Aviva Investors - Global Equity Income Fund

Q4/09 Update

Adam MacNulty

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Presenter: Adam MacNulty is Senior Product Specialist at Aviva Investors and he joins me to discuss the Global Equity Income Fund. Adam, how would you describe the fund?

Adam MacNulty: Yeah, we've been managing our Global Equity Income Fund here in Dublin since 2001. We've an eight year track record managing money in this strategy and we've a very strong outperformance versus our peers in that time. We would describe ourselves as value investors and there is empirical evidence to show that value as a strategy actually outperforms over time. Our fund is a very concentrated fund, a high conviction fund; we currently hold 40 names in the portfolio but they're names that are well diversified over sector and geography and most investors I think would be familiar with a lot of our names. We hold stocks such as Microsoft, McDonalds, Exxon Mobil, Rio Tinto, Standard Chartered to name but a few.

However, our focus is very much on dividend and dividend income and that's why we refer to the strategy as an equity income fund, and what we're really talking about here is dividend income. We regard a firm's dividend policy as a very strong signal about the financial health of the firm. Dividend growers over time tend to actually outperform, ie companies that are able to grow their dividends in excess of the market tend to outperform over time. And we think that investors often overlook the importance of dividends. The compounding of dividend actually over time comprises the majority of total returns, and at the moment the fund is actually generating a yield of 4.2%.

Presenter: What's the global equity income fund's strategy?

Adam MacNulty: Well we fundamentally believe that firms that generate sustainable income have a more favourable risk return profile. However, our strategy is a little bit more subtle than just picking the highest yielding stocks from each sector around the world and putting that together as a portfolio. When we research companies, we look at various dividend metrics. Dividend payout is very important to us, dividend yield is very important to us and dividend growth is very important to us. Dividend payout is obviously important because what we look for in a company is a company that can actually grow their income, pay out dividends, grow those dividends but are also able to reinvest some of their earnings for future growth, so we're not just looking for stocks that pay out most of their earnings in terms of dividend. We also look at more common metrics that investors would be familiar with when we're researching our companies, metrics such as price to earnings, price to book or returns on cashflow. However, our primary focus is on dividend and we believe that dividend is a very important signal and is the key to the underlying investment philosophy of our fund.

Presenter: And how has the fund performed so far this year?

Adam MacNulty: Well obviously people are well aware that markets have rebounded very strongly after lows in March. We've had a massive relief rally as the policy initiatives that various central banks and governments have unleashed have actually succeeded in avoiding what looked at one point to be another great depression. A lot of this rally however has been driven by lower quality stocks, and by that I mean companies that are very indebted, highly geared and maybe there were worries over their financial viability earlier on this year. Our portfolio is a very large cap blue chip conservative type portfolio so would have lagged somewhat this recent rally, but the fund is still up approximately 17% to the end of September so we're happy with that performance. However, we believe that our fund is ideally positioned for a new normalised environment that we appear to be entering, and that's an environment where stock picking and a focus on dividends will actually reap rewards.

Presenter: Adam McNulty, thank you.

Adam MacNulty: Thank you.