



Special Report: Dividend Changes - Tracking Reactions

Ipreo's Corporate Analytics Team looks at the specific investor impact of dividend changes and discusses the set of investors most sensitive to dividend increases, initiations, cuts, and suspensions.

Dividend Changes: Tracking Investor Reactions

Throughout the second quarter of 2009, issuers continued to heed calls from both internal and external sources to build up the top of the balance sheet. Facing ongoing uncertainty, management teams across industries sought to boost cash and cut costs to ride out a challenging macro environment. As part of this process, a number of companies elected to suspend or sharply limit their dividend payments as one method for maintaining or building cash. While the dividend cut decision was more prevalent in late 2008 and 1Q09, a total of fifteen S&P 500 issuers lowered their dividend in 2Q09, while an additional four companies chose to suspend their payout entirely. Though still discouraging, these figures compare favorably with forty dividend decreases and six outright suspensions in 1Q09.

While cuts and suspensions continued to headline dividend-related corporate actions during 2Q09, a handful of S&P 500 constituents were able to raise their payout in a significant capacity over the period. Excluding companies implementing scheduled dividend increases, Ipreo defined dividend increases equal to or greater than 10% as significant in the eyes of the institutional investor community. Over the 2Q09 period, a total of nine issuers significantly raised their dividend by an average of 17.5%.

Obviously, very few equity investors would prefer to see reduced or suspended dividend payments, especially those that look to an issuer as a source of current income. Most investors would also welcome the initiation of a dividend or a significant raise over scheduled increases. Yet, while the logic of "payout is good, more payout is better" seems fair, investors traditionally react to dividend actions with varying degrees of favor and aversion. In example, investors following a growth strategy might interpret the initiation or significant raise of a dividend as evidence of issuer maturity and moderating growth. Alternatively, bullish investors surrounding a dividend cut or suspension may appreciate management's decision (often non-discretionary) to face realities and enact changes to ensure short-term solvency or medium-to long-term recovery prospects.

A serious evaluation of the shareholder base is generally warranted surrounding a proposed dividend cut, suspension, initiation, or significant raise. IRO's that truly have a "seat at the table" with senior management regarding the dividend payment decision should be able to express to management the potential short-term and long-term effects of a dividend action on stakeholders.

Below, we detail institutional and mutual fund level activity surrounding dividend cuts or suspensions and dividend raises for S&P500 issuers over the 2Q09 period.

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Dividend Cut or Suspension Sellers

Top Institutional Sellers of Dividend Cut Securities 2Q09

Investor Name	Style	Net Value Chg. in Group (\$M)	# Dividend Cut Held	# Dividend Cut Buys	# Dividend Cut Sells	Eq. Assets (\$M)	Country
Harris Associates, L.P.	Value	(125.8)	6	2	3	32,660.7	United States
Metropolitan West Capital Management, LLC	Value	(122.2)	5	4	2	8,509.4	United States
Van Kampen Asset Management, Inc.	GARP	(109.8)	18	5	10	31,419.4	United States
Wellington Management Company, LLP	Value	(104.9)	13	5	10	185,240.1	United States
RiverSource Investments, LLC	Value	(101.8)	19	12	7	33,445.6	United States

Top Mutual Fund Sellers of Dividend Cut Securities 2Q09

Fund Name	Parent Name	Style	Net Value Chg. in Group (\$M)	Eq. Assets (\$M)	Country
Fidelity Magellan Fund	Fidelity Management & Research Company	Growth	(104.0)	21,402.9	United States
American Funds Capital World Growth & Income	Capital Research Global Investors (U.S.)	Yield	(67.7)	56,227.4	United States
Oppenheimer Value Fund	OppenheimerFunds, Inc.	Value	(55.0)	1,837.2	United States
American Funds Washington Mutual Investors	Capital World Investors (U.S.)	Yield	(51.5)	42,293.1	United States
American Funds Income Fund of America	Capital World Investors (U.S.)	Yield	(47.2)	28,760.1	United States

Investors with large current income needs tend to be the first to sell out of dividend cutters; however, some investors treat the dividend cut as a near-term negative signal and, especially in the case of investors such as Van Kampen, tend to cut holdings out of shorter-term portfolios. **Van Kampen** made the top Dividend Cut sellers list in Q408 as well as 1Q09, and is a strong example of a firm which adheres to a fairly consistent and predictable reaction to dividend actions.

With **Harris Associates** and **RiverSource**, negative reactions to cuts appear to have been applied more on a company-specific basis than across the dividend-cutting issuer set as a whole. Institutions like Harris and RiverSource that offer both yield and value funds will generally have a mixed reaction to cuts, which is more often apparent at the mutual fund level. Value funds may see opportunity to participate in a recovery following a dividend cut, whereas yield funds will almost certainly react negatively.

For **Metropolitan West Capital Management**, conviction selling in Morgan Stanley boosted the firm to its headline selling position, but the firm's yield-oriented buying activity was actually more telling of its 2Q dividend stance. While the firm won't appear amongst top Dividend Raise buyers, Met West increased and initiated stakes across a variety of existing high-yield issues. Across the firm's top ten 2Q buys, current yields average 4.1%, while average yields across top ten sells average down to 1.6%. Despite Met West's traditional lack of sensitivity to high dividend yields, the firm's 2Q activity suggests a possible conservative strategy shift over the near-medium term.

Due to their overall size and strict current income needs, the Capital Group's **American Funds** dominate the mutual fund list. This was also the case in 4Q08 and 1Q09. Similar to Van Kampen, selling from the income-oriented American Funds is highly predictable following a dividend cut. In general, when contemplating a dividend cut, it is important to analyze average yield levels across income fund holders to gauge whether a given yield threshold exists which could trigger forced, non-discretionary selling.

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Dividend Cut or Suspension Buyers

Selected Institutional Buyers of Dividend Cut Securities 2Q09

Investor Name	Style	Net Value Chg. in Group (\$M)	# Dividend Cut Held	# Dividend Cut Buys	# Dividend Cut Sells	Eq. Assets (\$M)	Country
Fidelity Management & Research Company	Growth	1,765.9	19	11	8	368,740.7	United States
Lord Abbett & Company, LLC	Value	878.0	7	5	4	34,573.6	United States
Capital World Investors (U.S.)	Value	769.5	10	5	1	275,380.4	United States
T. Rowe Price Associates, Inc.	Growth	608.8	19	16	3	164,598.2	United States
BlackRock Advisors, LLC	Value	458.6	19	16	2	101,498.2	United States

Selected Mutual Fund Buyers of Dividend Cut Securities 4Q08

Fund Name	Parent Name	Style	Net Value Chg. in Group (\$M)	Eq. Assets (\$M)	Country
Dodge & Cox Stock Fund	Dodge & Cox	Value	232.7	32,963.5	United States
T. Rowe Price Growth Stock Fund	T. Rowe Price Associates, Inc.	Growth	216.1	16,023.3	United States
Fidelity VIP-Contrafund Portfolio	Fidelity Management & Research Company	Growth	108.4	13,969.6	United States
American Funds AmCap Fund	Capital Research Global Investors (U.S.)	Growth	89.5	14,825.5	United States
Fidelity Balanced Fund	Fidelity Management & Research Company	GARP	77.6	10,391.0	United States

While companies suspending dividends generally do not represent a strong play for the shorter-term investor, some investors may see the dividend cut as a positive long-term signal, or, in some cases, use the liquidity event that usually results from a dividend cut to enter a position cheaply.

Throughout 2Q09, Ipreo GMI analysts observed **Fidelity Management & Research** managing more actively and with higher conviction compared to historic firm behavior. On display above, Fidelity was an active opportunistic buyer of distressed issuers cutting or suspending dividends over the 2Q09 period at both the firm and fund level. Anecdotally, much of Fidelity's 2Q strategy was believed to have been momentum-oriented, but here we see additional evidence of a contrarian or deep value strategy over the period— supported, in particular, by the **VIP-Contrafund's** buying at the mutual fund level. While momentum and contrarian strategies would initially seem at odds, keep in mind that many of early 2009's dividend cuts have been relative "foregone conclusions" given the challenging environment. A Fidelity momentum strategy may have been attracted to anticipated dividend cut announcements, since the action could represent a positive short-term catalyst with issuers enacting tangible measures to improve the balance sheet. On the other hand, Fidelity contrarian managers might key on cut announcements as a flag for out-of-favor, struggling issuers facing a longer-term recovery.

While many yield-focused investors in the prior Cut or Suspension Sellers group likely lamented the passing of a strong historical payout from Morgan Stanley, **Lord Abbett's** value team may have seen the cut and ensuing sell-off as cause for buying-and-holding a well-established industry leader beginning a long-term recovery. Similarly, the deep value **Dodge & Cox Stock Fund** may have keyed on BB&T's mid-May dividend cut (which resulted in a ~15% sell-off and range-bound price performance over much of the quarter). Here, Dodge & Cox managers could take a close look at a discounted company taking action to improve and recover. While we speculate on these particular investment decisions, they stand in keeping with historical strategy biases, and highlight the importance of firm-by-firm contextual analysis when assessing the impact of a dividend action.

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Dividend Raise Buyers

Selected Institutional Buyers of Dividend Raise Securities 2Q09

Investor Name	Style	Net Value Chg. in Group (\$M)	# Initiate/Raise Held	# Initiate/Raise Buys	# Initiate/Raise Sells	Eq. Assets (\$M)	Country
Harris Associates, L.P.	Value	320.4	6	3	3	32,660.7	United States
Capital Research Global Investors (U.S.)	GARP	280.9	6	4	1	236,390.6	United States
Goldman Sachs Asset Management, L.P. (U.S.)	GARP	277.2	9	7	2	66,987.8	United States
BlackRock Advisors, LLC	Value	262.3	9	6	3	101,498.2	United States
NFJ Investment Group	Deep Value	261.3	4	4	0	16,745.4	United States

Selected Mutual Fund Buyers of Dividend Raise Securities 2Q09

Fund Name	Parent Name	Style	Net Value Chg. in Group (\$M)	Eq. Assets (\$M)	Country
Fidelity Disciplined Equity Fund	Fidelity Management & Research Company	Deep Value	73.5	9,238.0	United States
Columbia Marsico Focused Equities Fund	Marsico Capital Management, LLC	Growth	66.1	2,677.6	United States
Columbia Marsico Growth Fund	Marsico Capital Management, LLC	Growth	54.0	3,487.7	United States
T Rowe Price Capital Appreciation Fund	T. Rowe Price Associates, Inc.	Value	45.0	4,845.0	United States
Goldman Sachs Capital Growth Fund	Goldman Sachs Asset Management, L.P. (U.S.)	Growth	38.5	1,274.6	United States

Since constituents in the Dividend Raise issuer set included a number of high-quality consumer products names in Costco, Procter & Gamble, Safeway, and Molson Coors, as well as blue-chip tech giant IBM, it is difficult to discern yield-motivated buying from more fundamental interest in strong, defensive issuers in an environment characterized by ongoing uncertainty. Moreover, with the 2Q rally favoring oversold and distressed issuers, valuations on the stable Raise issuer set were relatively attractive over the period. With the exception of firmly yield-oriented **NFJ Investment Group**, institutional buyers across the issuer Raise set likely saw dividend hikes as an indication of ongoing strength and value proposition just as much as they found themselves drawn to elevated current income prospects. **Goldman Sachs**, **Marsico Capital Management**, and **T. Rowe Price** manage fewer portfolios with a pure equity income focus, but have a general preference for industry leaders with sustainable prospects. In support, T. Rowe and Goldman Sachs were also headline buyers of significant Dividend Raise issuers over the 1Q period.

Dividend Raise Sellers

Selected Institutional Sellers of Dividend Raise Securities 2Q09

Investor Name	Style	Net Value Chg. in Group (\$M)	# Initiate/Raise Held	# Initiate/Raise Buys	# Initiate/Raise Sells	Eq. Assets (\$M)	Country
Fidelity Management & Research Company	Growth	(1,052.1)	9	3	6	368,740.7	United States
Putnam Investment Management, LLC	Value	(385.5)	9	2	7	37,179.9	United States
TCW Investment Management Company	Growth	(197.1)	7	2	5	20,037.3	United States
Invesco Aim Management Group, Inc.	Growth	(133.7)	7	2	7	35,576.9	United States
Wells Capital Management, Inc.	Agg. Growth	(111.8)	9	0	5	24,246.5	United States



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Selected Mutual Fund Sellers of Dividend Raise Securities 2Q09

Fund Name	Parent Name	Style	Net Value Chg. in Group (\$M)	Eq. Assets (\$M)	Country
Fidelity Contrafund	Fidelity Management & Research Company	Growth	(301.0)	48,233.1	United States
Fidelity Blue Chip Growth Fund	Fidelity Management & Research Company	Growth	(235.6)	9,486.1	United States
Brandywine Blue Fund	Friess Associates, LLC	GARP	(184.1)	2,362.9	United States
Columbia Marsico 21st Century Fund	Marsico Capital Management, LLC	Growth	(147.3)	3,761.5	United States
Fidelity Puritan Fund	Fidelity Management & Research Company	Growth	(64.3)	9,557.3	United States

Institutional sellers of the Dividend Raise issuer set pull predominantly from the growth camp. Again, many investors will interpret strengthening payout as an indication of maturation or slowing growth. Here, appearance of growth and aggressive growth investors **TCW Investment Management**, **Invesco Aim Management**, and **Wells Capital Management** are not surprising. These managers traditionally record low focus in dividend yields across firm-wide portfolios, and may even use dividend raise announcements as a trigger for sell decisions.

Looking back to 1Q09, consistent headline selling activity across the Dividend Raise issuer set was observed again from TCW, as well as **Putnam Investment Management**. In the case of TCW, the firm pared proportionally across all five of its 1Q Dividend Raise holdings— further suggesting the potential for some type of sell flag on news of a significant issuer dividend raise. For Putnam, selling across eleven of sixteen significant Dividend Raises in 1Q coincided with news of broad restructuring actions at the firm. Assuming pressure on the many newly appointed Putnam fund managers to outperform and improve the company profile, it would not be surprising to see allocation away from safer dividend raisers, and into issues which may have provided higher risk-reward potential.

Owing to Fidelity's recent bias towards earnings momentum plays and contrarian strategies, selling prevailed across the Dividend Raise issuer set composed primarily of bellwether consumer staples companies. These large, stable firms were unattractive from a contrarian/deep value standpoint, and failed to participate in the momentum Q2 rally which favored oversold and higher-risk issues. It is also worth noting that Fidelity was the number one seller of the significant raise issuer set during 1Q09 as well— further confirming observations that, year to date, Fidelity strategy has been decidedly contrarian.

Conclusion

Whether the investment manager's decision is discretionary or not, dividend policies have a significant impact on the construction of a company's shareholder base. Dividends are often seen as the connection between a long-term investor and an issuer, and any change to the policy may have the potential of disrupting or severing this bond. For any management decisions to change dividend policy, investor relations should offer a careful analysis of the investor base. No matter what the outcome, IR can prepare management for the effects of the cut or raise, as well as help in communicating the company's outlook to the investors that may be most likely to change their views based on dividend changes.



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2Q 09 Issuer Study Set:

Dividend Cuts: BK, BDK, BXP, FO, KEY, KIM, MS, PLD, RF, X, AIV, BBT, SPG, STI, VMC

Dividend Suspensions: CIT, EK, HAR, MAR

Dividend Raises: COST, GWW, IBM, PG, SWY, TAP, EXPD, CAH, DRI

Data Source:

Ipreo Research

Standard & Poor's

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