Interview Series

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# AN INTERVIEW WITH DAVID GILMORE, CFA®

DIVIDEND YIELD PORTFOLIO MANAGER

SENIOR ANALYST - COMMUNICATION SERVICES, CONSUMER STAPLES

JOINED CRAWFORD IN 2009

**Interviewer: How did you first get interested in investing?**

**David Gilmore, CFA®:** I first learned about investing in the stock market during my senior year of high school. It was in 1987 when the "Black Monday" crash took place that October. Rather than dissuading or deterring me from the market, the volatility that I witnessed actually intrigued me, and I saw it as an opportunity. So that's when I decided to seek to understand the market and to learn more about investing. I initially obtained a degree in accounting because I thought it would be helpful for me to learn how financial statements are compiled. I later rounded out my accounting experience with an MBA and transitioned into investment management.

**I: I'm sure your experience in accounting provides you with a lot of insight when it comes to the fundamental, bottom-up research that gets performed in the day-to-day. Will you tell me a little bit about what brought you to Crawford?**

**DG:** Yes, I believe it really is helpful. I certainly enjoyed those years prior to moving into investment management. I now have been in this business for over twenty years and have been with Crawford for more than ten. My interest in Crawford and why I pursued the opportunity was driven primarily by three factors. First, I appreciated Crawford's focus on quality and dividends, which aligned well with the investment approach that I'd developed prior to joining the firm. Second, I found the team-based approach to be very attractive here. Each member of the investment team has a unique background and experience, therefore bringing a different perspective to each investment opportunity. I think our team's intellectual curiosity and the constructive debate in which we regularly engage ensures a more thorough vetting of our investment ideas, resulting in better investment outcomes for our clients over time. Finally, the firm's culture of mutual respect was persuasive. It is really motivating to know that your skills and experiences are valued and that each individual can have a significant impact. I think it is fairly unique for an investment firm to have any one of those factors, let alone all three.

**I: How did you end up as Crawford's Dividend Yield Strategy Director?**

**DG:** This was a natural evolution for me. Prior to joining Crawford, I gained experience as both an analyst and portfolio manager. I have always had a strong value bias, which I believe lends itself well to higher-yielding investment strategies like Dividend Yield. Furthermore, the sectors of the market that I follow, Consumer Staples and Communication Services, plus some others that I have followed in the past, are traditionally higher-yielding areas that make up a large portion of our investable stock universe. So, for those reasons, it really just seemed like a natural fit and the right role for me to have stepped into.

**I: Could you talk about how your strategy specifically is differentiated from other high-yield or equity income portfolios? What sets the Crawford Dividend Yield portfolio apart?**

**DG:** The Crawford Dividend Yield strategy is a higher-yielding focused portfolio that seeks to provide yield in the 8th or 9th decile of the highest-yielding stocks in the market. Currently, the strategy is providing a yield of greater than four percent. What's unique about the strategy, in comparison to other higher-yielding strategies, is that we are not just investing for the current yield, or just to clip that coupon, but we are investing for total return. We certainly do own higher-yielding stocks, but we also factor both quality and growth into our decision-making process. For instance, we'd prefer to hold a company with lower leverage, stronger free cash flow, and slightly lower dividend payouts that are sustainable, and rising over time, as opposed to a high-yielding cyclical stock with higher leverage. We look for more mature companies that are still growing. Typically, higher-yielding stocks have low or no dividend growth, but we prefer high yield with both quality and growth to achieve total investment return. Often, this leads us into areas not typically associated with dividend-oriented strategies.

**I: How does risk, and more specifically, interest rate risk, factor into the strategy's total investment return? Is there anything distinct about the way that the Crawford Dividend Yield Strategy mitigates risk?**

**DG:** I think so. I mentioned quality and growth earlier, and I'll add to that sector diversification. We think those three things —quality, growth, and sector diversification—help mitigate some of the interest rate risk that may be associated with higher-yielding stocks. Historically, many high-yielding strategies have tended to focus on a few select sectors, or areas of the market, and they really loaded up on them. This can generate yield, but it also produces a great deal of interest rate sensitivity in those portfolios. In contrast, we seek diversification across all sectors of the market in order to take advantage of relative value opportunities, wherever they might lie. In summary, ours is a value strategy that uses diversification to help mitigate interest rate risk, striving to produce more income with lower volatility over time. I think our results bear this out.

**I: The large cap sector attracts a good deal of investor attention. Could you talk about how you find pricing inefficiencies within this highly followed sector?**

**DG:** The market is made up of a bunch of humans who demonstrate behavioral biases and can get emotional, either optimistically or pessimistically. That is where we believe our high-quality orientation can provide opportunities. As a value investor, and one who believes in "reversion to the mean," I tend to look for securities that are trading below their historical relative valuations. In doing this, I'm thinking about where any given stock is typically valued historically, and whether or not it is trading above or below its intrinsic value. To do this successfully, one has to look at the big picture and examine the stock versus the sector, its peers, and the market overall. We then have to determine whether the reason behind the lower price is a transient issue that the company can work through or whether it is a more terminal change that will permanently impair the business's returns over time. This is where higher-quality, and more consistent and predictable businesses, give us an advantage. A stock's valuation is, first and foremost, a reflection of the value of the company based on its discounted cash flow. And obviously, higher-quality companies have more control over their future cash flows.

**I: How does working with higher-yielding stocks complement this approach?**

**DG:** The sectors that I follow, which again, are Consumer Staples and Communication Services, tend to have lower variability of earnings and free cash flow. Or, in other words, these companies tend to be of higher quality, with earnings that are more predictable. Because they are more predictable, we can look at the historical relative valuation multiples with more confidence. Additionally, as value investors, we have the arbitrage of time. We might not know precisely when a business's concerns or issues will be resolved, either competitively, operationally, or otherwise. But, if we correctly hold the belief that they will be resolved, we can be patient and wait for that value to be realized by the market.

**I: What can the success of higher-yielding stocks be attributed to?**

**DG:** If you look back many years ago, stock valuation and ownership was often considered in relation to the income provided, or the dividends that were being paid to the investor. Today, there is a growing appreciation that stocks can be a source of income because we are in a lower growth and lower interest rate environment. As rates remain low, that income stream to investors offered by stocks, becomes more valuable.

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**I: How do you hold to your investment philosophy and weather cyclical periods of uplift?**

**DG:** There always will be cyclical periods of uplift, but we subscribe to the view that the U.S. economy will remain in a secular period of slower growth. We think that this macro environment can be supportive of higher-yielding stocks. I'll also note, without pointing to specific research, that there are a number of studies that have been conducted that reveal that higher-yielding stocks historically have been a fertile place to invest. The research suggests that this area of the market has provided similar, and in some cases, superior returns to the overall market with lower variability or risk. It's always tough to have a "win-win," but this is an area of the market that has done well over long periods of time. Jeremy Siegel has referred to these higher-yielding stocks as "Bear Market Protectors." High-yielding stocks typically are more defensive in a market decline, and the dividend income provides an added return that helps cushion the downside. Further, they can actually serve as "Return Accelerators" if you reinvest those dividends into additional shares at lower prices. This can provide a higher asset base as the market begins to appreciate again. Knowing that we have sustainable income generation in our portfolio, along with companies that are trading at what we believe to be attractive levels compared to their intrinsic value… that is what helps sustain our focus over the long term.