LWM Consultants Ltd

Meeting the Fund Manager

M&G Global Dividend Fund

The M&G Global Dividend Fund has been part of the portfolios for some time, we have recently carried out further analytical research on the fund and it was really helpful to meet a member of the team Kotaro Miyato to gain a greater understanding of the fund.

The fund was launched in July 2008 and is managed by Stuart Rhodes – it has seen rapid growth from a £20 million fund to £2.8 billion. Where it differs to many funds is that for many funds they treat income and growth as two separate elements, this fund aims to find the sweet spot between the two elements to get the maximum return.

Investment objective and profile

The fund as such is looking to achieve a total return from both income and capital growth in excess of the MSCI AC World Index.

Managing the fund

In all the meetings the easiest way for me to understand the fund is to get a feel for some of the stock selection. In this case I asked Kotaro to talk through the portfolio construction to try and get a feel for the types of companies that make up the portfolio. There are effectively three sources of dividend driven companies:

1. Quality – this makes up around 50 to 60% of the fund. These are cash generative, disciplined companies with a steady return
2. Assets – this makes up around 20 to 30% of the fund. These tend to be quality companies which operate in economic sensitive areas. So a good example of this would be BHP, the global resources company. These types of assets in their view are harder to find and tend to be much more volatile
3. Rapid growth – this makes up around 10 to 20% of the fund. This is really looking at companies which drive growth through geography or product line. So you would expect to see more emerging market names or companies with that focus or bias. An example of this was Prudential, whether they stay or leave the UK makes very little difference as the majority of the business is driven by the Asian markets

When coming to the process of structuring the portfolio there is a natural bias towards more large cap stocks but the key elements of the process are:

1. Focus on dividend paying companies, and more importantly a long track of dividend payments
2. It is believed that dividend payment is good for capital discipline so it is also about understanding whether the payments are sustainable
3. Dividends are one part of the process but is there room for growth

The investible universe currently sits around 200 global stocks of which around 50 stocks make up the portfolio.

As in a lot of discussions we talked about the fallout in Europe and the potential impact to the fund, the fund has around 24% in Europe. However, around 8% of that is in Switzerland with companies like Nestle and Roche were they have a greater global reach. You also have the likes of Handlesbanken in Sweden which is seen as less likely to suffer from any fallout from Greece and Tod's a luxury shoe maker in Italy which is increasing its market share in Asia and the US such that now only around 50% of the business is from Europe. To some extent this is the message from many fund managers that you need to consider good global companies.

Looking globally and in particular at emerging markets we discussed Brazil as an example. As an emerging market the corporate governance of companies is very good and they are managed with shareholders in mind. The legal framework is such that 25% of earnings must be paid as dividends by law. This installs good financial discipline at the start. With all the discussions on emerging markets clearly the old ways have long past in many countries and there are good opportunities to be found.

In summary this is a well-managed fund focused on a concentrated stock portfolio of around 50 stocks. It uses a balance of quality with more cyclical sensitive and rapid growth companies to drive long term returns. Turnover is low which means that trading costs are kept down.

Conclusion

As a holding in the portfolio it provides a good balance giving global exposure to quality companies which offer both dividend and capital growth. We continue to feel that this is a well-managed fund and perhaps our only concern would be the size of the fund and at which point the fund becomes unmanageable.

The source of information in this note has been provided by M&G and is correct to the end of April 2012. These are notes from meeting the fund manager and should not be seen as a recommendation to purchase this fund. 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 also note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise.