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Brian Smale for *Barron's*

Talking With Rick Helm

Manager, Cohen & Steers Dividend Value Fund

Sharing the Wealth

By Neil A. Martin

TO FUND MANAGER RICK HELM, THERE ARE ONLY TWO KINDS OF companies: those that are boosting their dividends regularly, and those that aren't. Hands down, he prefers the former.

"Companies that consistently raise their dividends return the most to investors over the long haul, and they do so with less volatility," he says. "Dividend increases convey management's confidence in their business model and the company's future."

Helm, 49, has spent the better part of 22 years searching for healthy dividend growers, first as a portfolio manager with Morgan Stanley, and later at Northwestern Trust and WM Advisors. In August 2005, he joined Cohen & Steers as a senior vice president and head of a large-cap value portfolio management team. Cohen & Steers oversees about $27 billion, most of it in global real-estate securities. The firm also invests in large-cap value stocks, preferred equities and infrastructure stocks around the globe. Helm was hired specifically to manage a new, $125 million mutual fund—**Cohen & Steers Dividend Value** (ticker: DVFAX)—that specializes in shares of companies that increase their dividends. He and his team, based in Seattle, also oversee more than $1.1 billion for institutional clients.

Helm focuses on companies that generate steady profits and have solid balance sheets, putting them in a good position to keep paying dividends. "We look for companies that grow dividends faster than the general market, have strong revenue growth, especially internationally, and are reasonably valued," he explains. "Even in down economic periods, you can find companies that are able to maintain and even grow their dividends because their fundamental businesses are solid and their managements recognize the importance of growing dividends to ensure shareholder loyalty."

It's the track record of growth, not the absolute level of a company's payout, that impresses Helm. Studies have shown that it's better to go with the best dividend-growth companies than to opt for those with the highest yields. "Dividend-growing stocks consistently outperform those with higher yields and... little or no dividend growth, as well as the overall market," he says.

The strategy has served Helm well through the years. The WM Equity fund, which he ran from 2001 to 2005, posted one-, three- and five-year returns of 15.81%, 13.37% and 11.20% through June

(over please)

2005, placing in the top 5% and 6% of its category in those years. Investment researcher Morningstar awarded his Cohen & Steers fund its four-star ranking last month.

Cohen & Steers Dividend Value returned 20.5% in 2006, its first full year of operation, and 8% in 2007. Year-to-date, the fund is down 34.37%, which translates into a three-year loss of 3.26%, more modest than the losses suffered by 93% of its peers.

"While this fund's three-year returns may not look impressive, most of the offerings in its category have turned in poor results over that period," says Morningstar. "Compared with them, the fund's three-year returns are among the best."

Underscoring Helm's savvy stock-picking, the fund's 8% return in 2007 compared with a 0.5% loss posted by companies that raised their dividends during the year, according to Ned Davis Research.

Health-care, financial and industrial stocks dominate Helm's portfolio. Top holdings like **Abbott Laboratories** (ABT), **Johnson & Johnson** (JNJ) and **Lockheed Martin** (LMT) enjoyed big gains in 2007, producing returns for the fund that were almost two percentage points above the large-cap value category's for the year.

Finding dividend-growth stocks in today's market promises to be harder than in the past. New regulations have capped the dividends of the nation's biggest banks, for instance. Then there are economic pressures, which have forced some companies to forgo payouts altogether, and others to conserve cash. Of the 7,000 publicly owned companies that Standard & Poor's follows, 97 cut dividends in the second quarter, the highest total in 18 years.

"As regulation increases and returns come down, and [there is] less stock issuance and innovation in the financial sector, you are not likely to see the kind of dividend growth, near-term, that we saw in the past," warns Helm.

Yet, Ned Davis Research notes, more than a dozen companies raised their payouts in the third quarter, and Helm expects dividends on the stocks in his portfolio to rise about 10% in 2008.

Among the most generous increases, year to date, have been those from **General Dynamics** (GD), up 21%; **McDonald's** (MCD), up 33%; **Procter & Gamble** (PG), up 14%; **Teva Pharmaceutical** (TEVA), up 20%, and Abbott Labs, up 11%. Cohen & Steers Dividend Value owns all of them.

When balance-sheet problems rattle the market, "you'll see companies focusing on dividend issues," Helm says. "Dividends will rise, but at a more modest level. Still, on a three- to five-year basis, there are some outstanding opportunities out there."

In the financial sector, Helm steered clear of most of the banks that were hardest hit in this year's credit crunch. But he sees dividend opportunities in **Wells Fargo** (WFC), **US Bancorp** (USB) and insurer **Aflac** (AFL), which have raised their payouts by 10%, 6% and 17%, respectively.

Aflac has enhanced its dividends by an average of 27% annually in the past five years, for a current yield of about 2%. And it has a global reach: Japan accounts for more than 70% of its revenue. Aflac's profits are expected to rise 20% this year, and its stock trades at about 9 times 2009 projected earnings.

Helm also likes **IBM** (IBM), **Wal-Mart Stores** (WMT), **Intel** (INTC) and **Microsoft** (MSFT), companies that sport a five-year dividend growth rate of 41% and that yield, on average, about 2%. All four have raised their payouts this year.

Then there's **McDonald's** (MCD), which yields about 4%, and **Yum Brands** (YUM), yielding 3%. Another favorite is aerospace giant **General Dynamics** , with a yield of 2.5% and earnings that could rise 20% this year, fueled by U.S. military spending and demand for corporate jets. "Regardless of who wins the presidential election, we don't see major cuts in GD's programs," Helm says.

With the stock fetching 11 times 2009 earnings, "there is outstanding value here," he maintains.

Helm is also bullish about **UPS** (UPS), whose earnings could climb as oil and gasoline prices fall, helping the company offset much of the decline in shipping volume.

A recent addition to the fund is Canadian retail chain **Shoppers Drug Mart** (SC.Canada), which Helm bought for its 2% yield and the dividend's three-year compound annual growth rate (CAGR) of 39%. Military contractor **L-3 Communications** (LLL) joined the portfolio because of its 1.5% yield and dividend CAGR of 34%, and **Harris** (HRS), a communications and information-technology outfit, was bought because of its 2.5% yield and five-year dividend CAGR of 31%.

Helm won't hesitate to trim a company from his portfolio if its (or its industry's) fundamentals deteriorate, or a change in management leads to a drift in strategy. Faltering dividend growth or a change in valuation also are grounds for elimination.

Cohen & Steers Dividend Value Fund (DVFAX)
800-330-7348

	Total Returns* 1-Yr	3-Yr	5-Yr
DVFAX	-37.08%	-3.26%	NA
S&P 500	-40.10	-6.72	NA

Top 10 Holdings	Ticker	% Of Portfolio**
Abbott Laboratories	ABT	3.00%
Procter & Gamble	PG	2.71
Medtronic	MDT	2.60
Exxon Mobil	XOM	2.41
US Bancorp	USB	2.31
Johnson & Johnson	JNJ	2.31
JPMorgan Chase	JPM	2.30
McDonald's	MCD	2.22
Aflac	AFL	2.21
Microsoft	MSFT	2.08
Total:		**24.15**

*As of 10/15. 3-year annualized. **As of 9/30. NA=Not Applicable.
Sources: Cohen & Steers; Morningstar

Helm fortuitously sold Washington Mutual in March 2007 over concerns about the company's excessive origination of adjustable-rate mortgages, and general worries about its loan portfolio. In August of that year, he sold Countrywide Financial for much the same reasons. Last October, he ditched **J.C. Penney** (JCP), fearing slowing sales growth and slower growth in its number of stores.

Helm's largest holding—about 3% of his portfolio—is Abbott Labs, which he has owned since the fund's inception in August 2005. "Abbott, which yields about 2.5%, doesn't have a lot of pipeline risk or exposure to generic competition over the next three to five years," he says.

Dividend growth has been a bit muted at 8% annually in the past five years, but Helm thinks the payout could rise 9% or 10%, near-term, due to the continued success of the company's flagship rheumatoid arthritis drug Humira. "Abbott might not yield as much as Pfizer or Merck or some other drug stocks, but it has less risk," Helm says.

When Helm isn't poring over dividend charts or yield tables, he likes to salmon-fish in Puget Sound, or sit on the porch of his Bainbridge Island, Wash., home, looking across the Sound, where more adventurous types kayak—and sometimes flounder—in the water. "It can get pretty rough out there for kayaks," he says. "Those guys are a lot braver than I am."

Perhaps. But in today's churning market, fishing for good stocks is rough sport, too. ■

The views and opinions herein are as of the date of publication and are subject to change. The material represents an assessment of the market environment at a specific point in time, should not be relied on as investment advice and is not intended to predict or depict performance of any investment.

All portfolio holdings discussed above are as of September 30, 2008, except IBM, Yum Brands and UPS.

Average annual total return performance information (month ended September 30, 2008) for Cohen & Steers Dividend Value Fund, Inc. as follows:

	Excluding Sales Charge	Including Sales Charge	Russell 1000 Value Index	S&P 500 Index
Sept. 2008	-6.74%	-10.93%	-7.35%	-8.91%
3Q 2008	-6.74%	-10.93%	-6.11%	-8.37%
1 Year	-18.26%	-21.94%	-23.56%	-21.97%
Since Inception (8/31/05)	4.12%	2.57%	0.55%	0.48%

Performance data quoted represents past performance. Past performance is no guarantee of future results. The investment return and principal value of an investment will fluctuate and shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than performance data quoted. Returns are historical and include change in share price and reinvestment of all distributions.

The Russell 1000 Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values. The S&P 500 Index is an unmanaged index of common stocks that is frequently used as a general measure of stock market performance.

Please consider the investment objectives, risks, charges and expenses of the fund carefully before investing. A prospectus containing this and other information may be obtained by calling 1-800-330-7348 or visiting our website at cohenandsteers.com. Please read the prospectus carefully before investing.

Risks. There are special risks associated with investing in the Cohen & Steers funds. The value of common stocks and other equity securities will fluctuate in response to developments concerning the company, political and regulatory circumstances, the stock market and the economy. In the short term, stock prices can fluctuate dramatically in response to these developments. Different parts of the market and different types of equity securities can react differently to these developments. These developments can affect a single company, all companies within the same industry, economic sector or geographic region, or the stock market as a whole. Dividend-paying stocks may be particularly sensitive to changes in market interest rates, and prices may decline as rates rise. Special risks of investing in foreign securities include (i) currency fluctuations, (ii) lower liquidity, (iii) political and economic uncertainties, and (iv) differences in accounting standards. Some international securities may represent small- and medium-sized companies, which may be more susceptible to price volatility and less liquid than larger companies.

Morningstar Three-year, Large Blend Category Rating as of 9/30/08 out of 1719 funds, based on a risk-adjusted return measure. Class A – 4 stars, Class C and Class I – 5 stars. For each fund with at least a three-year history, Morningstar calculates its ratings based on a risk-adjusted return measure that accounts for variation in a fund's monthly performance (including the effects of sales charges, loads, and redemption fees), placing more emphasis on downward variations and rewarding consistent performance. The top 10% of the funds in each category receive five stars, the next 22.5% receive four stars, the next 35% receive three stars, the next 22.5% receive two stars and the bottom 10% receive one star.

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