Overlooked returns: why dividends are not just for income seekers

Introduction

The modern sporting calendar offers no shortage of thrills and spills as professional athletes test their abilities against determined and motivated opposition. Enduring success tends to come from knowing what you stand for and playing to your strengths. The most effective competitors resist the temptation to follow every passing trend; instead, they develop a clear identity, understand the conditions in which they can perform best and apply their approach consistently over time.

Linking this to our own world of investing, we think it is a good parallel for how we seek to create long-term value for our clients, both in terms of why we invest in the UK market and how we seek to outperform. Many investors simply judge an equity investment by what happens to its share price.

But that is only one part of the investment return they will receive. Total return also includes the dividends paid by companies, often referred to as equity income. Reinvesting those dividends allows returns to compound and can make a substantial difference to the wealth an investor builds over many years.

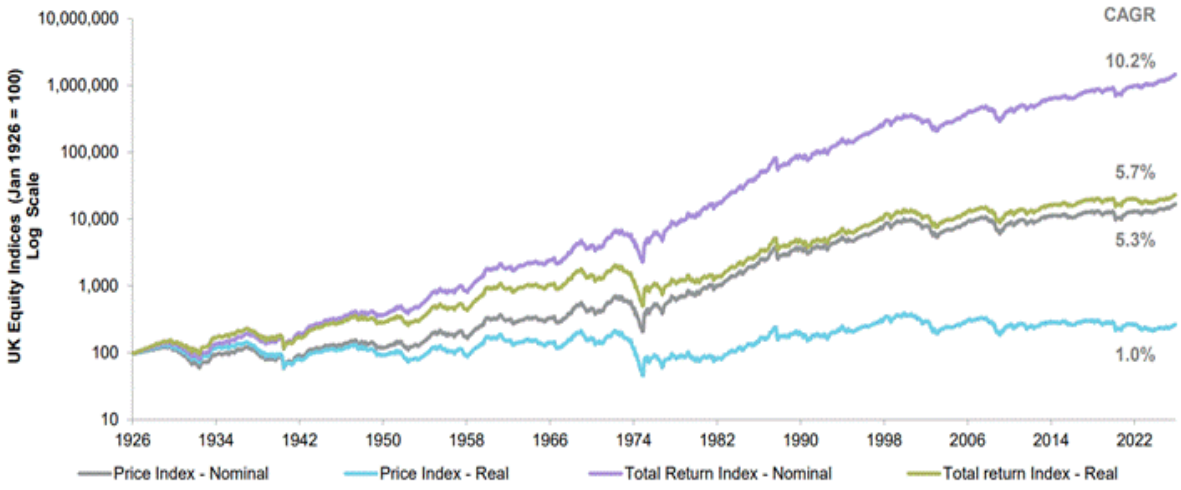
Our approach starts from that premise. We look for companies that can sustain and grow their dividends while offering potential for capital growth. Distinguishing a genuine opportunity from a dividend trap requires disciplined research, valuation judgement and patience.

This paper examines the evidence behind dividends as a vital part of total return, why the UK offers a particularly broad income opportunity, and how a contrarian, value-conscious approach can uncover overlooked companies where sustainable income and recovery potential reinforce one another.

Why dividends matter to total returns

Equity investors naturally pay close attention to company earnings and share prices. Over shorter periods, movements in share prices usually explain most of the rise or fall in a portfolio's value. Over longer periods, however, dividends become a vital part of the result.

An investor's total return has two components: the change in the share price and the income paid by the company. When these dividends are reinvested, they buy additional shares. Those shares can then generate further income and capital growth, creating a compounding effect over time.

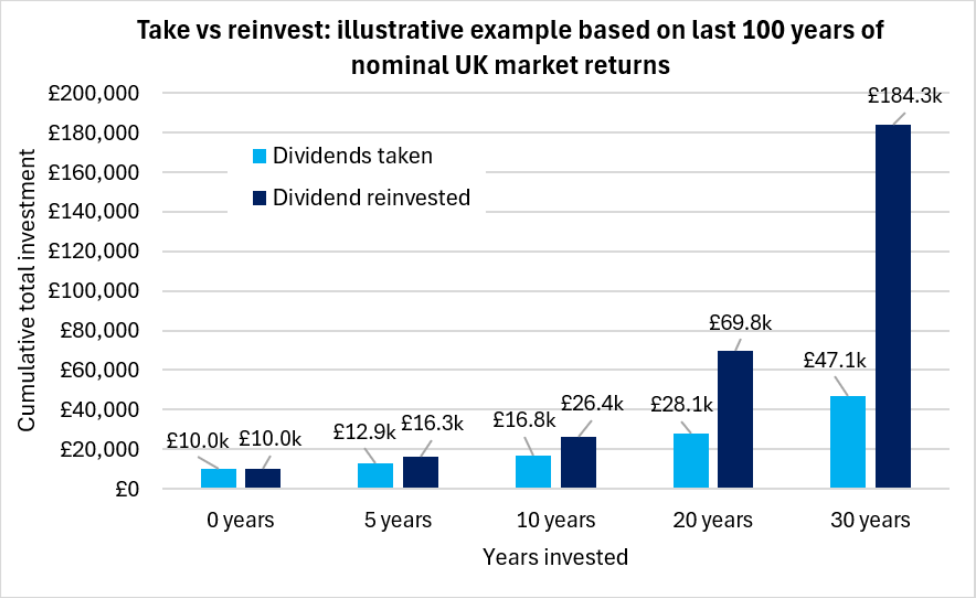


Source: Global Financial Data, DataStream, Morgan Stanley Research 31 December 2025.
1 Note that this chart has been produced using a log scale to capture long-term data. Please also note that total return includes both price and dividend returns. The difference in price dips between the GFC and 2020 is much steeper than the difference in the total return as prices fell more during the GFC and dividends fell more in 2020.

Over the past century, investors who had simply clipped their dividends (that is, taken the payout as cash) would have received an average annual price return on their capital of 5.3% after inflation from the UK market. With dividends reinvested, this sum would have risen to 10.2%, showing how the compounding power of reinvested dividends can influence long-term outcomes.

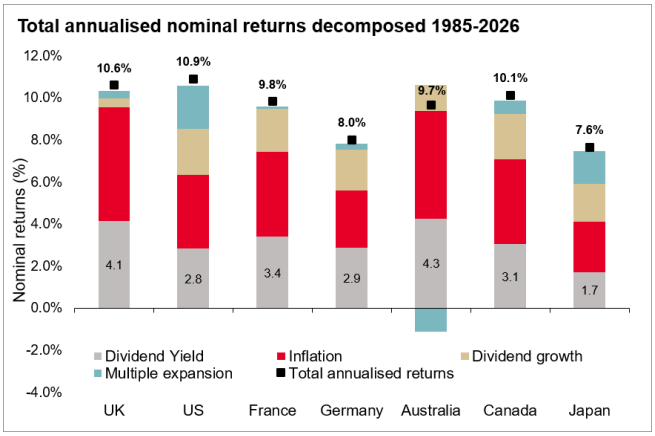
This is why equity income is not only appropriate to investors who want to draw an income today. For those focused on building wealth, and total returns, reinvesting dividends can be a powerful way to grow capital over time, as each payment is put back to work and can generate further returns.

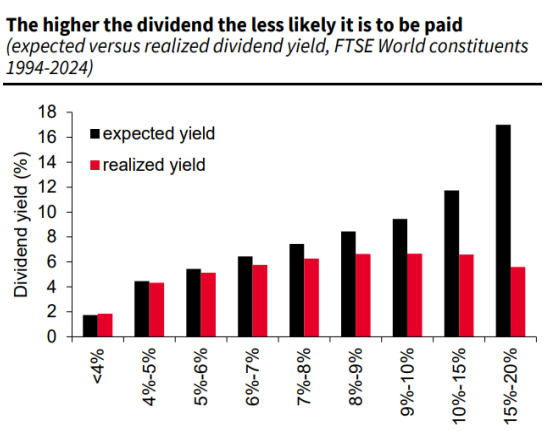
The illustration below shows what those historical average returns could mean for an initial investment of £10,000 over different periods.



Further research[1] leads us to two important conclusions:

1) **Dividends explain the lion's share of returns** over time, when excluding the effects of inflation. Examining total portfolio returns from the most important developed markets over the last 41 years, dividends have provided the bulk of returns compared to the rise and fall of earnings through the economic cycle. This is too often missed.
2) **Not all dividends are created equal.** While dividends provide most of the equity returns over the long-term (excluding inflation), there is much nuance beneath the surface that warrants further analysis. Some companies can grow their dividends over very long periods. Other dividends may be less sustainable with companies paying out more than their cash flows can support, putting future dividends at risk.





[1] SG Cross Asset Research, as at 31 July 2026.

Source: SG Cross Asset Research, July 2026.

Some companies may try to maintain a high dividend even when profits and cash generation are weakening, often because they are reluctant to disappoint shareholders (and paying lower-than-expected dividends can be a factor in why some companies' share prices decline). If the payout begins to depend on borrowing, asset sales or a rapid recovery in the business, it may not be sustainable.

The implications of this second point are profound for how investors and income seekers can access the opportunity evidenced in the first point. By way of example, buying £100 of shares on a 5% yield tells an investor they should receive around £5 of dividends in the year ahead. But the yield alone does not tell investors whether the cashflows underlying that dividend are secure for years to come.

A 5% yield from a business whose end markets are in long-term decline is very different from a 5% yield from a sound company whose shares have fallen during a temporary setback. The first may be a dividend trap; the second may be an opportunity.

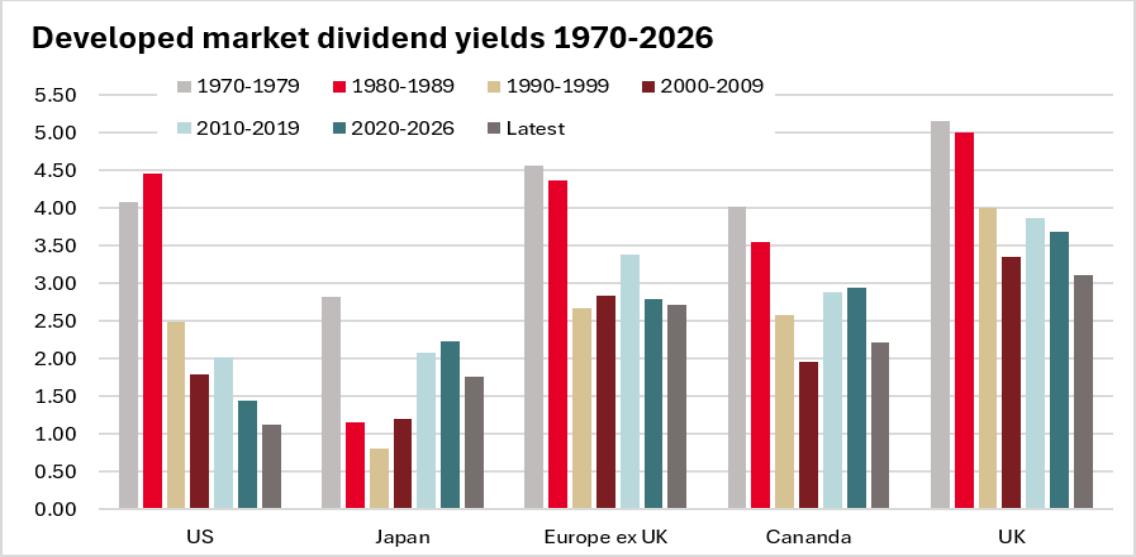
No quantitative screen or passive investment product can reliably distinguish between the two. It requires an understanding of the competitive dynamics of the industry, the web of personalities involved, the trajectory of cashflow generation, and a clear-eyed view of balance sheet resilience in a downside scenario. This is where detailed analysis is essential in determining whether the share price fairly reflects both the risks and the recovery potential.

We are firm believers that the dividend yield we offer our investors is not just an output. Sustainable and growing income is a central part of the proposition we seek to deliver for investors.

Why the UK is a fertile market for equity income opportunities

Having established why dividends are so important to total return, the next question is where investors can find a broad pool of cash-generative companies capable of growing and sustaining those distributions at levels which can make a difference for savers and income-seekers alike.

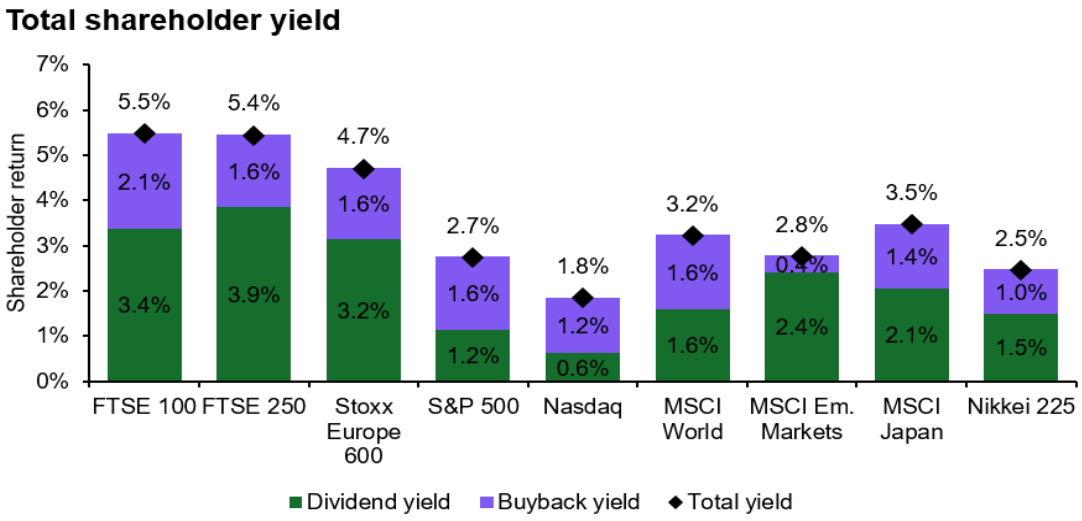
Different markets have different strengths. The US is known for technology-led growth, while Japan has specific strengths in manufacturing and robotics. The UK stands out for its broad range of established, cash-generative businesses, many of which return a meaningful proportion of their profits to shareholders.



Source: SG Cross Asset Research, July 2026.

It is worth noting that dividends are not the only form of shareholder distribution. Share buybacks also form an important part of the return to UK shareholders. A buyback occurs when a company uses cash to repurchase some of its own shares. Unlike a dividend, investors must first sell their share to receive this distribution. Nonetheless, when companies buy their own an attractive valuation, the remaining shareholders may benefit because future cashflows are spread across fewer shares.

Current buyback activity adds approximately two percentage points to overall shareholder distributions from the UK market. In our view, the breadth of this activity also suggests that many company boards, armed with all the internal information that this role entails, consider their own shares attractively valued.

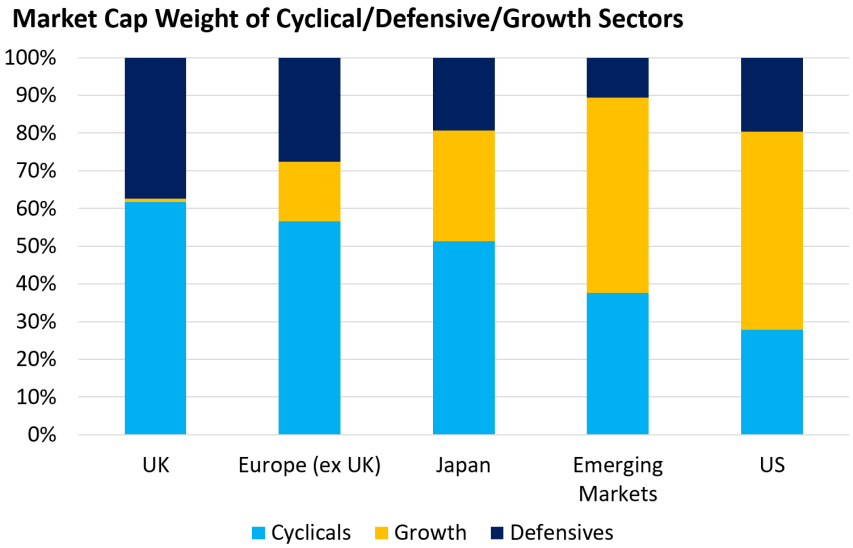


Source: Panmure Liberum, July 2026.

The UK market includes many established companies that generate cash from operating around the world. Approximately three quarters of market revenues come

from overseas[2],so investing in UK-listed companies can provide exposure to a wide range of countries and industries, not just the UK economy. Therefore, dividends paid by UK companies are supported by earnings from many different sources.

Some UK companies tend to hold up better when the economy is weak, including consumer-staples (like supermarkets and personal care brands)[3] and pharmaceutical businesses. Others, such as banks, miners and energy companies, may benefit more when economic growth strengthens.



Source: Citi Research. DataStream, MSCI as at 7 August 2026

When compared with peers, the UK market may be less characterised by that fast-growing or technology-led 'Growth' companies which are currently at the forefront of the AI-centred investment wave. It does, on the other hand, have a multitude of tried and tested businesses, backed by hard assets or decades of knowhow and performance. This includes many established service companies that could yet become major beneficiaries of the AI-enabled breakthroughs to reduce their costs, improve customer service and raise productivity. We therefore assess the potential benefits and risks of any emerging theme company by company, rather than assuming that all established businesses will be winners or casualties.

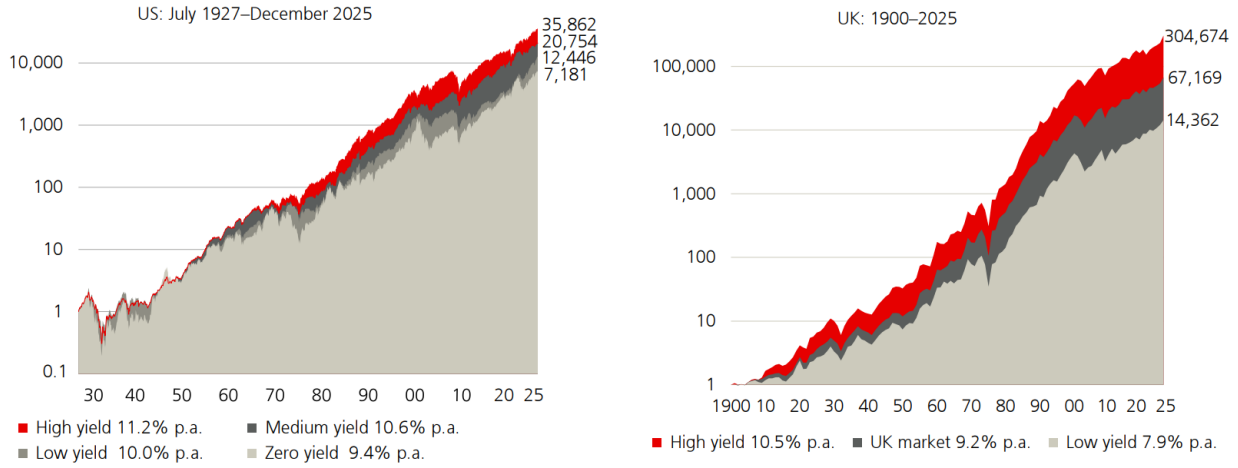
All of this creates a fertile hunting ground for value-oriented contrarian-minded investors willing to look beyond current market favourites. In so doing they may be able to buy overlooked companies at attractive prices, receive dividend income while they wait, and benefit if share prices recover as the businesses improve.

[2] Source: Factset, as at July 2026

[3] Consumer-staples businesses (e.g., supermarkets and producers of food, drinks, toiletries and household cleaning products) can offer resilience when consumer confidence is weak, because demand for everyday essentials tends to remain relatively stable.

The below study by Dimson, Marsh and Staunton, three academics at the London Business School, examined both the UK and US stock markets over 125 years. Their findings support our view about the cumulative benefits of the Equity Income style in the UK market. Their analysis is shown below.

Figure 85: Long-run cumulative performance from low- and high-yielding stocks in the US and UK



Sources: Elroy Dimson, Paul Marsh and Mike Staunton; US data is from the website of Professor Kenneth French, Tuck School of Business, Dartmouth, January 2026 edition; UK data is from Elroy Dimson, Paul Marsh, and Mike Staunton, London Share Price Database. Not to be reproduced without express written permission from the authors.

The right-hand chart shows that a notional £1 invested in the *low-yielding* UK stocks in 1900 would have grown to £14,362 by 2025. Investing the same initial amount in the *higher-yielding* cohort of names would have led to a considerably larger pile of £304,674 over the same period. Interestingly, the phenomenon is similar but markedly less pronounced in the United States, least of all in recent years

What is clear however is that investing in the UK equities with an income-focussed approach is a proven way to access superior returns in the UK market, particularly if you reinvest the dividends.[4]

Contrarian approaches to income investing

Buying unloved stocks beneath their intrinsic value sounds straightforward. In practice, it demands conviction, patience, and a willingness to stand apart from consensus.

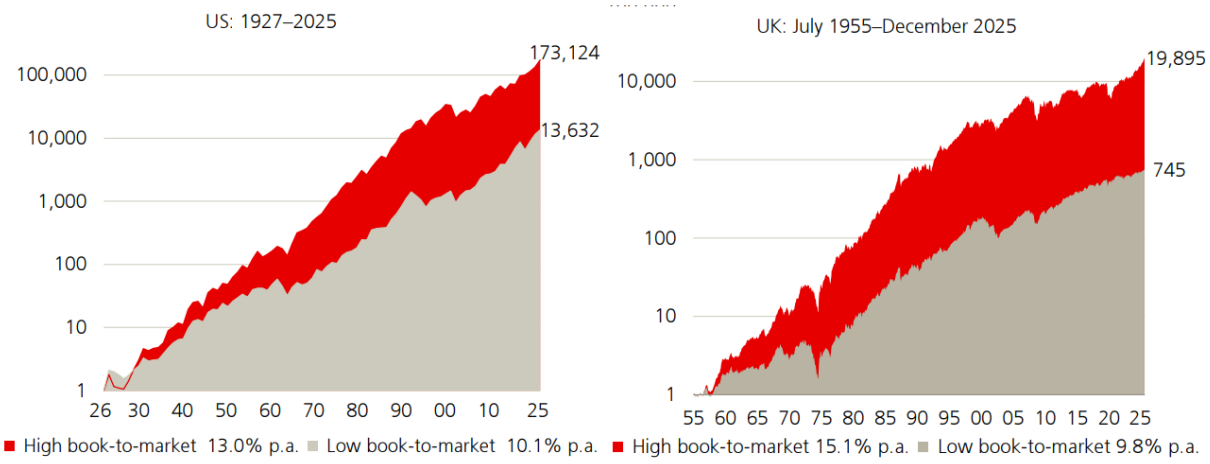
Keeping disciplined about how we assess a company's worth (its intrinsic value) and the amount we are willing to pay for their shares is critical. Paying too much for a company can forever reduce future returns, however good the business may be. By buying a sound company when its share price is below our assessment of its intrinsic value, 'Value' investors often have the opportunity to receive an attractive income stream while they wait and benefit from capital growth as the business improves and the

[4] Source: Dimson, Marsh and Staunton

market reassesses its prospects. While this may sound simple, the question worth asking is not whether this approach makes sense, but whether it really works.

Here the work by those three academics Dimson, Marsh and Staunton provides some more fascinating long-run insight. Below, we look at average annual returns from 'Value' and 'Growth' companies over the last 98 years in the US and 70 years in the UK. Interestingly, there are meaningful differences in investment outcomes between styles in both the US and the UK.

Figure 83: Long-run cumulative performance from high versus low book-to-market stocks in the US and UK



Sources: Elroy Dimson, Paul Marsh and Mike Staunton; US data is from Professor Kenneth French, Tuck School of Business, Dartmouth (website), January 2026 edition. UK data is from Dimson, Nagel and Quigley, 2003, updated by Elroy Dimson, Paul Marsh and Mike Staunton using the London Share Price Database. Not to be reproduced without express written permission from the authors.

How 'Value' is defined can of course be a contentious subject which changes with the times. But for the purposes of this multi-generational study, it is defined simply as the 40% of names with the *highest* book-to-price ratios.

In the UK, investing a notional £1 in 1955 in a 'Growth' portfolio (the 40% of names with the *lowest* book-to-price ratios) would have returned us £745 by December 2025 or an annualised return of 9.8%.

Investing £1 in the Value portfolio, comprising the lowest valued 40%, would have produced an end value of £19,895, equivalent to an annualised return of 15.1%. To this we would add the important context that markets are subject to the ebbs and flows of stylistic trends. Just as over the course of a long sports season, a team's results will go throughs peaks and troughs, often punctuated by unpredictable events. But in the end the league table reflects a good approximation each team's intrinsic quality.

Nevertheless, our approach reflects our conviction in Benjamin Graham's well-known distinction between the "voting machine" of market sentiment and the "weighing machine" of a business' true value. As time passes, we believe underlying company fundamentals should gradually take on increasingly important role in determining share prices. That process is rarely smooth and can take many years, which is why valuation discipline and patience are important.

Linking this approach to the current backdrop, in our view the opportunity set is as rich as we have seen it in years. Interest rates are closer to long run averages after a long period below historic norms while the gap between highly valued market favourites and overlooked companies remains wide. In our view, this creates opportunities for investors prepared to carry out detailed research and take a long-term perspective. These are conditions which have historically rewarded patient, conviction investors and we look forward to diving deeper into the current landscape in future pieces.

What this means for Your Company

Your Company, CT Progressive Income, seeks to deliver a growing income alongside capital growth. It has increased its dividend every year since launch in 1992, a record we are committed to extending. Our investment process focuses on sustainable cash flows, balance-sheet resilience and sensible valuations, including companies where income and recovery potential can reinforce one another.[5]

Concluding thoughts

Equity income investing is about much more than today's headline dividend yield. An investor's total return comes from both capital growth and dividend income. For those who reinvest their dividends, the combination of income, dividend growth, and compounding can make a substantial contribution to long-term wealth.

This is as true for younger investors only just starting out of their long-term savings and investment journey, as it is for those approaching or in retirement. For those drawing an income, the ability of dividends to grow matters because spending needs rarely stand still.

None of this provides a guarantee of smooth returns. Dividends can be cut, cheap shares can remain cheap, and value can underperform for extended periods.

Fundamental research and valuation discipline are therefore needed to distinguish sustainable income from a dividend trap and to identify companies where income and capital recovery can work together.

That is the approach we seek to apply: a growing income stream alongside capital growth, supported by bottom-up research, diversification and patience. In a market often distracted by the latest narrative, the contribution of sustainable dividends can be easy to overlook. We believe it deserves a central place in how investors think about total return and long-term wealth creation.

[5] Dividends are not guaranteed and may be reduced