

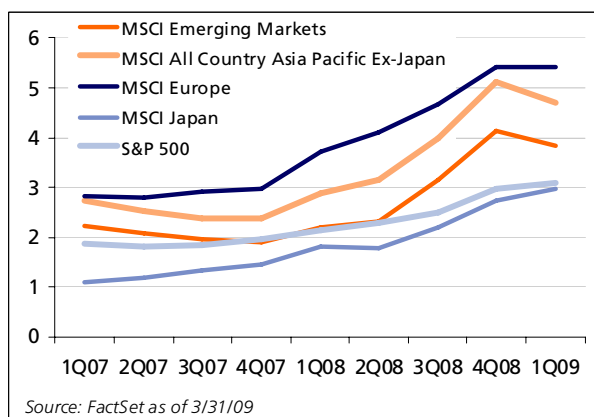
Dividends – Strategically Valuable in a World of Low Interest Rates



Martin Jansen
Senior Portfolio
Manager

Income-oriented investors are in a quandary. On the short end of the fixed income spectrum, the rush to stabilize a decimated global financial system and contain the economic fall-out is reflected by what amounts to a zero interest rate policy by the world's leading central banks. Even the die-hard European Central Bank is moving aggressively in that direction. Simultaneously, a headlong flight to safety has depressed government bond yields in the major developed markets to levels not seen since the 1930's. For the less risk-averse, opportunities have arisen in the riskier fixed income categories, where the current crisis has seen spreads over government bonds rise sharply. However, in the wake of the carnage in the global equity markets, dividend yields have risen sharply, as reflected in the accompanying chart.

Dividend yields globally have increased significantly in the last two years



For the first time in decades, the indicated dividend yields for most of the major global, regional and country benchmarks are now exceeding the yield of the US 10-year Treasury Bond. Admittedly, there are more dividend cuts and omissions in the pipeline as corporate cash flows remain under pressure and the availability of credit for businesses remains problematic. This is especially true for the undercapitalized financial stocks and cyclically sensitive companies in the developed world. We are, however, well into this adjustment process. The dividend opportunity set has increased significantly,

and now includes a number of information technology stocks (a sector historically largely unavailable for dividend investors) as well as energy and materials stocks that were out of reach as recently as a year ago.

In consequence, it is our belief that active equity managers focusing on dividend investing are now able to construct well diversified global and regional portfolios with dividend yields that do not only exceed the dividend yield available on the appropriate broad global or regional market, but that are also somewhat less prone to dividend cuts and are positioned for some dividend growth on a significant part of the portfolio. On this basis, we feel that a global and reasonably sustainable dividend yield is achievable. Such a portfolio could, in turn, be at least a destination for a portion of the mountain of cash hiding in what as seen as the relative safety of the money markets and government bonds. For equity income funds depending on call option writing to generate a portion of the required distribution target, dividends remain attractive as, all other factors being equal, this allows for writing on a smaller percentage of the assets, thereby allowing more scope for net asset accretion once markets do recover sustainably.

While the global focus is currently strongly on containing a possible deflation, there is a significant risk that Treasury yields will need to rise sharply once the U.S. and global economies stabilize. The unprecedented fiscal and monetary stimulus measures may also unleash some inflationary pressures down the line. In this scenario, investors hiding in "safe" Treasuries may experience significant capital losses. Dividends on the other hand should grow once the global economy does stabilize, and have also historically proven to be a reasonably effective inflation hedge.

In sum, dividends currently provide an attractive yield versus the money and government bond markets, will participate as an equity class in a global equity market recovery, and should continue to possess inflation hedging qualities if this should become necessary as we head out of this crisis. As such, they should now be seriously considered as a strategic part of an overall asset allocation exercise, particularly for income-dependent portfolios.

Any opinions expressed herein reflect our judgment and are subject to change. Certain of the statements contained herein are statements of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements.