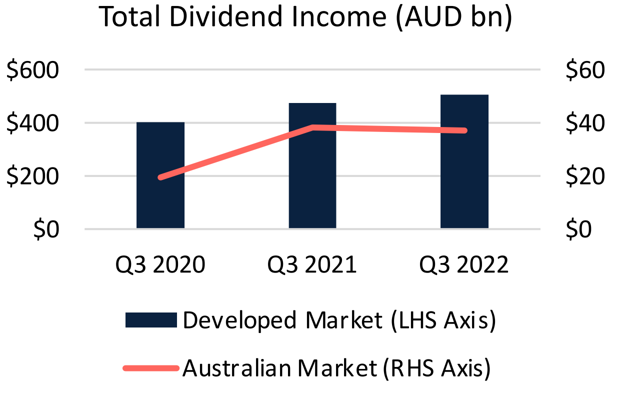
Plato INVESTMENT MANAGEMENT

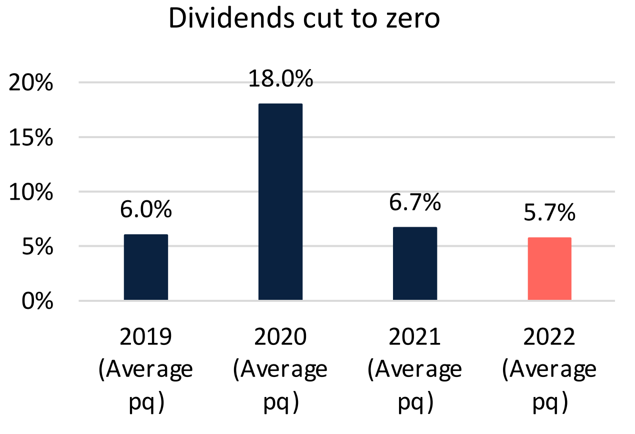
Q3 2022; A mixed story underpins headline growth

What are the major trends in global income?

- In local currency terms income growth was positive (+6.7% v Q3 2021), continuing to look through rampant inflation and the associated recessionary concerns. Although the rate of growth has moderated, it builds on strong numbers since the pandemic, and provides a further boost to retiree income.
- In AUD terms dividends grew +6.6% (Q3 2022 v Q3 2021). The effect of currency on dividends for Aussie investors was negligible.
- Global developed market companies had a strong quarter, paying out $A504bn of dividends in Q3. Although not all segments of the market told the same story.
- The small number of companies cutting to zero in Q3 (5.7%) 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, 56% 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 6.7%.
- We continue to see some large companies, for example Microsoft Corp, increase their dollar payout this year. Or Ford Motor Co, who have raised their DPS back to the level it was prior to being discontinued in 2020
- North America was the only region to increase Q3 income, when compared to the previous corresponding period in 2021. (North America +17.7%, Europe -8.3%, Asia -1.6%)
- Although European and Asian company dividends were down, this is in comparison to Q3 2021 when both regions posted in excess of +20% growth.

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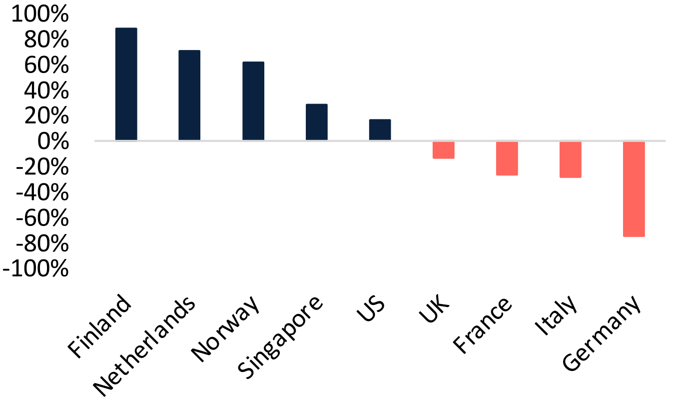
Which countries are leading the charge?

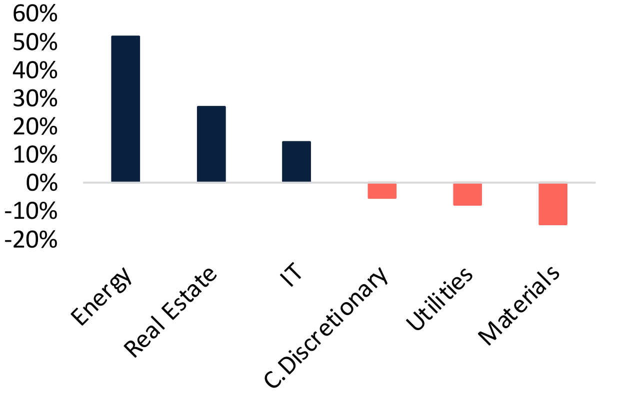
- When comparing Q3 2022 with Q3 2021 the story varied significantly within countries. Smaller European countries dominated yield increases, but the larger payers, including France, Italy and Germany, decreased. Importantly, the latter was due to the timing of dividends. The United States (+16%) increased substantially in percentage terms.
- From a dollar perspective the strong payout from the US was the primary driver of the increase in global yield. Interestingly, the Biden administration applied a small 1% tax on buybacks in the quarter. The US tax regime favours buybacks over dividends, and although not large enough to yet push companies towards increasing dividends, this is an important policy change.
- Q3 Australian dividends recorded strong growth (+97%) between 2020 and 2021, including significant contributions from BHP and Rio Tinto. In Q3 2022 there were dividend reductions from Rio Tinto Limited, Fortescue Metals Group Ltd and BHP Group Ltd. This was driven by their exposure to the significant pullback in iron ore prices.

Dividend Change by Country
(Q3 2022 v Q3 2021)



Source: Factset

Dividend Change by Sector
(Q3 2022 v Q3 2021)



Source: Factset

What happened in global sectors through Q3?

- Mirroring the trend in countries, sectors were also mixed in the quarter. The stand out increase was from Energy companies (+52%), followed by Read Estate (+27%). Consumer Discretionary (-5%) yield fell, although Materials (-15%) was the weakest sector.
- Energy companies continue to post positive stock price returns and the sector remains the strongest performer globally. Profits from the commodity price rally have strengthened balance sheets, enabling increased quarterly payouts from companies that include Exxon Mobil and Chevron.
- The largest dollar increase came from US REIT, Public Storage, contributing significantly to the increase in Real Estate yield.
- Consumer Discretionary yield has rebounded strongly on the back of strengthening household balance sheets. However, rampant inflation and an increase in the cost of living have put downward pressure on consumer sentiment. The most significant decrease in dividends was from the Materials sector, driven by the Australian companies highlighted above.

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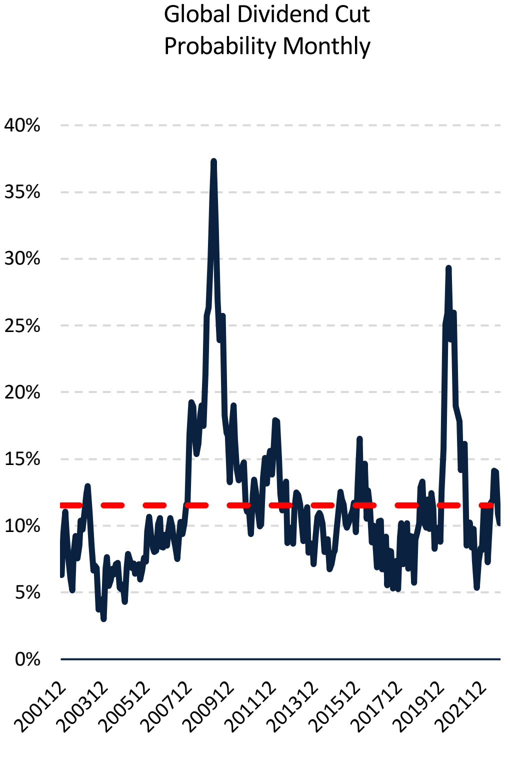
Interesting facts in global income

- When incorporating dividend cuts and initiations, 4.9 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.
- 53% of US companies paid a dividend in Q3. Several other countries had an even greater number of companies paying distributions this quarter (Canada 74%, Japan and Singapore 64%).



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 (10.9%). Slightly higher numbers at the start of Q3 reflect global concerns around 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. There has been a small pick up in the risk from companies in the Automobiles & Components sector.

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.
- Q3 has been a quarter of strong headline dividend growth, a positive signal for retiree income. However, sectors and countries posted a mixed picture, reflecting the current geopolitical risk and investor concern around central bank policies. In such times active management, and avoiding dividend traps, is increasingly important in generating strong yield.
- Further changes to the US buyback tax could emerge as a fascinating driver of global income.

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.