

## Dividends for Stable Growth

*Dividends are a key part of the return of an equity portfolio, according to the managers of the ING Global Equity Dividend, as they provide smoother and more sustainable growth. But finding the right companies remains crucial as running a high-conviction portfolio, where every stock has equal weight. Constrained only by the yield and its sustainability, the fund can invest in any part of the world and any sector to achieve growth with lower risk.*

**Q: How would you describe your investment philosophy? What are the core beliefs behind your money management?**

**A:** Our strategy is based on the belief that dividends are a key part of the return of an equity portfolio as they represent almost two-thirds of the total return. Capital gains are also important, but they represent only one part of the gain. We focus on stocks that are able to pay high and sustainable dividend yields with the goal to create a quality-biased product that is very different from the product of a value strategy. The most important characteristic of dividends versus earnings is that the trend of dividends is much more stable over time. That's why a strategy based on dividends results in lower absolute risk and much lower volatility compared to the rest of the market.

**Q: Why do you believe that a dividend-based strategy is better than a strategy based on earnings?**

**A:** There are several reasons for which we like dividends. The first one is that paying dividends on a regular basis implies a sound balance sheet and enough resources to ensure the payments. Also, a change in the dividend strategy provides important signals about the prospects of the company. A cap on dividends is usually a strong negative signal about the prospects of a

company. On the other hand, an increase of the dividends means that the company is profitable and its prospects are good. If the management is not sure that it will be able to show stable growth, it would prefer to maintain the dividend to avoid strong increases followed by strong decreases. That's why the dividend trend over time is much more stable.

Overall, a stable dividend is a good indicator of the long-term health of a company. I believe that is a key message that enables our quality bias in terms of equity and leverage. That's how we differ from other value strategies. But in our selection process, the focus on dividend yield is only one of the criteria. The sustainability of the dividend is another important aspect because we know that if a company cannot grow its business and earnings, it will not be able to maintain that dividend. We consider high payout stocks only if they are backed by sound fundamentals and a sound business.

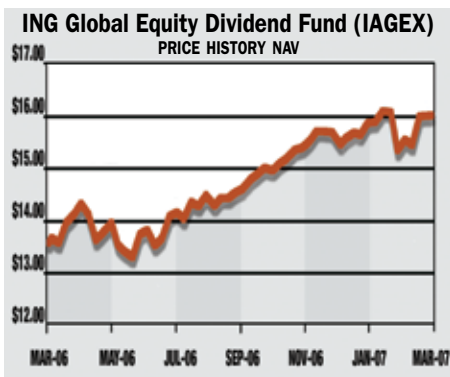
So the goal is to build a product that outperforms the market with lower risk. We are benchmark aware and we aim to beat the MSCI World Index on a three to five year basis, so we have a long-term strategy. Because we focus on high-dividend stocks, the average dividend yield of our product is higher than that of the market



**NICOLAS SIMAR** is responsible for the High Dividend strategies. He started his career at the Banque Bruxelles Lambert in 1996 (now part of ING) as an Investment Manager of Fixed Income and moved three years later to the Equity team to manage the Euro High Dividend strategy. He has ten years of investment experience.



**MOUDY EL KHODR** is responsible for the management of the global and US high dividend strategies. He has been in charge of the globally investing EUR 3.1 bn large Star fund since he entered ING IM, in March 2001. Prior to this, he was an equity fund manager at Banque Générale du Luxembourg (BGL). He started his career at the Belgian stock exchange (now Euronext Brussels) in the study & statistical department. He has eight years of investment experience and is a European Certified Financial Analyst.



but the goal is not to maximize the yield of the portfolio at any price.

**Q: How do you translate that philosophy into an investment strategy and process?**

**A:** Our process is a combination of quantitative screening and qualitative assessment made by the portfolio manager on the output of that screening. We have a proprietary global database which includes more than 50,000 shares and that's our starting point.

The first step of the process is screening, which aims to provide focus on the investable universe. We want to avoid the noise of the forecasters, so the screening is based only on historical data. We screen stocks on dividend yields and look for a minimum of 3% yield over the last 12 months. In terms of market capitalization, we maintain a threshold of \$1 billion to avoid the micro-cap area for liquidity reasons. Then we look at the stability of the dividends in the past and the companies should be able to show positive dividend growth over the last few years. It doesn't mean that we look for the highest historical dividend growth. Rather, we look for stability over a five-year period because this is a

**“A stable dividend is a good indicator of the long-term health of a company.”**

sign of quality. In terms of geography, we are a global fund and we can invest in any market, including the emerging markets.

By putting the constraints on dividend yield, market cap, and historic dividend growth, we end up with a list about 400 names. That output is the basis for the second step of our process, or the pure fundamental analysis. In that step we focus on prospective data and the sustainability of the dividend going forward. We want to make sure that the names in the portfolio are able to grow the dividends in the future, so we review the companies to select only the names with strong fundamentals. For each specific name, we have to believe that there's room for growth.

We have support from our research team, so the portfolio manager can rely on the valuation work of a team of about 30 sectors specialists. We regularly discuss the valuations and why they like or don't like the stock. We also meet on a regular basis with the managements of the companies that we own. The qualitative assessment is made by the portfolio manager, who takes into account all sources of information and the valuations of the analysts. The manager has to decide if to include the name in the portfolio or not. All the names that we put in the portfolio are high conviction names, or names that we want to invest in for the long run.

**Q: Would you explain the qualitative assessment part in more detail?**

**A:** I believe that the qualitative assessment is the only way to make sure that the stocks are able to grow the dividend moving forward. We look at and beyond the quality of the balance sheet. If a company has too high leverage, the debt payments may create problems for the dividend payments. The European telecom names, for example, were not able to pay their dividends in 2001 and 2002, because their debt payments were too high.

Also, if a company is not able to grow its earnings, it might be forced to cap or re-

duce its dividend. We examine the prospective earnings and we use the discounted free cash flow model. I'm not much interested in consensus data because it is not very accurate, but consensus estimates provide an insight to the market expectations. Overall, we focus not on the stocks with the highest earnings growth expectations, but on the stocks where there is good visibility on the future earnings and cash flow to bring quality to the product. The valuation is another key aspect of our stock selection process.

**Q: What portfolio construction rules do you follow?**

**A:** We have about 100 names in our portfolio and we are fully invested. Being benchmark aware means that we use the MSCI World Index for performance measurement purposes, but we don't build our products based on the weight of a stock in any index. The stocks in our portfolio are equally weighted at about 1%, which means that the portfolio significantly deviates from our benchmark.

The equal-weight approach is a key element of our strategy as we don't believe in penalizing a stock just because its market cap is lower. Every quarter we review the portfolio and meet our analysts to make changes in the names we own. Also, every quarter we rebalance the portfolio to the average weight. Of course, during the quarter we do better in some names and that leads to different weights, but we systematically rebalance the portfolio back to this average weight of 1% by trimming down the outperformers and buying back the underperformers that we want to keep. That approach allows us to systematically profit from the winners and to invest in the names that with unrealized growth potential.

**Q: What would trigger a sell decision?**

**A:** We have a very strict sell discipline. If the dividend yield of a stock drops below the three percent threshold, we would sell that name. For example, if a name that we bought at 4% dividend yield has been

pushed down because of share price increases, our rule forces us to systematically take our profits and find better opportunities in the market. I believe that one of the most difficult tasks of an equity portfolio manager is to get rid of a specific name and to avoid falling in love with a company. With our approach, we may take profits a bit too early in certain cases, but we ensure that we take profits systematically.

**Q: How is your portfolio distributed across geographies and sectors?**

**A:** Because we use an absolute threshold regarding the dividend yield, we deviate from the MSCI World Index in terms of regions and sectors. For example, right now we don't have any holding in Japan because we can't find any name in our field. We are currently overweight in Europe and Southeast Asia and we are underweight in the U.S. versus the MSCI World Index. Because of our quality bias, we are not afraid to deviate in terms of regional and sector location. However, for risk-control purposes we avoid concentration and the risk of resembling a pure utility or real estate fund.

We have put some risk constraints regarding the maximum overweight in terms of sector and regions versus the MSCI World allocation. For example, the maximum overweight in a sector is between 10% and 15% versus the index, but we still have regional and sector deviation. We haven't been able to buy any Japanese equities, but we can find other opportunities in the market. In Southeast Asia we found plenty of attractive names to compensate for the underweight in Japan.

So the quantitative screen and the dividend yield threshold work as a top-down strategy. If the quant screen shows that there are plenty of names in a specific region or sector, and if those names offer good value, we'll go into that sector or region. The beauty of the product is that the absolute threshold ensures a dynamic strategy over time. For example, five years ago we had huge exposure to the utility


sector, where we could find plenty of undervalued names, but that's not the case anymore. Today we find more opportunities in the media or the telecom sectors, which were considered growth sectors five or six years ago.

**Q: How do you define the long term? What's the turnover of the fund?**

**A:** The goal of the product is to select the names that we believe offer high and sustainable dividend yields, or the names in which we have confidence for the long run. The average holding is between three and five years. Of course, for some names we have shorter holding periods, but we build the positions for the long run. Our turnover is between 50% and 60%. We're not day traders, we don't time the markets, and we invest in names that we want to hold and to give those names significant exposure.

**Q: What is your view on risk control?**

**A:** We have a long-only strategy and a transparent and systematic portfolio construction process. Our equal-weight approach explains why we deviate substantially from the index and why we have higher tracking error levels. We don't have any constraints regarding the tracking error but we focus on keeping the absolute risk and the volatility low. Since 1999 we have maintained an average 15% to 20% discount in terms of volatility versus the market, so the key message of this strategy is the lower volatility.

The risk profile of this product is also very different from the risk profile of a deep value strategy because we tend to avoid cyclical names, which are heavily represented in the value indexes. It is also important to note that we have stocks that are classified by MSCI as growth names, so our growth score is not far away from the growth score of the market. That's because our process finds not only the undervalued names with historically stable dividends, but also the companies that are able to grow their business in a sustainable way. 

## ING Global Equity Dividend Fund

Symbol	<b>IAGEX</b>
Website	<a href="http://www.ingfunds.com">www.ingfunds.com</a>
Address	ING Funds 7337 E. Doubletree Ranch Road, Scottsdale, Arizona 85258
Tel. No.	800-992-0180
Inception	09/17/2003

**PORTFOLIO**

Total Net Assets*	\$159.3
Avg Mkt Cap (\$ Weighted)*	\$46,500
Average Price/Earnings Ratio	13.4x
Average Price/Book Ratio	2.81x
Turnover Ratio	50%

**INVESTMENT INFORMATION**

New Investment	Open
Min Initial Investment	\$1,000
Min Subsequent Investment	\$0
Min Initial IRA Investment	\$250

**RISK (AGAINST MSCI WORLD VALUE P IX)**

Alpha	0.27
Beta	0.96
R-Squared	0.89
Ann. Std Deviation	7.68
Sharpe Ratio	1.74

**RETURNS VS. MSCI EAFE ND IX INDEX**

	IAGEX	Index
1 Year (Cum.)	19.88%	20.20%
3 Year (Ann.)	17.88%	19.83%
5 Year (Ann.)	N/A	15.68%

**RETURNS VS. MSCI WORLD VALUE P IX INDEX**

	IAGEX	Index
1 Year (Cum.)	19.88%	16.50%
3 Year (Ann.)	17.88%	14.56%
5 Year (Ann.)	N/A	10.11%

**FEES AND EXPENSES**

Max Sales Charge - Front**	5.75%
Max Sales Charge - Deferred	0.00%
Max Redemption Fee	0.00%
Total Expense Ratio	1.33%

**PORTFOLIO MANAGER**

Moudy El Khod	01/19/2006
Nicolas Simar	01/19/2006

\*millions \*\*for amount less than \$50,000

Data through: 03/31/07

Source: Company Documents; Lipper

Ticker staff searches for mutual funds for their consistency in performance and durability of investment style.

Our interview covers investment philosophy and strategy, research process, portfolio construction and risk control for funds. Through an interview we uncover long-term strategies and processes that help to generate long-term returns.

You can read more on this and other funds at [Ticker.com](http://Ticker.com)