Investec Asset Management

Blake Hutchins – Sustainable dividend growth from Quality companies

- We take an explicitly quality approach, investing in some of the best businesses in the UK
- In 2018, we protected capital, which is very important
- The attractions of the UK market today are considerable. The dividend premium, for example, compared to other markets has never been higher
- It is staggering that investors are willing to accept a 2.5% return and a negative return in real terms on 10-year Greek debt and willing to accept explicitly negative returns on 10-year German and Swiss debt
- That said, a 4.5% dividend yield for the UK market is telling us something. We believe investors shouldn't over-stretch for yield at this point in the cycle – they don't need to. If we strive for a more 'honest' 3.5% it is covered by cash flow and companies have the ability to grow. Higher yields risk dividend cuts
- Within the UK market, the lack of technology exposure is alarming. This is one of the inherent risks of the market
- Companies in our fund need to do three things: they need to grow, to have a competitive advantage and to be capital-light. The growth of free cash flow is the main determinant of compounding wealth for clients
- We aim to hold 30-50 companies with the ability to compound cash flows into the future, while paying a dividend along the way
- When we are selecting those businesses, we look at the business model and competitive advantage: can it convert profits to cash? Can management allocate cash appropriately? Is the valuation reasonable?