

Press Release



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Newton urges investors to see the long-term benefits of investing in equity income

LONDON & NEW YORK, 26 July 2010 – Newton* has encouraged investors to see the long-term benefits of investing in equity income in a recent paper entitled "[The case for equity income investing](#)".

With authorities around the world seeking to repair defective credit markets and to support economies in the aftermath of the global credit crisis, the rates of income payable on most asset classes have changed significantly, observes Newton. Most obviously, interest rates and the levels of income payable on government bonds have fallen precipitously. Near-term changes in asset prices are uncertain, but Newton recognises the long-term attractions of harnessing income from investing in equities.

The paper highlights the attractiveness of equity income for long-term investors, drawing the reader's attention to the benefits of income-focused investing as a potentially highly effective way not simply of seeking to achieve a growing level of income but also of accumulating capital. Dividends can offer investors some downside protection in bear markets, since they historically remain more stable than companies' earnings. The maintenance of a rigorous yield discipline may also serve to accelerate investors' returns when markets recover by leading investors to buy shares inexpensively during depressed periods in markets.

It is often suggested that, by following an income-focused strategy, investors are likely to suffer by investing in businesses that have low, or no, growth potential, since paying a dividend is evidence of the paucity of a company's investment opportunities. Newton argues that this belief is flawed. It refers to the now-famous study of US equities by Arnott and Asness¹, which demonstrates a positive correlation between a company's dividend pay-out ratio and its subsequent earnings growth.

Helena Morrissey, chief executive officer at Newton*, comments: "Studies such as this suggest that the payment of dividends actually encourages greater capital discipline which, in turn, leads to better long-term returns. A dividend is evidence of a firm's profitability and represents a commitment by the management of a company to return the cash flow it generates to shareholders on a regular basis."

Morrissey continues: "By investing over the long term in income-generating equities, we believe investors could enjoy real growth in income together with long-term capital growth. Newton recognises the attractions of companies that pay above-average dividends through its range of equity income strategies. By being allied to a robust global thematic investment process, the investment team is able to focus on continuing to try to deliver a steadily growing level of income distributions for new and existing clients despite challenging market conditions."

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¹"Surprise! Higher Dividends=Higher Earnings Growth", Arnott and Asness, 2003 Financial Analysts Journal. *'Newton' refers to the following group of affiliated companies: Newton Investment Management Limited, Newton Capital Management Limited, Newton International Investment Management Limited, Newton Capital Management LLC and Newton Fund Managers (CI) Limited. Assets under management include assets managed by all of these companies except Newton Capital Management LLC, which provides marketing services in the U.S. for Newton Capital Management Limited. Except for Newton Capital Management LLC and Newton Capital Management Limited, none of the other Newton companies offer services in the US. Newton Capital Management Limited is an investment management firm authorized and regulated in the United Kingdom by the Financial Services Authority in the conduct of investment business and is a wholly owned subsidiary of The Bank of New York Mellon Corporation. Registered in England no: 2675952. Newton Capital Management Limited is registered in the United States as an investment adviser under the Investment Advisers Act of 1940. Newton Investment Management Limited is an investment management firm authorized and regulated in the United Kingdom by the Financial Services Authority in the conduct of investment business and is a wholly owned subsidiary of The Bank of New York Mellon Corporation. Registered in England no: 1371973. All information source BNY Mellon Asset Management as at 30 June 2010. This press release is qualified for issuance in the UK and US and is for information purposes only. It does not constitute an offer or solicitation of securities or investment services or an endorsement thereof in any jurisdiction or in any circumstance in which such offer or solicitation is unlawful or not authorised. This press release is issued by BNY Mellon Asset Management (US) and BNY Mellon Asset Management International Limited (ex-US) to members of the financial press and media and the information contained herein should not be construed as investment advice. Past performance is not a guide to future performance. Registered office of BNY Mellon Asset Management International Limited: BNY Mellon Centre, 160 Queen Victoria Street, London, EC4V 4LA. Registered in England no. 1118580. Authorised and regulated by the Financial Services Authority. A BNY Mellon CompanySM.