

Dividends: Sharing the Wealth

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Executive Summary: In recent years, both corporations and individual investors have re-evaluated the importance of dividends, adopting them as key indicators of disciplined management and lower relative volatility. More S&P 500 companies now pay dividends, responding to investors who see **dividend-paying stocks occupying a sound middle ground** between the reliability of fixed-income investments and the growth potential of equities.

Dividend-Paying Stocks Offer Investors Several Advantages

- Dividends can contribute significantly to a stock's total return. As the chart below shows, dividends accounted for more than one-third of the total return of the S&P 500 Index from 1950 through June 2009. This positive contribution can be especially important during periods of market decline.
- Dividends can temper volatility. Over the last 10 years, the returns from dividend-paying stocks were about 40% less volatile than the returns from non-dividend-paying stocks.¹
- Dividends help impose discipline on corporate management. A company will likely need to generate real profits to pay its shareholders.

Dividends have accounted for a substantial portion of the total return of the S&P 500 Index for decades



Source: Thomson Financial. Data as of 6/30/09. Past Performance is no guarantee of future results.

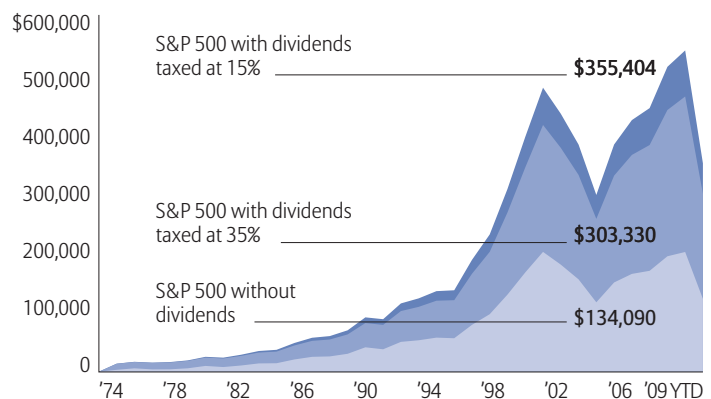
¹ Sources: Factset, Standard & Poor's. The test universe is the S&P 500 Index Constituent, divided into two groups: companies that paid a quarterly or annual dividend in the calendar year, and companies that did not. Issues are equal weighted and the universe is rebalanced monthly. Volatility is measured by standard deviation of returns (7/99-6/09).

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More Favorable Tax Treatment Makes Dividend-Paying Stocks Attractive

- Investors in the highest tax bracket are now taxed at 15% on qualified dividends. Prior to the 2003 Tax Relief Act, these dividends were taxed as ordinary income (highest current rate: 35%).²
- The lower tax rate could enhance after-tax total return. If the dividend tax rate had been 15% (instead of 35%) since 1974, an investor could have earned an additional \$52,000 on a hypothetical \$10,000 investment in the S&P 500 Index.

Lower tax on dividends may enhance after-tax-return potential

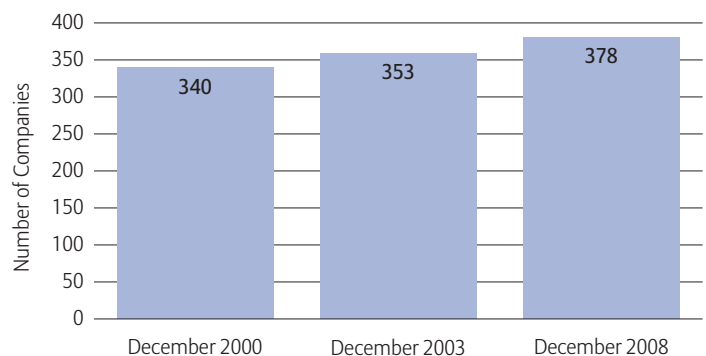


Source: Thompson Financial. Data as of 6/30/09. Chart shows the growth of a hypothetical \$10,000 investment in the S&P 500 Index.

Corporations Have Responded to Investor Demand for Dividends

- More companies have begun offering dividends. Over the last five years, the total number of S&P 500 companies paying regular dividends has increased by 25.
- Since 2000, dividend payers have outperformed non-dividend-paying stocks by an average of 4.68%, with 38% less risk.³

The number of companies paying dividends has been rising



Source: Data as of 12/31/08. Standard & Poor's.

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2. Qualified dividends generally are distributed from domestic corporations and certain qualifying foreign corporations; a minimum holding period requirement must also be met. Qualified dividends are taxed at 15% for investors in the 25% or higher tax bracket and at 5% for investors in lower brackets. These special dividend tax rates are scheduled to expire in 2010. See your tax advisor for more information.

3. Source: Factset as of 12/31/08. Risk measured by standard deviation.

There is no guarantee that dividend-paying stocks will continue to pay dividends. Charts are not indicative of the past or future performance of any Allianz Global Investors product.

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The Standard & Poor's 500 Composite Index (S&P 500) is an unmanaged index that is generally representative of the U.S. stock market. Unless otherwise noted, index returns reflect the reinvestment of income dividends and capital gains, if any, but do not reflect fees, brokerage commissions or other expenses of investing. It is not possible to invest directly in an index. Standard deviation is an absolute measure of volatility measuring dispersion about an average which, for an index, depicts how widely the returns varied over a certain period of time. The greater the degree of dispersion, the greater the risk.

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