BNY Mellon US Equity Income

Fund Research Centre
Recommended

Why we recommend the fund

- This Recommended fund benefits from a well-established approach and an experienced team. Investment team lead, John Bailer, has been involved in the firm's dynamic value and equity income strategies for many years and all three managers are experienced practitioners.
- The team also works closely with the firm's Global Research team, which incorporates specialist research, quantitative equity research and responsible investment research. The firm prides itself on the depth of its proprietary research work.
- The team expresses high conviction through stock selection. They have an unwavering commitment to the power of dividends and valuation in combination.
- With a view for avoiding value traps, companies must display strong fundamentals, as well as a catalyst for an improvement in the prospects for the business.

Key characteristics and expected outcome

- Style and market cap-wise, the fund has a large-cap value profile. The team is flexible, willing to consider value ideas from across all market segments.
- The fund is managed with high conviction, with the search for high and sustainable current incomes and dividend growth driving stock selection.
- Given this focus, the portfolio can display significant stock and sector deviations versus the benchmark. As such, the risk/return profile can demonstrate meaningful variability compared to the index and many peers. Inevitably, its outcome is idiosyncratic in nature.
- Performance is likely to lag the index when markets are momentum-driven and when lower quality stocks are in favour.
- The fund can be used by investors seeking income from US equities, as well as by those seeking a value-biased option.

Risk commentary

The fund's KIID Synthetic Risk and Reward Indicator (SRRI) is 5. This is a regulatory measurement that is, where possible, calculated from the volatility of its weekly performance over a five-year period. A score of 5 means the fund's historic volatility is between 10% and 15%.

As a function of the investment strategy, the fund's absolute volatility profile is lower than most funds in the sector, as well as the index. Due to the managers' unwavering focus upon dividends and valuation, the fund's risk/return outcome can be variable in an absolute and relative sense and it is highly correlated to value as a style. Different share classes could have different SRRI scores.



Key Fund Facts

Inception Date:	04 December 2018
Manager(s) Since:	John Bailer (Dec 18) Brian Ferguson (Dec 18) Keith Howell (Dec 21)
Fund Domicile:	United Kingdom
Base Currency:	£ Sterling
Fund Benchmark:	S&P 500*
IA Sector:	North America

**Russell 1000 Value index is used as a performance comparator*

Formal documentation, including the fund prospectus and the KIID, should be sought directly from the asset manager. A link to the asset manager's website can be found on the relevant fund page at fundresearchcentre.co.uk.

Fund Snapshot

A US equity income strategy with a strong heritage, managed by experienced practitioners. Alongside the search for companies with high current incomes and solid dividend growth is an unwavering focus upon valuation. The fund features in our 'Larger-Cap, Value - Dividend Strategy' category.

Investment Team

The fund is managed by a team of three dedicated fund managers, who are supported by a sizeable and experienced research team. John Bailer is the lead portfolio manager, with colleagues Brian Ferguson and Keith Howell working closely with him on the strategy. Within the group, they are part of Newton Investment Management, a wholly owned subsidiary of The Bank of New York Mellon Corporation, and they are based in Boston.

Investment Philosophy

The managers believe that superior returns can be achieved by focusing on companies that have a shareholder-friendly capital return policy and seek to increase free cashflow through time. They favour companies that have high current incomes, solid dividend growth and are on undemanding valuation multiples. The managers aim to think on a global basis and try to identify the key themes that drive change.

Investment Process

Using a bottom-up, fundamental research approach, the team seeks out companies that possess the characteristics of a high and sustainable current income, together with dividend growth. Valuation analysis is at the heart of their work and, to generate ideas, the team uses quantitative and qualitative screening tools to narrow down the broad stock universe and help them focus their efforts. Ideas are also captured through themes, whereby identified long-term investment trends are used to highlight stock opportunities.

Fundamental analysis is undertaken on the narrower list of names, with team members using their individual sector expertise and working closely with colleagues in the Global Research team, as well as drawing upon third-party information. For stocks of interest, the investment thesis is built around three main factors: valuation, fundamentals and business improvement. On valuation, the team uses traditional methods of value to screen for relatively inexpensive stocks. On the fundamental side, they analyse company financials and seek out good management teams, a supportive competitive backdrop and an ability and willingness to pay dividends. Finally, on business improvement, the team believes that dividend growth is an important lead indicator of the sustainability and growth of a company's free cash flow and overall business momentum. Companies that have compelling catalysts, or are the subject of investor scepticism, are of particular interest.

Price targets are monitored continuously, with analysts building base, bull and bear cases, together with risk/reward assessments. This work assists the lead portfolio manager as the final decision maker in respect of the stocks that feature in the portfolio, the desired position sizes and the role a stock plays within the overall portfolio structure.

Portfolio Construction and Risk Controls

The fund features 30-60 holdings, and the maximum absolute stock position is 7%. Sector-wise, the fund has great latitude and is permitted to hold between 0% and 35%. From a dividend yield perspective, the aim is to generate an income that is at least 50% higher than the benchmark over the long run. Regular risk oversight meetings take place with a view to minimising unintended exposures and ensuring that performance is driven primarily by stock selection.

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