Hi, and welcome to the second episode of Conversations, a monthly podcast from GSFM. The series will focus on investment concepts and outcomes of interest to you and your clients. Our first series focuses on income. The first episode explored the very real fact that cash is not in when it comes to generating income, something that's hit Australia's retirees particularly hard over the past 10 or so years. So when cash fails to deliver, where do investors go in their search for income? Today's podcast features GSFM CEO, Damien McIntyre, and Redpoint Investment Management's CEO and senior portfolio manager, Max Cappetta. As well as being an experienced investor, more specifically, Max is an experienced quantitative manager with an extensive track record in portfolio management, trading and business leadership. And he likes to play football, what some of us call soccer, and keeps fit as a level three referee in that sport. Today, Damien and Max will discuss income from Australian equities.

Redpoint recently launched the Redpoint Australian Equity Income Fund, which is particularly well suited for zero or low tax rate payers seeking to earn higher than average dividend yield and associated franking credits from their Australian equity investments. This makes the fund an appropriate investment to consider for retirement portfolios. Together they'll look at the Aussie equity dividend landscape, where it's at and why, and importantly, where it's likely to go next. Max will talk about the fund in more detail and explain Redpoint's quantitative approach and how it's well placed to capture dividend income.

The next podcast in this series will feature conversations with a number of our other investment partners to examine generating income from fixed income and global equities. Before I hand over, I need to read this **important notice:**

The information contained in this podcast is general and does not consider your objectives, financial situations, or needs. The information and views contained in this update reflects, as of the date of recording, the current opinions of the participants and is subject to change without notice. Before making an investment decision in relation to a fund investors should consider the appropriateness of this information, having regard to their own objectives, financial situation, and needs and read and consider both the product disclosure statement and the additional information. GSFM responsible entity services has produced a target market determination in relation to all the GSFM funds. The TMD sets out the class of person who comprise the target market for the various funds, which can be downloaded from our website, GSFM.com.au. This podcast was recorded on Friday, the 19th of November 2021.

Over to you gents.

Damien McIntyre

Thank you very much, Tracy. Welcome, Max.

Max Cappetta

Thank you, Damien. Great to be here.

Damien McIntyre

Yes, it is. I'm looking forward to our discussion. Now, as Tracey outlined in her opening remarks, the income series or this podcast series really is to explore ways for advisers and indeed investors to seek income. In our initial podcast, or our maiden podcast, Steve Miller and I discussed the landscape for bonds. It's a really difficult landscape to navigate in the fixed income world, particularly when we start with a cash yield, or a 12 month term deposit on offer this morning from the Commonwealth Bank was at the princely sum of 30 basis points, which is a long way from the levels of interest rates that Australians have become accustomed to and indeed organise their cash flows around. So we're in a really unique period of time.

It appears that the only way for investors to seek higher yield is to take on equity market risk or perhaps to explore more interesting aspects of bond markets. What we really wanted to discuss is how do we navigate this landscape safely? How do we generate yield that investors need to meet their income requirements without necessarily putting their capital at unnecessary risks? So that's really the context of where we've been and indeed where we are.

So Max, I might just the open the batting by posing you a question. The last 18 months have been an incredibly volatile period in the world with the onset of COVID, the seizure of financial markets, both equity and fixed income, the reaction to that, and then the unwinding of that caution, if you like, over the period of time, where do you see generally the landscape for dividends in Australia?

Max Cappetta

Thanks, Damien. Look, that's a great question. And I think one of the things that we looked at in great depth when we were looking at almost this sort of income emergency, if you will, for investors with interest rates being so low and saying, well, where do you actually build acceptable retirement income stream? And I think what we've known through our 25 years plus of experience investing in listed equities is that actually owning a share of the profits from Australia's leading companies can and actually provide an effective retirement income. And I think a lot of people shy away from the equity market because they see the price volatility. And yes, share prices do go up and down, but the good news is, is that the dividend payments are far more consistent.

Now, of course, as you mentioned, we've seen the challenges of the last 12 months where dividend payments did reduce, but the net yield on an appropriately diversified portfolio of Australian listed companies still delivered multiples of what could have been available either in cash rates or term deposits. And I think what we've tried to do in establishing and developing this product is to say, well, what we actually see is that because there is great profitability and opportunities to invest in companies and capture the dividends that they pay, what we want to do is actually change the total return that's available in the ASX 200 from being sort of 40% dividends and 60% growth to maybe be it 65% or 70% dividend income and a smaller level of growth.

I think the other important thing and particularly as we look at inflation coming through over the next couple of years, Damien, is that maybe the worst possible scenario for income seeking investors is low interest rates and higher inflation. People need to have their incomes keep up with purchasing power. And particularly when I suppose we all hope to be retired for two decades, plus, the effect of inflation over that 20 year period can really bite into people's purchasing power. And I think investing some of that capital to get an income stream by dividends in the equity market is in fact going to continue to be a very important place for people to make an investment.

Damien McIntyre

I think you make a great point there Max and I think that's something that we all need to keep in perspective when we are thinking about income. Traditionally we've bought income instruments as stabilisers to our portfolios first and perhaps equal first, the yield that they've generated. We all know the absolute level or the interest rates on offer are tiny. So now, as I said earlier, we've got to be more adventurous in the instruments we invest in to generate our income. The great thing about equities is that at least a company has the ability to pass on the impacts of inflation to its customers. It can either increase its prices directly for the goods it sells or it could be taken action similar to Qantas. Way back when we had the last oil crisis and oil prices were high, you may remember Qantas introduced an oil levy to their fares for the period where aviation gas was high.

The great thing about investing in equities is to some extent they are an inflation hedge and they do have the ability to pass on the impacts of inflation to their customers. So I think where our clients want to be equities is actually a great place to live and to seek income. Can you just walk us through, in your opinion, and when you look at the Australian equity market generally, and it has changed a lot in the last 10 years in its composition, where do dividends live these days? What sort of companies to purchase not only for their growth options, but also, and more importantly, their dividends?

Max Cappetta

Great question, Damien, and you're dead right that there has been sort of in many ways, a seismic shift in where dividends are actually coming from in the Australian equity market. What I can say is that even today, where almost through November the cash dividend that has been paid by ASX 200 companies has in fact hit a record. We've actually overtaken 2019, where we are looking at almost $80 billion of cash dividends having been paid in this calendar year alone.

Now, interestingly, relative to 2019 or 2018, so pre-COVID, the banking sector, which used to deliver a good proportion of those dividends, is actually still sort of 20% below their 2019 levels. But on the flip side, if you go into the materials or the mining sector, they've actually had a boom time over the past year. And they've actually delivered actually three times the level of dividends over $30 billion over the past calendar year relative to the payments that they made in 2017.

And I think this is really an important element when you think about actually capturing higher income in investing in Australian equities. I think the first thing that we actually warn people is to say, look, you just don't necessarily want to buy the very highest yielding names. There may be specific reasons why companies are actually throwing off excess cash. It may be that they actually have really limited growth opportunities in the future and so while you might get a high yield, you actually won't get appropriate growth. The other element that we also look at is to say, well, we just can't be looking at last year's dividend yield. And so I think investors, while they might be seeing some of the large dividends that got paid by some of the mining companies over the past year, think they need to temper their expectations in the next year.

So the other thing that we do is we always have a forward looking approach. We want to look at and we actually forecast out for every company in the ASX 200 what their next dividend is going to be. It's quantum, the franking credits, which are very valuable, particularly to people in retirement who can claim that value back. And then that gives us this interesting dynamic that companies don't all pay their dividends on the same day.

Generally companies pay two dividends a year and they spread through the calendar year, which I think enables a very systematic approach of capturing a higher dividend yield by not just focusing on high dividend payers, but having a more diversified view, being able to trade in and out across the calendar, which means that as we see opportunities returning so potentially financials, if they still have room in the next year to continue to increase their dividend payments back to pre-COVID levels, there are opportunities there. And at the same time, notwithstanding that things like iron ore price has fallen off, I think there still are expectations for solid cash flows, maybe not as high as 2021, to still be delivered next year on the assumption that we do see increase in iron ore demand and steel production as China and particular in the northern hemisphere move back into summer in early 2022.

Damien McIntyre

Interestingly, when we look at how we implement dividend strategy, a fund is actually a great way to do it. Primarily because the professional investor, if he is unemotional, when you are looking at an opportunity, you recognise the cyclicality of that opportunity and you also recognise that that opportunity may be pursued. When an individual buys a collection of stocks there is an emotional attachment to those holdings, and it's always harder for an individual to recognise that opportunity, as I said earlier, has matured or to appreciate the cyclicality of those businesses. And you end up in some cases in what are known by the industry as value traps. So Max, can you describe a value trap in your words and then help us understand the steps you take to avoid them?

Max Cappetta

Yeah, absolutely, Damien. So that concept of a value trap I think is critical when you come to thinking about high yielding stocks.

Damien McIntyre

Probably more so with dividends.

Max Cappetta

Yeah.

Damien McIntyre

Because it's the lure of the big number that it's like a moth to the flame, isn't it?

Max Cappetta

Oh, absolutely. And I think while high dividend yield can sometimes be a proxy for low growth, it can also be a proxy for companies that are under stress and that may be something which is self-inflicted, it may be that their industry is out of favour or changing, but ultimately rather than looking at that high dividend yield, I think people need to realise that a higher chance that that dividend payment is in fact going to be cut. And we've certainly seen instances of this occurring over the last few years, and I think maybe the obvious one might have been AMP a couple of years ago with the troubles that that business has had. It looked like a very high yielding stock at one point, but that dividend was ultimately cut.

One thing that we do to try and avoid that, number one is we take a forward looking approach. So if we see that our expectations are that the dividend will in factor be cut, then that is something that we factor into our investment decisions. The other element is really the other stock selection insights that we bring to bear on our trading and portfolio positioning. And this is where we are looking at the forecast of company earnings, which analysts are providing out in the marketplace, we're also looking at momentum indicators and also the way that share prices and volumes react to news events, companies providing guidance, for example, or companies announcing earnings.

That gives us an insight in terms of whether there is risk, both in terms of the share price and then ultimately that comes because of risk to earnings and therefore risk to dividends. So that's one way that we actually look to avoid those elements by being are looking in our dividend forecasts and also by including a range of these other stock selection insights, which we believe is actually quite important.

Where people have an obsessive focus on dividend yield we actually see at least through our research that just focusing on high yield actually costs you a lot more in poor growth in your portfolio relative to the excess income which you earn. So I think that's one of the elements where our very diversified approach, and as you say, being unemotive, being very disciplined means that if we see a stock and all of a sudden we determine actually, no, the dividend is at risk then because of our quantitative approach, we have a view, multiple views on all 200 stocks in the ASX 200, and we can switch from one name to the other and make sure that we keep a diversified capture of this profitability that is being thrown off by corporates over time.

Damien McIntyre

So just on that concept, Max, can you explain to us the difference or the process you undertake to determine that a company is funding its dividends through operating cash flow and hopefully rising operating cash flows rather than, for example, selling the furniture or taking on debt to fund dividends?

Max Cappetta

So elements of that come through within the way that we look at our company's quality. So we are looking at the strength of the company's cash flow and that gives us an indication that the company has in fact the ability to be able to fund its dividend and grow its dividend through its operations. The other element comes through the way that we look at growth. So while I think a lot of growth metrics look at really top line, same revenue growth. Yes, we do consider that, but we also look and say, well, if revenue is growing, how are costs growing, and is there a margin whereby the company is actually incrementally growing revenue faster than costs, and so is their cash flow growing faster than the interest payments are that they need to make on their debt and so forth?

They're the elements that we use that when we are looking, say, you get to the beginning of August, which is a very large dividend payment season, August and September, these are the metrics that when we are looking at all the dividends on offer over the next few months, that we use these metrics to determine which companies we'll actually position the portfolio into.

Damien McIntyre

Now everyone has some awareness of franking credits, some awareness of the tax benefits of a franking credit. How important is sourcing franking credits or frank dividends to you? Are you happy to invest in a company with a high dividend that might a low franking level, or how do you think about franking?

Max Cappetta

So when it does come to capturing dividends, we look at the gross yield. So therefore we add in both the cash dividend and the tax credit which is available. The companies that have a fully franked yield are the ones which are most attractive to us. So for example, in the property trust sector, they are generally high yielding stocks, but they have little or no franking credits. We won't say no to having an exposure to some of those names, because it does help just diversify the portfolio overall and diversify the income capture from different sectors of the economy. So we won't say, no, if a stock is not fully franked.

But the beauty of the franking credit, I think particularly for retirees, is that in retirement if investors are earning a dollar of interest income, they get a dollar of interest income. However, if they earn a dollar of dividends which is fully franked, they actually get a dollar and 42 cents. And that extra 42 cents is in fact the tax that has been paid by that company here in Australia. And when they go to do their tax return, they can actually claim that franking credit back as cash.

That then becomes really important with transactions such as off market buybacks. Recently, both Commonwealth Bank and Woolworths decided to return excess capital that they had in the company back to shareholders, by providing shareholders, if they chose to participate, to actually receive, instead of for Com. Bank a hundred dollars in capital for their shares, they receive essentially $20 in capital and the rest is a fully franked dividend.

Now what had actually ended up occurring there is that those shares were actually bought back on a pre-tax basis at about $85. So a 15% discount to the prevailing price. Now, most people will say, hang on, why am I selling my Commonwealth Bank shares at a 50% discount? If you're a retiree, you'd actually realise that there was a massive franking credit that went along with that, so that you actually ended up getting over $110 of effective value. Now, this is great for retirees because they can actually turn a hundred dollars into say $110, which is a benefit to them. The other benefit is to the company. They only had to actually pay $85 per share when the prevailing price was at about $100. So that's a benefit to all the other shareholders because the company was actually able to repurchase those shares at a discount.

So that's the benefit of franking credits and I think is one of the important drivers of why there is a reasonable dividend yield paid in Australian equities relative to global equities where dividend payments are not as high and for various tax reasons, companies may choose to actually buy back shares rather than actually pay dividends. So I think a real bonus for Australian based investors and retirees that can access those tax credits in their tax return at the end of the year.

Damien McIntyre

And your process within the Redpoint Australian Equity Income Fund really is to maximise franking credits wherever possible, isn't it?

Max Cappetta

Yeah, absolutely. So what we've done certainly of late, I mean, our target has been to deliver a 2% gross yield above the index over the long term with the benefit of those two buy backs, which I mentioned. Over the last six months we've actually more than achieved that. And so what we'll do is we will be opportunistic to say, well, where can we actually get an overall benefit focused on investors that have a zero or low tax rate? And we'll make our decisions based on that. And certainly with those two transactions with Woolworths and Commonwealth Bank we were able to deliver both a good level of income, which was fully franked and very tax effective for investors.

Damien McIntyre

Now ESG or double ESG being economic, environmental, social, and governance factors, they're incredibly important issues individually and also collectively, and they've become more important to individual investors as well as institutional investors for all the right reasons. Everyone wants to feel and to be confident that the companies that they trust with their money are good stewards of that company, of that money, I should say. Not just in generating profits, but in how they operate within the world. How do you implement a double ESG process into your stock selection?

Max Cappetta

So Damien, at Redpoint the concept of sustainability through the way companies manage their environmental, social and governance risks has been at the core of our business from day one, for the last 10 years. And it is an important element, which we embed really across every investment decision.

Now, what we do within the Australian Equity Income Fund is that we actually monitor the environmental, social and governance metrics across all of those companies in the index. And we seek to measure those risks in terms of saying, if companies in fact are managing these very important risks properly for the long term, then it actually acts as a positive conviction element within our stock selection. If we like a company because it's about to pay a good fully franked dividend, there's a lot of earnings momentum, the market is reacting positively to it, it's got good cash flow, good growth metrics, plus it's managing these important long term risk properly, then that's a stock that we will gravitate more of our portfolio towards.

By the same token, if companies are not actually doing what they need to be doing for the long term, then it acts as a negative for us. And so what it does is it makes the benchmark slightly higher for those companies to be in our portfolio at any given time. Now this area continues to evolve as does everything in financial markets.

We can see that there are also opportunities opening up potentially when it comes to climate change, both transition risks and transition opportunities. I think there are certainly transition opportunities through commodities, such as copper and lithium, and even to a degree iron ore that are going to be in demand and we can see the fact that we want to support companies that are certainly producing those metals but are also doing it in the most sustainably possible way and making sure that they look after all stakeholders, not obviously just the shareholders as well.

So that's the importance I think that ESG brings to the entire process and is something that we've always said that we want to support our investors desire to invest for good. And at the same time, we want to use all of our capabilities to make sure that we deliver them a good investment as well.

Damien McIntyre

Thanks, Max. Just changing tact slightly, inflation is the economic issue

Max Cappetta

It's the buzzword.

Damien McIntyre

... of the day and for obvious reasons. The U.S., for example, of just this week printed the biggest inflation number they've had in decades. So how are you thinking about it and how do you think it'll impact dividends and your portfolio?

Max Cappetta

Look, ultimately, I think it comes back to corporate earnings. And I think, Damien, and you mentioned it earlier in this podcast about this can actually be a positive for companies that have pricing power, both in their supply chain as well as with their customers. I think the other interesting element is that if higher inflation and potentially higher interest rates as well, if that higher inflation is actually due to higher economic growth, then I think this is actually a positive for equity markets, it's a positive for earnings, and so therefore it's going to be a positive for dividends as well. I think for us, when we look at the Australian equity market, I think we'd look to focus potentially more into healthcare where we do see some very strong pricing power across that sector for the highest quality firms, which continue to grow in that space.

I think the financials sector as well, particularly the banks, and I think for the banks it gets to a concept and even the insurers to a net interest margin or an operating margin in insurance. And this we saw the other day with Commonwealth Bank actually disappointed on their net interest margin. And I think if we do, in fact, see some of the banks actually looking to push forward with maybe a small interest rate increase to support their net interest margin expansion, then sort of higher inflation and higher earnings will then come through for them.

The big question mark, obviously for the banks is the Australian property market given the exposure that the banks have. But if employment in fact stays robust, which we certainly expect it to do, then there probably is an opportunity for the banks to actually continue to grow earnings. And as I mentioned beforehand, we're still seeing that the aggregate dividend payment from the financial sector is still about 25% below where it was pre-COVID. So if we do, in fact, see growth accelerating and continuing on into 22/23, then I think that should be positive and you might, in fact, see those dividends edging back up again.

Damien McIntyre

I often think that the concerns over banks' exposure to property really are dramatised and overdone. And think people, pundits, would have you believe that a bank's loan book, their entire loan book was created today, and they have little or no cover. What in fact is true is that a bank's loan book comprises of loans that are 5, 10, 20, 25 years old, and even a loan they wrote last month has had its principle reduced already. It's not so much the property market that's the problem, it's really the customer's ability to make the interest and principle repayment that is the issue, isn't it?

Max Cappetta

Exactly right. And I think this is where there is an interesting situation that may in fact occur for interest seeking investors and that is that, if the banks in fact do look to pass through sort of a modest mortgage rate rise ahead of the RBA, in fact, changing anything with the cash rate, then that could provide sort of a tap on the economic break, if you will, that will then actually potentially delay the RBA raising that cash rate.

And I think the reserve bank has openly said that they want to see inflation higher, and they want to see it higher for longer before they make a move on interest rates. So I think this is again, we mentioned it beforehand, a little bit of a double whammy potentially for cash investors that they actually still will maintain a very low rate of interest on their capital.

Then we'll have that eroded away by inflation. And in some ways maybe we need to take the opposite view in saying, well, if prices are actually going up, where can I actually invest in companies that are actually benefiting from that? So that in one sense, maybe while money is going out of my wallet, which is slightly higher than I expected, that's okay. My dividends, my earnings, my portfolio is in fact growing at a similar, if not better rate. And I think that's where actually owning a share of the profits earned by some of these companies.

And if you look ahead, rising interest rates, maybe higher inflation, is good for the value trade. I know that's maybe a bit of a taboo subject giving that valuation as an investment discipline has been largely unrewarded for over a decade. But the higher interest rates in particular, a higher discount rate, will impact companies whose profitability is due to come in from 2025 onwards. They're the ones which are going to be de-rated faster than maybe companies that have much stronger cash flows today, the ability to pay good dividends.

And I think that does open up a little bit of an opportunity for dividend seeking investors. That in fact, the kind of areas where we go to look for capturing excess dividend income in Australian equities is now in fact sort of in favour overall. Because I think when we look ahead the market growth from here on out with interest rates and inflation rising, we're not going to see multiples re-rating higher. What we need to see is actual earnings growth. And so if we can actually identify those companies that have that underlying earnings growth and the way in which it can come through in terms of dividends and growing dividends, then I think that there are some very good opportunities both in the near term. But I think for the longer term, this is in fact an effective way of getting a solid and growing retirement income over the long term.

Damien McIntyre

The reality is a little bit of inflation is actually very good for all of us. And when I say all of us, particularly when inflation flows into wages, real incomes get a boost as well. None of us of course want inflation to run out of control, but navigating the right mix is always the tricky thing and it's an imperfect science. Now, just before we conclude our discussion, I want you to look into your quantitative crystal ball and help me with, how do you feel about the market generally for dividends, '21 is behind us now, looking out into you into '22 and perhaps even a little further?

Max Cappetta

So look, Damien, as I said at the start of the podcast, we are just about to hit $80 billion in dividend payments for the ASX 200 for this calendar year, which…

Damien McIntyre

Wow. Big number, isn't it?

Max Cappetta

Yeah. Which is a record. We haven't seen a number that high in any previous calendar year. I think going forward, if we say, look, let's assume that our vaccines remain effective and that COVID lockdowns are a thing of the past, but if that in fact remains in place, then I think what we will see is all of the emergency fiscal and monetary settings of the last two years should continue to translate into ongoing for the global economy and certainly for the economy here in Australia. I think ultimately that will be positive for earnings. And then I think as I mentioned beforehand, we still see within the financial sector in particular there is scope for dividends to rise higher on the basis that obviously earnings will revert back to pre-COVID levels as well.

I think the area for risk and opportunity is back into the mining sector and with commodities, obviously iron ore delivered, really saved and hit the record for the Aussie equity market this year with $30 billion dividend payment. We don't expect that in the next year. Maybe it's actually going to drop back down to what it was in 2020, which will be about half that level.

So we are going to need to see other sectors and other parts of the market pick up both either their earnings and/or payout ratios to give us essentially another $80 billion of dividend income for next year. The risk on the mining side, I think, is that as we move into Q2 next year, that there is in fact a pickup, particularly in steel manufacturing in China and that helps deliver some strong cashflow for those iron ore miners, Fortescue, Rio Tinto, Mineral Resources and so forth in Australia.

I think particularly Fortescue, given that it is such a very low cost producer is positive. And then also looking at climate change opportunities in terms of lithium and copper, there's a range of companies in Australia that are in that space. Some of them may be still a little bit young in terms of potentially paying a dividend right now. But you do have companies like BHP that is going to undertake a very massive transaction early next year in terms of divesting its petroleum assets. I think they will then have scope to potentially look at capital management like another buyback.

And we're also very interested in a company like South 32 that has divested its coal assets this year and has just recently bought additional copper exposure. There are, I think, opportunities and risks. I think always with mining, you need to be wary of the volatility, particularly in share prices and commodity prices. These are very long term, large Capex assets that you just can't turn on and off for if you've got iron-ore in the ground, you can't change that to gold overnight. So there are risks with those companies that I think a more dynamic and active approach is warranted if you want to capture the dividends that become available, but make sure that you have a proper view of the share price volatility as well.

Damien McIntyre

When we were young fellows in our career, we certainly wouldn't have dreamed or envisioned an environment where the mining sector would contribute $30 billion in dividends to the Australian economy. It's quite extraordinary, really, the extent to which that industry has matured from a capital management aspect and where they are today.

Max Cappetta

Look, I agree. And to put it into context, this is the first year in the last 20 that the material's sector has delivered more cash dividends than the financial sector. I think it'll go back to the other way next year. But nonetheless, I think there are some good quality operations there and I think it does get back to both ESG and also climate transition. Some of these metals will be massively in demand over this next decade if we are in fact to hit our are climate change targets. I think there were some positive signs and developments out of the recent Cop26 Conference in Scotland. There's another one again next year. There's further infrastructure spending from the U.S. and also agreements between the US and China, which I think support that part of the market, not just today, but I think for a good chunk of the decade ahead.

Damien McIntyre

Just in conclusion, Max, it would be remiss of both of us not to run a brief commercial for your fund or our fund. I wonder if you could just very quickly hit the highlights on the Redpoint Australian Income Fund.

Max Cappetta

In the Redpoint Australian Equity Income Fund, what we are looking to achieve is to deliver investors with at least a 2% higher dividend yield relative to the ASX 200 while still delivering them an overall total return, which is in line with that ASX 200 benchmark. Now we actually achieve this by not actually focusing on just the highest yielding stocks. We actually are open to all dividend opportunities and that includes tax effective off market buybacks as well.

We take a forward looking approach to identifying which stocks are going to be paying dividends next and what the tax credits available are. And as we trade that portfolio to capture those dividends from those companies over time, we use a range of stock selection metrics to help inform our trading as well as enabling us to have a reasonably diversified portfolio so that we can not only capture the income, but also deliver a good total return over time.

Our focus is for zero tax rate investors and I'm very pleased to say that over the first six months that we've been running the portfolio, we've been able to deliver a 6% gross yield, which is higher than our expectations, but the opportunities were there for us to be able to achieve that and we certainly looking forward to continuing to grow that track record in the years ahead.

Damien McIntyre

Well, I mean, from our perspective and from everyone's perspective, really, clearly there's demand for yield. Plato, through their dividend product, have demonstrated that there is a big market for Australian equity income products. Of course, we want to offer a superior outcome to Plato! Of course, recognising that they've done a great job in paving the way and creating the market for funds like theirs and indeed ours.

We're really looking forward to working with you to commercialise this fund more broadly in the Australian retail landscape and that will be a big focus for us in 2022. So Max, thank you very much for your time this morning. I've really enjoyed our conversation and we look forward to seeing more of you in our podcast series next year.

Max Cappetta

Thanks Damien. Thanks for the opportunity and I certainly look forward to it.

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