

SHINING A LIGHT ON..... THREADNEEDLE GLOBAL EQUITY INCOME FUND

At a glance

For new investors choosing the right sector or country can be daunting. Often they are drawn to the best performers, and those being advertised. This strategy can work but the reverse is also true with investors being disappointed because they haven't fully understood the strategy.

We recently reviewed the Rathbone Global Opportunities Fund, highlighting that the fund might appeal to more cautious investors looking for a globally diversified fund. Our concern was around the heavy bias to the US and other developed economies and no exposure to emerging markets and Japan.

An alternative option is the Threadneedle Global Equity Income Fund which has a similar performance track record but provides a more diversified global spread. Holding around 34% in the US, 22% in Europe and 15% in the UK as well as 10% in Asia, 11% in Emerging Markets and 6% in Japan.

It also differs in that it targets large cap businesses who are strong dividend payers but also have the ability for growth. In a similar way there is no conviction, average top ten holding is between 1% and 2% each and it is a large fund with nearly 90 holdings.

Comparing to the likes of Scottish Mortgage is unfair as this is a less punchy global fund and therefore it is more comparable to Rathbones but even with this there are differences. It will again appeal to the more 'cautious' investor but one who is looking for a more globally diversified fund. One concern would be that there are years where it only just beats the passively managed option and possibly it begs the question as to whether investors looking for this type of option might be better to go down that route.

Who are the team behind the fund?

The manager of the fund is Stephen Thornber who has managed the fund since launch in 2007. The fund manager doesn't appear to have attracted the same level of awards as the Rathbone manager but awards are not everything! The deputy manager is Jonathan Crown who joined the team in 2011 and should in theory provide stability to the fund should James leave.

Our meeting was with James Foreman who works alongside the team as the Client Portfolio Analyst.

Fund highlights?

The manager is looking for companies which are paying sustainable long term dividends as they believe this is a sign of well-run company.

By their very nature it means that the types of companies will be large cap and they will be profitable franchises as well as cash generative. Importantly the focus is on the return to shareholders rather the directors own personal egos. From a risk perspective these companies tend to have lower risk profiles because they have a focused steady approach to growth.

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An example of a company they would avoid is RIM. RIM became a market leader in telecommunications and wireless equipment and although they invested in R&D it was poorly executed meaning they lost market share and missed out on the smartphone market. No dividends were paid and over a ten year period investors would have lost 33%.

HTC is a similar company, suffering from declining market share and low margins but has paid dividends and despite the collapse in share value would have returned 26% to shareholders.

Both stocks are not included in the portfolio however Delta Electronics is an example of a stock they like. It is the largest supplier of power switches for the computer industry and brushless fans. In 2004 new leadership came into place who instituted dividend payments and invested in new higher value areas to diversify and grow the business.

The annual dividend payment has grown by around 320% over the ten year period and investing in this firm with dividends reinvested would have returned 21% p.a.

Effectively these are steady eddies and the manager won't take risks with unproven stocks or high value stocks which don't return dividends to shareholders. The fund is split into four components:

1. Compounders – reliable growth, strong cash flow generation which make up around 35% of the fund (this includes the likes of Kraft and AstraZeneca)
2. Assets – high levels of fixed or financial assets (this includes the likes of National Grid and HSBC) – this makes up around 25% of the fund
3. Secular growers – sustainable high growth potential (this includes the likes of Hugo Boss and AIMIA) which make up around 20% of the fund
4. Cyclical – more sensitive to economic conditions (this includes the likes of Rio Tinto and Total) which make up around 20% of the fund

For investors looking for excitement this fund is unlikely to appeal but for investors looking for steady sustainable growth potential this fund may well suit. There are a large number of holdings and no one holding dominates the portfolio. This helps to provide some downside protection as can be seen in the performance in 2011 and this year.

It is different to Rathbones not only due to the holdings but also in the team. Where the manager of Rathbones admits there are areas he doesn't have the resource in this is not true of Threadneedle. Ideas flow across from the other regional desks and help to shape the portfolio. Rathbones is more of boutique and this can add risk whereas with Threadneedle investors are effectively buying into the wider group and this reflects the more globally diversified nature of the fund.

In summary this is likely to be a good global fund for a more 'cautious' investor but the trade-off will be performance especially against more punchy funds.

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Fund performance

Performance for the past five years vs DB X-Trackers FTSE All World Ex UK, Baillie Gifford Global Discovery Fund, Rathbone Global Opportunities Fund and Scottish Mortgage is shown below:

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|--------|--------|---------|--------|--------|--------|
| Threadneedle Global Equity Income Fund | 19.06% | 23.55% | -3.90% | 10.50% | 21.58% | -0.41% |
| Rathbone Global Opportunities Fund | 38.05% | 26.59% | -4.67% | 9.52% | 26.09% | -3.82% |
| Baillie Gifford Global Discovery Fund | 48.00% | 26.67% | -13.24% | 18.91% | 55.76% | -7.07% |
| Scottish Mortgage | 52.87% | 33.90% | -15.15% | 30.05% | 39.80% | -7.68% |
| DB X-Trackers FTSE All World Ex UK | 22.37% | 16.83% | -8.33% | 9.75% | 20.98% | -0.14% |

You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise. The total return reflects performance without sales charges or the effects of taxation, but is adjusted to reflect all on-going fund expenses and assumes reinvestment of dividends and capital gains. If adjusted for sales charges and the effects of taxation, the performance quoted would be reduced.

Conclusion

In the global sector this fund is likely to appeal to a more 'cautious' investor looking for a globally diversified fund. It is unlikely to have massive spikes in performance which other funds might do and will provide some downside protection.

The source of information in this note has been provided by Threadneedle and is correct as at May 2014. These are notes from meeting the fund manager or representative and should not be seen as a recommendation to purchase any fund mentioned. Any reference to shares is not a recommendation to buy or sell. Should you wish to make a decision based on these notes we cannot take responsibility for this and you should carry out your own research before making a decision. You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well rise.