

**Presenting
debate on
contemporary
and emerging
portfolio
construction
issues**



portfolio
construction

CONFERENCE

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Global shares that pay dividends

Not such a novel idea after all!

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GLOBAL VALUE
INVESTORS

ABN 76 111 397 392

Agenda

- Dividends – the Australian perspective
- Global investing – the dilemma for Australian investors
- The US influence
- The importance of dividends over the long-term
- Portfolio Construction opportunities
- Risk/reward characteristics

Dividends – the Australian perspective

- Tax regime - dividend imputation
- Signal Theory
- Transparency and sustainability of earnings
- Indicator of mismanagement
- The component of return that cannot be manipulated
- Signal of growth opportunities
- Alignment of interests

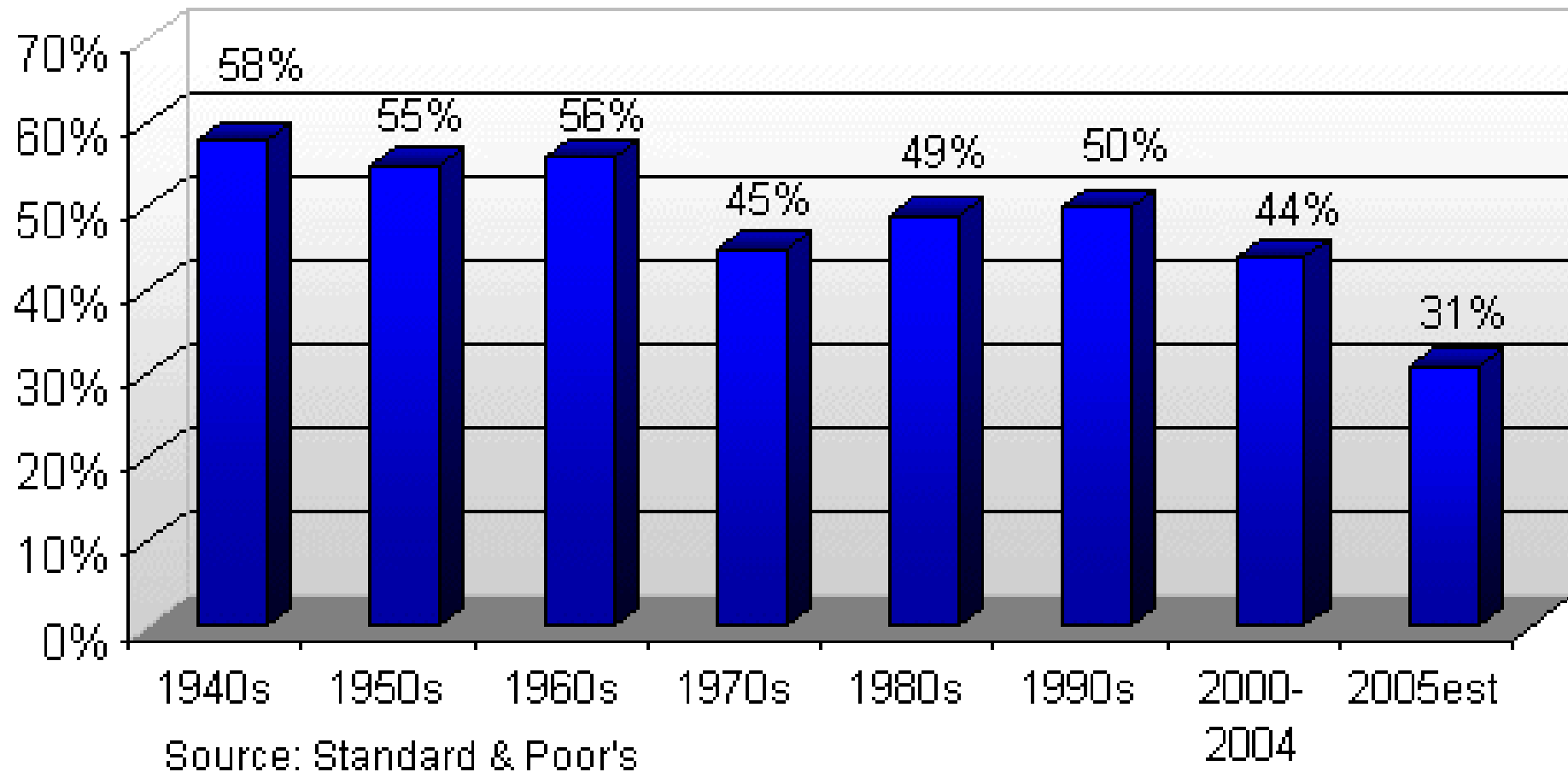
Global Investing – the Australian dilemma

- Much lower dividend yields
- The US cultural influence on investment attitudes
- Declining dividend yield and payout ratios
- S&P 500 Index – dividend yield 1.1% March 2000

Lowest in history!

US – Declining payout ratios

S&P 500 -- Average Dividend Payout Ratio



S&P 500 Index Payout Ratio (Jan 1940 to Dec 2005)



Percentage of Companies Paying Dividends in Russell 1000 Index (December 1979 to December 2005)



Source: FactSet, as of December 2005

So why have dividends been out of favour?

- Double taxation on dividends - taxed as income up to 38.5%
- Preference for growth and not income
- Buy-backs – focus on increasing share price and not rewarding shareholders
- Dividends – a sign of weakness and low growth

Ramifications of this attitude?

- Inefficient “empire building”
- Lower EPS growth
- Accounting Scandals
- Investor attitudes change - Prospect Theory
- Tax changes 2003 – a re-think on dividends?

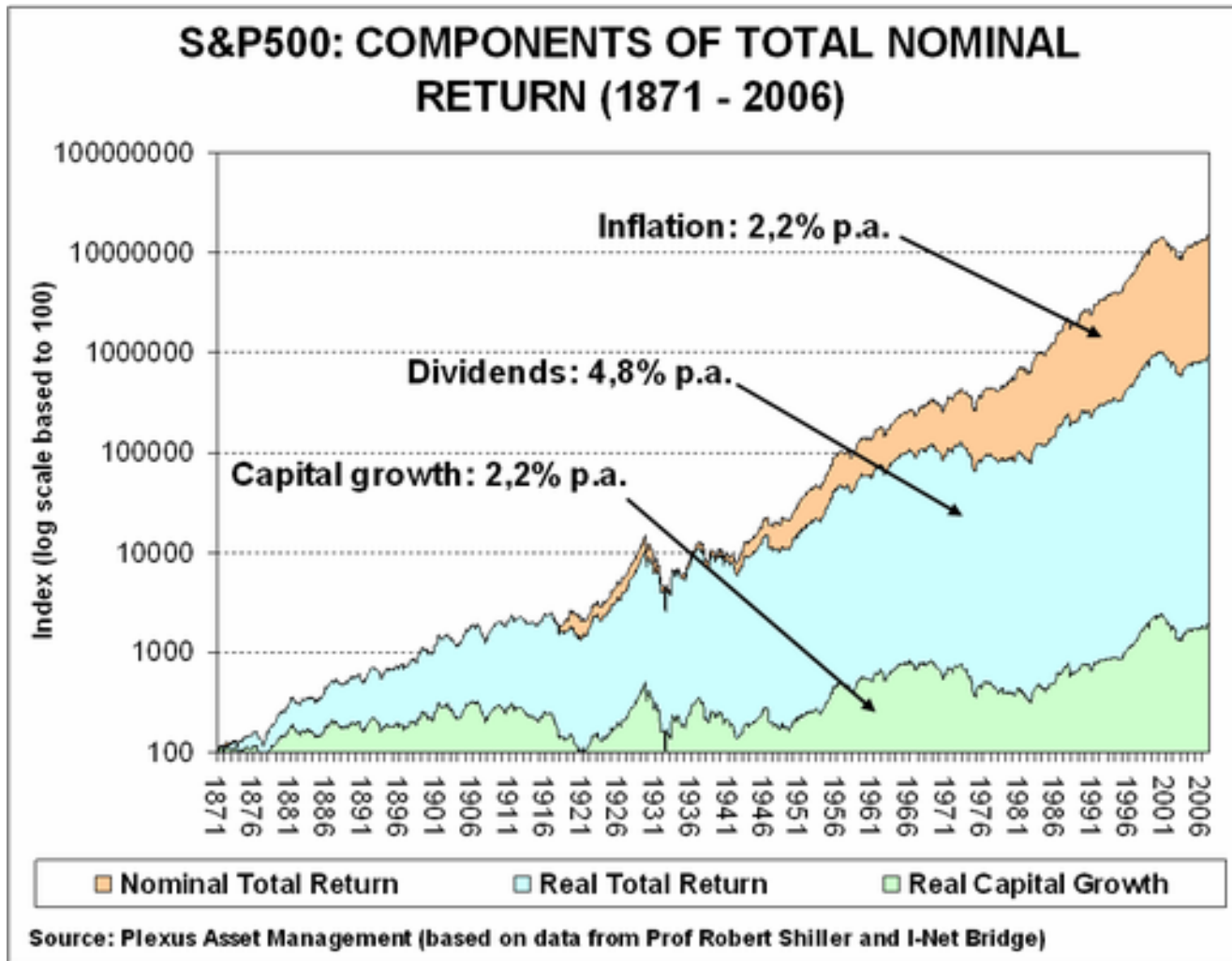
Importance of dividends over the long term

- Compounding effect of dividends re-invested
- Lowers overall volatility - Higher risk-adjusted returns
- Dividend growth critical to long-term total return

Higher dividends = higher future earnings growth !

- True for broader market – Arnott & Asness (2003)
- True at individual company level – Ruland & Zhou (2006)

Dividends – the power of compounding



Dividend contribution to total return

	<i>Total Return</i>	<i>Dividends as % of Total Return</i>	<i>Average Payout</i>
1930s	14.1	N/A	90.1%
1940s	135.1	74.2	59.4
1950s	436.7	41.2	54.6
1960s	107.9	50.2	56.0
1970s	76.3	77.5	45.5
1980s	370.5	38.6	48.6
1990s	411.2	23.2	47.6
2000s	-6.4	N/A	32.3
Average	193.2%	50.8%	54.3%

Source: ISI

Return Characteristics in Local Currencies

Selected Country Indexes and the MSCI World Index

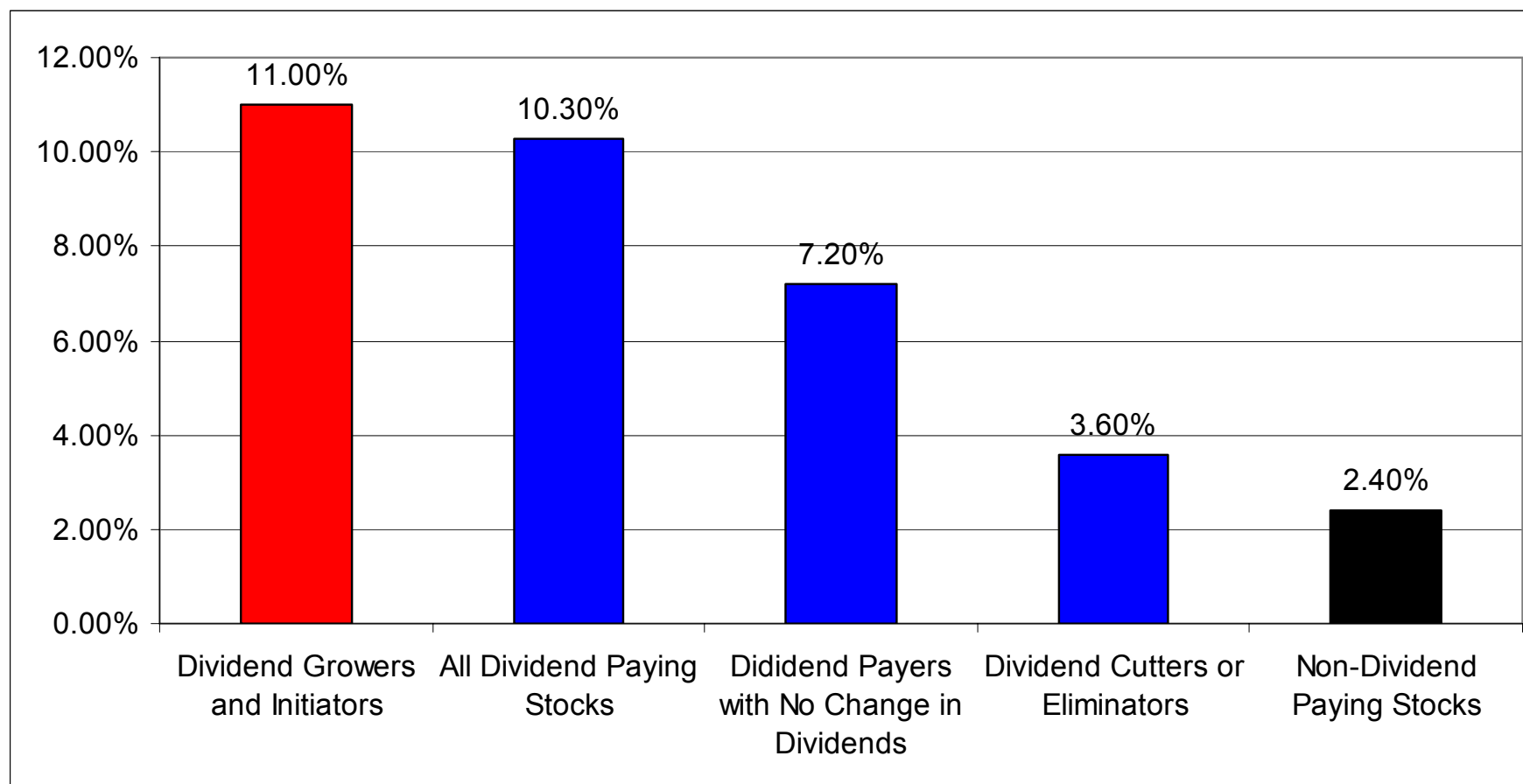
December 31, 1969 - December 31, 1989

	Capital Gain in % of Total Return	Dividend Yield in % of Total Return
MSCI Market Cap. - Weighted	73.8	26.2
MSCI Equally Weighted	72.8	27.2
Australia	68.4	31.6
France	68.8	31.2
Germany	59.5	40.5
Hong Kong	85.7	14.3
Japan	89.0	11.0
Netherlands	57.3	42.7
Singapore/ Malaysia	87.2	12.8
Spain	51.4	48.6
Switzerland	68.1	31.9
United Kingdom	71.5	28.5
United States	64.0	36.0

Source: A. Michael Keppler – “The importance of dividend yields in country selection”

Dividend growth stocks outperform

Historical total returns of stocks in S&P 500 1972 - 2006



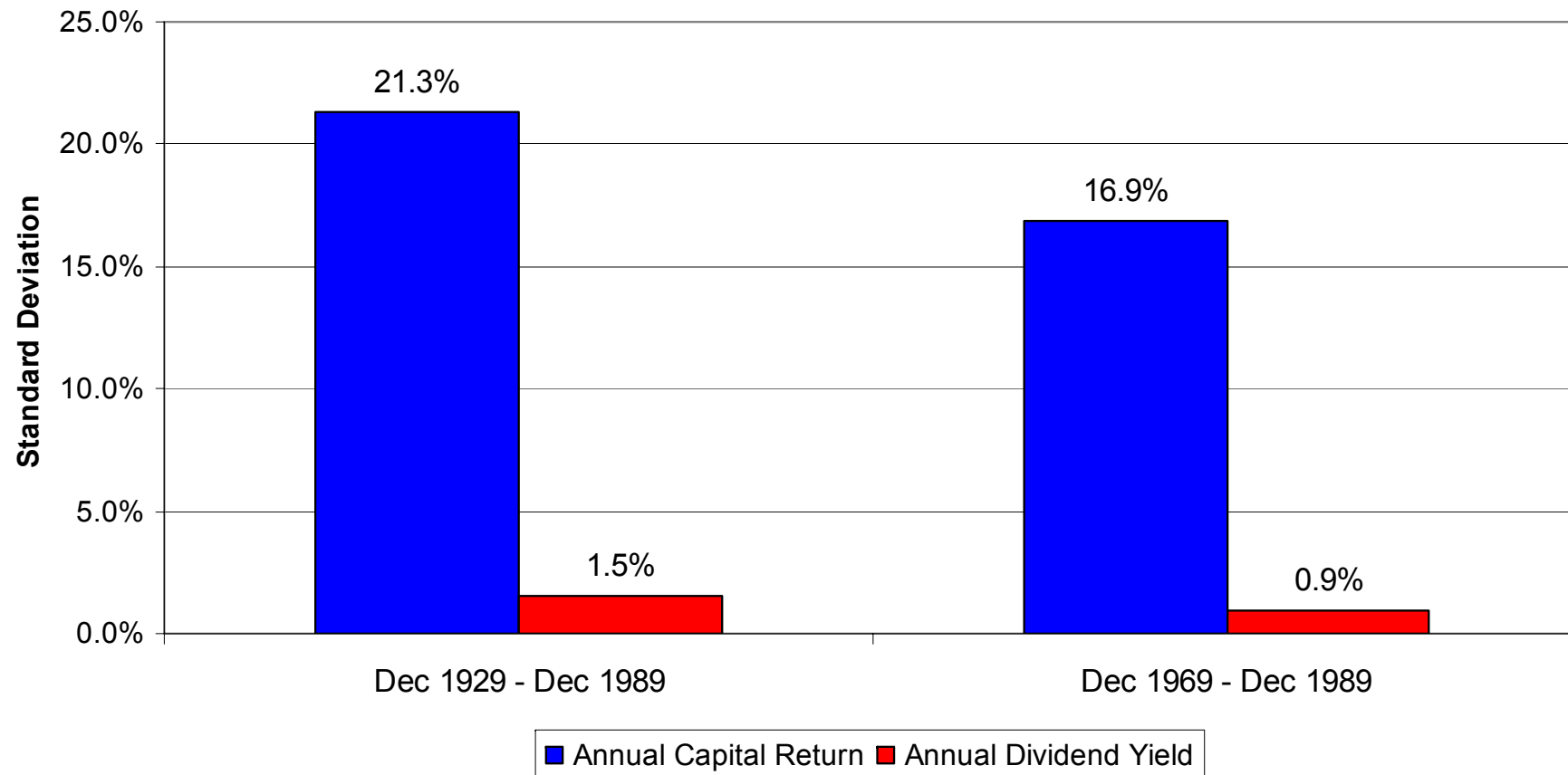
Source: Ned Davis Research - Returns based on monthly equal-weighted geometric average of total returns of S&P 500 reconstituted monthly

Modern Portfolio Theory

higher risk ~~=~~ higher returns

Dividends – inherently less risky

Components of MSCI World Index volatility

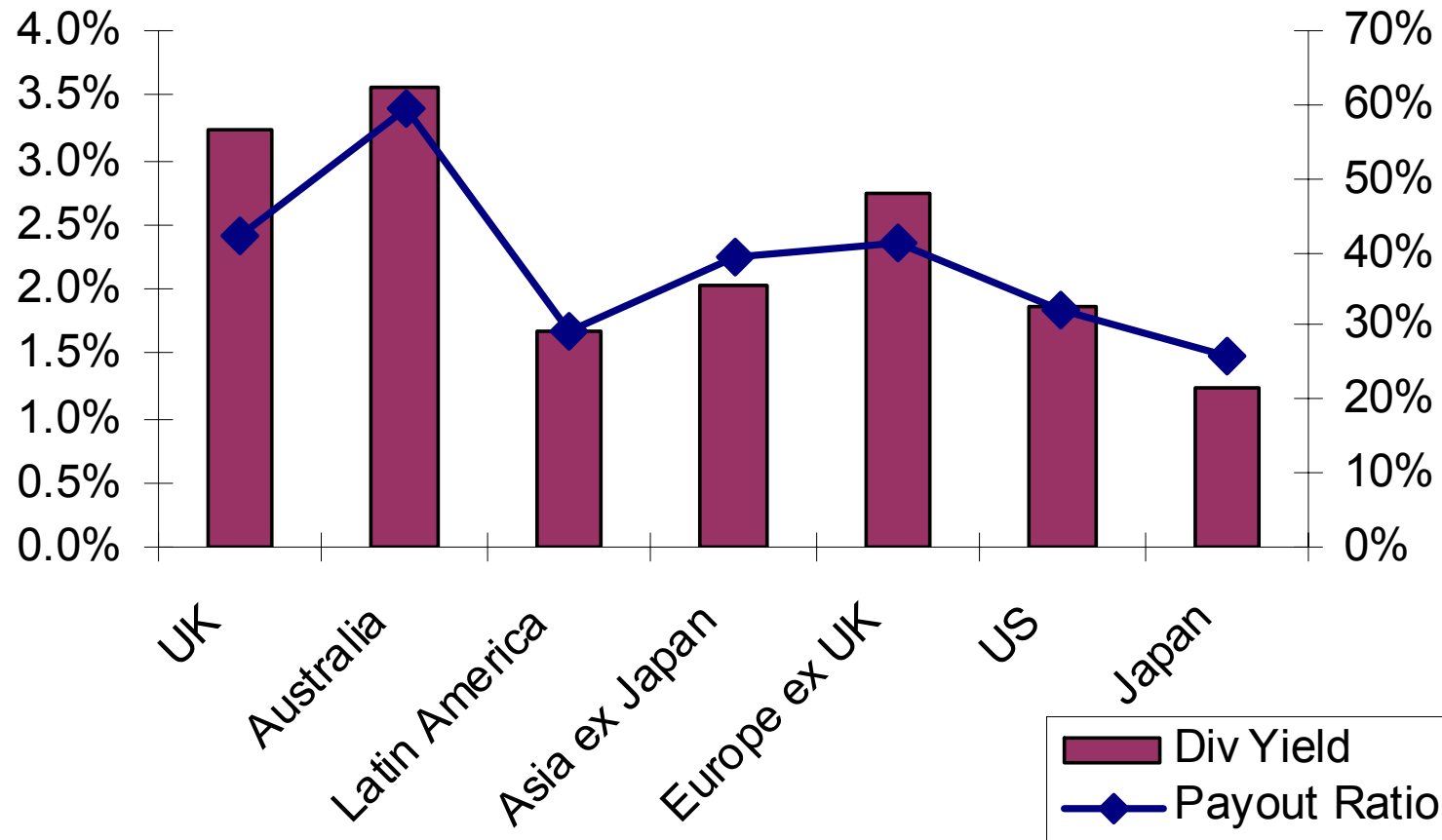


Source: A. Michael Keppler – “The importance of dividend yields in country selection”

Opportunities for Portfolio Construction

- Tendency for higher-yielding stocks to out-perform lower yielding stocks in the long-run
- Above average dividend yield important to long term risk adjusted returns
- Strong positive correlation between dividend yields and portfolio returns
- Opportunities to exploit these market inefficiencies
- This debunks MPT

Global diversification to capture dividend yield



Source: FactSet, as at July 2007

Portfolio Construction

- Value outperforms growth for longer periods
- Search for dividend-paying companies must go beyond the constraints of a market index
- Momentum vs Fundamentals
- Investment risk not benchmark risk
- Absolute risk not relative risk – client focused returns

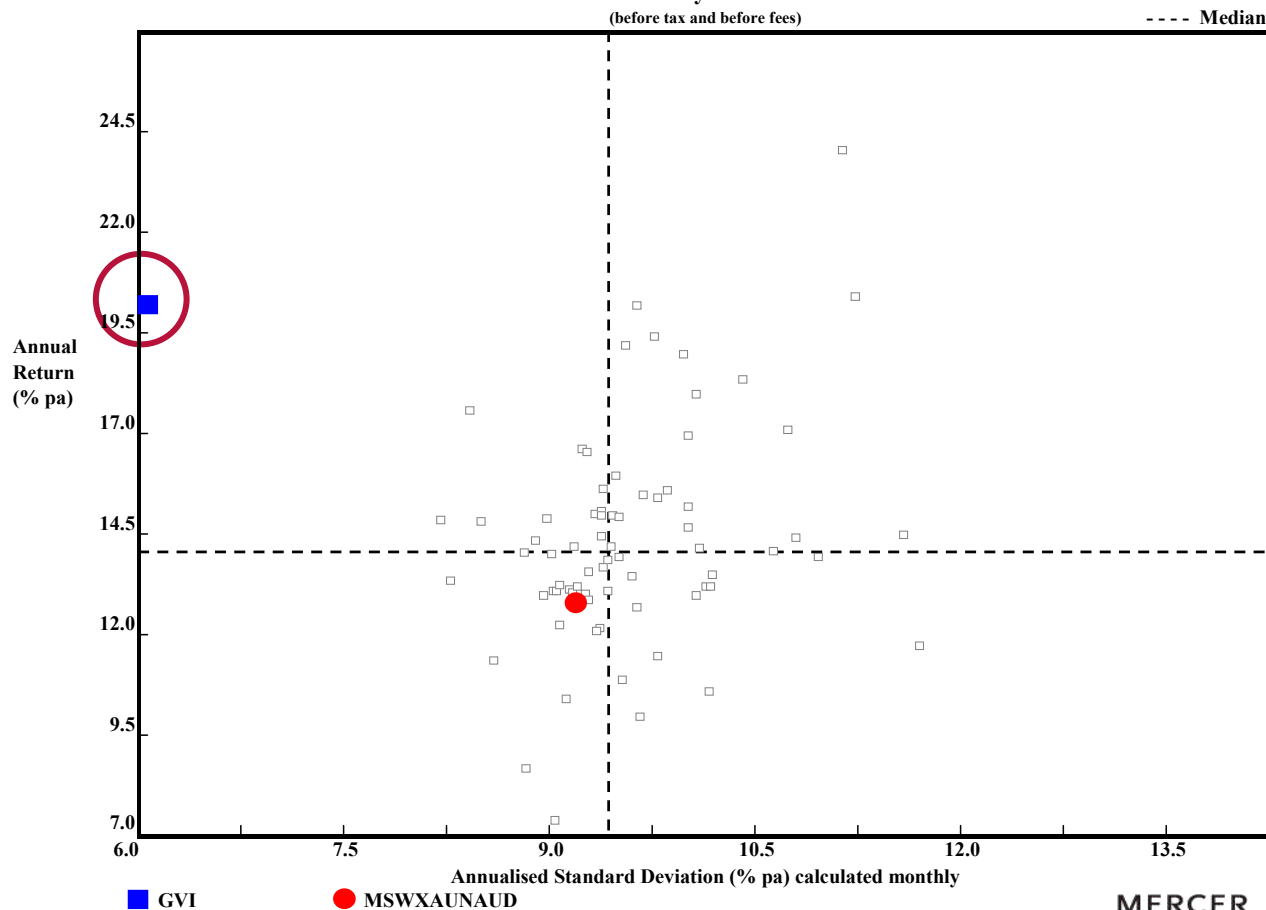
Building portfolio with above average yield

- DIY or managed funds
- Many qualitative factors to consider
- Index vs Active
- Value traps
- Managed fund offers best exposure
- Core holding - the ideal way to satisfy long term client objectives.

GISF Risk/Return characteristics

Global Value Investors

Comparison with the Mercer Overseas Shares Universe
Annualised Risk and Return for 2 years and 4 months ended June 2007
(before tax and before fees)



MERCER
Investment Consulting



GVI – Risk/rewards results

Overseas Shares (Modified Universe)

Risk vs Return for 28 Months to 30 June 2007 (calculated monthly)

Manager/Fund	Annualised Return (%pa)	Standard Deviation (%pa)	Reward to Risk Ratio Value	Excess Return (%pa)
Index Managers - Median	13.1	9.2	1.4	0.3
Value Biased - Median	17.3	9.4	1.8	4.5
Growth Biased - Median	14.0	10.0	1.3	1.2
Core Manager - Median	14.2	9.4	1.5	1.4
SRI - Median	14.0	9.0	1.6	1.2
Global Value Investors (GVI)	20.2 (4)	6.1 (103)	3.3 (1)	7.4
Overall Results				
Number of Funds	103	103	103	103
Upper Quartile	17.7	9.9	1.8	4.9
Median	14.2	9.4	1.6	1.4
Lower Quartile	12.9	8.9	1.3	0.1
MSCI World ex Australia	12.8 (84)	9.2 (63)	1.4	0.0
FTSE World	14.7 (46)	9.2 (63)	1.6	1.9
S&P/Citigroup PMI World ex Aust	13.4 (63)	9.0 (74)	1.5	0.6

Source: Mercer. The index used to calculate excess return and associated statistics was the MSCI World ex Australia. All rates of return are before tax and before management fees.

Importance of Dividends looking ahead

- US tax & regulatory changes – altering corporate behaviour and attitudes towards dividends
- Payout ratios expected to increase
- Corporations are cashed up
- Baby boomers – greater focus on real income
- Lower return environment – dividends will become more important

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