GSFM FUNDS MANAGEMENT

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Investors need to prioritise companies issuing dividends

In times of economic and political turbulence, investors seeking stability and long-term value should focus on companies still issuing dividends, according to Kera Van Valen, portfolio manager of GSFM fund manager partner, Epoch Investment Partners.

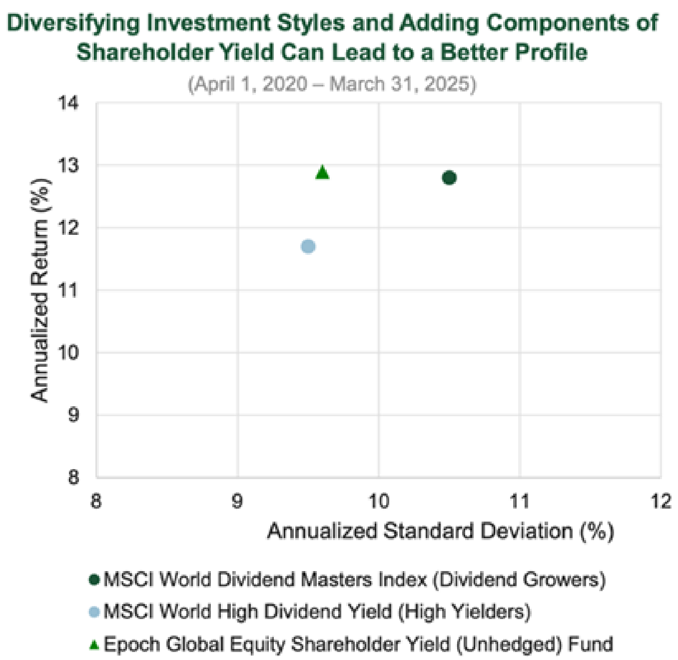
"Companies with consistent, well-managed dividend policies signal financial health, disciplined capital allocation, and a commitment to returning value to shareholders, even during uncertain periods," Van Valen said.

"History shows that companies with stable and growing dividends tend to outperform companies that either don't pay a dividend or have an inconsistent dividend policy resulting in cuts or reductions to dividends," she added.

A diversified portfolio of high-quality companies that can generate sustainable free cash flow and consistently return cash to shareholders in the form of dividends, share buybacks, and debt reduction can deliver outperformance over the long-term for investors.

Diversifying dividend investment styles and adding the other components of shareholder yield in this way can lead to a better risk-return profile.

The chart below shows how this works in action, with a strategy that targets an annual average yield split of between 4 to 4.5 per cent in dividends, 1 to 1.5 per cent in share buy backs, and at least 3 per cent from cash flow growth (source: Morningstar Direct).



While a mix of yield sources may not always provide the highest returns in the short term, research shows that it will provide more downside protection in the long term, leading to better results overall.

"This strategy puts investors in a much stronger position to gain long-term risk-adjusted returns, allowing them to weather volatility and have a smoother ride through the market cycle," Van Valen said.

Companies that grow and pay

Two examples of global companies that pay their investors a strong and sustainable cash flow are Coca-Cola Europacific Partners (CCEP) and Deutsche Telekom (DTE).

"CCEP sustains its cash flow by maintaining efficient product distribution and having a differentiated pricing architecture, giving consumers the ability to buy its products at different price points.

“DTE, on the other hand, is a good example of how debt reduction can be used to increase equity holders’ claims on company cash flows,” said Van Valen.

DTE owns a majority interest in US mobile operator T-Mobile. Following T-Mobile's 2020 acquisition of Sprint, the company focused on bringing debt levels down. This focus resulted in material cost synergies, boosting free cash flow levels and enabling deleveraging of DTE's balance sheet.

"Ultimately, Deutsche Telekom was able to increase its dividend rate and initiate share repurchases, enabling the company to regain majority ownership of T-Mobile.

“T-Mobile was then able to initiate a standalone dividend, returning significant cash back to the parent company and further benefitting DTE shareholders.”

Van Valen said the outlook for income from global investments remains robust for 2025, with more companies paying dividends.

"Regardless of the somewhat uncertain global economic outlook, due to the obvious geopolitical factors, we believe the dividend outlook is strong, and the current rate environment and strength in cash flows give corporates no reason to abandon sound capital allocation practices," Van Valen said.

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About GSFM

GSFM was established in 2007 as a subsidiary of the Grant Samuel Group. In 2016, Canadian wealth manager CI Financial Corp, which oversees more than C$546.1 bn in funds under management (at 31 December 2024), acquired a majority stake in the business, previously held by Grant Samuel.

GSFM delivers comprehensive responsible entity services, operational support, commercialisation assistance, and expert distribution and marketing for funds managed by leading local and international investment managers, serving both Australian and New Zealand institutional investors as well as Australian retail investors.
It has formed partnerships with nine specialist investment managers, who collectively manage more than A$1.078 trillion.

- Epoch Investment Partners: Based in the financial heart of New York, Epoch Investment Partners specializes in global equity investing with a focus on free cash flow as the primary driver of returns.
- Payden & Rygel: This independent investment management firm, headquartered in Los Angeles, is renowned for its fixed-income expertise and a commitment to delivering client-focused investment strategies for over three decades.
- Munro Partners: An independent global equity manager from Melbourne, Munro Partners is recognized for its forward-thinking approach, actively investing in innovative and growth-oriented businesses worldwide.
- Man Group: Headquartered in London, this global alternative investment management firm is focused on pursuing outperformance for sophisticated clients via its Systematic, Discretionary and Solutions offerings. Their single and multi-manager investment strategies are underpinned by deep research and span public and private markets, across all major asset classes, with a significant focus on alternatives.
- Tanarra Credit Partners: Specializing in private credit instruments, Australian based Tanarra Credit Partners is dedicated to creating tailored credit solutions, offering unique investment opportunities in niche credit markets.
- Access Capital Partners: This European independent private asset manager is focused on private equity, private debt, and infrastructure, providing investors with access to diversified private markets.
- Eastspring Investments: As a global asset manager based in Singapore, Eastspring brings deep insights and a disciplined approach to investments across Asia, catering to a wide array of asset classes.
- Alantra: With a strong presence in Europe, Alantra specializes in small and mid-cap investments, leveraging local knowledge to drive growth in niche markets.
- Australian Entertainment Partners (AEP): Creators of the AEP Screen Fund, this investment vehicle is dedicated to supporting Australian film and television projects, backing local talent and boosting the creative industry.

GSFM currently has approx. $10.74 billion funds under management (at 31 May 2025).

For more information about GSFM, please visit the website gsfm.com.au or follow GSFM on LinkedIn.

About Epoch Investment Partners
Epoch Investment Partners Inc. (TD Epoch) manages a variety of investment strategies with different investment objectives, but they share a common philosophy centred on the belief that the generation and allocation of free cash flow represents the best predictor of shareholder return. The Epoch Global Equity Shareholder Yield Fund (Hedged) and The Epoch Global Equity Shareholder Yield Fund (Unhedged) are distributed by GSFM in the Australian Market. For more information, please visit: www.td.com