BL-Equities Dividend: a look back, 10 years after launch.
Interview with the two fund managers
Guy Wagner and Jérémie Fastnacht

The BL-Equities Dividend subfund celebrates its 10th anniversary. The fund's objective is to achieve long-term capital growth by investing in high-quality companies, while offering a dividend yield higher than the broad equity market. Interview with the two fund managers, Guy Wagner and Jérémie Fastnacht.

Why did you launch a dividend fund 10 years ago?

Guy Wagner (GW): *The main reason is that we were, and still are, convinced that a dividend strategy is well-founded, a point we made in our article this summer "The power of dividends". The dividend makes up a significant portion of the total shareholder return and, in general, offers a safety net during distressed markets. Dividends also tend to offer inflation protection. They are a true cash payout that cannot be manipulated and they provide important information on a company's future health. So it's no accident if, historically, shares of dividend-paying companies have, on average, generated higher total returns than shares of non-dividend paying companies, moreover at lower volatility.*

How does the fund stand out from others?

Jérémie Fastnacht (JF): *From the start, we wanted to differentiate ourselves from our competitors by setting up a fund that invests worldwide while avoiding the "conventional" dividend stocks (e.g., financials, telecoms, …).*

BL-Equities Dividend is still a pure, conviction-based dividend fund investing with a long-term horizon in quality companies worldwide. It continues to stand out in many important ways.

First, there are no bonds in the portfolio; we do not invest in stocks that offer little or no dividend yield, and we don't use options strategies.

Second, investments are based solely on our stock-picking process, and we do not apply index or top-down strategies. We restrict our investment universe to quality companies, from *which we select those offering attractive and sustainable yields. We don't go out looking for those stocks with the highest dividend yield in the indices and then try to find some rationale for owning them. Despite this quality bias, the portfolio's valuation is in line with that of the indices, and the average gross dividend yield of holdings is currently 3.7%.*

A third way our fund stands out is its relatively heavy exposure to emerging markets.

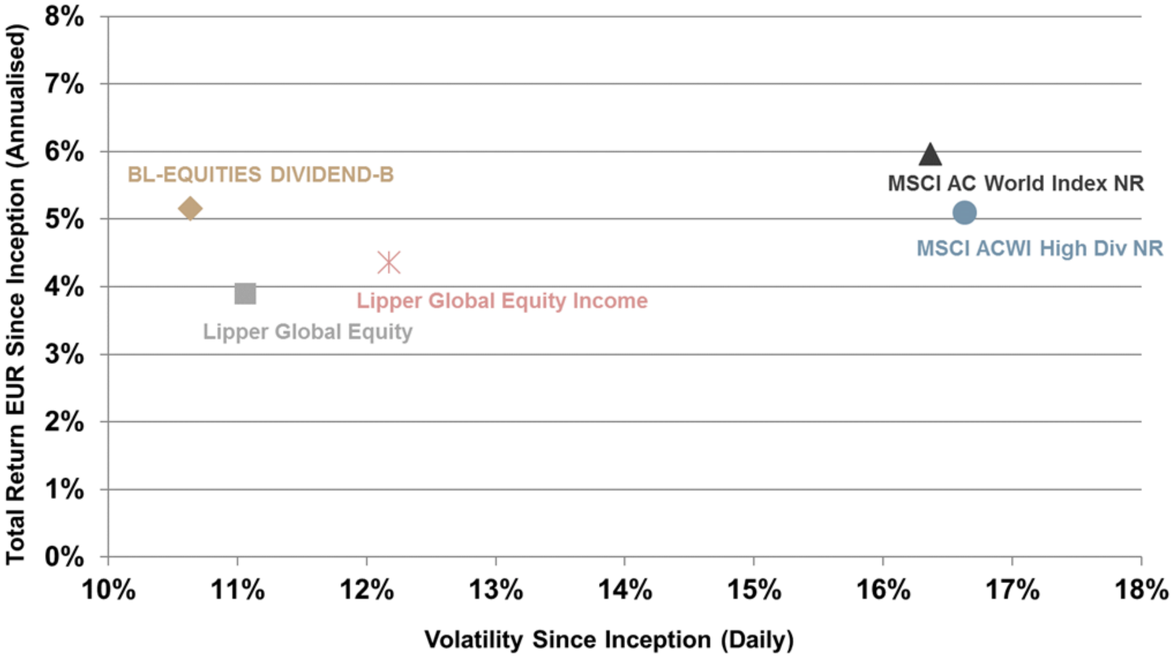
And, fourth, there is little portfolio turnover (14% over the past 12 months), which reflects our long-term view.

What is your assessment of the 10-year track-record of BL-Equities Dividend?

GW: *First of all, 10 years is a good timeframe for judging the quality of a portfolio manager, as such a period generally encompasses both bull and bear markets. Unfortunately, in our business, there is a trend towards judging managers over shorter and shorter timeframes.*

Now let's get to the assessment. Remember that the fund had been launched at the dawn of one of history's worst bear markets. Of the similar funds that still exist, very few have a more attractive risk/return profile over this period. While volatility is not a perfect measure of risk, the fact that it is structurally low for our fund reflects the stability of the companies in which we invest.

Total return (annualised) and volatility since launch (as of 31/10/2017)



Source: Lipper, BLI

What is the outlook for an investor planning to invest today?

JF: *A dividend strategy makes even more sense now that interest rates remain very low and the bond markets have become risky. It is also true that, over the past few years, share prices have risen far more than corporate earnings. This has stretched equity valuations in many cases, which means that we have to lower our expectations with regard to future returns. The dividend share of this future return will therefore tend to be even greater.*

Moreover, and notwithstanding widespread concerns on a possible rise in interest rates, empirical research has shown that there is not necessarily a negative correlation between rate hikes and the performance of dividend stocks, especially if dividends are increasing. Ultimately, we are still convinced that the best thing an investor can do currently is to invest in quality companies at reasonable prices, and a company that offers an attractive dividend yield, cannot, by definition, be overvalued, as long as its dividend is sustainable.