

AUGUST 2020 FOR WHOLESALE INVESTORS ONLY

Many companies are debating whether or not to pay out dividends, given current economic circumstances. Ahead of Australia's August 2020 reporting season, we have sent the following letter to the chairperson of every major company in our Equity Income, Real Income and Ethical Income portfolios, to express to them the "Power of Dividends" for Retirees, Charities and Foundations.

The COVID-19-induced shutdown of the Australian economy has exacerbated the already downward trend of interest rates to record lows. For retirees who depend on income from their investments, this is a dire situation. The income from a 'low-risk' term deposit cannot meet their cost of living, sending their capital on a downward spiral.¹

Martin Currie Australia has a long history of designing investment products that solve for a client's income needs. In May 2010, we launched the Equity Income strategy, which was shortly followed by our Real Income strategy in December 2010. Today we also offer an Ethical Income version of the Equity Income strategy, and an Asia Pacific and Global version of the award-winning Real Income strategy.

The focus with all our Income strategies has been to provide a high dollar income to retirees which grows over time. During this COVID-19 crisis, we have worked hard to minimise the income drawdown as much as possible and invest in high-quality companies that have the strong balance sheets & earnings that can afford them to continue to pay out strong dividends.

As such, it concerns us to hear that many of the high-quality ASX-listed companies that we invest in for our clients are equivocating about whether to pay dividends, even when they do have sufficient cashflow and means to pay those dividends.

For the investee companies in our Income portfolios, our message is clear – if a company has reasonable cashflow and a sound financial position, dividends should be paid.

In such difficult economic times, and with an uncertain market outlook, the benefits of both dollar income and franking credits to retirees cannot be underestimated. Retirees are key beneficiaries of these dividends, and they have worked hard to have sufficient capital to fund their own retirement. Charities and Foundations, similar to retirees, also depend on dollar income to fund their own outgoings, most of which benefits society in the form of hospitals, scholarships and other charitable causes.

The lack of alternatives to equities for these investors who need a high dollar income stream, and the consequences for the whole economy and future generations should all retirees be forced to be on the Age Pension in the future are stark.

The need for companies to pay out their dividends has never been greater.



Reece Birtles
Chief Investment Officer
Martin Currie Australia



Will Baylis
Portfolio Manager
Martin Currie Australia

"For our investee companies, our message is clear – If a company has reasonable cashflow and a sound financial position, dividends should be paid."

¹ Equities and term deposits have different risk profiles, hence a direct comparison may not be appropriate.



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