WELLS FARGO
Investment Institute

Concept Review

Global Securities Research | May 1, 2025

Diversified Stock Income Plan (DSIP) List

DSIP List objective

The DSIP List focuses on companies that we believe will provide consistent annual dividend growth over a long-term investment horizon. Our objective is to provide a broad list of high-quality, industry-leading, dividend-growth companies from which an investor can assemble a well-diversified portfolio. Through consistent dividend growth, our goal is to help investors stay ahead of the wealth-eroding effects of inflation. The DSIP List is not a discretionary managed strategy offered through an advisory program and is not available for direct investment.

DSIP List — Concept review

Overview

The DSIP List is a long-term, buy-and-hold strategy based on the belief that the value of a company is a reflection of the cash flow it generates for its owners. As minority owners in public companies, investors' tangible share of that cash flow comes as dividend payments. If investors select companies that consistently increase cash flow and deliver rising dividends, over time, we expect that the companies' stock prices will reflect that growth and create attractive prospects for total returns. The goals of the DSIP List are as follows:

Provide a higher stream of income over time: With a list of stocks that we believe have the potential to raise their dividends with regularity, investors should be able to keep up with the rising cost of living and generate attractive total returns. To help achieve this goal of a growing income stream, we recommend that investors plan to hold these stocks for multiple years.

Manage risk through diversification: A well-constructed portfolio typically contains stocks from several different sectors. At a minimum, we recommend a portfolio should contain 20 to 30 stocks spanning six to eight sectors with different investment characteristics. With the DSIP List, we intend to provide recommendations across sectors, market capitalizations, and growth profiles, among other factors, to facilitate proper portfolio construction.

Keep you informed about these stocks through your investment professional: We notify our investment professionals whenever a DSIP List stock announces a dividend change, if we add or remove a stock from the list, or if any other significant events occur. We also publish quarterly updates summarizing activity in the list and performance results as well as other reports on topics of interest.

Criteria

The only criteria for DSIP List inclusion is our belief that a company offers the potential to consistently increase its dividend at an attractive rate over a long-term investment horizon. Fundamental factors that, in our view, can support consistent dividend growth include:

- **Financial condition:** We prefer companies that are fundamentally sound and, if applicable, have investment-grade debt. A solid balance sheet can provide flexibility during periods of subpar financial results.
- **Growth profile:** We prefer companies that consistently grow earnings and free cash flow (cash remaining after expenses are paid) as this is necessary to support sustainable dividend growth. A long history of dividend increases is valuable in that it can provide insights into how a company thinks about dividend payments, but we do not require a specific record of dividend increases for inclusion on the DSIP List.
- **Payout ratio:** We prefer companies with business-appropriate payouts of earnings and free cash flow. Payout ratios vary, with lower-volatility industries typically able to support higher payout ratios while more cyclical industries typically operate with lower payout ratios.
- **Business model:** We generally prefer high-quality, industry-leading companies that operate mature, defensive businesses and provide products or services that customers tend to patronize across economic cycles.

We are unlikely to recommend every stock that meets the basic criteria for inclusion on the DSIP List but rather only those in which we have the highest confidence. Additionally, while we are cognizant of company valuation levels and overall sector weightings, these two factors minimally impact DSIP List addition decisions.

Removing stocks

Many successful investors set emotions aside and seek to patiently build wealth over time. With this long-term approach in mind, we intend to recommend companies through economic and market cycles, removing them from the DSIP List if the fundamental characteristics that support dividend growth have deteriorated or are expected to do so, thus decreasing or eliminating our dividend-growth thesis. An extended period of dividend growth at levels below our expectation could also be cause for removal. Like an addition, company valuation and the DSIP List's overall sector weightings have minimal influence on removing a stock. Other factors considered that may contribute to a removal decision may include, but are not limited to:

- The risk/reward balance becomes less attractive, potentially due to items such as
  - Valuation
  - A change in financial condition or fundamentals
  - An inability to meet market expectations or company-provided targets
  - A change in strategy, corporate structure, management, or competitive position
  - Reduced end market visibility or attractiveness (relative or absolute)
- Unsuccessful execution of corporate strategy
- The company has agreed to be acquired or is party to a merger or acquisition that we believe is not in shareholders' best interests
- A new development or new information that contradicts our investment thesis
- We believe a better relative alternative exists within the sector or industry, this could include an already existing DSIP List recommendation
- The company no longer fits the theme of the DSIP List

Benchmark

Our benchmark for DSIP List performance comparisons is the Nasdaq US Broad Dividend Achievers Index. This index is comprised of U.S. securities with at least ten consecutive years of increasing annual regular dividend payments. The securities are weighted using a modified capitalization approach with a maximum position size of 4%. We believe the Nasdaq US Broad Dividend Achievers Index is representative of the DSIP List's investible universe and is therefore appropriate as the list's primary benchmark. The S&P 500 Index is used as a secondary benchmark. The S&P 500 Index includes roughly 500 of the largest companies across the 11 Global Industry Classification Standard (GICS) sectors. The S&P 500 Index is market value-weighted and is designed to measure the performance of the large-capitalization segment of the U.S. equity markets.

For a detailed discussion of DSIP List performance, please refer to the list's Quarterly Performance report.

Investment considerations

We consider the DSIP List appropriate for conservative investors seeking some income and growth from their equity portfolios. It may also be appropriate for more aggressive investors who prefer to keep a portion of their portfolios in more conservative equities. Investors with a long-time horizon can potentially benefit from decades of dividend growth and reinvestment in a diversified portfolio of DSIP List stocks. Investors looking to build or rebuild their retirement accounts may find this strategy appropriate. Retired individuals may benefit from the possibility of receiving annual dividend increases from a relatively low-volatility strategy. In our opinion, the decision as to whether a particular security is appropriate for an individual portfolio should be made by investors with their investment professional, with full consideration given to existing portfolio holdings as well as investment objectives, risk tolerance, and time horizon.

Dividend reinvestment

One way to potentially enhance the total return of a portfolio is reinvesting cash dividends to buy more shares of stock. A dividend-reinvestment program allows for automatic reinvestment of dividends into additional shares of the stock. If the dividends are reinvested on a day when the share price is lower, more shares are purchased; alternately, if the stock price is higher, fewer shares are purchased. A systematic investment plan does not guarantee a profit or protect against loss in a declining market, and investors should consider their ability to continue investing through periods of low-price levels. We believe investors who reinvest dividends as well as investors who want to initiate or add to stock positions should welcome market pullbacks. Ask your investment professional about dividend reinvestment, a service that we believe can allow you to take full advantage of the compounding effect of your dividend income.

Risk Considerations

All investments are subject to market risk which means their value may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors due to numerous factors some of which may be unpredictable. Be sure you understand and are able to bear the associated market, liquidity, credit, yield fluctuation and other risks involved in an investment in a particular strategy.

Equity securities are subject to market risk which means their value may fluctuate in response to general economic and market conditions and the perception of individual issuers. Investments in equity securities are generally more volatile than other types of securities. There is no guarantee dividend-paying stocks will return more than the overall market. Dividends are not guaranteed and are subject to change or elimination.

Definitions

Nasdaq US Broad Dividend Achievers Index is comprised of US accepted securities with at least ten consecutive years of increasing annual regular dividend payments.

S&P 500 Index is a market capitalization-weighted index composed of 500 widely held common stocks that is generally considered representative of the U.S. stock market.

An index is unmanaged and not available for direct investment.

General Disclosures

Global Securities Research (GSR) is a division of Wells Fargo Investment Institute, Inc. (WFII). WFII is a registered investment adviser and wholly owned subsidiary of Wells Fargo Bank, N.A., a bank affiliate of Wells Fargo & Company.

The information in this report was prepared by Global Securities Research (GSR). Opinions represent GSR's opinion as of the date of this report and are for general information purposes only and are not intended to predict or guarantee the future performance of any individual security, market sector or the markets generally. GSR does not undertake to advise you of any change in its opinions or the information contained in this report. Wells Fargo & Company affiliates may issue reports or have opinions that are inconsistent with, and reach different conclusions from, this report. Past performance is no guarantee of future results.

The information contained herein constitutes general information and is not directed to, designed for, or individually tailored to, any particular investor or potential investor. This report is not intended to be a client-specific suitability or best interest analysis or recommendation, an offer to participate in any investment, or a recommendation to buy, hold or sell securities. Do not use this report as the sole basis for investment decisions. Do not select an asset class or investment product based on performance alone. Consider all relevant information, including your existing portfolio, investment objectives, risk tolerance, liquidity needs and investment time horizon. The material contained herein has been prepared from sources and data we believe to be reliable but we make no guarantee to its accuracy or completeness.

Global Securities Research publishes several theme-based lists of recommended equity securities. Each list is based on a specific investment objective and time horizon which may be different from the other lists. This may cause Global Securities Research to recommend an equity security to be added to one list and removed from another list. Thus, one list may contain different recommendations or conclusions that could result in short-term price movements contrary to the recommendations in another list.

Wells Fargo Advisors is registered with the U.S. Securities and Exchange Commission and the Financial Industry Regulatory Authority, but is not licensed or registered with any financial services regulatory authority outside of the U.S. Non-U.S. residents who maintain U.S.-based financial services account(s) with Wells Fargo Advisors may not be afforded certain protections conferred by legislation and regulations in their country of residence in respect of any investments, investment transactions or communications made with Wells Fargo Advisors.

Wells Fargo Advisors is a trade name used by Wells Fargo Clearing Services, LLC and Wells Fargo Advisors Financial Network, LLC, Members SIPC, separate registered broker-dealers and non-bank affiliates of Wells Fargo & Company.

PM-11012026-7924950.1.1