The Daily Telegraph

SATURDAY, APRIL 2, 2016

INVESTING
FUND OF THE WEEK

My 10-year test for good dividend shares

Matthew Page of the Guinness Global Equity Income fund tells *Kyle Caldwell* about his key criteria for stock selection

Britain has historically been a good place to find income-paying shares, but some experts predict gloomier times ahead.

One worry is that too many firms are "over distributing" – using too much of their profits to pay dividends.

Against this backdrop it could be a good time to consider investing overseas.

Over the past five years the Guinness Global Equity Income fund has been one of the best performers: it has returned 55pc, beating the 44pc return of the average rival, according to FE Trustnet, the analyst.

Here Matthew Page, who co-manages the fund with Ian Mortimer, explains how he finds dividend shares that can be trusted.

How do you pick shares?
We have the freedom to look all around the world. There are more than 10,000 shares to choose from globally, but of course not every one pays a dividend.

We have a process that narrows the number down to around 400. We buy only those firms that have achieved at least 10pc return on capital (in real terms) in each year over the last 10 years. It is rare for a company to do this over a full business cycle. We then look for a reasonable valuation and a sustainable and growing dividend.

We think these filters help us find real quality and eliminate cyclical companies or those with high but declining earnings. The sensible shares remain.

The fund was launched just over five years ago. Do you still hold any of the shares you bought on day one?
Microsoft is one. Another is Mattel, the American toy business that sells Barbie dolls. Both are quality businesses and reliable dividend payers.

How is the fund positioned at the moment?
Half of the portfolio is in America. The market as a whole is expensive, but for our portfolio, which normally holds 35 shares, we need to find only 17 or 18 names.

The rest of the portfolio is split between the UK, Europe and Asia. The UK weighting is 15pc, down from 22pc six months ago. This is not a call on the market, instead there have been a couple of shares we have sold for stock-specific reasons.

Aberdeen Asset Management, for instance, has been sold. Performance has suffered of late, owing to the firm's big emerging market exposure. We also sold Meggitt, the aerospace company, following a profit warning.

What have you been buying recently?
WPP, the advertising and marketing firm, was a recent buy. It ticks all the boxes for us. Another was Eaton, an industrial power management company based in America.

We have also made our first foray into Japan, purchasing Japan Tobacco.

Which shares are you avoiding?
We avoid highly regulated industries because by definition these businesses are not allowed to earn a high return on capital. This rules out utilities. I am also wary of cyclical companies that do not possess pricing power. Geographically, Asia, at around 10pc, has the lowest weighting in the fund. There are some high-dividend yields out there but some of these businesses are not consistent dividend payers.

How is the fund different from its global equity income rivals?
We try to hold equal weights in each stock, at around 3pc. The main reason is to reduce stock-specific risk. If one stock halves it will be reduced to 1.5pc and not prove to be a total disaster for overall performance. It also encourages me to rebalance the holdings, taking profits from the winners.

What have been your best and worst investments?
The best has been Microsoft. Five years ago the market narrative was that Apple was eating up its market share and that Microsoft was becoming a sleepy business. But this has not played out, instead the business has gone from strength to strength. The worst was Telefónica in 2011. We had not paid enough attention to the balance sheet. It had too much debt.

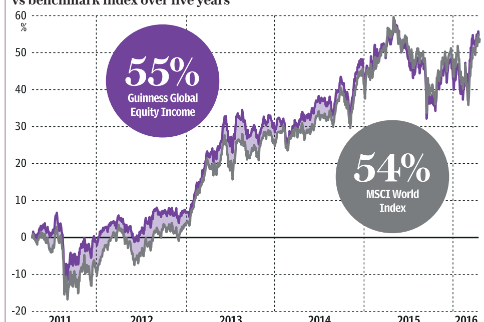
Do you invest in the fund?
Yes, via a self-invested personal pension (Sipp).

Which other professions did you consider?
My dream was to be an astronaut.

MATTHEW PAGE
GUINNESS GLOBAL EQUITY INCOME

FE TRUSTNET

vs benchmark index over five years



Performance

	1 year	3 years	5 years
Growth	2pc	26pc	55pc
Quartile	1st	1st	1st

Key facts

Launch date	December 2010	Return year to date	6pc
Return since launch	57pc	Current fund value	£100m

Top holdings

1. Mattel	3.3pc	3= Eaton	3.1pc
2. Unilever	3.2pc	7= Aflac	3pc
3= Largan Precision	3.1pc	7= CA	3pc
3= Japan Tobacco	3.1pc	7= Johnson & Johnson	3pc
3= Sonic Healthcare	3.1pc	7= Danone	3pc

Source: FE Trustnet

How to buy the fund as cheaply as possible

The fund has a total cost (the "OCF" or "TER") of **0.99pc a year**. Be sure to buy the right "share class", which is "Y". The investment shop through which you buy the fund will also levy a charge. Some will charge a percentage of the amount invested, others will apply a flat annual fee. Our colour coded tables at **telegraph.co.uk/investing** will guide you to the cheapest fund shop for your circumstances.

OUR VIEW

Kyle Caldwell

Experts describe the Guinness fund as a "hidden gem" because it is smaller than rivals, holding just £100m in assets. Analysts say dividend growth is impressive: it has increased every year since 2011, by 4.1pc on average.

Juliet Schooling Latter, of FundCalibre, the fund-rating firm, said: "This is a nice little fund that has produced some consistently good returns since its launch just over five years ago. I like the philosophy and the fact that the managers do not chase high-yielding stocks for the sake of it."

Ms Schooling Latter suggested Legg Mason IF ClearBridge Global Equity Income as an alternative. "This unique fund will often invest in parts of the market that others ignore or miss. We like that the fund has the courage to be both contrarian and radically different from rivals," she said.

Other funds often tipped by brokers include Artemis Global Income and M&G Global Dividend, which holds just under £6bn.

Another option is the SPDR S&P Global Dividend Aristocrats Ucits ETF. This is a "smart beta" fund – a passive investment that picks companies according to criteria other than their size, as a straightforward tracker fund would do.

The SPDR ETF tracks those companies from a giant global index that have grown dividends for at least 10 years, with resources to support payments in the future.

The result is a relatively low-cost way to get global exposure to mature, defensive companies with a solid yield.