

Suitable for professional clients only.

Adding value in the US

The Quilter Investors US Equity Income Fund is a key holding in the WealthSelect Managed Active Portfolios, adding value for your clients through its pragmatic approach and the consistent strength of its stock picking.

1

Focus on high dividends

The Quilter Investors US Equity Income Fund is managed by Newton, part of BNY Mellon Investment Management. The strategy focuses on identifying high-dividend US equities with attractive valuations, alongside strong fundamentals. A further filter for inclusion in the fund is an assessment of a company's potential for catalyst-driven business improvement, such as earnings growth.

The result is a fund with a high degree of variance to broad US equity indices.

The team assesses potential holdings under both positive and negative scenarios and avoids those where potential losses are too severe. This screening process has historically helped to minimise losses and smooth returns.

The emphasis on sustainable levels of income, and the prospects for dividend growth, has helped to generate a track record of strong, risk-adjusted returns.

2

Seeking catalysts

The investment adviser to the fund, John Bailer, and his team combine both quantitative and qualitative research to uncover alpha not yet reflected in market prices.

The team's ability to exploit the valuation discrepancies that it identifies has been a consistent contributor to outperformance over the years.

The catalyst-driven business momentum they seek can include new management, changes to supply and demand dynamics, or product cycles.

The team also stress tests the resilience of potential holdings, which leads to a pragmatic, relative-value approach where the broader US equity market, not the index, dictates where the best value opportunities reside.

This has created a portfolio where almost half of the fund's exposure is to US financials or major healthcare stocks.

3

Strong investment process

The fund's investment process focuses on adding value through fundamental, bottom-up individual security and industry research.

It's a repeatable and highly scalable approach powered by its extensive team of industry analysts, with stock selection the key driver of returns.

The process focuses on ensuring that dividends are backed by sustainable cashflows, that valuations can withstand a variety of future scenarios, and that the current share price reflects the team's 'bear case' (meaning the bad news is already priced-in).

The team interprets dividend growth as a leading indicator of the sustainability and growth of a company's free cashflows and business momentum.

This means it actively seeks out stocks with strong earnings momentum that have attracted unwarranted levels of investor scepticism.

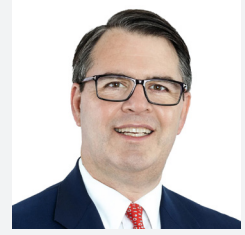
Most US equity value managers tend to stick closely to their 'style box'. But John Bailer and his team take a more pragmatic approach to finding value in the US and this has rewarded our investors down the years.

Impressive pedigree

John Bailer, who leads the team running the fund has spent the entirety of his 30-year investment career working within what has now become BNY Mellon Investment Management.

He and his team have worked together on similar mandates for decades and are especially impressive in the US value sphere, which is dominated by US banking, energy, materials, and healthcare stocks.

He's also been one of BNY Mellon's leaders on issues such as proxy voting, which means he's well integrated into the company's governance and broader ESG approach.



John Bailer
Deputy Head of Equity Income,
Newton

Pragmatic approach

Originally, WealthSelect held a US value strategy with an income focus but, following a change in that manager's parent company, the need was identified for a new manager in the US large-cap value segment, one with a greater focus on US dividends.

The strategy's pragmatic approach to stock selection and portfolio construction stood out when researching managers and the mandate was subsequently launched with the BNY Mellon team in 2019.

Smoother returns

When it comes to US equity exposure, much of the focus of the WealthSelect portfolio management team goes into balancing the US weighting between value and growth exposures, to deliver the best overall outcome for your clients.

However, value investment tends to have a rather lumpy return profile. This is the case in most markets, but it's especially so when comparing US value strategies to broader US equity market indices, which are dominated by mega-cap growth stocks. In broad terms, this means that value strategies tend to underperform for prolonged periods relative to broader markets before they leap ahead again, outperforming as market conditions change.

Thanks to the Newton team's track record for consistently adding value through its stock-picking approach, the return profile from the Quilter Investors US Equity Income Fund is far smoother than that of many managers in the US value space. This underlines why John Bailer is regarded as a safe pair of hands in this segment of the US market.

Ultimately, the fund is a high-quality value strategy that has historically performed well in a range of potential market scenarios and the portfolio management team are confident that it will continue to do so in the future.

Key takeaways

- ▶ The Quilter Investors US Equity Income Fund focuses on high-dividend US stocks that offer attractive valuations, strong fundamentals, and the potential for catalyst-driven business improvement.
- ▶ The strategy takes a pragmatic, valuation-driven approach to stock picking which has generated a track record of strong, risk-adjusted returns.
- ▶ The fund actively seeks out stocks with strong earnings momentum that have attracted unwarranted levels of investor scepticism.

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