

IF the letters column is any indication, interest rates at or near their low in the current business cycle are disastrous for pensioners.

The importance of building a portfolio out of both interest-earning bonds and dividend-earning shares seems lost on South Africans — which is odd, considering interest income is taxed while dividend income is not (although the government is in the process of changing that).

Feroz Basa, who co-manages Old Mutual's High Yield Opportunity Fund, seeks out shares likely to have the highest dividend yields for the fund.

"Dividends play a much larger part in the performance of a portfolio than many realise, especially over the longer term," Basa says. "Research on the JSE's returns shows that dividends have contributed over half of total returns over 25 years."

Old Mutual's High Yield Opportunity Fund has done even better: every R100

MEET . . . Fund manager Feroz Basa

Funds managed: Old Mutual High Yield Opportunity Fund

invested when it was launched in November 1998 has paid back R187 in dividends, while the capital has appreciated to R582.

Basa joined the "value boutique" in 2007 after working his way up the ranks of Old Mutual since 1998.

Old Mutual's fund managers are obliged to invest at least half of their incentives in the funds they manage for a minimum of three years.

Basa has demonstrated his faith in the fund by allocating 85% of incentives to it.

Basa's mandate is to beat the JSE's average dividend yield as measured by the All Share Index. As of the end of June 2010, it was trading on a dividend yield of 4.5%, almost double that of the Alsi.

Why do high-dividend



PAYING OFF: Feroz Basa seeks out the highest dividend yields

shares tend to outperform? "Unlike share prices, dividend payments are influenced by company profitability and not market sentiment," says Basa. "The payment of a growing dividend over time is a sign of

a well-managed, financially healthy company. While there are ways for companies to manipulate their accounts and artificially overstate profits, they can't invent cash."

Companies able to pay a dividend tend to have low debt levels, with surplus cash for shareholders and to reinvest for further growth, he says.

This makes them attractive from a long-term income and performance potential perspective.

These companies also tend to be extremely reluctant to cut their dividends — even if their earnings come under pressure — as they know it could severely impact their share price.

The fund's current top pick is Sasol, followed by Aveng and British American Tobacco.

"With low interest rates set to prevail for at least the next 12 months, a dividend-focused equity investment looks to be a smart option," he says. — *Robert Laing*