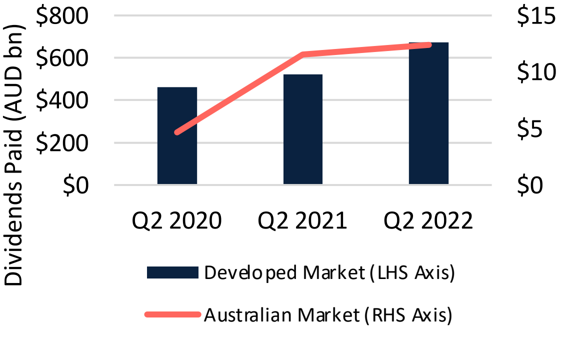
Plato INVESTMENT MANAGEMENT

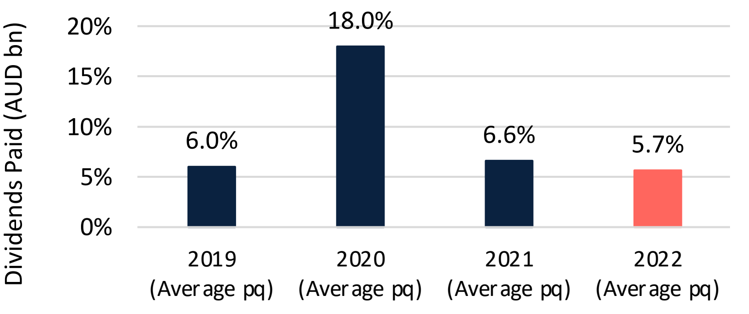
Q2 2022; More positive news for retiree income!

What are the major trends in global income?

- In local currency terms income growth was substantial (+27.2% v Q2 2021), shrugging off recessionary concerns driven by rampant inflation. Building on continued strong growth, since the pandemic, this reflects the continued economic and corporate improvement in 2022, and provides a further boost to retiree income.
- In AUD terms dividends grew an impressive +28.6% (Q2 2022 v Q2 2021). The effect of currency on dividends in Q2 was relatively small. The currency effect, due to a slightly weaker $A versus Q2 last year, increased dividends for Aussie investors.
- Global developed market companies finished the financial year strongly, paying out $A671bn of dividends in the recent quarter.
- The number of companies cutting to zero in Q2 (5.5%) remains at pre pandemic levels. This supports our house view of future dividend growth.
- The Plato Global Equity fund continues to distribute 6% p.a. yield since inception, despite lower index yield. This highlights the continued importance of both income generation via active management and avoiding dividend traps.



Source: Factset



Source: Factset

- Pleasingly, 64% of dividend paying companies increased or initiated dividends compared to the same quarter last year. Additionally, the number of companies decreasing payouts remains low at 5.4%.
- We continue to see companies, that reinitiated dividends in 2021 after cancelling them in Q2 2020, increase their dollar payout this year. The Financial sector provides a lot of good examples, including Société Générale, UniCredit, Lloyd's Banking Group and BNP Paribas.
- In Q2 2022 all regions posted a strong increase in income when compared to the previous corresponding period in 2021. (North America +25.8%, Europe +35.2%, Asia +5.5%)
- European companies drive Q2 income and after a huge fall in Q2 2020 (-47%) it has been great to see 2 years of positive income growth in the region (2021 +39% & 2022 +35%)

Inception date: 1 March, 2016. Past performance is not a reliable indicator of future performance.

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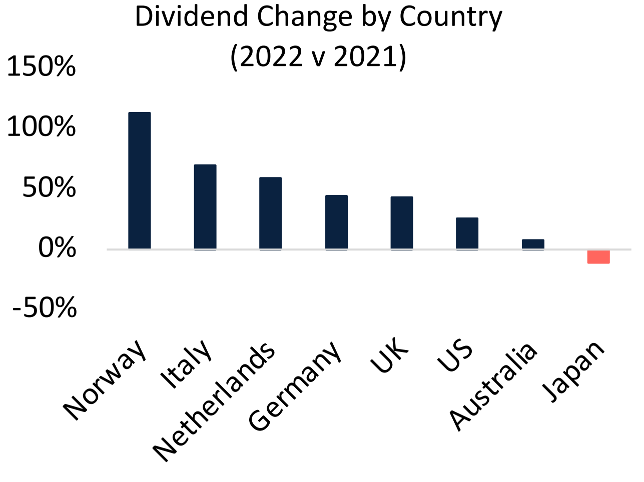
Which countries are leading the charge?

- When comparing Q2 2022 with Q2 2021 the majority of countries increased their payout. In AUD North America (+26%) increased substantially, but the percentage increase chart is dominated by European countries (Norway +113%, Italy +70%, Germany 44%). In local currency Japan is positive, but the currency effect results in a reduction in income.
- From a dollar perspective, strong payouts in the US, France and Germany, were the driver of Q2 yield.
- Australian dividends grew +8%, when compared to Q2 last year. This builds on impressive increases in the two previous quarters. The large dollar increases in Q1 came from Energy and Materials companies. Despite larger percentage increases in other sectors, the largest dollar payouts in Q2 were in the Financials sector. The top payers were NAB, Westpac, ANZ and Macquarie Group.



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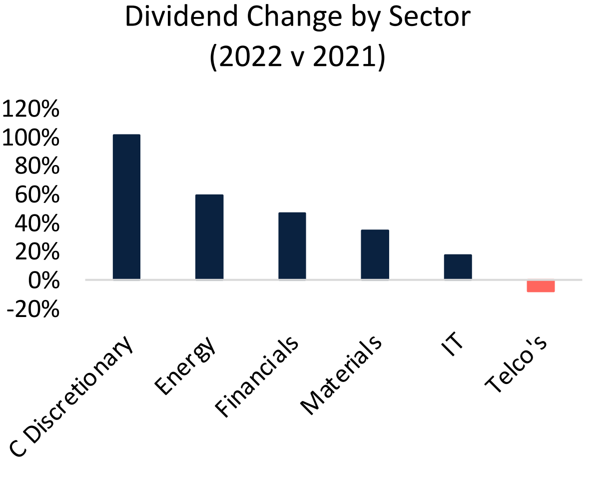

Source: Factset

What happened in global sectors through Q2?

- The majority of sectors were positive this quarter. Even the one decreasing dividends didn't do so substantially. The three largest increases in Q2 2022 were Consumer Discretionary +101%, Energy +59% and Financials +47%. In AUD terms Telecommunication Services, -8%, was the only sector to decrease income in the period.
- Consumer Discretionary yield fell considerably in Q2 2020, but saw a strong rebound in 2021 driven by strengthening household balance sheets and reduced lockdowns. This has continued in Q2 this year, the dollar payout from the sector now above pre pandemic levels. Large yielders, including Mercedes Benz Group and luxury company LVMH, who cancelled or deferred dividends in Q2 2020 have now seen considerable growth in their payouts when compared to Q2 2021
- Energy companies that struggled to keep pace with the post pandemic market have profited substantially from the rally in commodity prices. Over the last 12 months the Energy sector significantly outperformed every other global sector. Stronger balance sheets have enabled substantial payouts from companies including Exxon Mobil, Chevron and Shell PLC.

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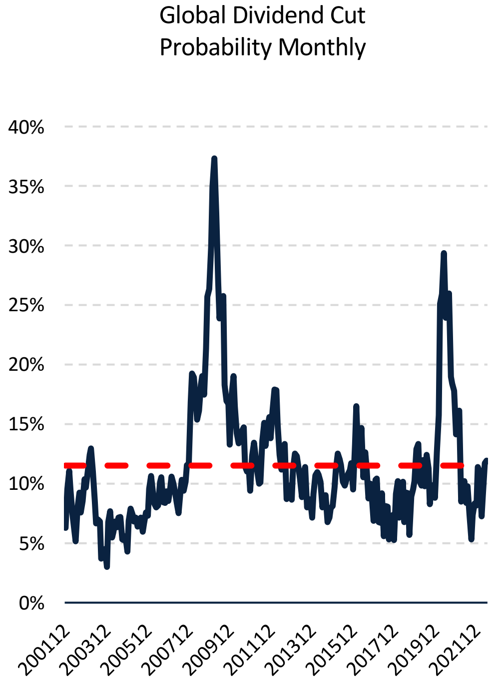
Interesting facts in global income

- When incorporating dividend cuts and initiations, 6.6 companies increased or initiated dividends for every one company that reduced or completely cut dividends versus the previous corresponding period. This is further proof of dividends continuing to strengthen.
- 52% of US companies paid a dividend in Q2. Several European countries had an even greater number of companies paying distributions this quarter (Belgium 74%, Italy 76%, Netherlands 74% and Portugal 100%)



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.

Our model predicts another low quarterly chance of global developed market dividends being cut (11%). However, this small uptick from Q1 reflects global concerns regarding inflation, central bank action and its impact on global growth. The risk to income remains just below the long term average and continues to indicate a positive outlook for retiree income.

The highest risk industry groups, Telco's and Real Estate, have been consistent over the last 3 quarters. At a more granular industry level, the risk lies with autos, entertainment and transportation infrastructure.

In conclusion

- The dividend cut model has been very accurate in predicting the magnitude of dividend cuts. Pleasingly the low risk of cuts, from the Plato proprietary model, continues to signal a positive income outlook.
- Another quarter of strong dividend growth continues to be a positive signal for retiree income. This supports our positive dividend outlook, despite a heightened period of geopolitical risk and investor concern around central bank policies to address inflation.
- Forecasts are a useful tool, but the current geopolitical and economic challenges make it imperative to look forwards. Stock selection, and avoiding dividend traps, remain 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 e.g. 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.