Look beyond the dividend heroes

Many other notable funds

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Image: QuotedData screens for funds which have offer income growth above the risk-free rate while outperforming the benchmark

The dividend hero and next generation hero lists published by the AIC are a great marketing tool for the investment companies industry and tend to generate a considerable amount of press attention, despite being a relatively simplistic yardstick (funds that have grown their dividend every year for at least 20 and ten years, respectively).

However, while increasing dividends is certainly a positive, it might not be the best indication of which funds to buy for income. Many of these funds have only made token increases in their dividends over the last few years.

There are also a number of companies on the list who have not generated positive real returns over the long term.

While that is certainly understandable in the market turmoil post pandemic, it becomes less so given historically low levels of inflation in the decade following the GFC.

I am sure these companies had good reasons to decrease their dividend growth, however the point is to show that it can be important to look beyond the surface level of the data.

Finally, the dividend hero list takes no account of total return. It is a good thing to have an increasing dividend; however, if a company is continually underperforming, or losing capital, it becomes much less important.

A different way of measuring

As an alternative, QuotedData has screened for funds which have offered income growth above the risk-free rate (ten-year gilt yield), while outperforming the MSCI All Country World Index over the last five and ten years on an annualised total return basis.

This proved a high bar with only nine companies making the grade. Of these, only Caledonia Investments was included in the dividend heroes list while CT Private Equity and Invesco Select Global Equity are both in the next gen list.

Of course, there are many other ways which you can slice and dice this data, changing benchmarks or adding and removing certain variables over different time periods. Plus we should stress that historical performance is also not a guarantee of future returns.

Some of these funds still make the dividend heroes list. Caledonia Investments has historically provided index beating returns at a reasonable yield, which currently sits at 4.8%, although even this has fluctuated considerably over the past 10 years, often sitting below 2%.

Despite being a decent size - approaching £2bn market cap - and possessing a good performance track record - second-best in its AIC flexible investment peer group in NAV and share price terms - Caledonia Investments' shares trade on a 28% discount to their net asset value.

CT Private Equity offers a current 12-month yield of around 3.5% and impressive capital returns, comfortably above our benchmark index for five and ten year periods. Again, investors do not seem to see the attraction, rating it on a 31% discount.

Invesco Select Global Equities provides a lower dividend of just over 2.5%, however this has been remarkably consistent over the past decade.

It is a much smaller fund, or to be accurate a sub-fund (part of a group of strategies that investors can switch between without triggering a disposal for capital gains purposes), but its discount is just 8%.

Our winners

For those companies not featuring on the dividend heroes or next-gen list but beating the criteria for our screen, Gulf Investment Fund has offered impressive annualised returns well above benchmark.

The company has been particularly strong over the past five years, benefiting from the strength of the region's economies, which have been boosted by higher energy prices.

JP Morgan Global Growth and Income is another that stands out as a very well managed and popular global equity fund offering a solid yield (based on distributing a percentage of its NAV, so some of the return may come from capital). It has been mopping up other funds in recent years.

One honourable mention of a company that missed our screen by a hair is North American Income trust. Performance over the last five years was slightly below benchmark, however the company has offered a reliable yield and sold performance over the past decade.

Another interesting sector which deserves mention is renewable energy infrastructure. Unable to make the grade as the oldest of these is only just 10 years old, there are a number of companies which offer both impressive yields and strong total returns.

Bluefield Solar stands out, with management guiding the fund successfully through the early development of the sector. A yield of almost 6% and annualised returns of 12% over the past five years are a clear reflection of this. Greencoat UK Wind, NextEnergy and JLEN are other companies which have performed strongly.

Finally, the commodities and natural resources sector stands out over a shorter time horizon, with CQS Natural Resources and BlackRock World Mining returning 13% and 15% respectively over five years.

The companies also provide solid dividends, although 10-year returns well below the MSCI ACWI are a reflection of their volatile nature.