Rhodes show: A decade at the helm

It is almost 10 years since the launch of the M&G Global Dividend fund. Since then it has grown to over £2.4 billion* in size, investing in companies growing their dividends around the world. Manager Stuart Rhodes discusses the highs and lows of the past decade.

Editor of Hub News Cherry Reynard interviews Stuart Rhodes, Fund Manager of the M&G Global Dividend Fund. Interview taken from Hub News.

Have you achieved what you set out to achieve 10 years ago?
We had a number of specific goals, but the most important was to deliver a growing income stream. We sought to focus on companies with growing dividends, so we could grow the distribution from the fund. We’ve done that. We started with a distribution of 3.6p on a launch price of £1. Last year, we distributed 5.6-5.7p and this year, we should pay over 6p.

At the same time, the income has been consistent. We’ve raised it every single year. This is regardless of markets or currencies – most geographic regions and sectors have their time in the sun, but the fund has delivered consistent compounding. Looking forward, this will continue to be our ambition.

Please note that the value and income from fund’s assets will go down as well as up. This will cause the value of your investment to fall as well as rise. There is no guarantee that the fund will achieve its objective and the value of your investment to fall as well as rise. This will cause the value of your investment to fall as well as rise. Therefore, likely to experience larger price fluctuations than funds that invest in bonds and/or cash.

What have been your biggest challenges?
When we launched in 2008, we went straight into the worst dividend environment since the Second World War. The first quarter of 2009 was tough, the financial crisis. The second was in late 2014/15. This happens to all active managers, but it was a challenging time nevertheless. We were confident in the underlying businesses in our portfolio, but we were getting a lot of questions from clients. We continued to do the work and some of those positions – notably those in energy and materials – paid off in the end. In the last two years, we have been rewarded for holding the line.

One thing I would add about these two tricky periods is that they both gave us the greatest opportunities to invest at fantastic prices. We had done enough analysis to go against the grain. Please note, past performance is not a guide to future performance.

Are there any businesses that you have held from inception?
If we find a business that can grow sustainably, we don’t see any reason to sell it – as long as the valuation is reasonable, of course. As such, there are some investments we’ve held for a long period of time, including some right from our launch – such as Arthur J Gallagher and Methanex. These investments (and others) have stayed in the portfolio all the way through and could stay for a lot longer.

Where are you positioned today?
Markets have gone up quite a bit. We run a global fund and that gives us a bigger universe. We can still find some compelling investment ideas, but the opportunity set is certainly narrower than it was.

More recently, we had a period of underperformance for 18 months or so in late 2014/15. This happens to all active managers, but it was a challenging time nevertheless. We were confident in the underlying businesses in our portfolio, but we were getting a lot of questions from clients. We continued to do the work and some of those positions – notably those in energy and materials – paid off in the end. In the last two years, we have been rewarded for holding the line.

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With companies trading at higher valuations, it is even more important to know what you are looking for and do the work on individual companies. This is the type of market environment where it will matter more. Investors have tended to get caught up with popular trades and there are some companies where valuations are simply not justified.

In consumer staples for example, prices have gone up significantly and we believe there may be quite a long way to fall for businesses that show operational weakness. We are spending a lot of time on individual stocks, getting into the weeds. We don’t believe a particular trend or theme will dominate – we simply need to have a deep understanding of the businesses in which we’re invested.

On the flip side, we are still finding opportunities in companies that the market has treated pessimistically. To our mind the more attractive valuations sit within cyclical areas today.

What do you see as the key risks for markets?
If we got a broader trade war, it could become problematic. Trade wars tend to have nasty implications for supply chains generally. At the moment, we have just seen some early shots fired. That said, there are always risks. It is the beauty of investing in equities and why they tend to do well over time. It is our role to try and understand whether the risk delivers an opportunity or not.

In 2017, we saw low volatility and this didn’t throw up many opportunities. 2018 may be trickier, but it is where real investors should be rolling up their sleeves. If you don’t have the kind of personality where you get a little excited in tougher times, you’re in the wrong job.

The fund invests mainly in company shares and is therefore likely to experience larger price fluctuations than funds that invest in bonds and/or cash.

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