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

Update....

We reviewed this fund in October 2014. Our conclusion at the time was that this was a well-managed fund, managed in a defensive manner with a focus on controlling volatility and risk.

Recently the manager has issued a letter to policyholders apologising for the recent underperformance. We were interested to hear from the manager partly as a reminder of what he is aiming to achieve and partly to understand how the fund is positioned.

The fund was established in 2008 and was the idea of the fund manager (Stuart Rhodes) and it is effectively his 'baby'. Personally I see this as a positive because he is connected with the process and controls the direction of the fund. If there was a negative it would be if he left, as effectively it is all about him. To be fair at the moment it doesn't look like he is preparing to leave anytime soon.

If he is directly connected with the fund then he is naturally going to hurt when the fund is not doing well. It is also worth remembering that funds will go through periods of underperformance and therefore it should only be a concern if the period of underperformance continues for a significant period of time.

Stuart started by explaining the fund is focused on selecting companies which have the ability to grow their dividends going forward. He calls this the power of long-term compounding. So effectively if the dividends at 3% and growing then this is provides almost a guaranteed income or growth flow, any growth in share price adds to this.

In the last update we explained that 50% of the fund is invested in quality names. These tend to be multi nationals and at the moment the focus is on the consumer and healthcare space. He did add that he is finding it harder to find value in this space. The other two pockets are assets which are cyclical and move with the economic cycle and rapid growth which are smaller, faster growing businesses which tend to have something unique about their proposition.

By its nature the fund tends to focus on 50 or fewer stocks.

He explained the main challenges for the fund have been:

1. Oil – this had a direct impact on four stocks. Fugro which they sold out in July last year after losing confidence with the management, Nokian Tyres which has suffered a double hit as one of its main trading partners is Russia and they have almost sold all the holding. Seadrill and Prosafe are two other stocks however the share price is so distressed that Stuart has not sold these stocks but will look to exit when the opportunity arises.

What he is seeing is a mispricing within the sector – he went onto explain that large caps haven't really suffered and prices if anything have risen. However, smaller cap companies like Gibson Energy have suffered. However, he believes companies like Gibson, Inter Pipeline, Pembina and Methanex will deliver strong returns for the fund moving forward.

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- 2. Shifting away from quality as quality has become expensive Stuart has sold Compass, Reckitt, Reynolds and Chubb. When he sold the stocks he sold them in totality and feels in hindsight he should have gradually sold down the holding.
- 3. Macau gaming new controls on corruption have impacted on share prices. However, Stuart believes this will reverse. Visitors from mainline China are expected to grow by 15% p.a. and many of the good companies are delivering positive dividend growth.

Despite the challenges the fund has benefited particularly in technology and healthcare and in particular companies like Avago Technologies, Amgen and Abbvie.

Stuart is aware of the underperformance of the fund however in our discussions there didn't appear to be anything that would raise alarm bells. Over the long term it delivers above benchmark performance and Stuart sees this as a long term holding. He believes that the way the fund is positioned will deliver benefits going forward.

We remain of the view that this is a cautiously managed fund with a focus on reducing the volatility and downside risk. He has a good track record and this is a process he has developed and continues to be actively involved with.

Fund performance

Performance over the last five years is shown below:

	2011	2012	2013	2014	2015*	Since
						launch**
M&G Global Divided Fund	-1.99%	11.51%	23.79%	2.70%	2.43%	110.22%
iShares MSCI World Dist	-7.32%	7.46%	21.87%	10.53%	3.86%	67.26%

^{*1} January to 28 February 2015

^{**18} July 2008

	1 year	3 Years	5 Years
M&G Global Divided Fund	7.75%	33.95%	65.87%
iShares MSCI World Dist	14.90%	41.36%	53.46%

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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