

12 May 2020

MEDIA RELEASE

The death of dividends is greatly exaggerated

As Australian banks and others begin to cut their dividends in the wake of the COVID-19 pandemic and the economic downturn, Australian investors seeking income can still generate dividend income and benefit from investment opportunities residing offshore, according to Epoch Investment Partners.

Damien McIntyre, CEO with GSFM - the distributor of Epoch's retail funds in Australia - says record low interest rates were already impacting Australian investors in their search for income before COVID-19.

"Australian investors are already well versed in receiving dividends for income, but they are typically overweight domestic equities. Many local investors - perhaps focused too much on the benefits of franked dividends - are unaware of the diversification benefit and potential of comparable dividend income gained by investing globally. But in uncertain times such as these, the diversification benefit of global equities becomes much clearer.

"In a world starved for yield a portfolio of high quality global equities is a good place to go for income when the bond yields alone are not up for the job.

"In this new investing environment, investors would do well to focus some of their attention on companies outside of Australia, those with global brands operating across multiple geographies. Investors should look to companies with solid balance sheets and resilient earnings and cash flows - such as tech, healthcare, and utilities. A greater universe of companies fitting this profile is found outside of Australia.

"Globally, it is these three sectors where we have seen resilience in earnings profile and in dividend profile in previous recessions. The expectation is that these sectors will hold up reasonably well this time around as well."

Mr McIntyre said investors should be careful about interpreting the high level commentary about the negative impact of COVID-19 on dividends, as it can vary greatly by geography and by sector.

"Two sectors that are typically hit hard during recessions are financials - as we have already seen in Australia, they are always at the centre of the storm - as well as consumer discretionary stocks.

"Conversely, two sectors that have typically held up well in recessions are tech and healthcare. Dividends are much more stable in the tech sector. And healthcare tends to be virtually recession proof with very modest declines in earnings per share and dividends per share."

Mc McIntyre said while looking for companies with attractive yields, it is important to not simply buy stocks with the highest dividend yields, because not all yields are created equal.

"A high yield could be the product of a one-time windfall or a collapsing stock price which may not be sustainable. To identify dividend streams that are sustainable and growing it is

important to understand what drives free cash flow at individual companies, and then look for companies that can grow their operating cash flow by at least 3 per cent annually.

"Equally important is determining whether the company has a capital allocation policy that is disciplined, transparent and shareholder friendly.

"Not all businesses will face the same degree of stress from the government restrictions on social interaction, and some will continue to generate material cash flows. Others entered this period with ample liquidity to withstand a temporary demand hit.

"One other factor to consider is that, despite the deterioration of the short-term market environment, the ability of many companies to pay dividends has actually improved over recent years.

"Most firms are pursuing "capital light" business models. They are substituting technology for both labour and physical assets at a pace never seen before. With the deployment of technology, less labour and less investment in physical assets is required to generate the same level of revenues.

"Since the universe of profitable opportunities in which to invest that capital is not likely to expand at a rate greater than the savings generated from the effects of technology substitutes, companies with thoughtful capital allocation policies will return more capital to their shareholders.

"We do not expect these sound capital allocation policies to disappear as a result of the global coronavirus pandemic."

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***GSFM** was established in July 2007 as a subsidiary of the Grant Samuel Group. In November 2016 CI Financial Corp (CI) purchased an 80 per cent stake in the business. CI is a diversified wealth management firm with fee-earning assets of CAD\$155.9 billion (as of 31 March 2020). GSFM specialises in marketing funds managed by high calibre local and international managers to Australian and New Zealand institutional and Australian retail investors.*

Since 2007, GSFM has formed alliances with following investment managers to distribute investment products to Australian and New Zealand clients:

- *New York based Epoch Investment Partners, Inc.*
- *Tribeca Investment Partners, a successful Australian boutique manager*
- *Payden & Rygel, a Los Angeles based independent investment management firm*
- *Triple Three Partners Pty Ltd (Triple3) a boutique research and investment management firm*
- *Munro Partners, an independent global equity manager*
- *London-based Man Group plc*
- *Toronto and Boston based Cambridge Global Asset Management*
- *Redpoint Investment Management, a boutique equities manager based in Sydney*

GSFM represents approximately \$15.5 billion funds under management (as at 31 March 2020). For more information about GSFM please visit the website: www.gsfm.com.au