SHINING A LIGHT ON……
M&G GLOBAL DIVIDEND FUND

Update….

The fund manager, Stuart Rhodes, is well-respected and set up the fund in July 2008. The primary aim of the fund is to grow dividend income (which he has managed to achieve) but the performance against the benchmark has been lacklustre over the last five years. However, since launch in 2008 the fund has beaten the benchmark.

The challenge for any current investor is whether they stick with the strategy (or not) and likewise with any potential investor whether now is perhaps a good time to invest. The strategy has seen the fund value fall from £9billion in 2015 to £5.6 billion in 2016 which would suggest that some investors are not sticking with the strategy.

Before we provide the update from the manager it is worth adding the portfolio is concentrated on 46 stocks, it is mainly large cap with about 20% in mid-cap companies and geographically US & Canada make up 60% of the fund, UK 15% and Europe 12%. The remaining assets are in Asia, and Emerging Markets.

The aim of the fund is to grow dividends by 10% a year; currently the growth is around 7.5% which is below target but it is providing a yield of 3.92% which as an income producer this could be attractive for investors.

Stuart approaches investing in three buckets; quality which is the majority of the fund (currently 50%), he added this is becoming harder as valuations are high, assets which are cyclical companies and it is this area which has caused damage to the performance and rapid growth where he is finding more opportunities (he has recently added Mastercard to this part of the portfolio).

Turning to assets he explained that in 2009/2010 these outperformed but in 2011, 2013 and 2014 quality was the winner. He added that assets tend to be value companies and value has been out of favour for 8 years and he believes this will reverse.

Looking at companies which have hit the performance these are mainly energy and material companies. He believes these are strong businesses which have been caught up in the negative sentiment towards the sector. Gibson Energy was down near 50% in 2015, Inter Pipeline down 30% and Pembina down 29%. Stuart argues these are good businesses that are not reliant on the oil prices. They are storage terminals, pipeline firms with strong cash flow.

He used an example of Inter Pipeline where they are paid whether a producer uses them or not. The contracts are for twenty years and are not near the renegotiation stage. Cash flow is expected to grow and his view is that the shares have been unfairly punished because of their link to the oil sector. The price has started to correct and he believes this has helped the performance this year.

Another holding he discussed with Methanex which he has held since 2008. Again this has been dragged down with the oil price but this has nothing to do with the business. The company is the world’s main methanol producer and its use is diverse via industrial chemicals and energy. For the business to have a negative impact it would need to see a 50% drop in prices and he doesn’t feel this will happen.

Although the last couple of years have been painful he has used the weakness in share price to buy into companies rather than looking to sell. But it is not always perfect and he used Standard Chartered as a company which he got wrong and they have recently sold.

In summary the short term underperformance has dragged down the longer term performance and it is difficult for investors to take any positives from this. However, if we are at the bottom of the cycle and if investors believe in the strategy then this maybe a time to invest. On the flipside investors may feel that the strategy simply is not working and there are other strategies which can achieve the same but with better performance.

Fund performance

Performance since 1 January 2011 to 31 January 2016

	2011	**2012**	**2013**	**2014**	**2015**	**2016**
M&G Global Dividend Fund	-1.99%	11.51%	23.79%	2.70%	-7.21%	-3.79%
iShares MSCI World Dist ETF	-7.32%	7.46%	21.87%	10.53%	1.85%	-3.35%

Performance over 1, 3, 5 years and since launch 18 July 2008:

	1 year	**3 years**	**5 years**	**Since Launch**
M&G Global Dividend Fund	-9.54%	4.24%	26.41%	83.20%
iShares MSCI World Dist ETF	-2.71%	23.13%	33.29%	58.54%

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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