

Time for dividends to reassert themselves



M&G (Lux) North American Dividend Fund

John Weavers, Fund Manager

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Summary

- Dividends matter because they provide a solid foundation for equity returns over the long term, but dividends are pertinent now as we enter a world of potentially lower returns, where income accounts for a greater part of the total return from equities.
- We advocate a focus on dividend growth, which as a strategy benefits from a long-term tailwind but also provides the potential for inflation protection should the environment of stubborn inflation persist.
- The M&G (Lux) North American Dividend Fund, with its diversified approach to dividend investing, is ideally placed to deliver, in our view, against the backdrop of a broadening market.

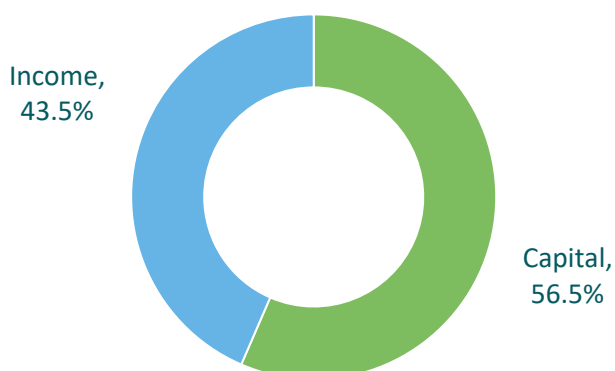
Why dividends?

Ignore dividends at your peril. Dividends have been largely forgotten in a roaring bull market dominated by the Magnificent Seven, but history shows that dividends act as a major driver of equity returns over the long term.

Over the past 25 years, almost half of the total return (the combination of capital growth and income) from US equities has been derived from reinvested dividends owing to the benefits of long-term compounding. The S&P 500 Index has generated an annualised total return of 8.0% during that time, with 56.5% from capital appreciation and 43.5% from income¹. Dividends matter for long-term investors.

Figure 1: Ignore dividends at your peril

S&P 500 Index: split of total returns over 25 years



- Dividends matter: they account for a major element of total US equity return over the long term
- This illustrates how powerful reinvesting dividends can be owing to the benefits of long-term compounding

Source: Bloomberg, 29 November 2024. Past performance is not a guide to future performance.

Dividends are also indicative of a company's quality:

- Capital discipline. Dividends demonstrate commitment to shareholder value.

¹ Source: Bloomberg, 29 November 2024

UCITS HAVE NO GUARANTEED RETURN AND PAST PERFORMANCE IS NOT A GUIDE TO FUTURE PERFORMANCE.

The value and income from the fund's assets will go down as well as up. This will cause the value of your investment to fall as well as rise and you may get back less than you originally invested. There is no guarantee that the fund will achieve its objective and you may get back less than you originally invested. Past performance is not a guide to future performance. The views expressed in this document should not be taken as a recommendation, advice or forecast and they should not be considered as a recommendation to purchase or sell any particular security.

- Financial strength. Consistent dividends are only possible with the backing of a robust balance sheet.
- Corporate confidence. Dividends provide the ultimate signal of confidence in future growth.

Dividends provide a solid foundation for long-term equity returns, in our view, with a reliable income stream from quality companies.

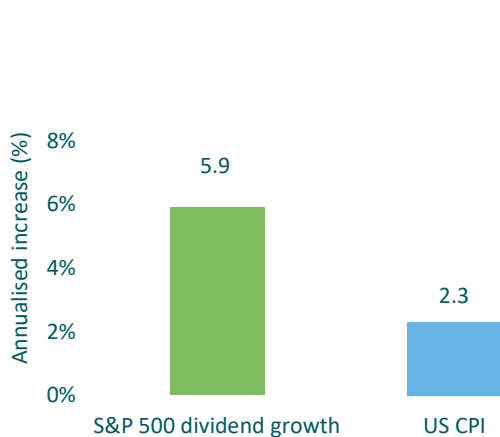
Why dividend growth?

If equities play the lead role in providing real growth, dividend growth offers an excellent way to protect investors from the ravages of inflation. Over the past 25 years, dividends from the S&P 500 Index have increased with an annualised growth rate of 5.9%, more than double the US Consumer Price Index (CPI)'s 2.3% during that time².

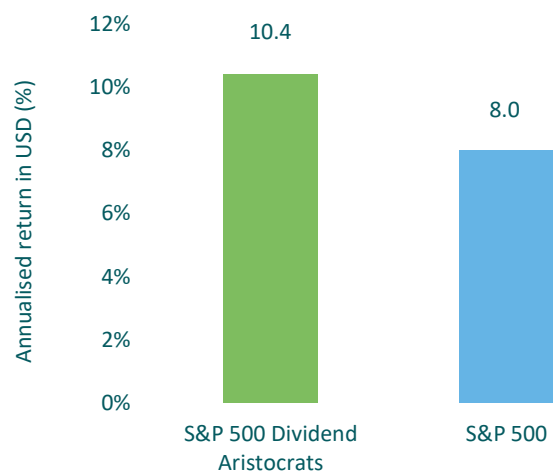
This inflation-beating track record has been achieved across some testing periods, including the bursting of the technology bubble in 2000, the global financial crisis in 2008/2009 and more recently the Covid shock in 2020. Dividends have not only provided resilience but real growth across the vagaries of economic cycles.

Figure 2: Inflation protection from real growth

S&P 500 dividend growth vs. US CPI over 25 years



S&P 500 Dividend Aristocrats vs S&P 500 over 25 years



Source: S&P Dow Jones Indices, Bureau of Labor Statistics, Bloomberg, 29 November 2024. Past performance is not a guide to future performance

Dividend growth matters from an investment standpoint because dividend growth has demonstrated it can be a winning strategy. The S&P 500 Dividend Aristocrats Index, comprised of companies with consecutive dividend increases of 25 years or more, has generated an annualised total return of 10.4% over 25 years and outperformed the S&P 500 Index's 8.0%, albeit with lumpiness in the delivery of excess return³.

The powerful effect of compounding by reinvesting dividends into growth over the long term is a central tenet of M&G's dividend growth philosophy.

Why now?

After two vintage years from US equities, few investors are expecting gains of more than 20% being repeated in 2025. We believe it is time for dividends to reassert themselves. In a world of lower returns, dividends will potentially account for a greater proportion of the total return from equities. In addition, dividend strategies, which tend to be defensive by nature, may attract more interest as a less volatile exposure to equities, as a pick-up in market volatility becomes an increasing possibility.

The backdrop of falling interest rates may also steer dividends towards the limelight. For those seeking new sources of income, equity income is an obvious consideration not just for reliable income but for growing income potential.

² Sources: Dividend growth - S&P Dow Jones Indices, 30 September 2024; CPI - Bureau of Labor Statistics, 13 November 2024

³ Source: Bloomberg, 29 November 2024

Dividends provide safety in the face of uncertainty at a time when topical issues such as the potential impact of tariffs under an ‘America First’ administration and the consequences of ongoing geopolitical tensions in the Middle East and elsewhere remain unknown. Stubborn inflation remains another uncomfortable reality.

Dividend growth provides an effective inflation hedge and much needed inflation protection, especially as dividends in the US remain robust. A backdrop of strong corporate cashflows is conducive to continued momentum in dividends, reflecting the health and mood of corporate America which remains boundless in its optimism.

Why the M&G (Lux) North American Dividend Fund?

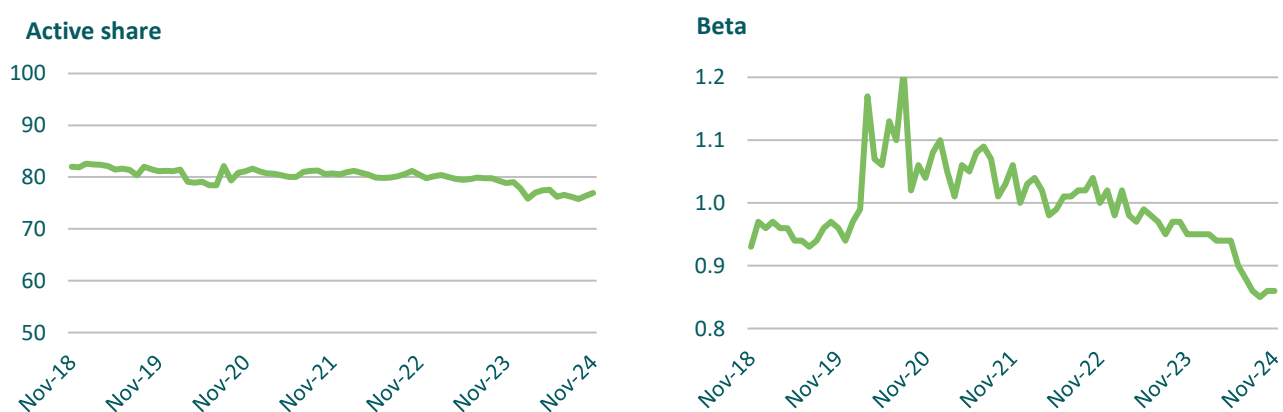
An active strategy with diversified sources of alpha is best placed to outperform, we believe, following a period of narrow market leadership dominated by the new economy. Diversification is key, in our view, in a market scenario where we envisage a broader range of contributors.

Stock selection is designed to be the main driver of performance: the investment team aims to identify good investment opportunities, not just good companies, through fundamental research and the rigorous analysis of dividend growth prospects overlaid with a valuation discipline. We do not want to overpay for the growth we seek.

The fund’s main distinguishing features are:

- A long-established process focused on dividend growth, with an objective to increase the fund’s income stream every year in US dollars.
- A diversified approach to dividend investing which seeks to cope with different market conditions by selecting stocks from three distinct categories:
 - ‘Quality’ (defensives)
 - ‘Assets’ (cyclicals)
 - ‘Rapid growth’ (premium growth)
- A diversified portfolio spread across a variety of sectors, without the significant factor biases commonly associated with dividend strategies. Consumer staples alone accounts for 24% of the S&P 500 Dividend Aristocrats Index by weighting⁴.
- High active share and lower volatility. The outcome of our bottom-up approach focused on dividend growth is performance that has captured the majority of the upside in the US with high active share relative to the S&P 500 Index, delivered with lower volatility than the market. The fund’s active share has ranged between 70-90% historically and the beta has been consistently below 1 this year and currently stands at 0.86, near all-time lows⁵.

Figure 3: High active share and lower volatility



Source: M&G, 29 November 2024. Relative to the S&P 500 Net Return Index.

⁴ Source: S&P Dow Jones Indices, 29 November 2024

⁵ Source: M&G, 29 November 2024

How is the fund positioned?

The M&G (Lux) North American Dividend Fund has been well placed for the post-election stock market rally with overweight positions relative to the S&P 500 Index in financials and mid-caps, and sees excellent long-term opportunities in the defensive healthcare sector.

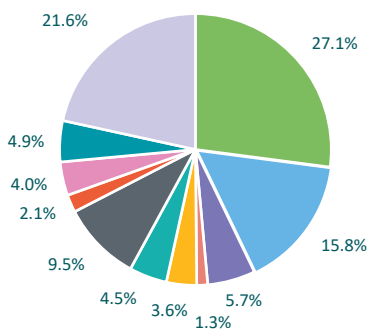
- **Overweight financials.** Exaggerated by our conviction holdings in digital payments (Visa, Mastercard), but sector exposure balanced with quality companies such as JPMorgan Chase in banks and Progressive Corp in insurance. Structural growth in alternative investments captured through holdings in Ares Management and Blue Owl Capital.
- **Overweight mid-caps.** An outcome of bottom-up stock selection rather than a reflection of a top-down view, but the fund has been increasing exposure with the new purchase of Texas Roadhouse, a restaurant chain with significant scope for expansion in the US alone.
- **Overweight healthcare.** The sector has been out of favour, not helped by indifference towards defensiveness and negative sentiment ahead of an election, but we see buying opportunities in a variety of companies.

The fund has been increasing exposure to healthcare throughout the year, moving from an underweight to a meaningful overweight, by adding to existing holdings on weakness and initiating new holdings as attractive entry points presented themselves.

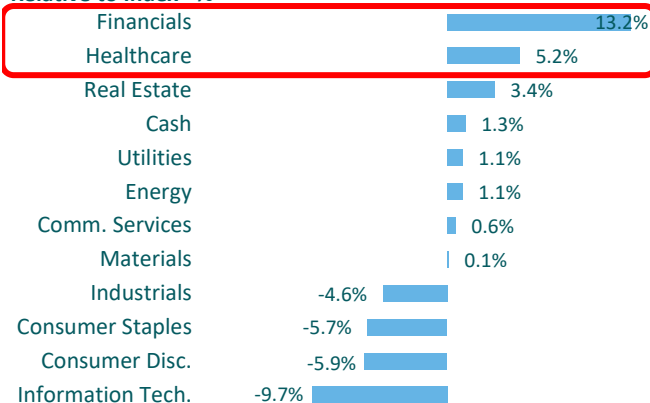
Figure 4: M&G (Lux) North American Value Fund – sector breakdown and market capitalisation split

Absolute fund weighting %

- Financials
- Healthcare
- Real Estate
- Cash
- Utilities
- Energy
- Comm. Services
- Materials
- Industrials
- Consumer Disc.
- Information Tech.



Relative to Index* %



	Fund %	Index %*	Relative %
Mega Cap (> \$50bn)	82.9	86.0	-3.1
Large Cap (\$10 - \$50bn)	8.6	13.7	-5.1
Mid Cap (\$2 - \$10bn)	7.2	0.4	6.9
Small cap (< \$2bn)	0.0	0.0	0.0
Cash	1.3	0.0	1.3

Information is subject to change and is not a guarantee of future results

Source: M&G, 30 November 2024. * S&P 500 Net Total Return Index

Fund description

The fund has two aims: to provide combined income and capital growth that is higher than that of the US stockmarket (as measured by the S&P 500 Net TR Index) over any five-year period, while applying environmental, social and governance (ESG) criteria; and to increase the income stream every year in US dollar terms. At least 80% of the fund is invested in the shares of companies domiciled, or conducting the major part of their economic activity, in the US and Canada. The fund usually holds shares in fewer than 50 companies. The investment manager focuses on companies with the potential to grow their dividends over the long term. Stocks are selected with different sources of dividend growth to build a fund that has the potential to cope in a variety of market conditions. The fund invests in securities that meet the ESG Criteria, applying an exclusionary approach and positive ESG Tilt as described in the prospectus. The fund's recommended holding period is five years.

Main risks associated with this fund

The value and income from the fund's assets will go down as well as up. This will cause the value of your investment to fall as well as rise. There is no guarantee that the fund will achieve its objective and you may get back less than you originally invested.

The fund holds a small number of investments, and therefore a fall in the value of a single investment may have a greater impact than if it held a larger number of investments.

The fund can be exposed to different currencies. Movements in currency exchange rates may adversely affect the value of your investment.

Investing in this fund means acquiring units or shares in a fund, and not in a given underlying asset such as building or shares of a company, as these are only the underlying assets owned by the fund.

Further risk factors that apply to the fund can be found in the fund's Prospectus.

Sustainability information

The Fund's sustainability information is available to investors on the Fund page of the M&G website [here](#).

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