accounted for 40% of equity returns. That hasn't been true the last few of decades, but we think it will be again in a slower return environment.

TWST: Would you talk about a couple of your best ideas or stories?

Mr. Raposo: From an exchange traded fund standpoint, we like the **Alerian ETF** (AMLP). It provides broad-based exposure to master limited partnerships. From a tax standpoint, it's very efficient and produces a 1099. It is a diversified way of getting exposure to an income source that has a low correlation to other asset classes, and generates over 6% current yield. Those companies are generally not as sensitive to oil or natural gas prices changes. They're just toll roads in the energy space, and as long as there's activity, they're collecting revenue. It can be used in retirement plans and IRAs, where individual MLPs can be challenging from a tax standpoint.

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TWST: Earlier in 2012, you wrote, "stocks are hated." What did you mean by that and how do you identify the opportunities from that type of situation?

Mr. Raposo: Generally, redemptions out of equity mutual funds have been at record levels since 2008, and that continues. Meanwhile, the market is up 100% from the 2009 low. So why is money flowing out of equity funds and into bonds with record low yields? Secondly, many institutional investors, pension funds and so on are underweight equities. And many individuals are still in fear of investing in stocks; however, our clients that stuck to their investment plan during the Great Recession and beyond have done very well. Individuals who have gotten hurt are the ones who tried to time the market, because it is almost impossible to do it perfectly. We don't think market timing makes sense for individuals. They get out and back in too late — absorb most of the downside and miss most of the upside.

And finally, stocks were trading at valuations that were factoring a second recession even as the economy was growing. Yes, stocks have moved up a lot, but earnings have moved up even more. We don't think stocks are overvalued. The S&P 500 index is still trading at 13 times or so next year's earnings, but the historical average is closer to 15 times to 17 times range. Yet we still see money coming out of equities and going into bond mutual funds. We think that's the wrong decision at this point. Historically, the retail investors buy high and sell low.

1-Year Daily Chart of Vodafone Group

Chart provided by www.BigCharts.com

We also like a couple of stocks that are just out of favor. One, **McDonald's** has been a great stock historically and pulled back here in

the last year or so. It's a great global brand and a major beneficiary of emerging market growth. It has a 3.4% yield and has grown its dividend 13% a year for the last three years. It is attractively valued and management is very shareholder friendly in returning capital to investors.

Another out-of-favor company is **Vodafone** (VOD), the U.K.-based global mobile provider with 400 million customers in Europe, Africa and the Middle East. They also own 45% of **Verizon Wireless** (VZ), which we don't think is in the valuation. You're getting better than a 5% dividend, and we expect the dividend to grow, especially as **Verizon** makes additional dividend payments to **Vodafone**. It's out of favor because of its European exposure. It's only trading at 10 times, significantly lower than its U.S. peers.

TWST: What are the two or three best reasons for a long-term investor to look closely at Shorepoint?

Mr. Raposo: Shorepoint is a independent investment adviser, and our independence from proprietary products keeps our focus where it should be — on providing objective advice to clients. We also take the time to truly understand what is important to clients and design a strategy specific to client objectives. We also think it is important to have access to the firm's partners. Another advantage is the focus on long-term investing and our disciplined approach with a contrarian bent. Emotions and making rash decisions can defeat your investment plan and give you subpar long-term performance. Our approach has led to solid long-term risk-adjusted performance for our clients.

TWST: Is there anything else you would like to add?

Mr. Raposo: My partner, Tim Vanech, was selected as a 2013 Boston Five Star Wealth Manager Award winner. We will be in the February edition of the *Boston Magazine*. The criteria included being nominated, an interview process, looking at our firm, our client retention and our track record. Fewer than 2% of Boston managers get selected for the award.

TWST: Thank you. (MJW)

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