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MARCH 2015

PERSPECTIVES

FIDELITY FUNDS GLOBAL DIVIDEND FUND

Compelling cross-cycle returns

Since the launch of the FF Global Dividend Fund three years ago, Dan Roberts has delivered a cumulative return of 50.3%, comfortably beating the index return of 38.2% as well as outperforming 100% of peer group funds. Dan's strategy is based on selecting resilient franchises with strong balance sheets, reasonable valuations and sustainable dividends. Using a bottom-up approach to stock selection that is diversified across geographies and sectors, his goal is to deliver attractive performance through investment cycles while managing downside risks.

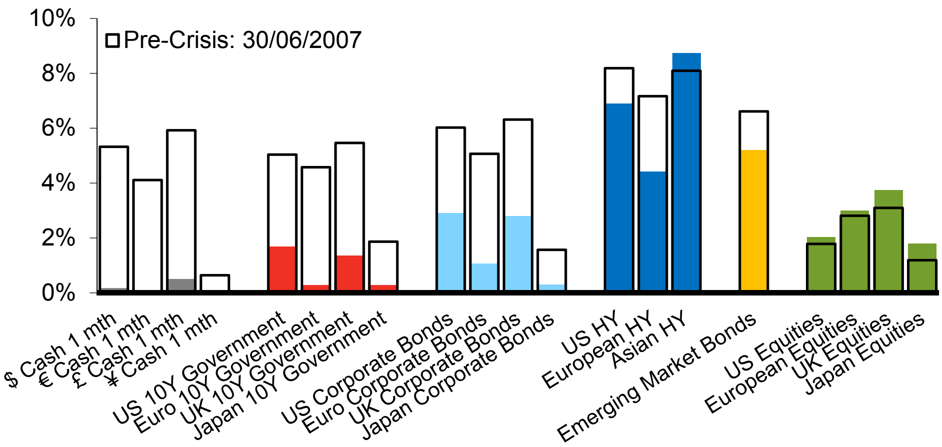
DAN ROBERTS joined Fidelity in November 2011 and manages global dividend funds. He has more than 12 years' investment experience. Before joining Fidelity, Dan was a portfolio manager at Gartmore, and he previously spent six years managing UK equity income portfolios at Aviva Investors.

Dan holds a BSc (Hons) in Mathematics from the University of Warwick. He is also a qualified chartered accountant and a CFA charterholder.

WHAT'S THE MACRO BACKDROP YOU ARE FACING AT THE MOMENT?

During my three-year tenure, equity market returns have been dominated by multiple expansion; earnings growth globally has been anaemic to non-existent. We saw increasing volatility over the second half of last year prompted by rising fears about deflation, though the fund has gained alpha during higher-volatility spells. US equities have been comfortably outperforming other markets, which has hurt equity income indices in comparison with broad equity indices; this is simply because US stocks constitute 58.2% of the world index, but just 40.9% of the high dividend yield (HDY) index. Central banks continue to force investors up the risk-reward curve (chart 1).

Chart 1. Yields across different asset classes (shaded areas = current yields)



Source : DataStream, BofA Merrill Lynch Bond Indices – Redemption Yields, MSCI Equity Indices – Dividend Yields (to 31 January 2015).

CAN YOU DESCRIBE YOUR APPROACH?

I have three key objectives:

1) Deliver significant cross-cycle outperformance through an unconstrained, high active money approach. There may be times when my strategy is out of favour, for example in rapidly rising markets, but over the long run it should pay off.

2) Deliver a lower risk experience than other funds. I define risk as the potential to lose my clients' money rather than tracking error or deviation from the benchmark. The fund has not only produced attractive returns with lower-volatility than peers, it has also experienced the fifth-lowest drawdown in the peer group.

3) A balance between yield and growth – I use a discriminating approach that recognises dividend growth potential as well as headline yield. I may compromise on high current dividends to find tomorrow's 'dividend aristocrats': firms that can grow their dividends every year for 10 years.

Fidelity™ WORLDWIDE INVESTMENT

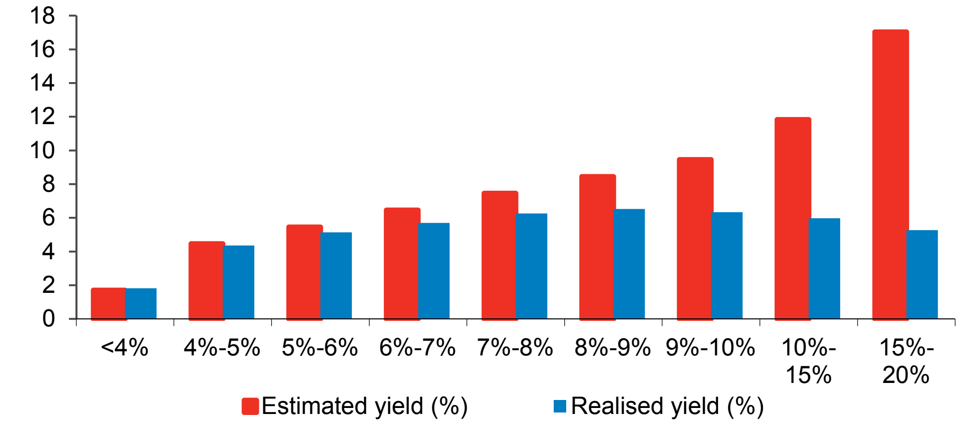
HOW DO YOU AVOID PORTFOLIO CONCENTRATION ISSUES?

Though I have a significant exposure to healthcare and consumer goods, amounting to 50.4% of the fund – 16.3% greater than the index's combined allocation to these sectors – I try to diversify across stocks. Certain equity income markets are subject to pronounced yield concentration: just eight stocks in the FTSE 100 account for 50% of all dividends. Two stocks in the same sector, BP and Royal Dutch Shell, contribute 10% of total UK dividends. In contrast, half of the Fidelity Funds Global Dividend Fund yield comes from 18 stocks. We also have a more equal split between European and North American stocks in comparison with the index, which has more than half its total allocation in North America.

WHY DO YOU TEND TO AVOID ESTIMATED HIGH DIVIDENDS?

The promise of high yields can be a false signal for investors, and reflective of companies that are showing signs of stress. This has been the case for the financials and telecoms sectors in recent years. When an estimated yield reaches 6-8%, there is an increased chance of the yield not being fully realised. So, when we look at stocks offering dividends in the region of 5-7%, we carefully examine how sustainable the dividend is and assess the probability of a dividend cut.

Chart 3. High yields can be a sign of stress: estimated versus realised yields



Source: Global developed dividends 1995 – 2013, SocGen Cross Asset Research, February 2014

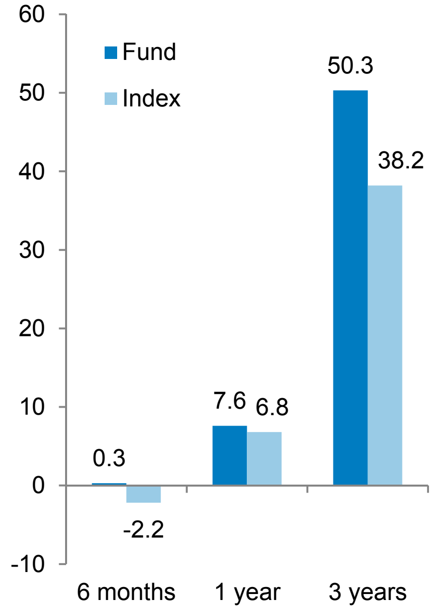
DO YOU HAVE ANY PARTICULAR STOCK FAVOURITES?

Reed Elsevier, a publisher that operates across a range of verticals and geographies, is an established holding. It is a high-return business with visible, recurring revenue streams and a strong management team. Negative investor sentiment persisted after a poorly timed rights issue in 2009, making the stock available on an attractive valuation. The dividend yield was over 4.5% at the time of the initial purchase and the stock has delivered a total return circa 127% (in USD terms) since purchased.

US-based consumer staples business **Kimberly-Clark** is another good example. It has a broad customer base, and at the time our investment was made it was priced at a significant discount to comparable global businesses. The management team has added great value by executing its strategy exceptionally well and allocating capital wisely. The dividend yield was over 4% at the time of the initial purchase and since then the stock has delivered a total return of around 86% (in USD terms).

Astellas Pharmaceuticals is a Japanese healthcare company that has solid core businesses in urology and transplantation alongside a promising new franchise in oncology treatment. A very strong balance sheet (with strong net cash) and a commitment to a progressive dividend policy were added attractions. The dividend yield at the time of purchase was over 4% and the holding has delivered a total return circa 85% (in USD terms).

Chart 2. Cumulative returns (%)
at 31.01.15



Source: Morningstar, bid-bid, gross income reinvested.

Index: MSCI AC World

Holdings can vary from those in the index quoted. For this reason the comparison index is used for reference only.

Chart 4. Top ten active holdings
at 31.01.15

	Fund	Index
Reed Elsevier	4.3	0.0
Wolters Kluwer	3.9	0.0
Johnson & Johnson	4.0	0.8
Kimberly-Clark	3.0	0.1
Astellas Pharma	2.7	0.1
Roche	3.1	0.5
Zurich Insurance Group	2.1	0.1
Pfizer	2.5	0.5
Novartis	2.5	0.6
Reynolds American	2.0	0.1

Top security holdings are those securities in which the largest percentage of the fund's total assets are invested. Holdings in different securities issued by the same company are listed separately and any exposure achieved by derivatives is not shown. This means that the data may not always represent the total exposure of the portfolio to any given company. A full list of holdings, including derivatives, can be found in the fund's annual and/or semi-annual report and accounts.

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