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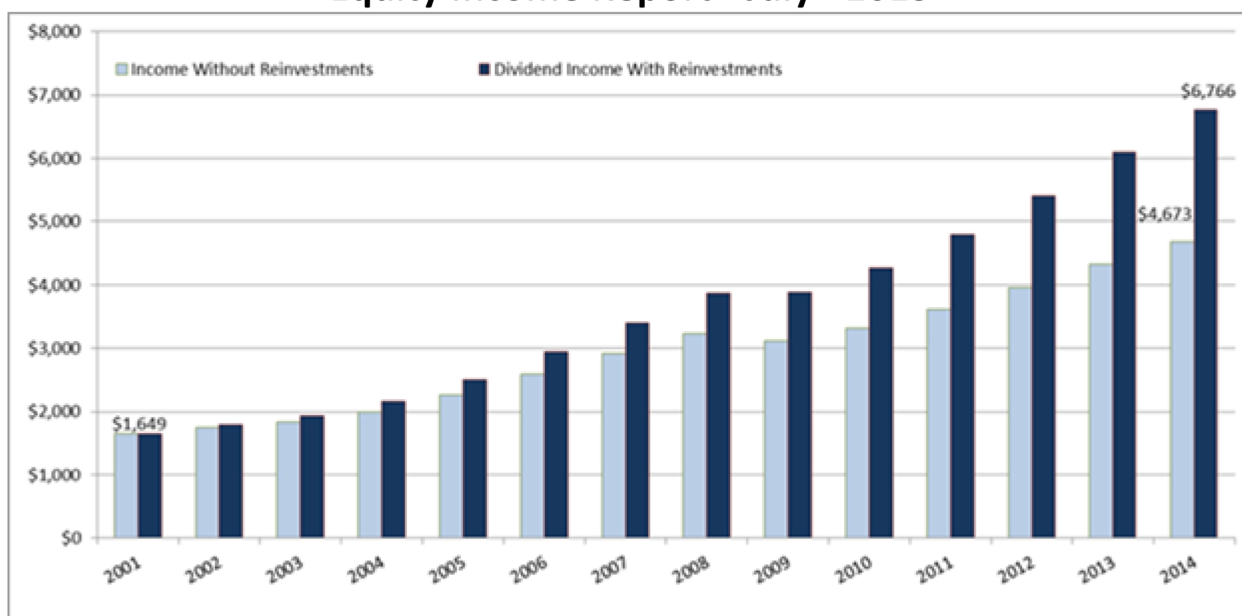
July 24, 2015

Investment Strategy

The Equity Income Report

Equity Income Report - July - 2015



Source: FactSet and Raymond James Research.

- **Dividends Can be a Significant Component of Equity Returns** – Using 10 dividend payers from the DJIA*, we calculated growth in dividends from 2001. Starting with an initial investment of $100,000, annual dividends increased from $1,649 to $4,673. The total amount paid during this period would have been $41,000.

- **Re-Investment of Dividends Dramatically Increases Income in the Out Years** – If an investor can forego the income in the early stages of investment, the additional shares purchased increases the annual payout by more than 40%. In effect, the power of compounding gets multiplied, boosting returns.

- **The Potential Impact of Dividend Income for the Next 10 Years Could be Even Greater –** With a current yield of about 3.2% for the 10 stocks, dividend income would grow from $3,234 in 2015 to $5,267 in 2025 (totaling $46,000).

*The stocks included in the calculation are CVX, DD, GE, HD, JNJ, INTC, IBM, PFE, PG, and VZ.

Please read domestic and foreign disclosure/risk information beginning on page 32 and Analyst Certification on page 32.

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Additions & Deletions

The following changes were made to this Equity Income Report. Please check the recent research on each stock to determine the reason for this change. An addition usually reflects an upgrade or a price decline, creating a higher yielding stock. A deletion often results from price appreciation, a downgrade, or lower confidence in the near term outlooks.

Added

The ADT Corporation (ADT) – New selection by analyst
TD Ameritrade Holding Corporation (AMTD) – New selection by analyst
Booz Allen Hamilton Holding Corporation (BAH) – New selection by analyst
Strategic Hotels & Resorts (BEE) – New selection by analyst
BGC Partners, Inc. (BGCP) – New selection by analyst
8point3 Energy Partners L.P. (CAFD) – New selection by analyst
Crown Castle International (CCI) – New selection by analyst
CenturyLink (CTL) – New selection by analyst
EMC Corporation (EMC) – New selection by analyst
Haliburton (HAL) – New selection by analyst
Jabil Circuit, Inc. (JBL) – New selection by analyst
Masco Corporation (MAS) – New selection by analyst
The NASDAQ OMX Group, Inc. (NADQ) – New selection by analyst
Newell Rubbermaid Inc. (NWL) – New selection by analyst
Patterson-UTI (PTEN) – New selection by analyst
Retail Opportunity Investments Corporation (ROIC) – New selection by analyst

Deleted

CM Finance Inc. (CMFN) – Removed by analyst
Summit Hotel Properties, Inc. (INN) – Removed by analyst
LinnCo, LLC (LNCO) – Removed by analyst
National Oilwell Varco Inc. (NOV) – Removed by analyst
Regency Centers Corporation (REG) – Removed by analyst
United Bankshares, Inc. (UBSI)- Removed by analyst

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Investment Commentary

In Positioning for Higher…and Lower Rates

This year has been a challenge for dividend-oriented equity investors. While the Fed keeps threatening to raise rates, weak economic conditions outside the U.S. and a stronger dollar have put pressure on the earnings of many large-capitalization dividend payers. As a result, investors seem to be piling into proven growth stories, many of which are in the technology and health care sectors and offer meager dividend payouts. Is it time to change course?

Early on in the second quarter earnings season (week 2), it appears that many prominent companies are tempering their guidance for the rest of the year. The consensus of economists believes GDP will pick up in the U.S in the third quarter, but what if it doesn't? Any moderation in U.S. growth could cause lower interest rates. It's a tough time to be in the forecasting business.

During the history of the Equity Income Report, we have tried to provide a balanced picture of the investing landscape. We have found that long-term investors should always keep an eye on the barnyard door. Don't leave it open in the first place if all the horses could run out. Thus, this may be a good time to hedge a little, owning some stocks positioned to do well if rates move higher (banks, brokers, and insurance stocks), and some that will benefit if rates do the unexpected and plateau or even move lower (REITs for one come to mind).

Another adjustment to make in the current environment is to trade off some yield in return for stronger growth. We are not advocates of trading or market timing, but poor stock performance can wipe out the dividend payments from a stock and make it difficult for investors to show the patience necessary to stick with a long-term plan for growing dividend income. Entry points do matter.

As a result, we have lowered the bar for inclusion in the Equity Income Report from 2.0% to 1.5% dividend yield. In our analysis, many stocks in the Raymond James universe offer attractive growth prospects but fall just shy of the 2.0% level. By making this adjustment, this report includes more than 10 new names.

For our chart, we feature a long-term picture of the impact of compounding dividend increases. The chart on the cover page shows what happened to dividends for 10 stocks in the Dow Jones Industrial Average over a 13-year period. If an investor purchased $10,000 in each of 10 stocks (listed on the front page), the yield in the first year was approximately 1.6%. By 2014, that portfolio provided a yield on average cost of 4.7%, almost triple the initial amount, and 6.8% if all dividends were re-invested. This exercise is a powerful reminder of how dividends can grow over an entire investment horizon.

Equity Research management believes a dividend-focused approach reflects the long-term needs of many of our clients. The Equity Income Report features common equities, Business Development Companies (BDCs), REITs, Energy MLPs, closed-end funds, and ETFs that pay a sustainable dividend or distribution. We believe these investments offer durable income at current rates or higher, above-average prospects for total return, and may be considered alternatives to other lower-yielding instruments.

The "Equity Favorites for Yield-Oriented Investors" section highlights stocks under coverage by Raymond James with Strong Buy and Outperform ratings that have favorable earnings prospects, attractive dividends, healthy balance sheets, and robust cash flow. Both current income and total return potential will be considered in determining whether a stock makes the list.

For growth investors or follow-up information on these stocks, please refer to the ***Analysts' Current Favorite or Analysts' Best Picks***. These lists present a wide variety of recommendations for the long-term investor, opportunistic intermediate-term buyer, and the active trader.

Harry G. Katica, CFA, ***Director of Private Client Research***

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Equity Favorites for Yield-Oriented Investors

These stocks from a screening of the Raymond James Strong Buy- and Outperform-rated universe feature healthy balance sheets, attractive cash flows, and superior total return prospects. Each has a market capitalization of more than $1 billion and most feature a dividend yield of 1.5% or greater.

8point3 Energy Partners L.P. (CAFD)

Outperform	Price	Fiscal	Operating EPU Estimate				Dividend/	Market
	7/22/15	Year	2014A	2015E	2016E	P/E[1]	Yield	Cap.[2]
	$16.81	Dec	$(0.02)	$(0.09)	$0.18	93.4x	$0.84/4.8%	$1,193.5

8point3 is the latest in the "yieldco" asset class, having been spun off in June as a joint venture of SunPower and First Solar. 8point3 stands out as the only yieldco with not one but two parent companies. To be clear, it's not an MLP, though it should generate enough NOLs to avoid paying tax for the next decade. As a pure aggregator of solar generation assets, 8point3 has no commodity risk and very low operational risk. The current yield is 4.8%, and target distribution growth is 12-15% per year, though we are projecting a slightly faster 16% for the next two years. The portfolio of future dropdowns is 2.6x larger than the initial asset base, so there is ample visibility on long-term growth.

Pavel Molchanov, *Renewable Energy and Clean Technology*

Abbott Laboratories (ABT)

Outperform	Price	Fiscal	Non-GAAP EPS Estimate				Dividend/	Market
	7/22/15	Year	2014A	2015E	2016E	P/E[1]	Yield	Cap.[2]
	$50.98	Dec	$1.98	$2.15	$2.43	21.0x	$0.96/2.0%	$76,673.9

We view Abbott as one of the more attractive large-cap opportunities in our Med Device coverage universe. With three of four business segments expected to grow in the mid-single digits (or better) in 2015, and approximately 50% of sales expected to originate from emerging markets, we believe the portfolio is capable of generating sustainable mid-to-high single-digit revenue growth over the next few years. Further, we believe ongoing cost structure optimization and increased efficiencies from new manufacturing facilities should create leverage and drive consistent double-digit EPS growth. We also believe the balance sheet adds optionality and expect additional M&A over the next few years to further augment the portfolio, particularly in Medical Devices and Established Pharmaceuticals. Management is also highly committed to generating value for shareholders, and we expect dividend growth and share buybacks to remain a priority. Abbott pays a 2% dividend yield and the company has completed more than $4 billion of share buybacks since the spin-off of its Proprietary Pharma business at the start of 2013.

Jayson Bedford, *Medical Devices*

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Analog Devices, Inc. (ADI)

Strong Buy	Price 7/22/15	Fiscal Year	Non-GAAP EPS Estimate 2014A	2015E	2016E	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$58.65	Oct	$2.40	$2.88	$3.45	17.0x	$1.60/2.7%	$18,592.1

Analog Devices, Inc. (ADI) is driving financial model changes through cost-saving initiatives, which is resulting in record-high margins as we move through this cycle. We see possible peak-year gross margin in the low 70% range with operating margin in the low 40% range, above management's current high-60s percent and mid-30s percent targets, respectively. ADI manufactures 75% in-house, therefore providing leverage to an upturn. On the cost side, ADI is benefitting from a focus on keeping operating costs under control. ADI has the #1 market share position in analog-to-digital/digital-to-analog converters and the #2 position in amplifiers, which should allow the company to leverage solid brand recognition across multiple applications. The company's 2.7% dividend yield adds to the total return potential.

J. Steven Smigie, *Analog and Communications Semiconductors*

Atmel Corporation (ATML)

Outperform	Price 7/22/15	Fiscal Year	Non-GAAP EPS Estimate 2014A	2015E	2016E	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$8.84	Dec	$0.39	$0.46	$0.58	15.2x	$0.16/2.3%	$3,761.4

As a leader in the microcontroller market, we believe Atmel is well-positioned to benefit from long-term secular growth trends for MCUs in automotive, consumer, and industrial applications, as well as in memory. Following a transformative restructuring/reorganization over the past year, Atmel's new and improved operating structure will yield significant operating leverage, with the ability to drive +30% y/y bottom-line growth on flat top-line-trends; with higher quality earnings, we see potential for multiple expansion over time. Additionally, we highlight management's decision last quarter to initiate a dividend program as further evidence of the "new" Atmel - with a dividend yield of 2.3% and ongoing share repurchases, we believe Atmel is in a position to deliver consistent value to shareholders.

Hans Mosesmann, *Semiconductors*

BB&T Corporation (BBT)

Outperform	Price 7/22/15	Fiscal Year	Non-GAAP EPS Estimate 2014A	2015E	2016E	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$41.60	Dec	$2.72	$2.66	$3.15	13.2x	$1.08/2.6%	$30,513.6

While industry headwinds are impacting BB&T's performance similar to the rest of the banking industry, the fundamentals of its business remain strong, profitability is solid, and it continues to gain market share in many geographies and lines of business. In turn, we continue to view risk-reward positively as we believe the company's lower-risk profile, diverse business mix, and capital strength provide for an attractive investment opportunity at a reasonable valuation.

Michael Rose, *Banking*

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BGC Partners, Inc. (BGCP)

Strong Buy	Price	Fiscal	Non-GAAP EPS Estimate				Dividend/	Market
	7/22/15	Year	2014A	2015E	2016E	P/E[1]	Yield	Cap.[2]
	$9.05	Dec	$0.62	$0.75	$0.85	10.6x	$0.56/6.6%	$3,387.4

BGC Partners anticipates that it will generate at least $90 million ($0.20 in EPS) of expense synergies by 1Q17 by its recent acquisition of smaller competitor GFI Group, making the acquisition highly accretive. We also anticipate that the planned sale of Trayport, an electronic energy trading platform acquired with GFI Group, will provide substantial proceeds with which to support BGC's generous dividend policy, share repurchases, and additional strategic acquisitions. We note that BGC aims to return at least 80% of its distributable earnings in the form of dividends. We also note that in April 2015 BGC increased its quarterly dividend by 17% to $0.14.

Patrick O'Shaughnessy, CFA, *Capital Markets*

Booz Allen Hamilton Holding Corp. (BAH)

Outperform	Price	Fiscal	Adj. Non-GAAP EPS Estimate				Dividend/	Market
	7/22/15	Year	2015A	2016E	2017E	P/E[1]	Yield	Cap.[2]
	$26.11	Mar	$1.60	$1.65	$1.74	15.8x	$0.52/1.9%	$3,934.8

We continue to view Booz Allen as the premier government services franchise that will continue to deliver excess capital to shareholders through dividends. We see the risk/reward skewed favorably given our view that the federal budget backdrop is improving as D.C. politicians avoid sequestration in an election year, revenue is approaching a pivot to organic growth, and the company's cyber business can positively impact results in a more measurable way going forward.

Brian Gesuale, *IT Services and Security*

Cardinal Health Inc. (CAH)

Outperform	Price	Fiscal	Non-GAAP EPS Estimate				Dividend/	Market
	7/22/15	Year	2014A	2015E	2016E	P/E[1]	Yield	Cap.[2]
	$86.82	Jun	$3.84	$4.36	$5.00	17.4x	$1.55/1.8%	$28,997.9

We remain constructive on shares of Cardinal Health due to favorable industry dynamics that should persist in the quarters ahead (a back half-weighted generic calendar, procurement partnerships) and company-specific initiatives. While generic inflation has moderated as of late, we continue to expect accelerating top- and bottom-line growth from low-acuity preferred products, growth in direct-to-patient pharmacy operations in China, specialty drugs, and home health care solutions. Additionally, ramping contribution from recent M&A (Harvard Drug Group, Metro Medical, and Cordis) and sourcing benefit from Red Oak should contribute in the near term with continued ramp through FY16 as contracts are renegotiated. Together with shareholder-friendly capital deployment (robust share repurchases expected in FY16, and sustained dividend payout) and conservative management posturing, we believe the risk/reward continues to lean favorably.

John W. Ransom & Nicholas Jansen, *Drug Distributors*

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CenturyLink (CTL)

Outperform	Price 7/22/15	Fiscal Year	Non-GAAP EPS Estimate 2014A	2015E	2016E	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$29.19	Dec	$2.61	$2.57	$2.52	11.6x	$2.16/7.5%	$16,507.8

We recently upgraded shares of CenturyLink to Outperform following its YTD underperformance (down about 23% vs. the S&P up approximately 3%). Ultimately, we believe the risk/reward is favorable for the company and it is well positioned to show growth in 2016, which should provide a catalyst for the telco. The company appears on track to increase broadband speeds in at least 60% of its markets, getting speeds up to 200 Mbps in some of these markets, providing better stability for the top line. We remain confident in the safety of the dividend and believe patient investors can collect the 7.5% dividend now, while positioning themselves for a better 2016. We believe CenturyLink is currently trading at an attractive multiple of approximately 5.5x our 2015/16/17E EBITDA, and about 9.5x our normalized FCF estimate.

Frank G. Louthan IV, *Telecommunications Services*

Chevron Corp. (CVX)

Outperform	Price 7/22/15	Fiscal Year	Non-GAAP EPS Estimate 2014A	2015E	2016E	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$93.51	Dec	$10.14	$4.12	$5.43	17.2x	$4.28/4.6%	$175,471.5

Chevron has been a somewhat out-of-favor stock amid the currently high level of capital intensity. As the Gorgon LNG project approaches startup in late 2015, followed by Wheatstone LNG in late 2016, there will be significantly more flexibility to curtail spending over the medium term. A number of the company's potential long lead time projects, such as Kitimat LNG, would not be realistically pursued without a significant improvement in the oil price environment. The company is targeting free cash flow breakeven (inclusive of the dividend) at $70/Bbl Brent for 2017. In the meantime, the dividend (currently yielding 4.6%) is regarded as sacrosanct by management.

Pavel Molchanov, *Integrated Majors and Refiners*

Cisco Systems (CSCO)

Outperform	Price 7/22/15	Fiscal Year	Non-GAAP EPS Estimate 2014A	2015E	2016E	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$27.53	Jul	$2.06	$2.19	$2.28	12.1x	$0.84/2.9%	$142,385.2

Cisco Systems leads the networking equipment sector providing a range of systems and software driven by enterprises, service providers, governments and other institutions around the globe. In February 2015, Cisco announced an increase to its quarterly dividend to $0.21 per share from $0.19 previously, representing a 35% CAGR in dividend distributions since April 2011, according to our calendar 2015 estimates. The company currently maintains a 2.9% dividend yield. Cisco intends to pay out at least 50% of its free cash flow in the form of dividend and share buy-backs. We expect Cisco generates close to $11.0 billion of free cash flow in CY15, so after accounting for the dividend, the company will have as its disposal close to $1.1 billion that could be used to repurchase stock. Last year, Cisco raised $8 billion in a debt offering aimed mainly toward buy-backs. More recently, in June 2015, the company issued a series of senior unsecured notes for an aggregate amount of $5 billion. Although we think that the bulk of those funds will be used to retire Cisco’s maturing debt, we suspect that at least $1 billion of that capital could be directed towards their share buyback program. As of April 2015, Cisco had about $54.4 billion of cash and short-term investments, or net near $7.35 per share. Approximately 95.2% or $51.8 billion of these liquid assets were held by foreign subsidiaries.

Simon Leopold, *Communications Equipment*

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Covanta Holding Corp. (CVA)

Strong Buy	Price 7/22/15	Fiscal Year	Non-GAAP EPS Estimate 2014A	2015E	2016E	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$20.40	Dec	$0.35	$0.32	$0.41	49.8x	$1.00/4.9%	$2,692.8

Covanta is the largest waste-to-energy owner/operator in the U.S. with a number of organic growth initiatives and new projects on the horizon. A number of discrete drivers, including the New York City, Fairfax transition, and Dublin contracts, provide incremental benefits to free cash flow through 2017/2018. Furthermore, the recent 39% dividend hike to an annualized rate of $1 should be viewed as a statement of confidence by the company to drive FCF growth with $30 million of identified cost saves in 2015 limiting inherent cost inflation to the business. Covanta has stated the dividend payout would represent roughly half of FCF, and we would not be surprised to see the dividend increase as FCF generation strengthens. Shares are yielding nearly 5.0% and combined with a bias towards the upside on commodity prices that could help FCF growth over the next several years, we believe an investment in Covanta is attractive at current levels.

Patrick Tyler Brown, CFA, *Waste and Industrial Services*

Crown Castle International (CCI)

Outperform	Price 7/22/15	Fiscal Year	AFFO /Share Estimate 2014A	2015E	2016E	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$80.61	Dec	$4.19	$4.30	$4.84	16.7x	$3.28/4.1%	$26,762.5

We believe tower investors are now focused on 2016 leasing trends and Crown is poised to experience a re-acceleration of net organic cash revenue and AFFO growth as 1) the drag from Nextel iDEN churn ends, 2) the build-out of small cells ramps, 3) the deployment of T-Mobile low-band spectrum continues, and 4) Sprint possibly expands its high-band network overlay. Furthermore, we believe the creation of a Real Estate sector (vs. being underneath Financials) could drive demand from generalists attracted to the high visibility of CCI's cash flows and mid-to-high single-digit long-term growth rate.

Ric Prentiss, *Telecommunications Services*

CSI Compressco Partners L.P. (CCLP)

Strong Buy	Price 7/22/15	Fiscal Year	EPU Estimate 2014A	2015E	2016E	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$15.25	Dec	$0.93	$0.33	$0.30	50.8x	$2.00/12.9%	$505.5

CSI Compressco Partners LP is one of our top yield-oriented oilfield service names with long-term expansion from increasing natural gas production and very defensive operations in spite of the broader energy downturn. CSI Compressco's fleet is well diversified including stable gathering system compression, gas-oriented well compression, and manufacturing operations centered on midstream compression. We expect the company to maintain ample coverage to continue increasing the distribution. With these high growth rates, we anticipate a rapid distribution escalation which only adds to CCLP's attractive yield. We have confidence that CCLP will produce substantial shareholder returns and maintain steady growth in distributions over the long term.

J. Marshall Adkins & Praveen Narra, *Oilfield Services*

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CyrusOne Inc. (CONE)

Strong Buy	Price 7/22/15	Fiscal Year	AFFO /Share Estimate 2014A	2015E	2016E	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$30.99	Dec	$1.71	$1.97	$2.22	14.0x	$1.26/4.2%	$2,029.8

We continue to believe CyrusOne will benefit from the same data growth trends that are benefitting the data center industry. The colocation business appears to be particularly strong as enterprises push applications and computing to the cloud, which we believe will bode well for CyrusOne, particularly as it assimilates its recent acquisition of Cervalis (a private data center acquired in 2Q15, not currently reflected in estimates). We view this space as having strong long-term potential and superior growth relative to other telecom and cable companies in our coverage universe, and believe the names will generally show stronger performance than these groups going forward. This superior growth, along with high barriers to entry, such as adequate and scalable data center space, offers a strong investment opportunity, in our opinion. Currently trading at 14x 2016E AFFO and 12x EBITDA, about one turn below the group, and with a 4.2% dividend yield, we believe CyrusOne is attractive at current levels.

Frank G. Louthan IV & William A. Crow, *Telecommunications Services*

DineEquity, Inc. (DIN)

Strong Buy	Price 7/22/15	Fiscal Year	Non-GAAP EPS Estimate 2014A	2015E	2016E	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$101.22	Dec	$4.72	$5.90	$6.25	16.2x	$3.50/3.5%	$1,923.2

DineEquity owns two of the largest restaurant chains in the U.S. - Applebee's and IHOP. It completed its transition to a 99% franchise model in late 2012 and in 1Q13 unveiled a capital allocation strategy that included the initiation of a quarterly dividend of $0.75 and a $100 million share repurchase authorization. In August 2014 the company completed a refinancing of a high yield note at a substantially lower interest rate. In October 2014 the company raised its quarterly dividend by 17% to $0.875 and initiated a new $100 million share repurchase authorization that replaced its prior authorization (which had $40 million remaining). Assuming the company's debt/EBITDA ratio remains near current levels (slightly above 5x and consistent with several other highly franchised restaurant companies) we now estimate DIN's annual free cash flow (FCF) will be above $7.00 per share in 2015 (adjusting for timing shift in rental payments). Most importantly we expect all of that FCF to be returned to shareholders via dividends and share repurchases.

Looking out further, we expect FCF per share to grow in the mid-high single digits over time (1-2% net unit growth + 1-3% comp growth + G&A leverage + share count reductions). We believe unit growth and comp sales growth can be sustained as the company's two brands have a track record of steady market share gains over time (driven by significant scale advantages in areas like menu/marketing innovation, procurement, etc.).

Brian M. Vaccaro, CFA, *Restaurants*

EMC Corporation (EMC)

Strong Buy	Price 7/22/15	Fiscal Year	Non-GAAP EPS Estimate 2014A	2015E	2016E	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$25.38	Dec	$1.90	$1.89	$2.20	11.5x	$0.46/2.0%	$49,414.9

While enterprise storage is undergoing a transition away from legacy to next generation architectures, we believe EMC is well positioned in the next generation data center in areas including all-flash arrays (XtremIo), ViPR (software-defined storage), cloud (Virtustream, vCloudAir), converged (VCE), mobility (AirWatch) and big data/analytics (Pivotal). We expect increased activism this fall and the potential of being acquired by HP as potential catalysts for stock appreciation (link) and estimate 13% y/y earnings growth in 2016 vs. about flat in 2015. The stock is currently trading at 11.7x our 2016 EPS estimate which is near five-year lows and only 8x excluding VMware.

Brian G. Alexander, CFA, *IT Hardware and Distribution*

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First Financial Bancorp (FFBC)

Outperform	Price 7/22/15	Fiscal Year	Non-GAAP EPS Estimate 2014A	2015E	2016E	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$18.42	Dec	$1.19	$1.24	$1.34	13.7x	$0.64/3.3%	$1,136.5

With organic growth accelerating, its covered loan portfolio shrinking, recent hires in Ft. Wayne, Indiana adding new business, and the company's three completed acquisitions in the Columbus, Ohio market, we believe the bank has reached an inflection point where net interest income is no longer a drag on revenue growth. Furthermore, we look for steady organic loan growth in the coming years. Additionally, the company has historically been a strong steward of capital, evidenced by its 100% temporary dividend payout while it pursued accretive acquisition opportunities. First Financial increased its quarterly dividend to $0.16 per share in 1Q15. The $0.64 annual dividend (3.3% yield) equates to a 52% payout ratio based on our 2015 GAAP EPS estimate of $1.24.

Daniel E. Cardenas, *Banking*

Halliburton (HAL)

Strong Buy	Price 7/22/15	Fiscal Year	Non-GAAP EPS Estimate 2014A	2015E	2016E	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$41.54	Dec	$4.02	$1.70	$2.00	20.8x	$0.84/1.9%	$35,267.5

We believe Halliburton is one of the more attractive names in our oil service coverage for a variety of reasons including: 1) a large-cap customer base with limited service cuts; 2) a low-cost operating structure; 3) exposure to the upcoming North American land recovery with strong ties to pumping activity; and 4) strategic long-term benefits from the Baker Hughes acquisition including cost synergies and an incorporation of Baker Hughes' strong drilling and technology portfolio to add to Halliburton's top-class completions base.

J. Marshall Adkins & Praveen Narra, *Oilfield Services*

Harris Corporation (HRS)

Outperform	Price 7/22/15	Fiscal Year	Non-GAAP EPS Estimate 2014A	2015E	2016E	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$81.61	Jun	$5.00	$5.05	$5.07	16.1x	$1.88/2.3%	$8,504.6

Harris Corporation's core business has been solid, the balance sheet is strong, and management is committed to returning cash to shareholders through dividend payments. Following its $4.8 billion acquisition of Exelis, coupled with solid new contract opportunities, we believe Harris will continue to pay and raise its dividend with support from strong international sales, healthy commercial growth, and eventually large radio orders (rifleman/manpack).

Chris Quilty, *Defense Communications*

Jabil Circuit, Inc. (JBL)

Outperform	Price 7/22/15	Fiscal Year	Core EPS Estimate 2014A	2015E	2016E	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$19.62	Aug	$0.52	$1.99	$2.40	8.2x	$0.32/1.5%	$3,851.4

We believe Jabil will generate at least 20% EPS growth in FY16 as the higher margin DMS business (est. +15%) outgrows EMS (est. +5%). The nearly $900 million in cap ex spending in FY15 should lead to EPS power of over $2.70 in FY17.

Brian G. Alexander, CFA, *Electronic Manufacturing Services*

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Johnson & Johnson (JNJ)

Outperform	Price 7/22/15	Fiscal Year	Non-GAAP EPS Estimate 2014A	2015E	2016E	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$100.18	Dec	$6.39	$6.16	$6.37	15.7x	$3.00/3.0%	$281,706.2

In our opinion, J&J is executing well. The business continues to generate solid momentum with +6% underlying revenue growth YTD, but this is being masked by forex and transient headwinds (divestitures, tough HepC comps), making 2015 a transition year. Pharma has clearly been the fastest growing segment, but we expect organic growth for the Med Device and Consumer businesses to improve as management has proactively divested slower growing, lower margin businesses that had weighed on the overall growth rate. We also expect J&J to be more active with its cash balance ($15 billion net), which adds a degree of optionality. JNJ sports a 3% dividend yield and valuation is compelling, in our view, at <16x our 2016 adjusted EPS estimate.

Jayson Bedford, *Medical Devices*

Lazard Ltd (LAZ)

Outperform	Price 7/22/15	Fiscal Year	Non-GAAP EPS Estimate 2014A	2015E	2016E	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$58.28	Dec	$3.20	$3.52	$3.90	14.9x	$1.40/2.4%	$7,563.0

We believe the current upswing in the M&A cycle has further upside, particularly in Europe where Lazard is particularly well positioned competitively. We also expect boutique M&A advisory firms as a whole to continue to take market share from bulge-bracket firms. Lastly, in our view Lazard's asset management business is underappreciated given its surprisingly large relative contribution (about 45% of 2015E revenues), higher operating margins, and strong track record of net inflows.

Lazard's asset management business and strong restructuring practice provide a superior level of earnings stability compared with other boutique M&A advisory firms. As a result, Lazard can commit to a healthy and growing dividend. In April 2015 Lazard raised its regular quarterly dividend by 17% to $0.35 per share, which represents a roughly 40% payout of our 2015 net income estimate. We also note that Lazard has also declared special dividends on occasion, including a $1.00 special dividend paid in February 2015.

Patrick O'Shaughnessy, CFA, *Capital Markets*

Marsh and McLennan Companies, Inc. (MMC)

Outperform	Price 7/22/15	Fiscal Year	Non-GAAP EPS Estimate 2014A	2015E	2016E	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$58.59	Dec	$2.82	$3.05	$3.25	18.0x	$1.24/2.1%	$31,990.1

Marsh & McLennan is positioned as the second largest global insurance broker (largest in U.S.) with a diversified revenue base. We continue to favor Marsh & McLennan's leverage to a potentially improving global economy, higher interest rates, reasonably stable property/casualty pricing environment, and expected margin improvement. Marsh & McLennan utilizes various capital management strategies including share repurchases and quarterly cash dividends.

C. Gregory Peters, *Insurance*

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Masco Corporation (MAS)

Outperform	Price 7/22/15	Fiscal Year	Non-GAAP EPS Estimate 2014A	2015E	2016E	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$23.08	Dec	$1.02	$1.24	$1.54	15.0x	$0.36/1.7%	$8,008.8

Masco is a global manufacturer of brand-name consumer products for building and home improvement markets. Masco has reduced cyclicality in its portfolio with the recent spinoff of its installation business into TopBuild (BLD). Masco generates high CFO and FCF as percentages of net income. Masco has started distributing more of this cash to shareholders via a new share repurchase program and its quarterly dividend which was increased last year (the first increase since the 2009 recession). Masco currently provides a dividend yield of 1.7%, and trades at about 11x EV/EBITDA against direct competitor Fortune Brands' (FBHS) around 13x EV/EBITDA.

Sam Darkatsh & Budd Bugatch, CFA, *Home & Building Products*

Newell Rubbermaid Inc. (NWL)

Outperform	Price 7/22/15	Fiscal Year	Non-GAAP EPS Estimate 2014A	2015E	2016E	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$41.95	Dec	$2.00	$2.16	$2.38	17.6x	$0.76/1.9%	$11,439.8

Newell Rubbermaid continues to execute well amid challenging macroeconomic and volatile currency backdrops, as the company finds itself in the middle innings of its Growth Game Plan and its transition from a holding company to an operating company. Importantly, while much of the cost savings from its Project Renewal restructuring program have thus far been reinvested in certain businesses and geographies, going forward we expect a greater portion to drop to the bottom line, resulting in both faster and more predictable top- and bottom-line growth – and by extension, multiple expansion. Further, Newell is generating healthy cash flow which is being deployed toward value-enhancing acquisitions and share repurchases.

Joseph Altobello, CFA, *Household & Personal Care Products*

Occidental Petroleum Corp. (OXY)

Strong Buy	Price 7/22/15	Fiscal Year	Non-GAAP EPS Estimate 2014A	2015E	2016E	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$69.47	Dec	$5.86	$1.19	$2.47	28.1x	$3.00/4.3%	$53,464.1

Among U.S. oil and gas producers at $20 billion market cap and above, Occidental has the healthiest balance sheet. Our model assumes a gradual pace of share buyback, despite the oil down cycle, and that's without ascribing credit for any Mideast monetizations that could fund additional buyback. In the meantime, the dividend (currently yielding just over 4%) is regarded as sacrosanct by management. With the stock trading at about 7.5x our 2016 EBITDA estimate - a historically low multiple for a company with industry-leading capital discipline and a long reserve life - we are fans of the current entry point, following the sharp oil selloff of late June/early July.

Pavel Molchanov, *Exploration and Production*

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Old Republic International Corp. (ORI)

Outperform	Price 7/22/15	Fiscal Year	Non-GAAP EPS Estimate 2014A	2015E	2016E	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$16.13	Dec	$0.84	$1.07	$1.10	14.7x	$0.74/4.3%	$4,150.2

Old Republic International Corporation is one of the nation's 50 largest publicly held insurance organizations. The company's two main segments are General Insurance and Title Insurance. The largest lines of business in General Insurance are workers' compensation and commercial auto liability. The company also has a run-off business called Republic Financial Group (RFIG), which is a combination of its former Consumer Credit Indemnity and Mortgage Guaranty operations. We continue to have a favorable view of the company's continuing operations and expect a diminishing impact from RFIG over the next several years. We also believe the stock's valuation and dividend yield are attractive. Old Republic has increased its annual dividend in each of the past 32 calendar years.

C. Gregory Peters, *Insurance*

Patterson-UTI Energy, Inc. (PTEN)

Strong Buy	Price 7/22/15	Fiscal Year	Non-GAAP EPS Estimate 2014A	2015E	2016E	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$16.70	Dec	$1.62	$(0.75)	$(1.05)	0.0x	$0.40/2.4%	$2,445.7

Patterson-UTI is one of our top oilfield service picks due to its status as a market leader in U.S. onshore contract drilling and pressure pumping. Patterson's high-end drilling rig fleet will allow them to continue to capture market share, as legacy rigs are put down for good. In addition, with over +1mm HHP, Patterson has the scale to be competitive in the pressure pumping market. Finally, a strong balance sheet gives the company the flexibility to not only navigate downturns in the oil market (such as we are seeing now), but also to capitalize on opportunities for growth (both organically and inorganically) as they arise. All in, we believe Patterson should continue to drive solid shareholder returns.

J. Marshall Adkins & Praveen Narra, *Oilfield Services*

Phillips 66 (PSX)

Outperform	Price 7/22/15	Fiscal Year	Non-GAAP EPS Estimate 2014A	2015E	2016E	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$81.83	Dec	$6.62	$7.06	$8.00	10.2x	$2.24/2.7%	$45,194.7

Phillips 66 is one of the world's largest independent refiners with a diverse geographic footprint, providing balanced exposure to a volatile refining environment. Additionally, the company has a significant (and expanding) asset base in higher-growth and higher-value chemicals and midstream segments, while also retaining a defensive footprint in marketing and specialties. Even with the shifting crude oil and refined products landscape, we believe Phillips 66 is set to deliver on strong long-term growth prospects, while balancing robust distributions to shareholders through increasing dividends and share repurchases.

Cory J. Garcia, *Integrated Majors and Refiners*

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Praxair, Inc. (PX)

Strong Buy	Price 7/22/15	Fiscal Year	Non-GAAP EPS Estimate 2014A	2015E	2016E	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$115.15	Dec	$6.27	$5.85	$6.55	17.6x	$2.86/2.5%	$33,198.9

In our view, Praxair is an attractive, utility-like, high ROE business model. ROIC ramps as contracts age, and Praxair typically gets 1-2% points of price increases each year. Currency headwinds have created an interesting entry point, as PX currently trades at the lowest forward P/E relative to the S&P 500 in four years, with a dividend yield at the highest it's been relative to the S&P 500 in 13 years.

Sam Darkatsh, *Specialty Distribution*

Steelcase, Inc. (SCS)

Strong Buy	Price 7/22/15	Fiscal Year	Non-GAAP EPS Estimate 2015A	2016E	2017E	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$18.06	Feb	$0.89	$1.09	$1.36	16.6x	$0.45/2.5%	$2,275.6

Steelcase is the world's largest manufacturer of office systems and related business furniture. Despite enduring significant disruption inefficiencies related to its European operations, Steelcase continues to execute well, delivering solid headline results. More importantly, management has completed the formal transfer of its Wisches France facility to a third party, thereby completing a major step in reducing excess manufacturing capacity in its EMEA segment. Our bullish stance on SCS reflects: (1) the positive dynamics in the office furniture industry that we see continuing into 2016; (2) its ongoing process to restructure and repair its European manufacturing footprint that should begin to deliver impressive earnings comparisons in F2H16; and (3) the increasing traction that we see evolving in the U.S. from new introductions that reflect management's ongoing commitment to research. The balance sheet is strong, the dividend payout ratio is reasonable, and the dividend rate has increased steadily since being temporarily cut in 2009.

Budd Bugatch, CFA, *Furniture & Furnishings Suppliers*

Symantec Corp. (SYMC)

Outperform	Price 7/22/15	Fiscal Year	Non-GAAP EPS Estimate 2015A	2016E	2017E	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$22.96	Mar	$1.88	$1.85	$1.97	12.4x	$0.60/2.6%	$15,704.6

Symantec is a large software vendor that specializes in security and storage. The company's security business serves consumers, via its Norton brand, and enterprises through several offerings including endpoint security, encryption, authentication, and other areas. The storage business includes backup and recovery, archiving, eDiscovery, and disaster recovery software. While Symantec has lagged competitively in the last few years, we believe the company's recent breakup announcement into independent storage and security companies could help each to catch up in product development. Plus, the storage business could become an acquisition target. Symantec is also an attractive cash return story, buying back on average 1% of shares outstanding the last six quarters and paying a 2.6% dividend yield.

Michael Turits, Ph.D., *Infrastructure Software*

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TD Ameritrade Holding Corporation (AMTD)

Outperform	Price 7/22/15	Fiscal Year	GAAP EPS Estimate 2014A	2015E	2016E	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$37.29	Sep	$1.42	$1.49	$1.85	20.2x	$0.60/1.6%	$20,397.6

We continue to have a favorable investment thesis on TD Ameritrade due to its best-in-class asset growth rate, consistent expense discipline, leverage to higher interest rates, and generous capital returns. We note that those latter two points go hand in hand: higher interest rates will generate improved earnings, which in turn will support substantial dividend growth over the next five years, in our view. We believe TD Ameritrade's two large shareholders (TD Bank and the Ricketts family) are highly supportive of a generous dividend policy.

Patrick O'Shaughnessy, CFA, *Capital Markets*

Telephone and Data Systems, Inc. (TDS)

Strong Buy	Price 7/22/15	Fiscal Year	vFCF /Share Estimate 2014A	2015E	2016E	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$28.25	Dec	$(1.78)	$(1.75)	$0.35	80.7x	$0.56/2.0%	$3,052.1

Telephone and Data Systems, Inc. (TDS) provides wireless services through majority-owned (about 84%) U.S. Cellular (USM). TDS also provides local exchange, Internet and data, and xDSL services primarily to residential and small business customers through its wholly owned subsidiary TDS Telecom. The primary pillar of our thesis centers on the turnaround at U.S. Cellular. Strong net add and revenue momentum continued in 4Q14 with positive postpaid net adds and revenue growth. USM also returned to growing operating cash flow (that is calculated the same way as we do EBITDA) and guidance for 2015 is for total operating margins (OCF/total revenue) to expand. In 1Q15, U.S. Cellular closed on the $159 million sale of the towers in its non-core markets and still has approximately 4,000 towers in its core markets. We have not included the sale of the core towers in our model or valuation, but believe these assets are worth well over $1 billion. Lastly, shares of TDS currently trade at around 5x 2015 EBITDA, compared to the North America Wireless peer group at about 7x, and offer a 2% dividend yield, providing a compelling income and growth opportunity.

Ric Prentiss, *Telecommunications Services*

Texas Instruments Incorporated (TXN)

Strong Buy	Price 7/22/15	Fiscal Year	Non-GAAP EPS Estimate 2014A	2015E	2016E	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$49.30	Dec	$2.73	$2.81	$3.03	16.3x	$1.36/2.8%	$51,814.3

Texas Instruments (TXN) has a dominant share in analog, strong channel relationships, and high free cash flow that gets returned to shareholders. TI is positioned to do well if the global macro environment is positive, but also tends to be one the best performing stocks if the macro environment weakens. TI’s 300mm fabs provide the company with a cost advantage few other firms can match and the ramp of these fabs should continue to improve gross margin. The company’s 2.8% dividend yield adds to the total return potential.

J. Steven Smigie & Hans Mosesmann, *Analog and Communications Semiconductors*

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The ADT Corporation (ADT)

Outperform	Price 7/22/15	Fiscal Year	Non-GAAP EPS Estimate 2014A	2015E	2016E	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$32.29	Sep	$2.02	$2.00	$2.10	15.4x	$0.84/2.5%	$5,529.3

We view ADT as a company well positioned to ride out the current global macro concerns with 100% of its business located in North America. The stock continues to trade at a significant discount to its peer group of telco and cable companies while enjoying a healthy pricing environment and being on the cusp of returning to subscriber growth. We believe the company will continue to make progress on improving its subscriber metrics and thus experience multiple expansion. Additionally, we see a path to FCF growth when the current investments in Pulse and small business capabilities begin to pay off which we believe will lead to further dividend increases and share repurchases.

Brian Gesuale, *IT Services and Security*

The NASDAQ OMX Group, Inc. (NDAQ)

Strong Buy	Price 7/22/15	Fiscal Year	Non-GAAP EPS Estimate 2014A	2015E	2016E	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$51.73	Dec	$2.88	$3.14	$3.60	14.4x	$1.00/1.9%	$8,933.8

We expect meaningful P/E multiple expansion for Nasdaq over the next two years as investors give the company more credit for its growing non-transaction businesses (about 75% of revenues). A track record of disciplined expense management and generous capital returns should further boost EPS growth.

In April 2015 Nasdaq announced a 67% increase in its quarterly dividend, to $0.25 per share, which represents roughly 32% of 2015E net income. Nasdaq management is committed to paying an attractive dividend yield as a means to boost the firm's P/E multiple.

Patrick O'Shaughnessy, CFA, *Capital Markets*

Umpqua Holdings Corp. (UMPQ)

Outperform	Price 7/22/15	Fiscal Year	Non-GAAP EPS Estimate 2014A	2015E	2016E	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$18.72	Dec	$1.08	$1.22	$1.33	14.1x	$0.60/3.2%	$4,124.0

Umpqua was actively expanding its banking presence in the Pacific Northwest, directly investing in its franchise and acquiring smaller institutions, before closing its acquisition of Sterling Financial in April 2014, doubling its asset base. The continuing economic recovery; the hiring of veteran bankers throughout its footprint; and its leverage of Financial Pacific’s (leasing company acquired in 3Q13) and Sterling’s client bases should lead to better-than-peer commercial loan growth. Following the completion of the Sterling acquisition, Umpqua announced the continuation of its $0.15 quarterly dividend (3.2% annualized dividend yield), which equates to a 49% payout ratio based on our 2015 GAAP EPS estimate of $1.09.

David J. Long, CFA, *Banking*

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Union Pacific Corp. (UNP)

Strong Buy	Price 7/22/15	Fiscal Year	Non-GAAP EPS Estimate 2014A	2015E	2016E	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$97.68	Dec	$5.75	$5.75	$6.55	14.9x	$2.20/2.2%	$85,701.5

Over time, we expect Union Pacific will continue to receive a lift from a strong industry backdrop garnering "inflation-to-inflation-plus" pricing and continued market share gains (via intermodal, particularly across the Mexican border) given the enduring cost and "green" advantages of rail vs. truck. Further, Union Pacific should benefit if a North American manufacturing "renaissance" materializes, particularly given its balanced revenue profile, extensive geographic footprint, and exposure to Mexico, which is underappreciated, in our view. Union Pacific generates strong free cash flow with about a 4% yield on our 2016 estimates. Given approximately $1.6 billion in cash on the balance sheet, moderate debt levels (the lowest leverage ratio in the group), an increased share buyback program, and a TTM dividend running 24% higher y/y, we foresee further capital returned to shareholders in the form of dividend increases. Union Pacific's dividend payout ratio is about 39% on our 2015 EPS estimate – roughly in line with their stated targets.

Patrick Tyler Brown, CFA & Arthur W. Hatfield, CFA, *Transportation Services*

Verizon Communications (VZ)

Outperform	Price 7/22/15	Fiscal Year	Non-GAAP EPS Estimate 2014A	2015E	2016E	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$46.45	Dec	$3.43	$3.79	$3.85	12.1x	$2.20/4.7%	$189,748.3

Verizon remains one of our best large-cap names in the telecom space with the most LTE coverage across the country, a higher percentage of fiber across its wireline footprint, a lower percentage of cyclical enterprise exposure vs. its peers, and at similar valuations to its peers, with a 4.7% dividend yield. Going forward, the company continues to position itself toward wireless and data growth and remains very focused on its growth opportunities in M2M, cloud, automotive and video delivery/distribution to name a few. Verizon trades at 70% of the S&P 500 forward P/E, below the last two-year average of 89%. We believe it should trade closer to recent valuations based on wireless' superior growth expectations.

Frank G. Louthan IV, *Telecommunications Services*

Wal-Mart Stores Inc. (WMT)

Strong Buy	Price 7/22/15	Fiscal Year	Non-GAAP EPS Estimate 2015A	2016E	2017E	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$73.16	Jan	$5.07	$4.83	$5.12	15.1x	$1.96/2.7%	$237,038.4

We believe WMT is an issue well suited for an income portfolio. The Neighborhood Market concept continues to gain traction and the company is executing on its strategy to improve the customer experience in the stores by improving staffing and merchandising. The leadership team is focused on getting the consumer shopping experience right in the supercenters and neighborhood markets and re-centering its focus on delivering everyday low prices. We think the risk/reward profile of the shares is more reward weighted at this time. Walmart will report F2Q16 results on August 18th, 2015.

Budd Bugatch, CFA, *Home & Other Retailers*

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Wells Fargo & Co. (WFC)

Outperform	Price 7/22/15	Fiscal Year	GAAP EPS Estimate 2014A	2015E	2016E	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$58.52	Dec	$4.10	$4.19	$4.56	12.8x	$1.50/2.6%	$301,085.4

Before and after the financial crisis, Wells Fargo has been one of highest performing and fastest-growing large-cap banks. Its focus on building strong client relationships, conservative underwriting, and maintaining a diversified franchise led to strong loan and deposit growth. The bank successfully integrated the acquisition of Wachovia in 2008 and moved toward an improved efficiency ratio following the crisis, while maintaining better-than-peer profitability. Wells Fargo has raised total annual dividends each year since 2011. The 2015 capital plan, which received no objection from the Federal Reserve, included a proposed dividend rate of $0.375 per share for 2Q15. Our 3Q15 dividend estimate of $0.375 equates to a 2.6% annualized dividend yield and a 35% payout ratio based on our 2015 GAAP EPS estimate of $4.19.

David J. Long, CFA, *Banking*

Xilinx, Inc. (XLNX)

Strong Buy	Price 7/22/15	Fiscal Year	GAAP EPS Estimate 2015A	2016E	2017E	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$41.07	Mar	$2.35	$1.96	$2.25	21.0x	$1.24/3.0%	$11,006.8

With the pending acquisition of Altera by Intel, we believe Xilinx will be a beneficiary of industry consolidation as the remaining stand-alone player in an FPGA duopoly. We expect limited disruption in traditional FPGA markets, other than a likely move back to Xilinx on the momentum pendulum, due to customer angst over the prospect of doing business with Intel. Additionally, our checks indicated Intel has already repositioned a large portion of Altera's engineering team under the Intel Data Center Group, suggesting less focus on the classical FPGA market segments - a net positive for Xilinx, in our opinion. With a dividend yield of 3% and ongoing share repurchases, we believe Xilinx is in a position to deliver consistent value to shareholders.

Hans Mosesmann, *Semiconductors*

[1] P/E multiple based on fiscal 2016 EPS estimate.
[2] $ in millions.

Business Development Companies (BDCs)

Business Development Companies (BDCs) offer public investors access to lower middle market (LMM) exposure, which focuses on U.S. small to medium-size businesses, that is generally prohibitively expensive or difficult to invest in at the retail level otherwise. BDCs provide debt and equity financing to LMM businesses to fund growth initiatives, changes in control, or recapitalization. Regulations require that at least 90% of a BDC’s taxable income is distributed to shareholders through dividend payments – over the long run.

In the BDC group as a whole, there are several distinguishing factors we look upon favorably in a company. (1) Do they cover their dividend with earnings? Considered one of the biggest drivers of valuation in BDCs. (2) Does the BDC have a good track record of consistent or increasing dividend payments? Cutting dividends or maintaining a lower dividend for too long can be a negative indication of the management team’s ability to create real growth prospects. (3) Does the BDC have unrealized

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earnings potential? Here, we are looking for untapped credit facility capacity, cash on hand, or gains not yet realized on equity exposure. (4) How conservative is the management team? A good measure of conservatism among the management is their fee structure and portfolio mix. (5) Is the BDC trading at an attractive valuation currently? Examining the dividend yield and price to net asset value (NAV) comparisons can be helpful in determining the relative premium or discount of the current market value.

Current lending conditions and terms are still frothy, and leverage levels appear to be stabilizing in the short term. Interest rates have been relatively stable in recent quarters, but we are expecting this trend to reverse as interest rates are projected to rise (slowly at first) as early as September 2015. BDC portfolios may have large amounts of legacy assets, generally not subject to frequent re-pricing, though 2013 brought some significant re-pricing that was out of the ordinary. This portfolio allocation has contributed to the continuing modest yield compression, even in an environment of stable pricing terms.

The illiquid end of the BDC sector has seen significant downward price pressure recently. On Monday, July 13, 2015, we released a report detailing our views on the source of the massive selloffs (see Investment Company Weekly July 13, 2015). A large institutional investor (Advisors Asset Management – AAM) is placing illiquid BDCs in UITs with fixed maturity dates, which seems to be causing material price disruption at each maturity. The pattern shows a drop of up to 10% in illiquid BDC shares' prices during the selling period prior to the UIT maturity, then, all else being equal, a responding price recovery over the next few weeks. This needs to be monitored closely, as it can lead to deft trading opportunities, but does not represent any fundamental weakness in the individual BDCs themselves.

Our two favorite BDCs at today's levels are listed below, both Strong Buy rated. We continue to rate all stocks in the BDC sector as High Risk given historic share price volatility, likely to be exacerbated in the near term with global economic concerns, rising interest rates, and a more volatile market overall.

Alcentra Capital Corporation (ABDC)

Strong Buy	Price 7/22/15	Fiscal Year	NII/Share Estimate 2014A	2015E	2016E	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$12.86	Dec	$0.86	$1.44	$1.48	8.7x	$1.36/10.6%	$173.6

Our fundamental assessment of Alcentra remains sound. The company uses an attractive lower middle market targeted approach. We believe Alcentra is well positioned with a track record of strong credit quality (no non-accruals as of March 31, 2015, but one possible on management's watch list), and an extremely shareholder-friendly management fee & waiver structure (including a catch up provision), which all combine to provide significant protection for a fully covered dividend ($1.36/share dividend).The company is also in the application process for a SBIC license, which would open up a significant portion of low cost, fixed rate debt capital to fund future deployments, which is not accounted for in the regulatory D/E limits. Our current projections for earnings growth (to fully cover the dividend) are net investment income/share of $1.44 and $1.48 for FY15 and FY16 respectively (does not forecast the use of SBA debt as the company has not yet received the license). The company's current yield of 10.6% is attractive. ABDC has all of the favorable indicators for BDCs discussed above that leads it to be an attractive play for income stream potential. As noted above, AAM owns at least 199,526 shares of ABDC (1.48% of outstanding, as of March 31, 2015, in two UITs as of that date) across four UITs now, with the following maturity dates: February 6, 2017, March 13, 2017, May 8, 2017 and June 15, 2017.

Robert Dodd, Ph.D., *Specialty Finance*

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Fidus Investment Corporation (FDUS)

Strong Buy	Price 7/22/15	Fiscal Year	NII/Share Estimate 2014A	2015E	2016E	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$14.92	Dec	$1.62	$1.55	$1.75	8.5x	$1.52/10.1%	$205.9

Fidus is active in the Small Business Investment Company (SBIC) segment of the market, focused on a less price-competitive segment than the upper-LMM. The company has an advantageous capital structure due to regulatory support for SBIC lending. The company generated significant realized gains in 2013, and paid out a portion in special dividends. In the last eight quarters, Fidus has declared special dividends in four of the quarters totaling $0.64/share, with a regular dividend last quarter of $0.38/share. As of March 31, 2015, FDUS had $13.8 million in spillover income ($0.85/share) which could be used to fund future special dividend, which we do not forecast. As of the end of 1Q15, the company had no loans on non-accrual status. We believe FDUS has an attractive valuation given its solid underwriting track record and positive history of consistent and increasing total yearly dividends. The current yield of 10.1% (not including special dividends) is attractive. We believe the risk/reward profile poses FDUS as an attractive investment as a BDC income play. As noted above, AAM owns 481,404 shares of FDUS (2.98% of outstanding, as of March 31, 2015) across six UITs, with the following maturity dates: July 15, 2015, November 5, 2015, December 14, 2015, February 3, 2016, February 6, 2017, and March 13, 2017.

Robert Dodd, Ph.D., *Specialty Finance*

[1] P/E multiple based on fiscal 2016 EPS estimate.
[2] $ in millions.

Please note: investors investing in Business Development Companies (BDCs) may be subject to fees including, but not limited to, sales loads, dividend reinvestment expense, and management, transaction , and incentive fees. Please consult the individual registration statement for full disclosure of all applicable fees and expenses.

Energy Master Limited Partnerships (MLPs)

MLP Priority List

MLP	Ticker	RJ Rating	Price 7/20/15	Yield 7/20/15	3-Yr ('14-'17) Dist. CAGR	YTD Total Return	TTM Total Return	Credit Rating Mdy's	Credit Rating S&P	Debt/ Total Capital	Dist. Coverage 2015E	Cash & Equivs. in 1000s
Antero Midstream Partners L.P.	AM	SB1	$26.50	2.72%	24.74%	-24.4%	N/A	N/A	N/A	0%	1.20x	$162,339
Enterprise Products Partners L.P.	EPD	SB1	$28.45	5.27%	5.65%	-10.2%	5.2%	Baa1	BBB+	23%	1.28x	$81,100
Energy Transfer Equity LP	ETE	SB1	$61.40	3.19%	28.84%	-9.8%	26.7%	Ba2	BB	14%	1.08x	$1,863,000
Genesis Energy L.P.	GEL	MO2	$44.94	5.43%	10.20%	-4.1%	-18.5%	Ba3	BB-	27%	1.24x	$11,138
Magellan Midstream Partners L.P.	MMP	MO2	$70.53	4.07%	12.77%	-8.7%	25.0%	Baa2	BBB+	16%	1.30x	$52,813
Memorial Production Partners L.P.	MEMP	MO2	$12.13	18.14%	-5.57%	3.3%	-20.9%	B2	B	65%	1.10x	$1,073
Plains GP Holdings	PAGP	MO2	$24.30	3.65%	15.06%	-1.4%	-1.2%	Baa2	BBB	28%	1.00x	$460,000
Tesoro Logistics L.P.	TLLP	SB1	$53.41	5.21%	16.04%	-11.1%	1.7%	Ba3	BB-	33%	1.35x	$16,000
Targa Resources Corporation	TRGP	SB1	$86.64	3.83%	19.54%	-19.4%	-0.9%	B3	NR	37%	1.02x	$170,700
Williams Partners L.P.	WPZ	MO2	$46.95	7.24%	3.92%	-8.4%	-6.4%	Baa3	BBB	33%	1.10x	$277,000
Vanguard Natural Resources L.P.	VNR	MO2	$10.46	13.48%	0.00%	-6.8%	-44.1%	Baa3	BBB	63%	1.21x	$14,523
Average				**6.1%**	**13.1%**	**-8.4%**	**-0.7%**			**33.1%**	**1.18x**	
Alerian MLP Index	AMZ-P		$380.16	6.7%		-8.2%	-7.1%					

Priced: 7/20/2015 Source: Thomson and Raymond James Research

This analysis does not include transaction costs and tax considerations. If included these costs would reduce an investor's return. It should not be assumed that recommendations made in the future will be profitable or will equal the performance of the securities in this list. Past performance is not indicative of future results. A complete record of our MLP Priority List and stock recommendations for the trailing 12 months is available upon request.

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Antero Midstream Partners L.P. (AM)

Strong Buy	Price 7/22/15	Fiscal Year	EPU Estimate 2014A	2015E	2016E	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$26.08	Dec	$0.09	$0.42	$1.21	21.6x	$0.68/2.5%	$3,961.0

We believe Antero Midstream's 1) supportive relationship with Antero Resources (AR); 2) strategically located Utica/Marcellus core assets; and 3) visible growth backlog should facilitate 25-35% y/y cash distribution growth for several years. Moreover, with a 100% fixed-fee margin structure underpinned solely by AR (i.e., no third-party exposure), a strong balance sheet (including zero long-term debt as of March 31, 2015 and about $1.2 billion in existing liquidity), and AR's insulation from commodity price volatility, we expect growth execution on lower associated risk. AM is set to generate strong distribution growth of which the full extent has not been fully reflected by the market (note its "best-in-class" multi-year CAGR of around 30% vs. the gas gathering and processing peer group of approximately 10%).

Darren Horowitz, *Midstream Suppliers*

Enterprise Products Partners L.P. (EPD)

Strong Buy	Price 7/22/15	Fiscal Year	EPU Estimate 2014A	2015E	2016E	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$27.55	Dec	$1.47	$1.23	$1.31	21.0x	$1.52/5.4%	$51,628.7

Enterprise Products Partners is the largest publicly traded MLP and enjoys one of the lowest costs of capital in the MLP space. Stable cash flows are supported by a geographically diverse and vertically integrated asset base with a large and growing fee-based component. Given the partnership's excellent financial flexibility and visible growth opportunities in emerging shale plays, Enterprise is optimally positioned to generate higher returns on invested capital over the long term.

Darren Horowitz, *Midstream Suppliers*

Energy Transfer Equity L.P. (ETE)

Strong Buy	Price 7/22/15	Fiscal Year	EPU Estimate 2014A	2015E	2016E	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$59.34	Dec	$1.17	$1.57	$2.25	26.4x	$2.12/3.6%	$32,002.1

Energy Transfer Equity L.P. (ETE) owns the general partner interests and 100% of the incentive distribution rights (and related limited partner interest) of Energy Transfer Partners L.P. (ETP) and Sunoco L.P. (SUN), as well as the general partner interest and 90% of the incentive distribution rights of Sunoco Logistics Partners L.P. (SXL). Considering the direct exposure to underlying cash flow growth from the aforementioned three daughter LPs (ETP, SUN, and SXL) we feel confident in the notion that ETE is set to achieve our estimated 2014-2017 distribution CAGR of about 29%.

Darren Horowitz, *Midstream Suppliers*

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Genesis Energy L.P. (GEL)

Outperform	Price	Fiscal	EPU Estimate				Dividend/	Market
	7/22/15	Year	2014A	2015E	2016E	P/E[1]	Yield	Cap.[2]
	$43.72	Dec	$1.18	$1.37	$2.23	19.6x	$2.50/5.7%	$4,154.7

Genesis Energy Partners L.P. is an MLP engaged in the transportation, storage, and terminaling of crude oil and refined products with 1,475 miles of onshore and offshore crude oil pipelines, 269 miles of CO2 pipelines, 3.0 MMBbls of leased and owned storage capacity, and access to a suite of over 250 trucks, 350 trailers, 50 "black oil" barges, and 22 push boats that provide an integrated midstream solution for Gulf Coast refiners and producers. Additionally, with the recent acquisition of incremental offshore pipeline assets, the partnership continues to grow its stable cash flow profile that is supported by long-term, fee-based contracts. Finally, with a robust list of high return, organic growth opportunities, and a low cost of equity capital following the buyout of its GP and IDR interest, GEL is well positioned to provide above average distribution growth to unitholders.

Darren Horowitz & Cory J. Garcia, *Midstream Suppliers*

Magellan Midstream Partners L.P. (MMP)

Outperform	Price	Fiscal	EPU Estimate				Dividend/	Market
	7/22/15	Year	2014A	2015E	2016E	P/E[1]	Yield	Cap.[2]
	$67.29	Dec	$3.69	$3.13	$3.65	18.4x	$2.96/4.4%	$15,279.5

Given Magellan Midstream Partners' geographically diverse asset base, flexible and conservative balance sheet, and one of the lowest costs of capital in the MLP space, we believe the partnership is positioned to realize above-average distribution growth. In addition, with its stable cash flow profile and attractive growth projects that will benefit from the evolving crude oil logistics environment, in our view MMP is positioned to generate higher returns on invested capital over the long term.

Darren Horowitz & Cory J. Garcia, *Midstream Suppliers*

Memorial Production Partners L.P. (MEMP)

Outperform	Price	Fiscal	Operating EPU Estimate				Dividend/	Market
	7/22/15	Year	2014A	2015E	2016E	P/E[1]	Yield	Cap.[2]
	$11.23	Dec	$0.67	$0.89	$0.93	12.1x	$2.20/19.6%	$494.1

Memorial Production Partners is an upstream MLP with operations in four main areas: East and South Texas, California, and the Rockies. Given its private equity sponsor, Memorial has a highly visible pipeline of acquisition opportunities via drop-down. In addition, Memorial Production Partners' organic growth profile looks just as robust, with the partnership having over 500 development opportunities. The company also has one of the deepest hedge books in the upstream space. All in, we believe its inorganic and organic growth prospects will lead to above average distribution growth in the long term and that its deep hedge book will help insulate it from fluctuations in commodity prices.

Kevin Smith, *Exploration and Production*

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Plains GP Holdings L.P. (PAGP)

Outperform	Price 7/22/15	Fiscal Year	EPU Estimate 2014A	2015E	2016E	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$24.07	Dec	$0.48	$0.75	$0.88	27.4x	$0.91/3.7%	$5,391.7

Plains GP Holdings owns the general partner for Plains All American Pipeline L.P., an MLP engaged in the transportation, storage, terminaling, and marketing of crude oil, refined products, and LPGs (liquid petroleum gas) of more than 3 MMbbls/d in the U.S. and Canada. Plains possesses an attractive vertically integrated model that is strongly positioned to capture profit opportunities related to domestic oil production. This growth leverages itself into even more robust growth at Plains GP Holdings, given the multiplier effect to the growth that comes with the general partner interest and associated incentive distribution right uplift. With one of the most visible cash flow profiles at the underlying MLP, we project a distribution CAGR of at least 15% over the next several years.

Darren Horowitz & Cory J. Garcia, *Midstream Suppliers*

Tesoro Logistics L.P. (TLLP)

Strong Buy	Price 7/22/15	Fiscal Year	EPU Estimate 2014A	2015E	2016E	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$52.36	Dec	$1.10	$3.18	$3.87	13.5x	$2.89/5.5%	$4,306.1

Tesoro Logistics is a crude oil and refined products logistics MLP that has become a full-service logistics provider extending into natural gas services, following the completion of the QEP Field Services acquisition. The partnership earns the majority of its revenue through stable, long-term, fee-based contracts. Given strong sponsorship from its parent, an asset base that is strategically positioned to profit from domestic crude oil and natural gas production characteristics, a fee-based revenue structure that mitigates indirect exposure to commodity price risk, and highly visible growth catalysts via acquisitions and low capital intensity growth projects, we believe TLLP is well positioned to outperform the broader market in the next 12 months.

Cory J. Garcia & Darren Horowitz, *Midstream Suppliers*

Targa Resources Corp. (TRGP)

Strong Buy	Price 7/22/15	Fiscal Year	GAAP EPS Estimate 2014A	2015E	2016E	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$85.43	Dec	$2.43	$2.52	$5.62	15.2x	$3.50/4.1%	$4,785.8

Targa Resources Corp. owns the general partner of Targa Resources Partners L.P., an MLP engaged in the business of gathering, compressing, treating, processing, and selling natural gas and fractionating and selling natural gas liquids (NGL) and NGL products. Pro forma the Atlas transactions, Targa Resources Corp. is positioned to capitalize on its approximate $3 billion total growth backlog. Supported by an expanding geographic asset base, an improving liquids logistics footprint, and a fee-based margin profile that should improve over time, Targa is well leveraged to the opportunities in its space. With consistent and visible growth at the underlying MLP, we project a distribution CAGR of in excess of 20% over the next several years.

Darren Horowitz, *Midstream Suppliers*

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Williams Partners L.P. (WPZ)

Outperform	Price 7/22/15	Fiscal Year	EPU Estimate 2014A	2015E	2016E	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$45.37	Dec	$0.81	$0.35	$0.99	45.8x	$3.40/7.5%	$27,251.0

Williams Partners, L.P., is a diversified MLP focused on the natural gas and natural gas liquid (NGL) supply chain, with a special emphasis on gathering and processing. With operational issues seemingly behind the Williams complex, increased transparency both at the L.P. level post the WPZ/ACMP merger, and a clear roadmap for future growth, we feel operational success is preparing to fuel above-average value to WPZ unitholders. Regardless of any future structural changes, WPZ's assets surround about $30 billion backlog of growth projects on about 90% fee-based margins. This gives us greater confidence in the partnership's ability to achieve above-average dividend growth expectations.

Darren Horowitz, *Midstream Suppliers*

Vanguard Natural Resources, LLC (VNR)

Outperform	Price 7/22/15	Fiscal Year	Operating EPU Estimate 2014A	2015E	2016E	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$10.57	Dec	$1.10	$0.48	$0.43	24.6x	$1.41/13.2%	$896.0

In our opinion, Vanguard Natural Resources has (1) one of the most secure distributions in the space, (2) a much improved balance sheet following the previously mentioned acquisitions of LRR Energy (LRE) and Eagle Rock Energy Partners (EROC), and (3) a number of different avenues of prospective growth. Given the benefits we expect from the acquisitions and the partnership's severe underperformance as of late (around13% yield), we support the notion that the current stock price offers investors an attractive entry point into a generally sound story.

Kevin Smith, *Exploration and Production*

[1] P/E multiple based on fiscal 2016 EPS estimate.
[2] $ in millions.

REITs

After returning 6% through January, a rising 10-year Treasury yield (+68 bp) has caused REITs to fall 7% over the past several months – underperforming the broader market by about 1,400 bp. We still expect REITs to post high single-digit returns over the next 12 months fueled by FFO growth of 8% and dividend yields of 3-4%, partially offset by some modest multiple contraction. The path to high-single digit returns will likely be rocky as we expect the 10-year Treasury yield to remain volatile (end of 2015 consensus is 2.59%), fluctuating after each incremental economic data point. That said, we believe mixed world economic news and the gradual domestic housing recovery limits the potential for a sharp rise in interest rates.

Pricing power is increasing in most sectors as portfolios approach prior peak occupancies and new supply remains relatively measured versus previous construction up-cycles. Dividends remain a significant contributor to REITs' total return. More than half of the REITs' total return over the past 20 years has come in the form of dividends. Sixty-seven REITs increased their dividends an average 9% through June. An average AFFO payout ratio of 73% on 2015 estimates is below the historical trend of about 80%. We expect to see above-average dividend growth over the next few years. Looking further ahead, we also believe REITs moving into a separate GICS classification (out of financials) could be a long-term positive as most generalist fund managers have typically been underweight REITs.

We continue to favor earlier cycle sectors and sectors that are less sensitive to interest rates. As for individual stock recommendations, the Raymond James REIT Top Picks is our compilation of REIT stocks that we believe are better positioned to deliver a superior relative total return given earnings growth, dividend yield, sector exposure, and capital appreciation potential as compared to other REITs we cover

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with a greater emphasis within sectors with shorter lease durations. The following table provides details on the current composition of the list.

Company	*Ticker*	*Rating*	*REIT Sector*	*Price as of 7/17/2015*	*Market Cap. (m)*	*Dividend Yield*
American Residential Properties Inc.	**ARPI**	Strong Buy	Single Family Rentals	$18.76	$616	2.1%
Apartment Inv. & Mgmt. Co.	**AIV**	Outperform	Multifamily	$39.45	$6,460	3.0%
Corporate Office Properties Trust	**OFC**	Outperform	Office	$24.04	$2,386	4.6%
CubeSmart	**CUBE**	Strong Buy	Self Storage	$25.04	$4,234	2.6%
Kite Realty Group Trust	**KRG**	Outperform	Shopping Centers	$26.52	$2,255	4.1%
Pebblebrook Hotel Trust	**PEB**	Outperform	Lodging	$45.91	$3,333	2.7%
Retail Opportunity Investments Corp.	**ROIC**	Outperform	Shopping Centers	$16.71	$1,638	4.1%
Simon Property Group, Inc.	**SPG**	Outperform	Malls	$183.06	$66,775	3.0%
Strategic Hotels and Resorts	**BEE**	Outperform	Lodging	$13.15	$3,642	0.0%

Source: FactSet, Raymond James research.

American Residential Properties, Inc. (ARPI)

Strong Buy	Price	Fiscal	FFO /Share Estimate				Dividend/	Market
	7/22/15	Year	2014A	2015E	2016E	P/E[1]	Yield	Cap.[2]
	$18.55	Dec	$0.39	$0.84	$1.20	15.5x	$0.40/2.2%	$610.3

Single-family rental (SFR) fundamentals continue to improve as the confluence of surging existing home prices, higher mortgage rates, and historically stringent credit standards decreased affordability to the lowest level since late 2009. Simultaneously, long-tail effects including foreclosures and sluggish income growth further hamper the ability of prospective homeowners to afford and qualify for mortgages. We believe American Residential Properties' attractive "early mover" positioning in this newly institutionalized asset class positions shares to generate one of the strongest total return profiles (despite not paying a dividend currently) available in our REIT coverage. Shares continue to trade below our "fair value to replacement cost" based NAV. In our view, this indicates that investors can still buy into ARPI's portfolio below fair market value given well-publicized home price appreciation in its core markets. We believe American Residential Properties represents one of the most compelling values in our REIT coverage, bolstered by 1) robust fundamental demand for SFR homes; 2) underappreciated home price appreciation (HPA) embedded in its cost basis (+7% in its portfolio last year); and 3) meaningful portfolio optionality that could be positively realized either through internal improvements or a strategic transaction.

Buck Horne, CFA & Paul D. Puryear, *REITs*

Apartment Investment and Management Company (AIV)

Outperform	Price	Fiscal	FFO /Share Estimate				Dividend/	Market
	7/22/15	Year	2014A	2015E	2016E	P/E[1]	Yield	Cap.[2]
	$39.99	Dec	$2.07	$2.14	$2.36	16.9x	$1.20/3.0%	$6,550.4

AIMCO is our top pick in the multifamily sector. Management continues to steadily improve the company's portfolio through dispositions of lower-rated assets and accretive re-development programs. Tenant quality also continues to improve, holding rent-to-income ratios at healthy levels. We believe AIV shares will continue to outperform due to: 1) its visible double-digit free cash flow (AFFO) growth, 2) potential capital cost reductions following its recent credit upgrade to an investment grade rating, and 3) further NAV accretion from its lower-risk redevelopment program.

Buck Horne, CFA & Paul D. Puryear, *REITs*

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Corporate Office Properties Trust (OFC)

Outperform	Price 7/22/15	Fiscal Year	FFO /Share Estimate 2014A	2015E	2016E	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$24.20	Dec	$1.88	$2.00	$2.19	11.1x	$1.10/4.5%	$2,376.4

Our rating on OFC shares is Outperform. The midpoint of the company's 2015 comparable FFO/share guidance suggests healthy mid-single-digit growth year-over-year. Market fundaments, particularly within the company's strategic tenant niche, continue to build toward a favorable leasing environment in 2015 and beyond. Demand is firming along several lines: (1) the U.S. government's customers and defense IT contractors continue to need modern, efficient, and strategically located properties to execute their missions; (2) traditional office tenants in healthcare, education, and professional services are growing in and around the Baltimore/Washington, D.C. corridor [where more than half of Corporate Office Properties Trust's (COPT's) properties are located]; (3) cyber security companies continue to expand in Maryland's Cyber Valley. Cyber is one portion of the defense budget that is actually growing and should remain a long-term secular growth driver for Corporate Office and one most traditional office REITs can't replicate. Supply remains in check in each market, which should translate into better pricing power in quarters to come. With much of the heavy lifting now behind the company and the cementing of 2014 as the inflection year for FFO/share, we believe that a more constructive stance on OFC shares remains appropriate.

William A. Crow & Paul D. Puryear, *REITs*

CubeSmart (CUBE)

Strong Buy	Price 7/22/15	Fiscal Year	FFO /Share Estimate 2014A	2015E	2016E	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$25.17	Dec	$1.03	$1.19	$1.32	19.1x	$0.64/2.4%	$4,238.6

After a string of quarters where CUBE has posted industry-leading SSNOI growth, the company has hit its stride. We expect CUBE to continue posting industry-leading SSNOI growth in 2015 as it benefits from additional occupancy runway and rental rate growth. Storage fundamentals remain strong amid the backdrop of limited new supply as the industry consolidation story continues to play out.

Jonathan Hughes & Paul D. Puryear, *REITs*

Kite Realty Group Trust (KRG)

Outperform	Price 7/22/15	Fiscal Year	FFO /Share Estimate 2014A	2015E	2016E	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$26.27	Dec	$1.57	$2.01	$2.16	12.2x	$1.09/4.2%	$2,196.2

Our Outperform rating on Kite Realty is based on our belief that 1) Kite is creating value through lease-up and redevelopment activity, 2) management will continue to cull the portfolio of lower growth assets amid the favorable pricing environment, and 3) Kite will realize a lower cost of capital over time given the balance sheet improvements. KRG shares have significantly underperformed this year – down 8% vs. the shopping center sector -4%, and the RMZ -3%. With solid SSNOI growth (+4.4% in 1Q15) and an improved balance sheet (6.2x net debt/EBITDA) we don't believe Kite should be trading at the second lowest AFFO multiple among our shopping center coverage universe at 13.4x 2016 AFFO.

Collin Mings, CFA & Paul D. Puryear, *REITs*

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Pebblebrook Hotel Trust (PEB)

Outperform	Price 7/22/15	Fiscal Year	FFO /Share Estimate 2014A	2015E	2016E	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$45.89	Dec	$1.96	$2.52	$3.04	15.1x	$1.24/2.6%	$3,304.1

Pebblebrook continues to build a portfolio concentrated in the top U.S. lodging markets, with a distinct emphasis on coastal gateway markets and an overweight position along the fundamentally stronger West Coast. We expect the portfolio to tally above-average RevPAR and margin growth, with both driven not only by the portfolio's quality and positioning but also by recent renovation and repositioning efforts, a more disciplined asset management focus, and, in select cases, changes in hotel level management and personnel. While the shares are not cheap on a relative basis, we believe a premium valuation is justified based on management's track record and prospects for fundamental outperformance in 2015 and beyond.

William A. Crow & Paul D. Puryear, *REITs*

Retail Opportunity Investments Corp. (ROIC)

Outperform	Price 7/22/15	Fiscal Year	FFO /Share Estimate 2014A	2015E	2016E	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$16.89	Dec	$0.85	$0.92	$1.00	16.9x	$0.68/4.1%	$1,579.2

We believe the recent pullback in ROIC shares has created an attractive entry point for investors (over the last four years shares have traded at a 9% premium to consensus NAV on average). Our constructive stance stems from our view that the company: 1) is primed to continue to execute its relationship-driven, off-market acquisition strategy; 2) owns a high-quality portfolio that will continue to register strong same-store NOI growth; and 3) is likely on the radar of some potential acquirers. CEO and industry veteran Stuart Tanz has amassed a high-quality, West Coast portfolio, and we have confidence in management's ability to continue to drive above-average earnings and NAV growth (consensus NAV estimates have climbed an average of 11% per year since 2011). Longer term, we believe Retail Opportunity Investments Corp.'s clean portfolio and limited structural complexity position it as a prime consolidation candidate as well.

Collin Mings, CFA & Paul D. Puryear, *REITs*

Simon Property Group, Inc. (SPG)

Outperform	Price 7/22/15	Fiscal Year	FFO /Share Estimate 2014A	2015E	2016E	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$182.38	Dec	$8.90	$9.80	$10.75	17.0x	$6.00/3.3%	$66,386.3

We believe that Simon's discount to peers is unwarranted, trading at an 11% discount to consensus NAV estimates vs. the peer group average (GGP, MAC, TCO) of a 10% discount. Our constructive stance on Simon is based on our view: 1) the company is poised for another year of strong SSNOI growth in 2015; 2) management will create value through its development/redevelopment pipeline; and 3) higher productivity mall portfolios are more insulated to JC Penney/Sears anchor closings (vs. the B-malls).

Collin Mings, CFA & Paul D. Puryear, *REITs*

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Strategic Hotels & Resorts (BEE)

Outperform	Price 7/22/15	Fiscal Year	FFO /Share Estimate 2014A	2015E	2016E	P/E[1]	Dividend/ Yield	Market Cap.[2]
	$13.04	Dec	$0.68	$0.92	$0.99	13.2x	$0.00/0.0%	$3,618.6

Few lodging companies possess the top-line and bottom-line growth potential inherent in Strategic's portfolio, due in part to the impact of the downturn on the business but also reflective of properties geared toward higher-end business and group travelers situated in markets that face very little threat from new supply. Recent results demonstrate how Strategic's unique portfolio, with its focus on the relatively stronger West Coast markets and luxury properties, can drive outperformance through outside the room spend. We believe that Strategic's results over the course of 2015 should help investors better understand the positive dynamics within the upper end of the hotel price scale…at least outside of New York City.

William A. Crow & Paul D. Puryear, *REITs*

[1] P/E multiple based on fiscal 2016 EPS estimate.
[2] $ in millions.

Closed-End Funds

A major theme within the closed-end space has been the recent discount widening across most major sectors. This has left closed-end funds trading at very attractive levels, with an average discount of 9.69%. Fund performance has been mixed, mostly due to the unusual discount expansion as fund net asset values have held up better than prices. Healthcare continues to be the top performing sector, with average fund total return performance of 17.24% year-to-date. The next best performing sector has been the global option premium sector, returning 10.13% year-to-date, which is expected as the sector tends to perform well in a volatile equity market. Not surprisingly, both sectors were the two sectors experiencing the most discount contraction since the beginning of the year. MLP funds have continued to trend downward since the beginning of the year, returning -17.21% on a price total return basis. We feel that such wide discounts present investors with opportunities in most sectors across the entire closed-end space. Additionally, clients who reinvest dividends get the added benefit of reinvesting at a deeper discount.

With this edition of the Equity Income Report, we are highlighting three funds on the Closed-End Fund Research Idea List. Each of these equity funds uses a distinct strategy to generate income. The first fund listed below is **Source Capital (SOR).** SOR is a mid-cap focused fund that uses a bottom-up security selection process to buy companies with strong balance sheets. The portfolio manager focuses on companies whose business models are easily understood, benefit from strong market positions or other competitive strengths, and are executed by capable management teams. As of July 20, 2015, the fund traded at an 8.77% discount with a distribution rate of 4.73%.

The second fund that we are highlighting on the list is the **Eaton Vance Tax-Advantaged Dividend Income Fund (EVT).** EVT is a tax-advantaged equity fund that focuses on providing clients distributions taxed at long-term capital gains rates. The fund manager retains discretion to allocate to equities or preferreds, and intends to employ a dividend capture strategy. EVT has enjoyed strong performance within the equity closed-end fund space, returning an average of 15.19% on an annualized price total return over the previous five-year period. Even with this strong performance, the fund increased their distribution rate by over 25% in July. As of July 20, 2015, the fund traded at a 10.54% discount, and had a distribution rate of 8.48%.

The last fund listed below is the **First Trust MLP and Energy Income Fund (FEI).** FEI seeks to provide its common shareholders with a vehicle to invest in a portfolio of cash-generating securities, with a focus on investing in publicly traded master limited partnerships and MLP-related entities in the energy sector and energy utilities industries. To generate additional income, the fund currently expects to write (or sell) covered call options on up to 35% of its managed assets. FEI is structured as a "C" corp and generates a 1099 tax form. As of July 20, 2015, the fund traded at a 12.47% discount with a distribution rate of 8.04%.

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If you have any questions on the funds included on this list or any other funds, please contact us at extension 75328 or email CEFR@raymondjames.com.

Ticker	Name	Price	NAV	Premium/ Discount	12 mo Average Discount	Distribution Rate *	Leverage
SOR	Source Capital	$71.95	$78.87	-8.77%	-10.90%	4.73%	0%
EVT	Eaton Vance Tax-Advantaged Dividend Income Fund	$20.53	$22.95	-10.54%	-9.90%	8.48%	21.20%
FEI	First Trust MLP and Energy Income Fund	$17.41	$19.89	-12.47%	-8.30%	8.04%	24.91%

Source: Raymond James Closed-End Fund Research and Thomson Reuters. Data as of 7/20/2015.
** The distribution rate is calculated by annualizing the last regular distribution and then dividing by the current market price. Distributions are comprised of qualified and non-qualified ordinary dividends, interest, capital gains distributions, and return of capital. Special distributions are not included in the calculation. The distribution rate is not indicative of fund performance. Distribution rates are subject to change. Distributions may have been enhanced through the use of leverage. For complete details regarding distribution composition please contact your financial advisor or the fund company.*

Amy Charles, *Closed-End Fund Research*

Exchange Traded Funds

Exchange-traded funds (ETFs) offer the opportunity to gain exposure to dividend-oriented securities across a broad array of asset classes. When selecting a dividend-oriented ETF, one must be aware that these products do not manage their distributions as many other structured products do, thus resulting in a potentially "lumpy" distribution stream. The first of two domestically oriented products that we are highlighting in this edition is the **First Trust Value Line Dividend Index Fund (FVD).** This ETF tracks the Value Line Dividend Index, which is comprised of companies with a higher than average dividend yield, as compared to the indicated yield of the S&P 500 Composites Stock Price Index. The stocks must also receive a high safety ranking as determined by Value Line and are then equally weighted within the index. The second domestically oriented product is the **SPDR S&P Dividend ETF (SDY)**, which tracks the S&P High Yield Dividend Aristocrats Index. The underlying index measures the performance of the highest dividend yielding S&P Composite 1500 constituents that have followed a managed-dividends policy of consistently increasing dividends every year for at least 20 years. On the international side, the **WisdomTree International LargeCap Dividend Fund (DOL)** tracks an index that measures the performance of the large-capitalization segment of the dividend-paying market in the industrialized world outside the U.S. and Canada. Companies are weighted in the underlying index based on regular cash dividends paid. Finally, investors can consider the **WisdomTree International SmallCap Dividend Fund (DLS).** This offering from WisdomTree tracks an index that measures the performance of the small-capitalization segment of the dividend-paying market in the industrialized world outside the U.S. and Canada. The index is comprised of the companies that compose the bottom 25% of the market capitalization of the WisdomTree DEFA Index after the 300 largest companies have been removed. Companies are weighted in the index based on regular cash dividends paid.

Please contact the Exchange-Traded Fund Research Department for additional ideas or any questions you may have.

Ticker	Name	NAV	Price
FVD	First Trust Value Line Dividend Index Fund	$14.32	$15.00
SDY	SPDR S&P Dividend ETF	$77.62	$77.62
DOL	WisdomTree International LargeCap Dividend Fund	$48.81	$49.06
DLS	WisdomTree International SmallCap Dividend Fund	$60.25	$60.38

Source: Raymond James Closed-End Fund Research and fund issuers. Price data as of 07/17/2015, unless otherwise denoted.

Amy Charles, Closed-End Fund Research

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17	Verizon Communications	VZ	2
18	Wells Fargo & Co.	WFC	2
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Market Perform (Hold)	39%	32%	36%	36%	9%	23%	0%	0%
Underperform (Sell)	5%	2%	0%	22%	2%	25%	0%	0%

* Columns may not add to 100% due to rounding.

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