

SHINING A LIGHT ON..... M&G GLOBAL DIVIDEND 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 could work but the reverse is also true with investors being disappointed because they haven't fully understood the investment strategy.

We have reviewed several Global Growth and Income Funds. Some have a heavy bias to the US, some are more globally diversified and some like Baillie Gifford Global Discovery and Scottish Mortgage are more suited to higher risk investors.

One fund which has a loyal fan base and has grown to £9 billion of assets since its launch in 2008 is the M&G Global Dividend Fund. The principal driver behind the fund is to deliver capital growth and income by focusing on dividend income.

Against the sector it has outperformed the index since launch but the performance over 5 and 3 years is close to the index with slightly greater volatility. There is therefore an argument that investors would be better choosing the index fund however there is a place for this fund with investors either as a stand-alone fund or as a blend with other funds. The index pays a yield of around 2.51% and the M&G Fund 3.51%.

In our discussion with the manager we will share some of his thoughts and why investors may consider this fund as part of their portfolios.

Who are the team behind the fund?

The fund is managed by Stuart Rhodes. Stuart joined M&G in January 2004 as an analyst on its global equities team, responsible for analysing companies across the world. In March 2007, he was made deputy fund manager of the M&G American Fund and in July 2008 he was appointed manager of the M&G Global Dividend Fund on its launch.

Fund highlights?

My concern is not about the size of the fund but the performance. It does outperform the index but not significantly over a 3 and 5 year period and the volatility is slightly higher so why should a potential investor read further.

There are several factors why an investor might consider this. Firstly the fund focuses on quality companies which can deliver long term share appreciation and yield; this is the core of the fund. Effectively it has a defensive feel that aims to deliver consistent returns rather than lumpy / more volatile returns.

Secondly, the focus on quality companies reduces the risk (or reduces volatility) on the downside. When comparing to a fund that tracks the index, the tracker will buy the index irrespective of quality, which is where it will differ to M&G. This is important because when the market falls like it did in 2011 the M&G Fund was still down but only 1.99% compared to the index which was 8.33%. The point is that the fund is designed to offer downside protection which leads back to the defensive nature of the fund.

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Thirdly the portfolio is about long term holdings and allowing the dividends to grow. His belief is that year on year he can grow the dividend which will improve the returns over the long term. If we consider the index is paying 2.51% and this is paying 3.51% we can see this play out. The active management should increase that yield over time.

So these three factors are important considerations and it does make it worth considering. I will always question is this enough, clearly if you look at any article about Stuart Rhodes he is highly regarded and obviously analysts think this is enough. Investors have to make that call and hence why it may work well as a blend to more volatile funds or as a stand-alone fund for those wanting a more defensive approach to investing.

The fund is made up of four buckets – there are three main buckets. These are made up quality companies which is the majority of the portfolio where dividend growth is proven and consistent. The second largest holding is assets where dividend growth is patchier but over the long term is rising and the third is rapid growth where the dividend growth is much higher due to structural changes. The latter two tend to do well in a rising market. The fourth bucket is called the right price where perhaps mistakes have been made or the market is against them.

Currently the fund has 45 holdings and around 50% is in quality holdings although this has come down from previous highs because Stuart feels some of the defensive stocks are fully valued and he has sold these to take profits.

The difference between quality and right price is his barometer for risk. Too much quality will dampen performance; too much right price flags problems at the other end.

Examples of recent sales are Chubb, Compass, Reynolds and Reckitt which are quality companies but Stuart feels are fully valued. New stocks on the quality side are Wells Fargo and Amgen.

The fund has underperformed in 2014 due to its exposure to emerging markets, this includes holdings in HSBC, Aberdeen and Standard Charter, weakness in the Canadian Dollar (11% of the fund is in Canadian Stocks) and profit warnings for one of the main holdings.

Touching on the last one, if the manager feels the market is against the stock then he will look to sell but it falls into the right price. If he sells when the price is distressed then it is not good for investors and therefore he is prepared to wait for the price to correct before selling.

Ultimately his argument is that picking the right companies where dividends grow will also see share price grow. He used examples of Novartis and Microsoft which he added in 2008. Novartis has seen a 53% dividend growth and 38% share price growth, Microsoft 115% dividend growth and 112% share price.

The three main geographical areas are the US (54%), Europe (24.3%) and UK (12.6%).

In conclusion it is a solid well run fund with consistent performance, it is however defensive which means it is likely over the long term to outperform the index but investors shouldn't expect significant outperformance and this could be attractive for those looking for a less volatile fund.

Conclusion

In the global sector this fund does have a defined process and the manager is well respected. It has delivered outperformance since launch but over 3 and 5 years the performance has matched the

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index. Its key feature which is likely to appeal to investors is the defensive nature of the fund and therefore control over volatility and risk.

Fund performance

Performance vs DB X-Trackers FTSE All World Ex UK is shown below:

	2009	2010	2011	2012	2013	2014	Since launch
M&G Global Dividend Fund	28.45%	20.31%	-1.99%	11.51%	23.79%	2.78%	105.40%
DB X-Trackers FTSE All World Ex UK	22.37%	16.83%	-8.33%	9.75%	20.98%	6.84%	73.47%

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.

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