TB Wise Multi-Asset Income dividend forecast

The events of the last month have had a radical effect on the prices of the assets we own in the fund. Since the middle of March, the evolving crisis has begun to take a toll on dividend payments as well. The current economic and market backdrop are without precedent, and are evolving by the hour, so this summary can only be a snapshot of what we have seen so far, and how we believe the situation might develop.

Looking at the fund's portfolio in the light of the Covid – 19 pandemic and the policy response to it, we can divide our holdings roughly into four categories. First, those directly in the firing line, in sectors which governments have shut down – non-food retailers and their landlords, pub and restaurant operators and airlines. Second, companies which are affected, some seriously but in more indirect ways, including fund managers. Third, companies whose business models are more or less unaffected by the pandemic, and finally ones which benefit from the new situation. An example of the third category, in our view, is Legal & General, the fund's largest holding. We have seen the share price fall by more than half, on fears that the company might experience extensive defaults in its bond portfolio, and eventually breach its Solvency 2 requirements for financial strength (Solvency 2 is a complex formula which ensures that insurance companies hold adequate resources in their businesses at all times. L&G's is in considerable excess of the required level). Legal & General is one of the world's leading bond investment houses, with many decades of experience, a large team, and a highly conservative approach. The company's share price was 'smashed to pieces' in the Global Financial Crisis of 2008-9, but in the event the company's bond portfolio losses were minimal, and the share price duly recovered. We spoke to the company last week. They expect a similar outcome this time, see no risk to their Solvency 2 position, and have confirmed that they will be paying the increased dividend that was declared with the final results earlier this month. The fourth category includes PZ Cussons, a company which makes toiletries including soaps and Carex hand sanitiser, which has seen a surge of demand in the last few weeks – but not enough to stop the share price from falling substantially along with everything else.

There is a fifth category – assets which pay out a fixed proportion of their asset value each year, rather than a proportion of their profits. This category includes Princess Private Equity, the fund's second largest holding. Princess, a Private Equity trust which manages a high-quality portfolio of assets, pays according to a fixed formula of 5-8% of the company's year-end net asset value, the exact percentage decided each year by the directors. For the last few years, the annual percentage of net asset value paid out has been 5.0%. The net asset value is likely to be marked down in today's market, which would reduce the dividend payment, but the percentage could possibly be increased, though there has been no announcement.

At the moment, companies are in survival mode, and are doing everything in their power to conserve cash. They have no way of telling how long the extreme measures will continue, or how quickly things might pick up afterwards. No one is inclined to take the slightest risk. Companies which have cut their dividends (there have been six in TB Wise Multi-Asset Income so far) are telling investors that they're sure we'd rather see them pass their dividend and survive, than pay it and go under through lack of cash. However, once the peak of the first wave of infections has passed, which could be several weeks, visibility will improve, and companies' priorities will begin to change. Those with a longer-term outlook, which we believe includes all the ones held in the fund, will be aware of the need to retain the trust of their investors, without which their future is severely impaired.

As astonishing as the speed and extent of the collapse in the prices of all 'risk assets' has been the speed and extent of the economic stimulus which has been announced by governments in all the affected countries. At present, when the only item on the agenda is survival, no one is thinking about how this stimulus might contribute to the eventual rebound in economic activity. That is for the future.

The dividend cuts we have experienced so far have been mainly in the first category, of directly affected companies and their landlords, which comprise around 15% of the invested portfolio. We would be surprised if any of these companies pays a dividend in the rest of this year. We do not have high hopes of the industrial companies, a further 6% of the fund. Their trading has been severely curtailed as global supply chains have seized up. We look at the others on a case-by-case basis. Taking the year as a whole, much will depend on when the Covid – 19 new cases and deaths figures, which are rising exponentially at present, can be seen to have peaked, and the restrictions can begin to be lifted. We have no more knowledge of that than anyone else, though careful examination of the data suggests that the peak might be weeks away rather than months, so long as the social distancing rules are adhered to. In the meanwhile, we expect the fund's dividend income to run at around half of its previous level. Activity in the fund over the next few weeks will be focussed, as the situation unfolds, on moving towards reliable long-term dividend payers from any that have begun to appear more dubious in the light of recent events.

Tony Yarrow

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Please note – this blog contains the personal opinions of Tony Yarrow as at March 24th 2020, and does not contain financial or investment advice

TO LEARN MORE ABOUT THIS FUND, PLEASE CONTACT

01608 695 190 OR EMAIL JOHN.NEWTON@WISE-FUNDS.CO.UK

WWW.WISE-FUNDS.CO.UK