Translation of the article written by Juno Investment Partners' Frans Jurgens, which was published by Dutch newspaper "Het Financieele Dagblad" on April 24, 2015

Investors always welcome dividends. A company that pays a high dividend can count on positive press and attention from investors. Certainly in the current time of low interest rates, dividends are seen as positive and a reward from investing.

But in my view, the strong focus on high dividends at the moment is unjustified. The enthusiasm for dividends threatens to draw attention away from the essential elements of an investment proposition. It is therefore time for a revaluation of the dividend.

This year the largest European companies increased their dividend by around 10%, according to research reported in the *Financial Times* last month. The level of dividends has increased for last five years in a row and at a higher rate than profit growth.

I find this troubling. Managements of listed companies are increasingly choosing to pay out a higher portion of their profits. This leaves less cash for investments in projects that can boost future profits.

There are legitimate reasons why investors would prefer a dividend today over capital appreciation in the future. Investors may use dividend payment for current consumption, thereby leaving their original invested capital intact.

In this case, the dividend is used as a kind of protection against too much spending, as if this were interest on a savings account that could be freely spent. Psychology plays a role as well: mental accounting is at work here. Investors prefer one euro in dividends plus four euros in capital appreciation, over five euros of capital appreciation.

Companies that are focused on growth prefer to reinvest, rather than pay out, the majority of their profits in order to generate future earnings growth. The lower the payout ratio today, the greater the expected profit growth in the future. As we all know, future earnings is one of the most important ingredients in determining a company's value.

On the other hand, if a company is increasing its payout ratio while its return on invested capital declines year-after-year, investors know what they need to do: get out of the stock! Clearly an insufficient number of attractive projects are worth funding, or at least management believes that these do not have the ability to generate a return on capital that exceeds the company´s hurdle.

Therefore, I find it inexplicable why companies and shareholders both seem to view lowered dividends as undesirable, even when companies are able to generate good returns on capital often with new opportunities to profitably invest the company's profits. *Something given, stays give;* so seems to be the view of shareholders. Lowering dividends continues to be bad news to investor's ears while resuming a dividend program, as ING recently did, is interpreted as a strong buy signal.

In the end, trust is the key element. Does the management trust its own abilities to invest a majority of its earnings in attractive opportunities? Do the shareholders trust the management and think the leadership is making appropriate capital allocation decisions? The current cry from investors is first and foremost for companies to pay a high dividend, which can be easily seen as a lack of confidence in management.

That is why investors would be better served by studying management's plans and analysing companies based on the principles above. As a consequence, they would be able to back capable managements that choose to plow back the company's earnings into the right projects.

If a growing company has a below average payout ratio, I do not lose out. Eventually, I will receive the cash that was not paid out as a dividend, back in the form of increased earnings, leading to a higher fundamental valuation and share price. The cash that I "missed" in the form of a dividend I can create myself when I sell the shares, after a healthy increase in the share price.

So: dividend? Only if the management is *really* out of ideas…

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