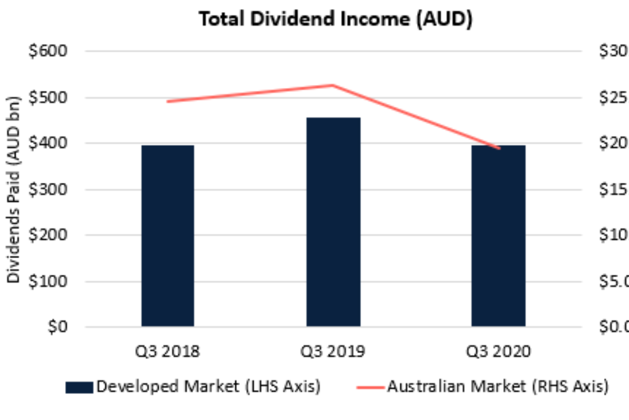
What are the major trends in global income?

- In AUD terms dividends fell 13% in Q3 2020 (v Q3 2019). Although companies continue to be impacted by the Covid pandemic, this is roughly half the fall in dividends last quarter (Q2 2020 compared to Q2 2019 -28%). Despite this, Global developed market companies still paid out $A394bn in Q3.

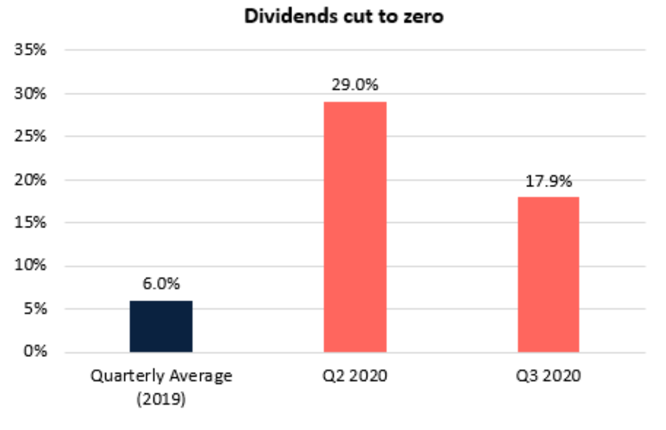
- On the positive side, 37% of dividend paying companies increased or initiated dividends compared to the same quarter last year. However, 17% decreased dividends and 18% cut to zero.

- The number of companies cutting to zero (17.9%) is stark when compared to the 2019 quarterly average of 6%, illustrated in the chart below. Thankfully this reduced from the 29% that cut to zero in Q2. Investors now need to be more careful than ever in how they access yield and in avoiding dividend traps.

- Despite such weakness, the Plato Global Equity fund continues to distribute 6.1% p.a. yield since inception. This highlights the continued importance of active management in income generation.



Source: Factset



Source: Factset

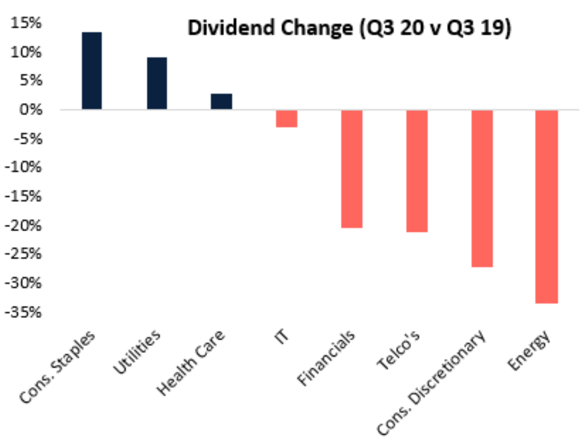
- The list of companies completely cutting dividends to zero in Q3 included large, well known companies like Walt Disney and Foot Locker.

- The currency impact on AUD dividends in Q3 2020 was -2.7%, due to a broadly stronger $A versus Q3 2019

- Changes in dividends were not uniform. North America (-12.2%) fell significantly versus the previous corresponding quarter. In contrast European (-4.7%) dividends held up relatively well, whilst Asian (-20.8%) dividends compounded a weak Q2 with another substantial fall.

Which countries are leading the charge?

- Two large countries, who have low payout ratios, had positive percentage increases in Q2 but fell meaningfully in Q3 2020 versus Q3 2019 (US -12.6%, Japan -19.6%).
- Dividends fell across most developed market countries, including Italy (-19.7%) & the UK (-41.7%).
- Europe was the only region with any constituent countries that increased their dividends. This included Portugal (+14.5%) and Switzerland (+65.2%). German and French companies increased dividends but this was largely a timing effect with deferrals from substantial payers. Companies delaying regular Q2 dividends to Q3 included Continental, Deutsche Post, Total SE, LVMH & Daimler.
- Dividends contracted -26.3% in Australia, significantly less than the 70+% drawdown in Q2 2020, which is a sign of increased confidence about their business prospects. Examples of companies that decreased dividends were Scentre Group, Cochlear and IAG. These companies cut their distributions to zero.



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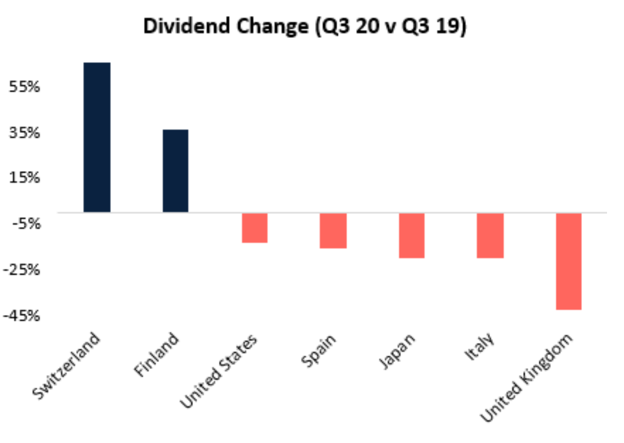


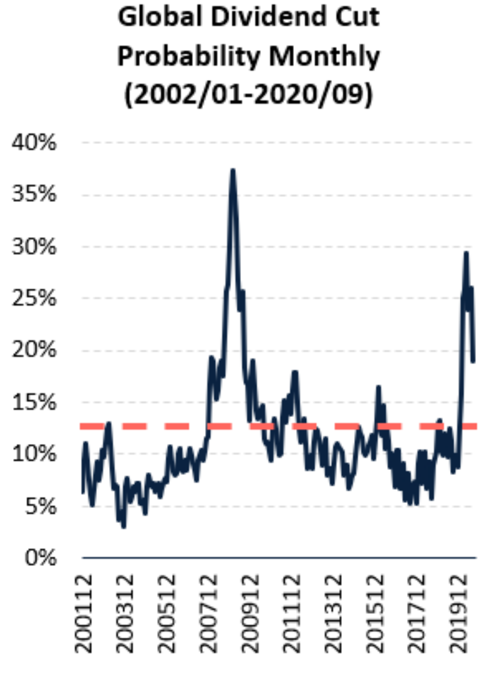
Source: Factset

What happened in global sectors?

- COVID-19, and the associated economic risks, continue to impact sectors differently.
- Consumer Staples was the standout sector, increasing dividends +13.4%. Examples of large payers include L'Oréal and Procter & Gamble. Health care continued its recent dividend growth, up 2.6%. IT was slightly negative. As noted in Q2, lockdowns and the trend to work from home benefitted the IT sector, but this has lost some steam. Healthcare was another obvious beneficiary in a health driven pandemic and the increase from Staples reflects the continued spending on necessities.
- In stark contrast the Consumer Discretionary sector posted another significant fall in income, down over -25%, when compared to Q3 2019. Although much better than Q2, discretionary spending remains challenged. The reduction in Energy dividends reflects the tough time the sector has had through 2020.
- Despite a -20.1% fall in dividends, Financials continued to be the largest dividend payer in AUD terms ($73.5bn AUD), contributing 19% of the total income in Q3.

Interesting facts in global income

- When incorporating dividend cuts and initiations, 1.05 companies increased or initiated dividends for every one company that reduced or completely cut dividends versus the previous corresponding quarter. This ratio demonstrates the continued high level of dividend reduction, albeit at a slower pace than the previous quarter.
- 5.1% initiated a dividend in Q3 2020, compared to 3.7% in Q2 2020. This would include deferrals.
- Just under half (47%) of US companies that pay dividends increased or initiated them in Q3 (v Q3 2019), versus 25% that cut or decreased. Just over half of all US companies paid out in the last 12 months.
- 42.5% (up from 35% in Q2) of the companies in the universe covered paid dividends in Q3 2020. At the country level Singapore (65%) and Japan (60%) had the highest number of dividend payers in Q3 by number of companies.



Source: Plato Investment Management

What's the outlook for global income?

Plato's proprietary dividend cut model provides insights into future dividends. It represents Plato's macro view regarding the likelihood that global developed markets will cut their income.

Coronavirus continues to create a challenging backdrop for global companies and has resulted in a further reduction in dividends. However, despite Plato's aggregated dividend cut model predicting an elevated chance of future dividend cuts (19%), there has been a further positive pull back from recent highs.

Not surprisingly, high dividend cut risk industries include Entertainment, Transportation infrastructure and Airlines.

In conclusion:

- The dividend cut model was very accurate in predicting the magnitude of the dividend cuts in Q2 and the small predicted pull back was evident in Q3. Hopefully the further reduction in the probability will signal future respite from companies cutting dividends.
- Income from lower yielding segments of the market, including US, Japan, IT and healthcare, have held up in a relative sense. Growth stocks in such areas have outperformed in recent times and consequently seen less pressure on yield when compared to some of the underperforming value sectors.
- As reported in Q2 the environment remains challenging and investors need to be cautious where they look for income. Stock selection, and avoiding dividend traps, remains key.

Methodology

1. The methodology uses dividends paid, in AUD, however the ex dividend date is used to allocate the dividends in the relevant time period i.e. Q3 2020.
2. Dividend paid ($) for each stock in each calendar quarter is calculated as the shares outstanding as of quarter end multiplied by the total gross dividend per share (DPS) paid out in the calendar quarter. The DPS paid excludes spin offs but includes capital returns and special dividends. Conversion to AUD is done using the prevailing WM/Reuters London exchange rates at the time of dividend payment.
3. Full year dividend paid ($) is the summation of dividend paid ($) from Q1 to Q4 using the methodology (1).
4. DPS movement is based on total DPS paid out (in local currencies) over each calendar quarter. DPS movement from quarter to quarter is then categorised as initiating, increasing, unchanged, decreasing or cut to zero.
5. Secondary issues are removed from the calculations to prevent double counting of income.