



# Market Musings 11/24

For Professional Investors only



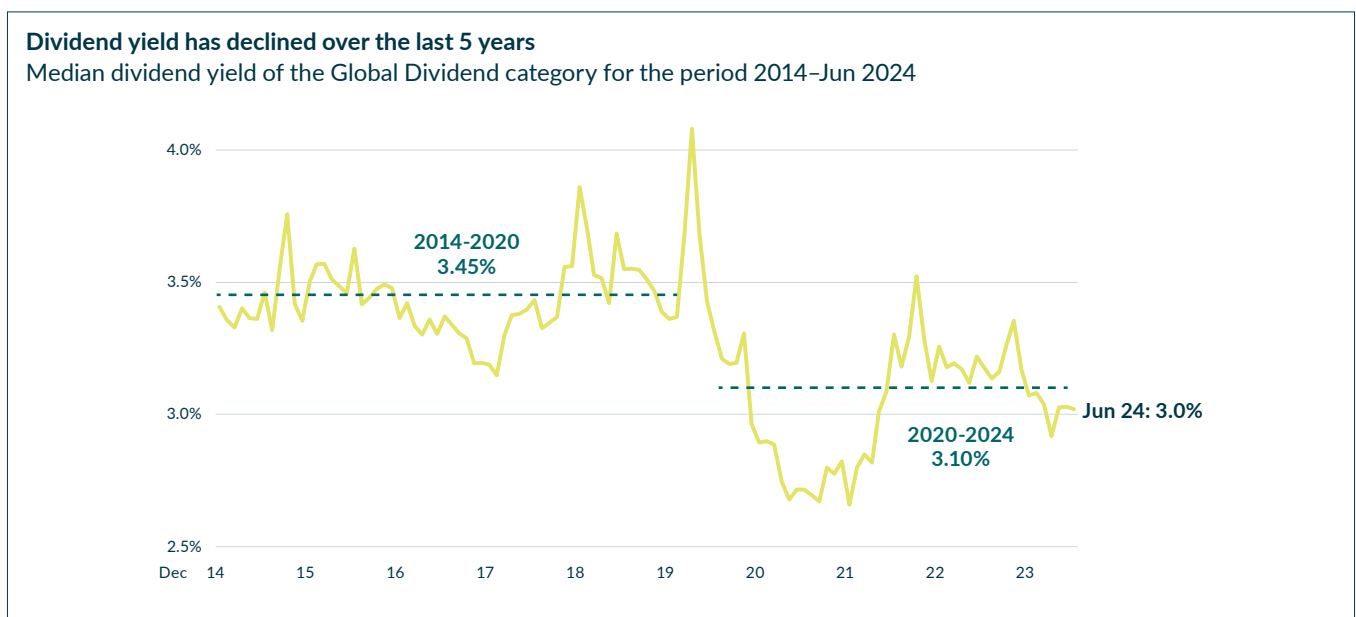
## Off the Beaten Path: Staying True to Dividend Investing

Over the past few years, we have noticed a remarkable shift: the dividend yield of global dividend strategies has been in decline. Increasing exposure to mega-caps with steep valuations has shifted the category away from high dividend yields. On average, global dividend strategies have also increasingly resembled the MSCI World in terms of style tilt, thereby reducing the diversification benefits of investing in dividend equities. By sticking to our investment philosophy, our strategy increasingly stands out within the peer group, with a portfolio consisting of out-of-the-ordinary companies.

### Following the crowd

Global Dividend strategies are a well-established group. There are 50 global dividend funds with at least €100 million assets under management each, managing a total of €75 billion\*. Their mandate typically requires that these funds provide an income and aim for capital growth.

In recent years however, the median yield of these funds has taken a notable step down, as shown in the graph below. This drop was for a long time attributed to falling yields across financial markets. However, this argument no longer holds as rates have increased recent years. In fact, there has been a structural shift visible in the investment style of many dividend funds that explains their lower yields. We identified two primary factors that drive this trend.

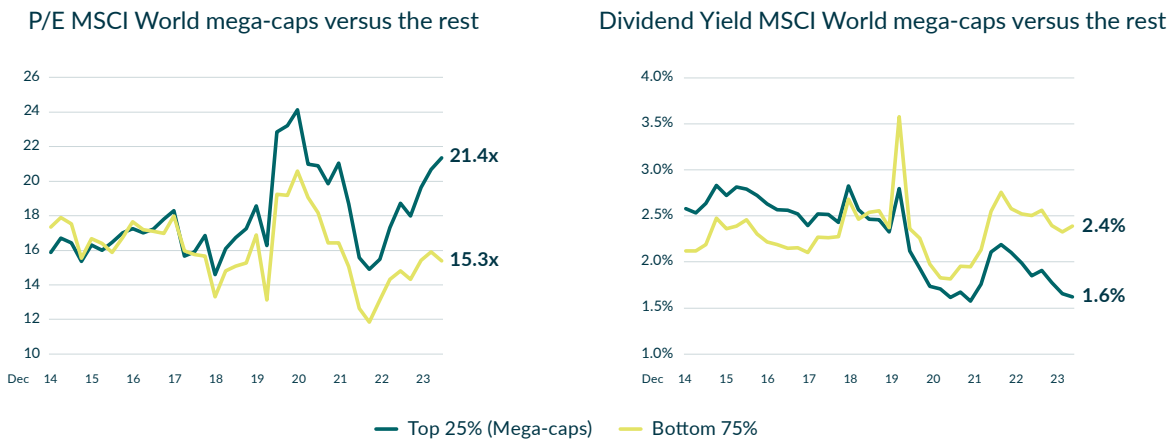


Source: Van Lanschot Kempen, Morningstar and Bloomberg. Period: Dec 2014–June 2024.

\*Source: Van Lanschot Kempen, Morningstar Direct. As of end of June 2024.

First, valuations of the largest companies have increased. As a result, yields of this cohort are lower and valuations are less attractive. Currently, mega-caps trade at a significant valuation premium to the rest of the market and offer the lowest yield. While in the past they offered a higher yield at a comparable valuation.

**Dividend yield of the largest companies has declined as valuation has increased**



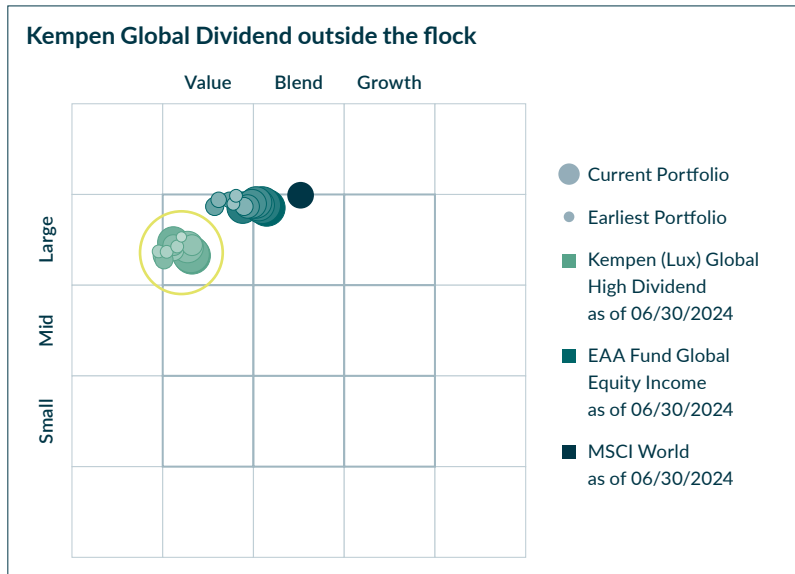
Source: Van Lanschot Kempen, Factset Period: Dec 2014–June 2024.

Second, there has been a shift in the type of companies in which dividend funds invest. Following the strong performance of growth companies and more of those companies starting to pay a dividend, focus has shifted from investing in companies with a high current dividend yield to companies with high expected dividend growth. A clear point of evidence of this shift is that over 70% of Global Dividend funds currently have exposure to the 'Magnificent 7'. Currently, none of these mega-cap companies has a dividend yield above 1%\*.

Dividend strategies have historically tilted towards larger-caps as dividend payments are a characteristic of larger, more mature companies. There used to also be a tilt towards value. Dividend is a fundamental factor, and when valuations rise the dividend yield inevitably goes down.

Over time, by sticking to large-caps, the investment style of dividend funds has moved away from value-investing towards a more blended portfolio. The chart below shows the style drift of the dividend category over time, as published by Morningstar. With that, the exposure offered by global dividend funds looks more like that of the MSCI World and thus offers less diversification benefits.

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\*Source: Bloomberg

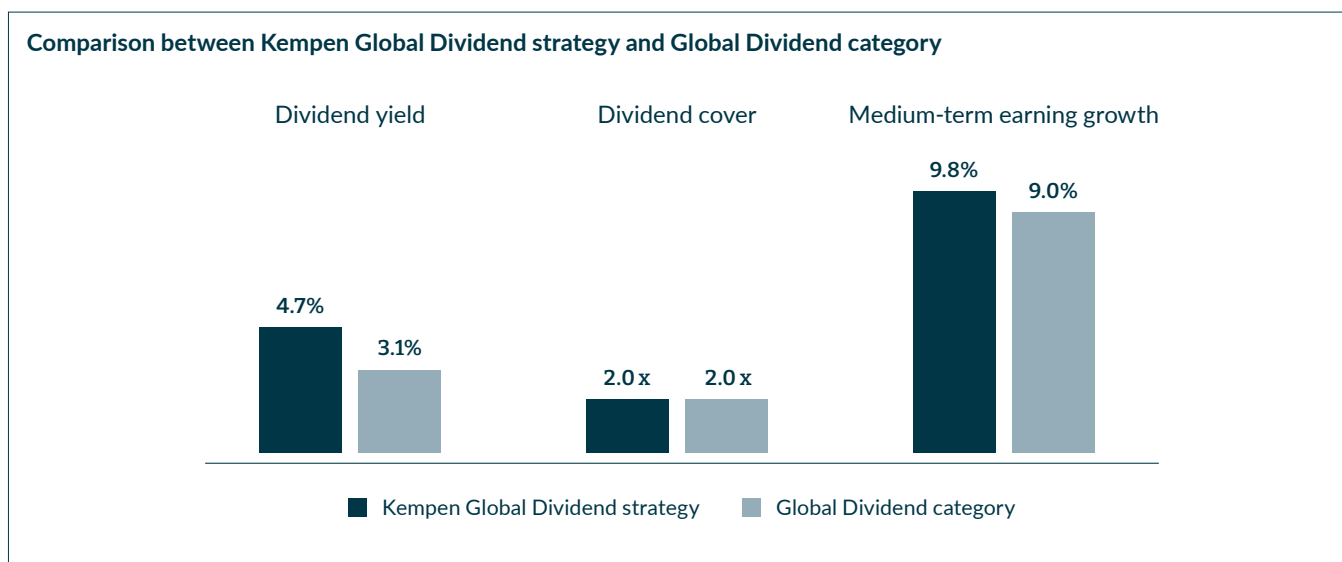
Source: VLK, Morningstar Direct. Style development for the period June 2019–June 2024.

## Seeking diversification benefits

In our [previous update](#) we wrote about navigating market extremes and the importance of diversification. We showed that betting on the largest companies to outgrow the rest of the market over a long period has historically been an unsuccessful strategy.

Our strategy has always been to look for investment opportunities beyond the beaten path. With that, we aim to uncover the most attractive dividend stocks. Valuations are currently more attractive outside the well-known large-cap names. This leads to exposure to mid-cap stocks, emerging markets players and companies in non-traditional dividend industries. The chart above shows that in terms of exposure to value and size our strategy is differentiated versus the group of dividend funds.

We look for attractive dividend investments among mid-caps where valuations are more favorable and yields are higher. Regionally, we also explore lesser known markets. Finding investment opportunities with attractive yields in countries like South Korea where improvements in corporate governance and capital allocation are unlocking significant value. On a sector basis, we have exposure to companies with solid yields in non-traditional dividend industries. This makes the portfolio more robust in terms of underlying value drivers.



Source: Factset, Morningstar, Dividend cover = dividends covered by earnings, medium-term growth = 3-5yrs consensus earnings growth. August 2024.

Past performance is no guarantee of future returns.

A different offering provides clear diversification benefits. It should however also offer something outstanding in absolute terms as well. By looking at a broader range of opportunities when we construct our portfolio, we concentrate on achieving an attractive yield while maintaining a similar dividend cover ratio. At the same time, our portfolio has slightly higher growth expectations.

Global dividend funds used to have a strong value tilt offering attractive dividend yields. There has been a style drift in recent years, as this group has continued to invest in large-caps with limited dividend yields and steep valuations. As a result, the dividend yield for this group has gone down and they offer less diversification benefits versus the global market. By looking off the beaten path for attractive dividend investment opportunities we aim to offer an attractive dividend yield and a truly diverse portfolio, that lets us stand out from the crowd.

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This information does not provide sufficient basis for an investment decision. You should therefore read the Key Information Document (available in Dutch, English and various other languages, see website) and the prospectus (available in English).

These documents as well as the Articles of Association, the annual report and semi-annual report are available free of charge at the offices of the Fund, located at 60, avenue J.F. Kennedy, L-1855, Luxembourg, as well as at the offices of the representative in Switzerland and on the website of **Van Lanschot Kempen Investment Management NV** The information on the website is (partly) available in Dutch and English.

The Sub-Fund is registered for offering in a limited number of countries. The countries where the Subfund is registered can be found on the website. The value of your investment may fluctuate. Results achieved in the past are no guarantee for the future. The result shown does not take into account commissions and costs that are charged when buying and selling items.

### **Dividend Equities: general risks to take into account when investing in Dividend equity strategies**

Please note that all investments are subject to market fluctuations. Investing in a Dividend Equity strategy may be subject to country risk and equity market risks, which could negatively affect the performance. Under unusual market conditions the specific risks can increase significantly. Potential Investors should be aware that changes in the actual and perceived fundamentals of a company may result in changes for the market value of the shares of such company.

The value of your investment may fluctuate, past performance is no guarantee for the future. Do not take unnecessary risks. Before you invest, it is important that you are aware of and are informed about the characteristics and risks of investing. This information can be found in the available documents of the strategy and/or in the agreements that are part of the service you choose or have chosen.



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