The lasting repercussions of the credit crisis are ensuring that we live in interesting investment times. The economic growth outlooks for the high income nations of the developed world are challenged by high debt burdens. In a low growth but uncertain world, many investors are beginning to see the value of investing in dividend paying shares. The Fidelity Funds - Global Dividend Fund launched on 30 January 2012 to provide investors with access to a global portfolio of income-generating equities diversified by geography and industry sector. Here, Daniel Roberts, the portfolio manager discusses the value of dividends, outlines the benefits of a global approach and provides an insight into his process.

Daniel Roberts
Portfolio Managers

Daniel Roberts is the portfolio manager of Fidelity Funds - Global Dividend Fund. Daniel joined Fidelity in November 2011 and began managing the Fidelity Funds - Global Dividend Fund from its inception on 30 January 2012. Daniel began his investment career in 2001 as an equity analyst for M&G. He became a portfolio manager at Invesco in 2002, before moving to Aviva as a UK equity income portfolio manager in 2003. In 2009, he joined Gartmore where he also managed equity income funds. Daniel has a First Class Honours degree in Mathematics from the Warwick University. He is also a qualified accountant (ACA) and CFA charterholder.

Why should investors be interested in Dividend Equity Strategies?

Dividends are a critical part of the total return from an investment in equities. Unfortunately, some investors have become overly focused on the capital return element in recent years. The chart below shows that over the past 10 years, if we consider nominal price returns, investors would have earned a return of 11%. However, if we look at total returns, investors who reinvested income made a much healthier total gain of 42%.

This compounding effect of reinvested income on total returns makes dividend equity investing a growth strategy over time. Moreover, it can be a strategy that offers access to a real yield which helps to protect against the impact of inflation. In comparison to other equity strategies, dividend investing also benefits from relatively defensive characteristics. In volatile markets, the dividend can provide a measure of protection against market falls. This defensiveness is also supported by the fact that many dividend-paying stocks tend to be established businesses whose earnings are less sensitive to the economic cycle.

In this sense, dividend investing might seem a little boring to some investors drawn into the latest ‘growth story’, but the long-term rewards available are anything but boring. Long-term investigations of returns consistently show that dividend strategies tend to outperform growth strategies over longer time periods.
What is the benefit of investing in a Global Dividend Portfolio?

Dividend payments are growing globally, as companies all around the world recognise the importance of creating shareholder value. Investing globally provides the flexibility to go and find the best dividend opportunities from the broadest universe of stocks.

Importantly, a global approach to income investing can allow for greater diversification of stocks within an equity portfolio, not just by geography but also by industry sector. It means we can avoid the stock concentration and sector skew that comes with some regional or country products. For instance, Australian banks offer yield opportunities at a time when many UK and European banks are yielding very little. In this sense, a global portfolio allows broader industry exposure which reduces the risk attached to investing in fewer sectors.

Lastly, a global approach can recognise that companies in the same sector in different countries can often face very different economic and earnings growth conditions. A telecommunications stock in a mature, developed market may offer a relatively stable earnings and dividend profile, much like a utility. However, a telecommunications stock in an emerging country may have a much stronger ability to grow its earnings and dividends.

Can you provide an insight into your investment approach?

I am a fundamentally-driven ‘value’ investor at heart, with an emphasis on capital preservation. This means that I want to invest in stocks which I think are trading below their intrinsic value based on the longer term earnings power of the business and the sustainability of the dividend. For me, building a fundamental view of valuation provides an anchor point that helps to take the emotion out of investing.

Once I have formed a view on the intrinsic value of a company, I compare this to what the share price is discounting. I want to invest with what I call a “margin of safety” which means that the potential for downside is limited. The margin of safety in a stock depends not just on its discount to intrinsic value but on a range of factors such as balance sheet strength and asset backing - whether that means physical assets or intangibles such as brand or intellectual property. A proper understanding of these factors can only be achieved with a very thorough level of research. Fortunately, this is something that Fidelity is rightly well known for within the business; the research effort here surpasses anything I have seen previously.

My style of investing with a margin of safety tends to result in lower-volatility portfolios which have good capital preservation qualities when markets are falling. If I can avoid significant losses in the ‘down’ phases, that gives me a solid foundation for long-term performance.
Can you give an example of your approach in action?

Microsoft is a good example of a stock that I believe has a good margin of safety. The company has $40bn in cash against a market capitalisation of $220 billion. Its free cash flow is over 10% which means that its 3% dividend yield is well supported. The bear thesis is well known for the stock, which means expectations are low, further reducing the susceptibility for negative surprises. Margins are high and the business is well diversified.

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Daniel Roberts, Portfolio Manager, Global Equities