

February 2021 Video: Opportunities for Dividend Value Stocks with Jennifer Chang

Question 1: Historically, what type of dividend growth has this portfolio experienced?

At Schafer Cullen, our focus has always been on looking for companies with strong free cash flow generation that can support high-and-growing income streams. So, when you look at the last ten years of the portfolio, around 80-85% of our companies in the portfolio, year in and year out, have raised their dividend; and the average increase has been close to 9% annually.

Question 2: What is on the horizon for equity returns and dividend-oriented investors?

Over the next several years, and even decade, we think that finding investments with high and sustainable income is going to be increasingly important, especially in this low-interest rate environment. Equities have had a huge run over the last decade and generated significantly above-average returns. So, if you think about the next three to five years, if equity returns start to normalize, we think that dividends and dividend growth are going to be a more important contributor than total returns.

Question 3: Has Covid permanently altered opportunities for businesses going forward?

Well we believe yes and no. In many ways, the post-Covid environment has changed. We see the penetration of e-commerce and digitization of industries as likely permanent. But, on the other hand, as economies recover, we do think that a lot of the value stocks and companies that really were priced for permanent impairment will likely recover. So for instance, consumers have been staying at home, spending money on home entertainment, home improvement, but as the Covid virus fades, we believe that that shift in spending will move towards experiences again, travel, out of home entertainment – things like that that will recover.

Question 4: How are you gaining exposure to areas experiencing accelerated changes?

Well, there are a number of investment themes with powerful secular trends that our investment team is focused on. One of them is the increasing adoption and acceleration of digital technologies; technology companies are transforming industry after industry in terms of helping customers streamline their operations, but also fast-track and accelerate innovation. We have a number of companies in the portfolio that offer cloud computing, data analytics services to customers, chip companies, companies that offer software services and cyber security that really play on that trend. There are a number of industrial companies in the portfolio that offer predictive analytics to help their industrial customers manage their asset performance even better than over the last couple of years. And data analytics is really transforming a lot of industries. So, if you take, for example, the pharmaceutical space, pharmaceutical companies are using data mining to help accelerate and fast-track their clinic trials in terms of drug development. And lastly, oil and gas companies; they're using big data to predict where to find oil and gas fields, so it reduces their costs significantly and also reduces their time to develop drilling from finding oil to actually getting it out of the ground.

Question 5: What opportunities do you see given recent advances into clean energy?

Over the last decade, the cost of wind and solar, hydro energy have come down, returns have improved – and so you’ll likely see those types of technologies continue to grow and be a larger portion of total US electric/gas generation. And, in addition, it’s supported by Biden’s economic policy to continue to deploy alternative energy throughout the US. So, our focus is on looking for companies and having companies in the portfolio that have exposure to alternative energy. Companies that own and operate wind and solar farms, that will continue to get deployed here in the US. And when you to look at global greenhouse gas emissions, around 50% of it comes from industrial and commercial buildings. So companies that manufacture HVAC equipment – heating, ventilation, air conditioning equipment, energy efficient equipment, air filtration systems – those companies will likely see growing demand over the next decade.