



# Hinde Dividend Value Strategy

'Our wealth solution for Equity and Income Investors everywhere'

- Highly Liquid Strategy
- Large Capitalised Stock Focus
- Regular Income & Capital Growth
- Stability of Returns
- Lower Volatility & Lower Drawdowns
- 'Flation Protection



# Hinde Dividend Value Strategy

## BACKGROUND

Low long end yields, negative real interest rates, rising asset classes, coupled with the potential for growth to slow, structurally lower employment and ageing developed world populations has focussed investors' minds on the need for income and capital preservation.

Unfortunately, many of the current income yielding asset classes and strategies, including junk bonds, student accommodation and even stock markets are fraught with risk either from high valuations, poor liquidity or risky credit quality relative to return potential.

After consulting a number of our investors, our objective for an investment solution given such an environment was simple to define.

The investment strategy had to be within a truly liquid asset class, which ruled out private equity, venture capital or student rent accommodation funds. It had to have an excellent risk-adjusted return profile, providing both income and capital growth potential. It also had to have very low drawdowns from any starting point and survive major market crises with minimal relative loss. It had to weather all investment cycles.

Investors suffered severe losses during the financial crisis and most have not recouped these as many likely panicked and exited markets or were forced to drawdown income at the worst time, but with bank deposits bearing zero income many are wondering how to deploy their savings safely for the future. Most are wary of obtaining income from less than transparent sources. Investments in yield enhanced strategies, via securitized products, have been shunned by those who took heavy losses, although there are those who still run the gamut of risk.

On the whole, however, there is a palpable sense amongst retail and many professional investors that they want to be in unlevered, highly transparent, liquid investments that quite frankly they understand, as well as those that offer stable income and the chance of longer-term capital growth.

Now even if rates don't remain at zero forever it is clear that with ageing demographics in the developed world the need for more sustainable income accompanied with a reduced exposure to potential capital loss will be a prerequisite over the next few decades. We have long understood that dividend-paying stocks could be a partial solution so we developed our own dividend-paying equity investment strategy.

Dividend-paying stocks offer an unlevered, liquid and transparent way to invest that helps investors meet the two significant criteria of income and capital growth. We firmly believe that investing in dividend-paying stocks should be an integral part of a long-term investment strategy.

# HINDE DIVIDEND VALUE STRATEGY

**An equity income strategy which captures short-term capital re-valuations combined with regularly reinvested dividend income to provide real long-term total returns.**

We currently run 3 UK equity strategies, covering the FTSE 350 universe:

- Hinde Dividend Value Strategy (Long Only)
- Hinde Dividend Value Strategy (50% Hedge)
- Hinde Dividend Value Strategy (100% Hedge)

## Hinde Dividend Value Strategy (50% Hedge)

### Investment Objective *Income and Capital Growth*

The Hinde Dividend Value Strategy seeks a total return through dividend income and capital appreciation whilst maintaining partial hedges to protect capital and reduce the overall volatility of returns associated with unfavourable market conditions.

### Investment Strategy *Quality over Yield & Market Protection*

The strategy pursues its investment objective by investing solely in UK large capitalised, dividend-paying common stocks, which are out of favour with their sector and the general market.

The strategy is a quantitative systematic methodology. FTSE 100 and FTSE 250 constituent stocks are screened using the Hinde Dividend Value Matrix™ (HDVM™), a proprietary stock-rating system. The portfolio is rebalanced quarterly based on the HDVM™ and is subject to a 50% beta\* market hedge to reduce overall volatility at all times.

The hedge is maintained using UK equity benchmark indices to reduce exposure to overall market volatility, but without reducing overall total returns to the market over the long run. The Hinde Dividend Value Strategy (100% Hedge) would deploy a full beta hedge at all times.

## HINDE DIVIDEND VALUE MATRIX™

Dividend Rank	Performance Rank	Value Rank
Relative dividend yield	Relative stock performance	Value metrics
Dividend capture metric	Rank of relative stock performance	Quality metrics
Payout ratios		Financial stability metrics
		Volatility metrics
		Momentum metrics
		Liquidity metrics

\*Beta is the stock's sensitivity to market movements. E.g. if a share has a beta of 1.5 its price tends to move by 1.5% for each 1% move in the index.

# What is the principle behind the investment strategy?

The strategy invests in 20 highly liquid, large capitalised stocks which each pay a high dividend relative to their component index and offer the highest total return potential. This selection of stocks is then subject to a strategic beta hedge, which is 50% of the portfolio at all times. The strategy is effectively employing a long high dividend value stock basket versus a short index.

## Hinde Dividend Value Matrix™

The basic premise is to select the stocks that have the highest total return potential and those that can pay sustainable dividends.

These dividend and return criteria are addressed by our Hinde Dividend Value Matrix™ which is derived from 3 screening processes:

- Dividend Screen
- Performance Screen
- Value Screen

### 1. Dividend Screen

The top ranking stocks will have high relative dividends and ensure dividend capture. A composite of the following criteria comprises the **Dividend Rank**.

- Relative Dividend Yield
- Dividend Capture
- Payout ratios

The relative dividend yield assesses if a company pays a higher dividend than the index. The dividend capture criteria explain how quickly and how much of the dividend is paid at any point in time. The payout ratio gives a snapshot of whether a company will be able to maintain and grow its dividend. It helps assess how much of a company's revenue, profit or cashflow is paid out in dividends. The lower the amount of dividends paid out as a percentage of profits, the healthier future dividend potential will be. History is for once a good guide as to whether companies will continue to pay and grow their dividends.

A stock with an excessively high yield relative to its sector or the overall market is invariably showing signs of heightened risk to its dividend sustainability and often the viability of the company itself. The screen incorporates a limit on yield dispersions from the overall market. The strategy is emphatically not a yield chaser.

It is the Performance and Value screens which then help us to assess the total return potential of a stock by analysis of how undervalued it is relative to its fundamentals, sector and overall market index.

### 2. Performance Screen

The top ranking stocks have the poorest relative performance to their index over multiple time horizons. A composite rank of the following criteria provides the **Performance Rank**.

- Stock relative performance ranked over multiple time periods
- Average of time periods taken to select rank of stocks

### 3. Value Screen

The top ranking stocks by key fundamental criteria show stable fundamentals and exhibit upside momentum growth potential. A composite of these criteria provides the **Value Rank**.

- Value - Price to Book (intangible book adjustment), Free Cash Flow metrics
- Quality - Return on Investment and Earnings metrics
- Financial Stability - Debt levels, Coverage and Payout ratios
- Volatility - Stock variance, Dividend variance
- Momentum - Sales Growth, Cashflow metrics
- Liquidity - Minimum market capitalisation relative to index, Shares outstanding

### Hinde Dividend Value Matrix™

The FTSE 100 and FTSE 250 stocks are ranked using the Dividend, Performance and Value screens. An equally-weighted composite rank is then taken of these 3 ranks which provides a final ranking or score rating from which a selection of 20 stocks is made for the portfolio.

The stocks with the highest ranking are compiled for the FTSE 100 and the FTSE 250. The top 10 from each index are then taken subject to diversification rules that entail that normally only 1 stock per sector per index can be invested in.

For example, if the top 10 stocks are all mining companies the selection process would take the first of these and then move on to select the next top stock from another sector. As long as a stock has the highest score in its sector the fact that it has appeared in the final ranking means it is already eligible for investment. In exceptional circumstances, it may be that more than one stock has to be selected from an individual sector.

### Hinde Dividend Index Hedge

The primary intent of the hedge strategy is to reduce the overall impact of a declining market. The strategy will not seek to fully hedge the market exposure of the portfolio, so the total value of assets will be impacted by general market fluctuations. The 50% beta hedge will mitigate a significant amount of overall market risk as it will be correlated to the portfolio. The choice of stock indices and instruments used for hedging is based on a consideration of the securities the strategy holds in the portfolio and the availability and liquidity of futures, options and other instruments, such as exchange traded funds on such indices.

## Risk Management

The stocks are rebalanced quarterly to maintain potential outperformance relative to the benchmark UK stock indices. Specific stock risk is the only reason for intra-quarter turnover. A higher turnover rate would result in higher transaction costs and incur higher taxes for taxable accounts, so turnover has been kept at an appropriate level in consideration of the return profile.

The specific risk of stocks refers to the non-market related fluctuations in their underlying share prices. This risk can lead to a positive or negative outcome and rotation of stocks under such circumstances is based on systematic price changes relative to the benchmark indices. The diversified nature of the portfolio by sector and lack of concentration helps eliminate most of the stock-specific risk.

The screening criteria are based on our experience of what will have the most impact on the dividend and total return expectation. Hinde Capital constructed the HDVM™ model and then back-tested to see how it would have performed over time.

To avoid heuristic biases and statistical errors, we generated random sample portfolios by randomly selecting or eliminating key criteria to add or remove inputs from the matrix. The Manager also ran randomly generated samples of dividend-paying common stocks from the FTSE indices to see if the performance of the model portfolio could be replicated, which we found was not the case.

Diversification of the portfolio holdings is crucial to help alleviate sector concentration risk although in extremely unfavourable market conditions, such as 2008, correlations can tend to 1, which is where stocks move in conjunction with each other. Hinde Capital has demonstrated performance of the strategy under varying market conditions, and the combination of our diversification baskets and hedging strategy has significantly reduced overall drawdowns relative to the market during stressed periods.

## What has been the 50% Hedge strategy's performance history?

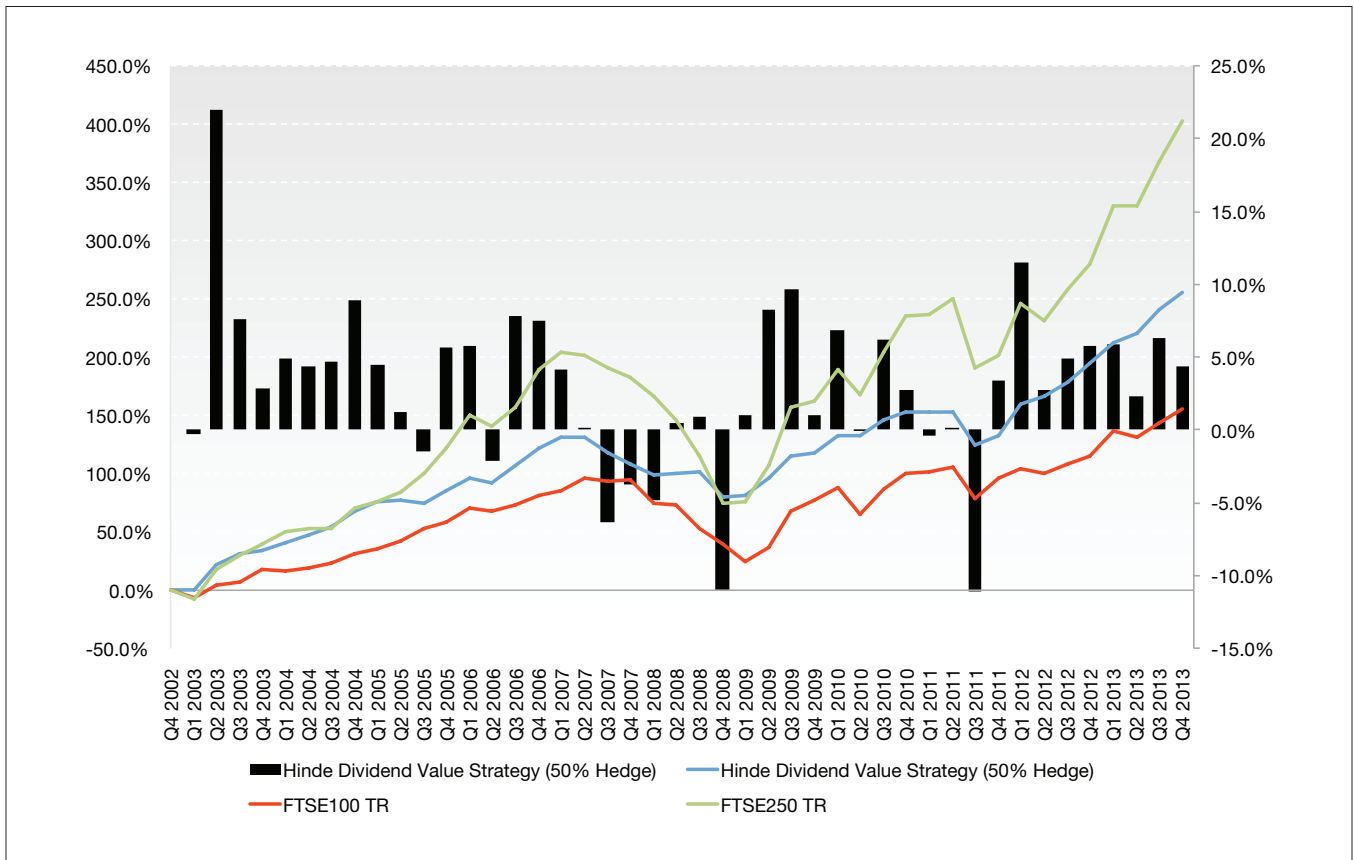
This is the total return performance for the Hinde Dividend Value (50% Hedge) Strategy. All returns are net of fees. We have assumed annual total costs of 2.3%, which includes stamp duty, transaction and borrowing costs, as well as a 1.3% management fee.

### PERFORMANCE DATA (AS AT 31ST DECEMBER 2013)

Since Inception (1st January 2003)	254.93%
Annualised	12.21%
Last Quarter	6.31%
Average Quarter	3.08%
Annualised Volatility	11.39%
Sharpe Ratio	2.28
Sortino Ratio	2.17
Max Drawdown (Strategy)	-22.66%
Max Drawdown (50% FTSE 100 TR / 50% FTSE 250 TR)	-38.77%
Average Historic Yield	5.40%

## PERFORMANCE HINDE DIVIDEND VALUE STRATEGY (50% HEDGE)

	Q1	Q2	Q3	Q4	Annual Performance	FTSE100 TR Performance	FTSE250 TR Performance
<b>2013</b>	5.91%	2.35%	6.31%	4.33%	20.22%	18.66%	32.27%
<b>2012</b>	11.55%	2.72%	4.88%	5.79%	27.13%	9.97%	26.11%
<b>2011</b>	-0.37%	0.10%	-11.13%	3.42%	-8.34%	-2.18%	-10.06%
<b>2010</b>	6.84%	-0.09%	6.24%	2.71%	16.48%	12.62%	27.40%
<b>2009</b>	1.06%	8.25%	9.71%	1.07%	21.30%	27.33%	50.64%
<b>2008</b>	-4.83%	0.43%	0.89%	-11.01%	-14.19%	-28.33%	-38.15%
<b>2007</b>	4.12%	0.20%	-6.34%	-3.78%	-5.98%	7.36%	-2.46%
<b>2006</b>	5.76%	-2.08%	7.86%	7.52%	20.10%	14.43%	30.21%
<b>2005</b>	4.47%	1.27%	-1.48%	5.66%	10.13%	20.78%	30.23%
<b>2004</b>	4.88%	4.35%	4.67%	8.89%	24.73%	11.25%	22.88%
<b>2003</b>	-0.24%	21.97%	7.60%	2.88%	34.71%	17.89%	38.86%



Annualised volatility of returns, calculated using rolling four-quarterly periods, has been 11.39% since inception (for the 50% Hedge strategy), providing a Sharpe ratio of 1.08.

## How have the 100% Hedge & Long Only Strategies Performed?

PERFORMANCE HINDE DIVIDEND VALUE STRATEGY (100% HEDGE)							
	Q1	Q2	Q3	Q4	Annual Performance	FTSE100 TR Performance	FTSE250 TR Performance
2013	0.73%	2.78%	3.11%	1.73%	8.60%	18.66%	32.27%
2012	5.72%	4.21%	1.62%	3.72%	16.12%	9.97%	26.11%
2011	-0.84%	-1.05%	-4.88%	1.15%	-5.60%	-2.18%	-10.06%
2010	3.28%	3.99%	0.55%	-0.89%	7.03%	12.62%	27.40%
2009	3.61%	2.32%	-0.68%	-0.71%	4.55%	27.33%	50.64%
2008	-1.28%	2.87%	7.30%	-4.36%	4.22%	-28.33%	-38.15%
2007	2.31%	-0.85%	-5.06%	-3.20%	-6.78%	7.36%	-2.46%
2006	1.62%	-0.99%	5.69%	3.29%	9.83%	14.43%	30.21%
2005	2.98%	-0.82%	-4.78%	2.43%	-0.38%	20.78%	30.23%
2004	4.98%	3.77%	3.58%	5.29%	18.81%	11.25%	22.88%
2003	2.18%	17.67%	6.60%	-0.96%	26.93%	17.89%	38.86%

PERFORMANCE HINDE DIVIDEND VALUE STRATEGY (LONG ONLY)							
	Q1	Q2	Q3	Q4	Annual Performance	FTSE100 TR Performance	FTSE250 TR Performance
2013	11.10%	1.91%	9.50%	6.92%	32.56%	18.66%	32.27%
2012	17.37%	1.21%	8.12%	7.86%	38.53%	9.97%	26.11%
2011	0.11%	1.27%	-17.38%	5.70%	-11.46%	-2.18%	-10.06%
2010	10.41%	-4.17%	11.93%	6.32%	25.90%	12.62%	27.40%
2009	-1.47%	14.19%	20.10%	2.85%	38.97%	27.33%	50.64%
2008	-8.38%	-2.01%	-5.52%	-17.66%	-30.16%	-28.33%	-38.15%
2007	5.94%	1.24%	-7.62%	-4.35%	-5.23%	7.36%	-2.46%
2006	9.93%	-3.16%	10.05%	11.77%	30.94%	14.43%	30.21%
2005	5.96%	3.36%	1.83%	8.89%	21.43%	20.78%	30.23%
2004	4.78%	4.92%	5.75%	12.49%	30.78%	11.25%	22.88%
2003	-2.65%	26.28%	8.62%	6.74%	42.54%	17.89%	38.86%

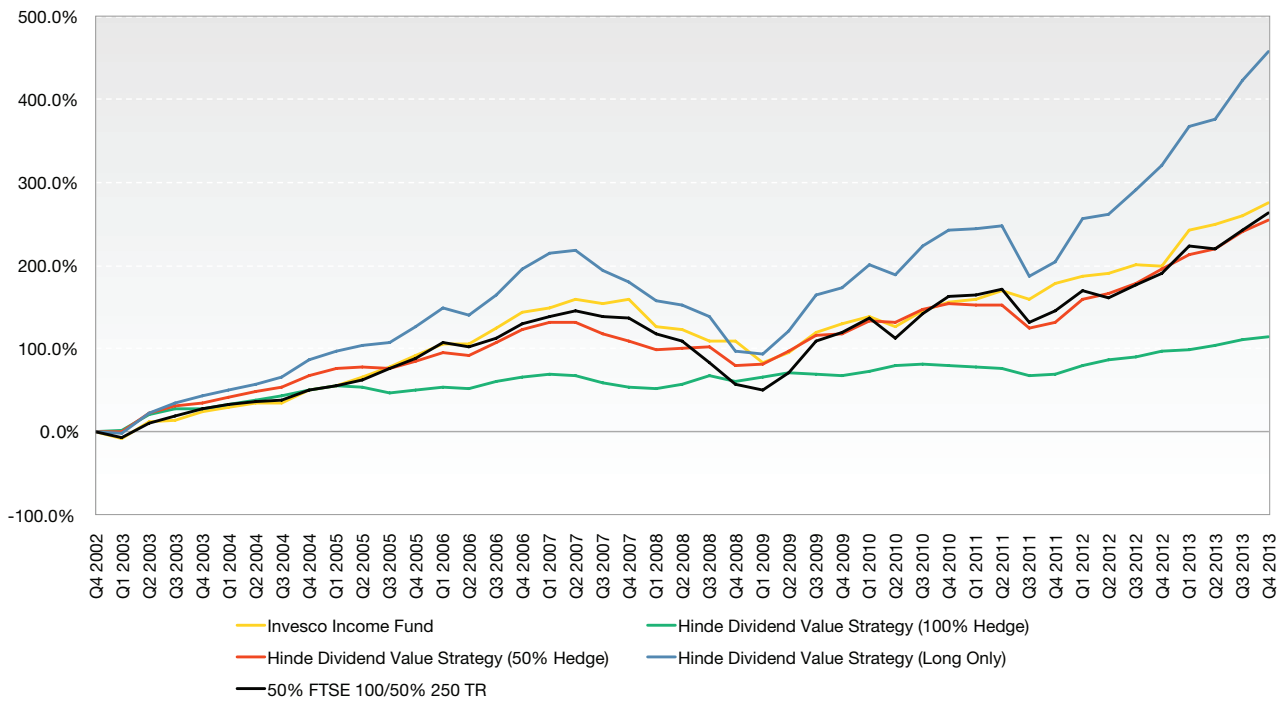


## What are the Annualised Comparative Returns?

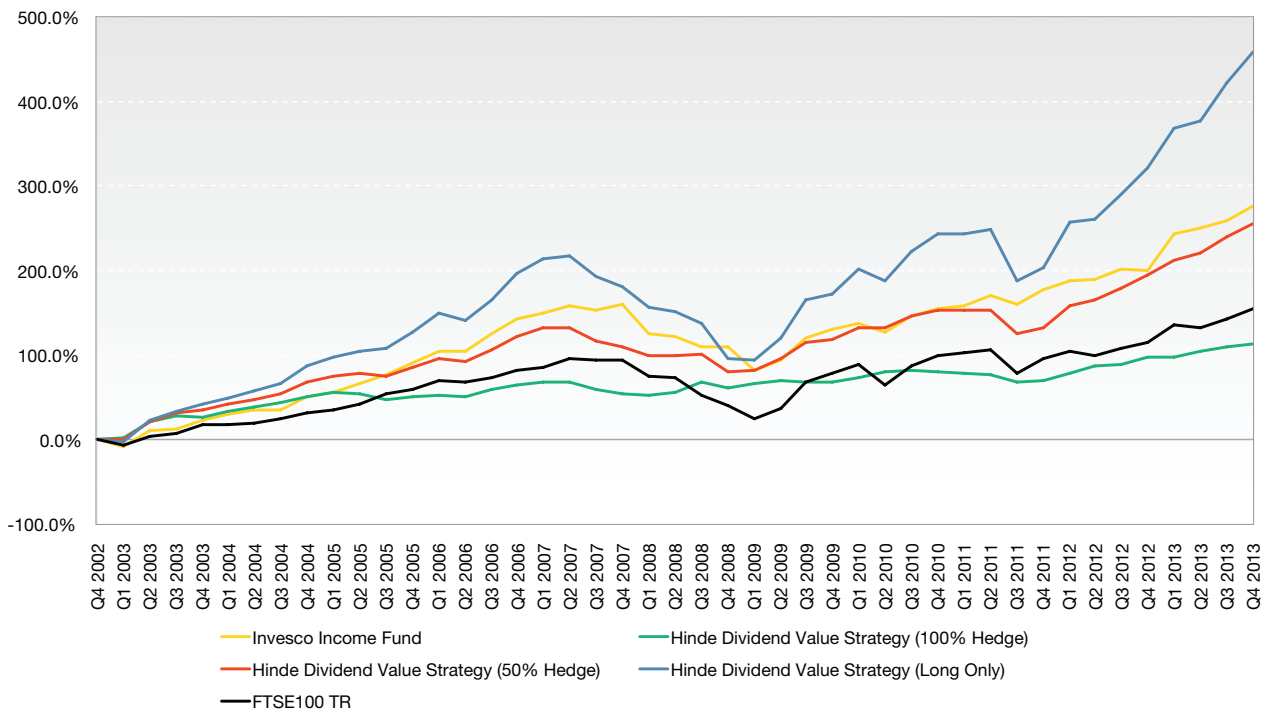
<b>COMPARATIVE RETURNS</b>				
	<b>1YR (Ann Rtn)</b>	<b>3YR (Ann Rtn)</b>	<b>5YR (Ann Rtn)</b>	<b>Since Inception (Cumulative Return)</b>
100% Hedge Strategy	8.60%	5.98%	5.90%	113.54%
50% Hedge Strategy	20.23%	11.90%	14.64%	254.93%
Long Only Strategy	32.56%	17.59%	23.26%	458.20%
FTSE 100 TR	18.66%	8.48%	12.85%	155.32%
FTSE 250TR	32.27%	14.48%	23.55%	402.54%

<b>A SAMPLE OF TOP 10 PORTFOLIO HOLDINGS</b>			
<b>Constituent</b>	<b>Percentage of Portfolio</b>		<b>Dividend Yield</b>
Tate & Lyle	5.00%		3.65%
Pearson	5.00%		3.81%
Imperial Tobacco	5.00%		5.53%
HSBC	5.00%		5.22%
W M Morrison Supermarkets	5.00%		5.17%
Green King	5.00%		3.41%
Amlin	5.00%		5.88%
Intu Properties	5.00%		4.84%
UBM	5.00%		4.07%
Electrocomponents	5.00%		4.68%

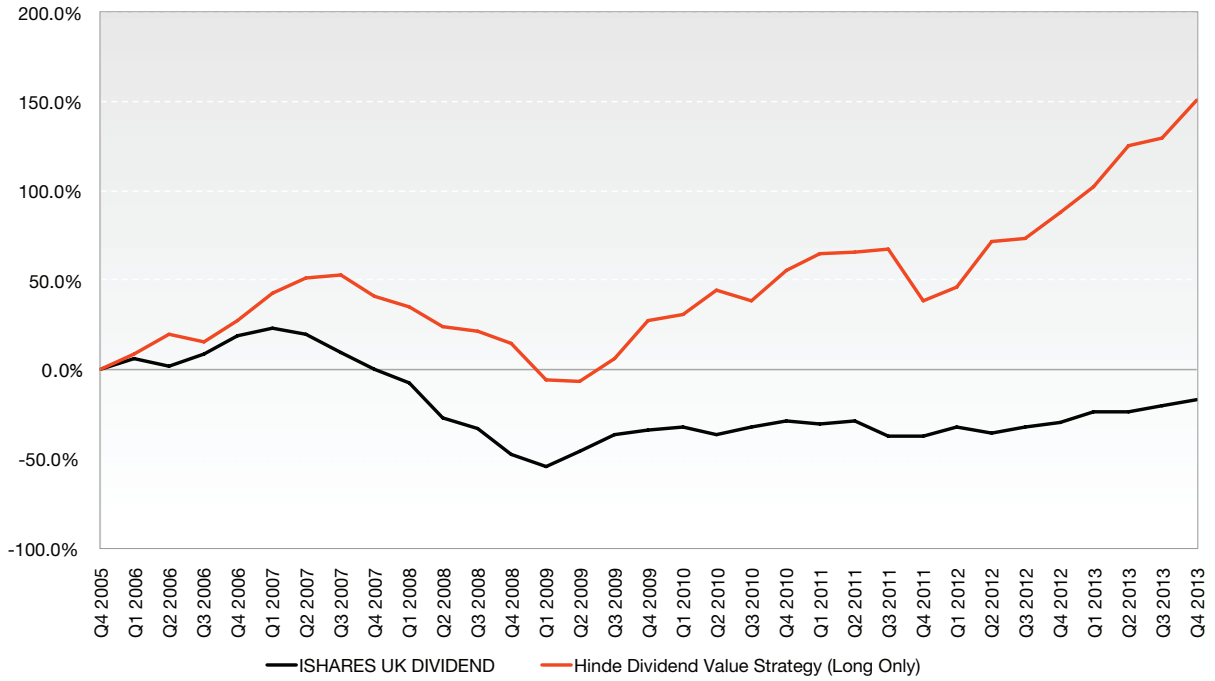
## HINDE DIVIDEND VALUE STRATEGIES VS BENCHMARK INDEX (50% FTSE100TR & 50% FTSE250TR)



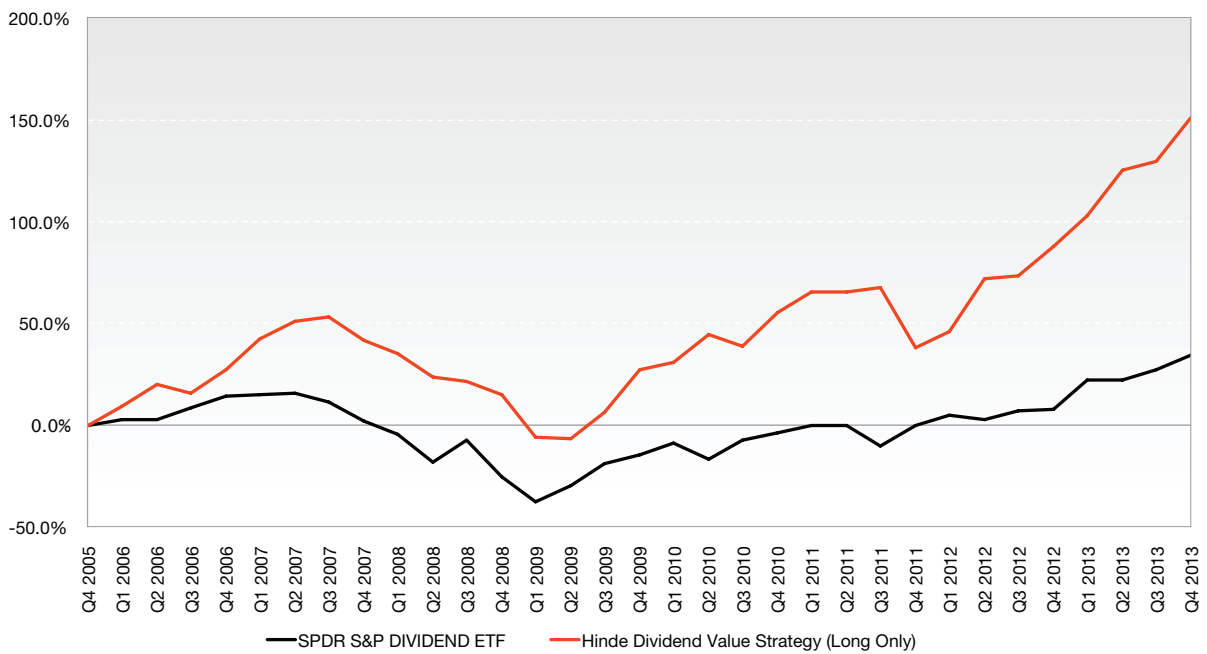
## HINDE DIVIDEND VALUE STRATEGIES VS FTSE100TR BENCHMARK



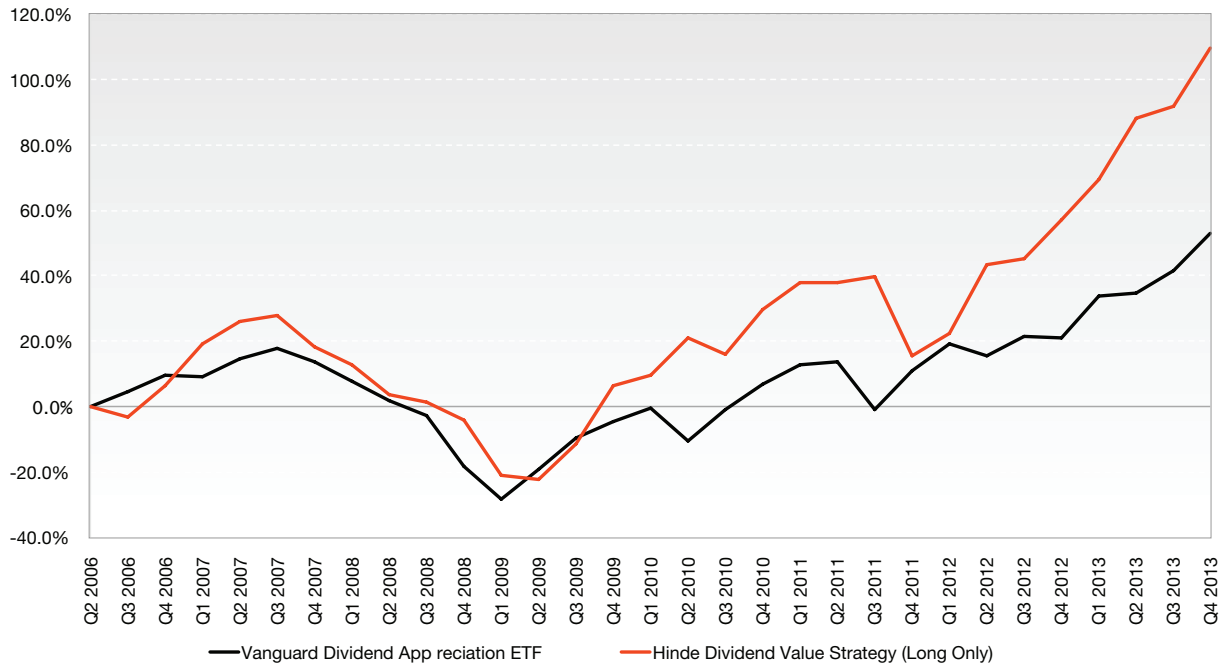
### LONG ONLY STRATEGY VS ISHARES UK DIVIDEND ETF



### LONG ONLY STRATEGY VS SPDR S&P DIVIDEND ETF



## LONG ONLY STRATEGY VS VANGUARD DIVIDEND APPRECIATION ETF



## What are the principal risks of investing in this strategy?

The principal risks of the strategy are the risks generally associated with investing in stocks. Stock movements will have a daily impact on the strategy's performance. The market values of stocks can fluctuate significantly, reflecting such factors as the business performance of companies, investor sentiment, as well as general market and economic conditions.

Shares that the strategy invests into may fall in value and there is a risk an investor may lose money as there is no assurance that the strategy will achieve its investment objective. The strategy is designed for investors who are investing for the long term, due to the investment techniques employed. Investing in dividend-paying common stocks provide an opportunity for long-term compounding of returns by reinvestment of the dividends.

The success of the strategy depends on the revaluation of stocks with total return potential, which are currently out of favour to the overall market. It may take time for stocks to perform but, in the interim, the reinvestment of dividends at lower prices enables the strategy to pick up more shares at lower prices. This reinvestment process cushions underperformance and creates potential for return acceleration when stocks rerate, as more stock has been accrued at lower prices.

The hedged approach means the strategy may underperform its benchmark indices in the short-term but the model has shown that, over time, it has created consistently better risk-adjusted returns relative to the overall market.

## The Opportunity

Well thought out dividend strategies offer the potential to perform well over the long-run and help investors to effectively navigate both depressed markets and exuberant ones. Using the Hinde Dividend Value Matrix™, Hinde Capital has identified common dividend-paying stocks which are likely to sustain and grow their dividends, but which are undervalued relative to the overall market based on their fundamental growth momentum and total return potential. By using a 50% beta hedge to the index, we have secured more stable, higher long-term returns, with lower drawdowns relative to a long-only basket of dividend stocks based on an 11 year back-test.

**If an investor is looking for growth, income and safety then the Hinde Dividend Value Strategy will meet these requirements. Our equity income strategy captures short-term capital re-valuations combined with regularly reinvested dividend income to provide real long-term total returns. This sets it apart from more passive long-only dividend strategies.**

# Hinde Capital - Who are we?

## INVESTMENT MANAGER - HINDE CAPITAL LTD

Hinde Capital specialises in developing world-class investment solutions for institutions, family offices, trustees, as well as high net worth private clients and their advisers. Recognised as thought leaders, Hinde Capital offers investors a range of disciplined investment strategies that draw on the founders' real-world trading and risk management experience built up from previous senior roles managing money for some of the largest global financial institutions.

Investment Managers Ben Davies (CEO) and Mark Mahaffey (CFO), former colleagues from RBS Greenwich Capital, established Hinde Capital in early 2007, initially to focus on the precious metals and commodity sector. Hinde Gold Fund, BVI Ltd was launched in October 2007. The Fund is now in its seventh year. More recently, it has introduced a range of equity strategies, which utilise the Hinde Dividend Value Matrix (HDVM)<sup>TM</sup>. Hinde Capital is based in London.



### **Ben Davies – Co Founder and CEO**

Ben Davies has over 18 years' experience within financial and commodity markets, starting his career in 1995 trading US Credit and Fixed Income before expanding his remit to take multi-asset proprietary risk at a number of leading institutions. The majority of his career prior to Hinde Capital was spent at Greenwich NatWest/RBS Greenwich Capital. In 2001 following the merger of RBS and NatWest, Ben joined Blue Sky Capital Australia, a Japan long/short equity Hedge Fund as a Portfolio Manager. The following year he was asked to return as the new Head of Fixed Income and Macro Proprietary Trading at RBS Greenwich Capital.

He left Greenwich in 2007 to co-found Hinde Capital with Mark Mahaffey and the Hinde Gold Fund was launched later that year. He is also a partner of the growing independent macro research company Variant Perception which spun out of Hinde Capital in 2008.



### **Mark Mahaffey – Co Founder and CFO**

Mark Mahaffey has 27 years' experience in the international markets having held senior posts at several leading investment banks. He trained as a fixed income specialist at Daiwa Securities before joining Midland Montagu as Director of the US government trading desk. In 1990 he jointly set up the Greenwich Capital office in London where he managed a portfolio focusing on global macro themes, before joining IBJI in 2001. His most recent appointment from 2005 was Managing Director of Bank of America London Proprietary desk. Mark co-founded Hinde Capital in 2007. He is the co-portfolio manager of the Hinde Gold Fund and also a partner in Variant Perception.



### **Mark Denby – Portfolio Manager**

Mark has over 17 years experience within financial markets, starting his career at Prudential-Bache Securities advising on a broad range of markets and asset classes. After spending five years at Berkeley Fund Managers, as a member of their investment committee and then director, he moved to Phillip Securities, a multi-billion dollar Asian financial house to advise private clients and run discretionary mandates. He later co-founded boutique investment manager ARIA Capital Management, launching a range of multi-strategy funds, which he co-managed whilst continuing to run private client portfolios. In 2013, Mark sold ARIA before joining Hinde Capital's growing team to develop the business alongside its co-founders.

## CONTACT INFORMATION

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