

TIPS AND TECHNIQUES FOR BUILDING A ROBUST EQUITY INCOME PORTFOLIO

Plato
INVESTMENT MANAGEMENT



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Note: Past performance is not a reliable indicator of future performance.

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Agenda

01

Outlook for Income

02

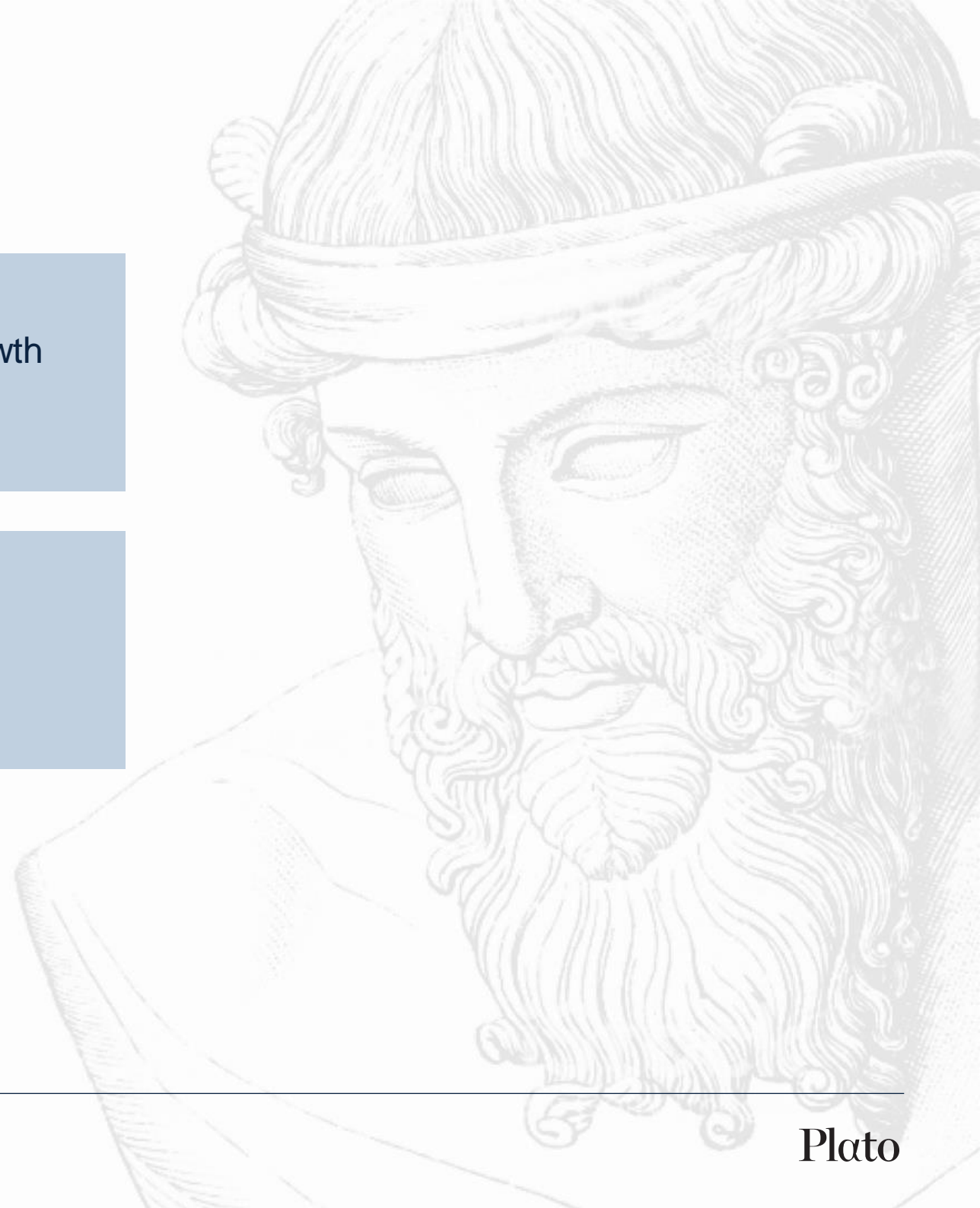
Investing in equities for growth and income

03

Income investing: Avoiding dividend traps

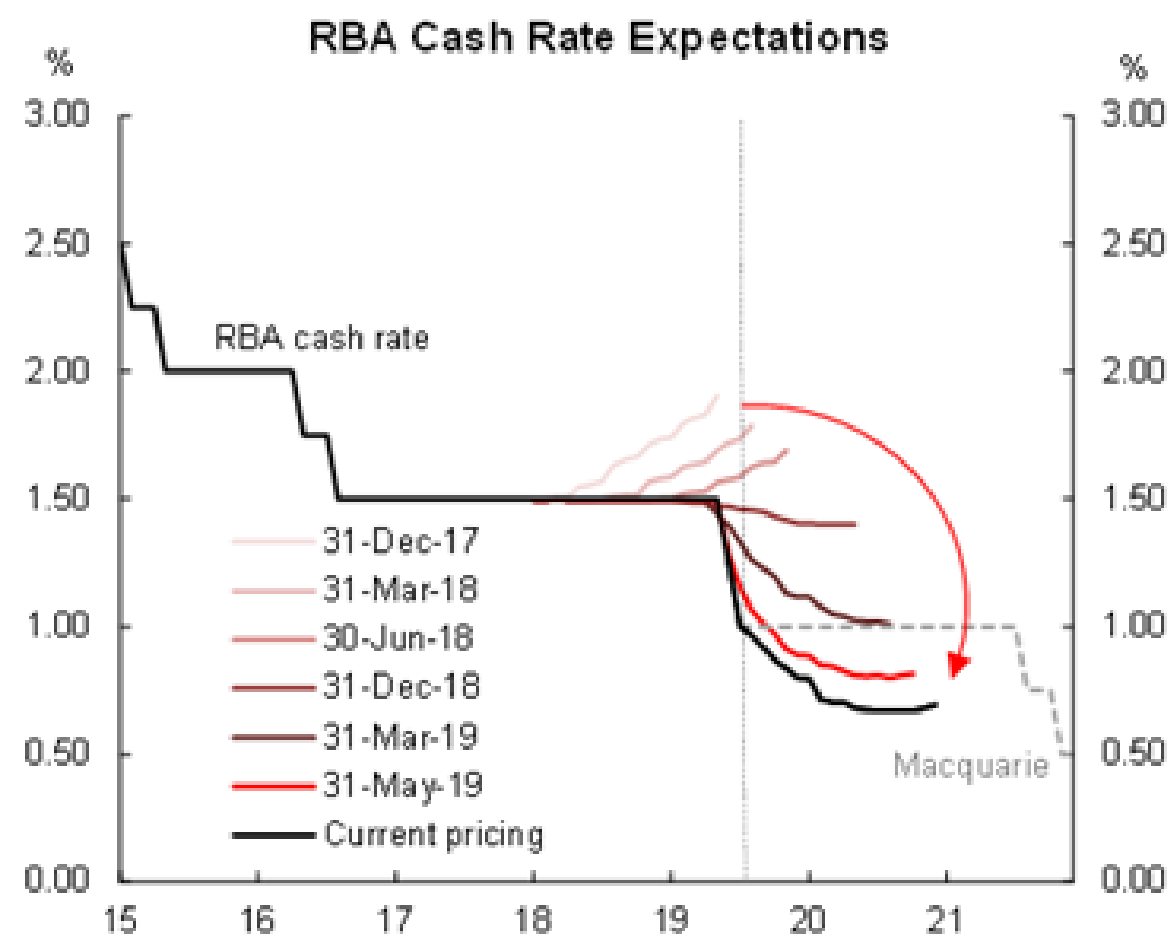
04

Diversification is key



Interest expectations falling

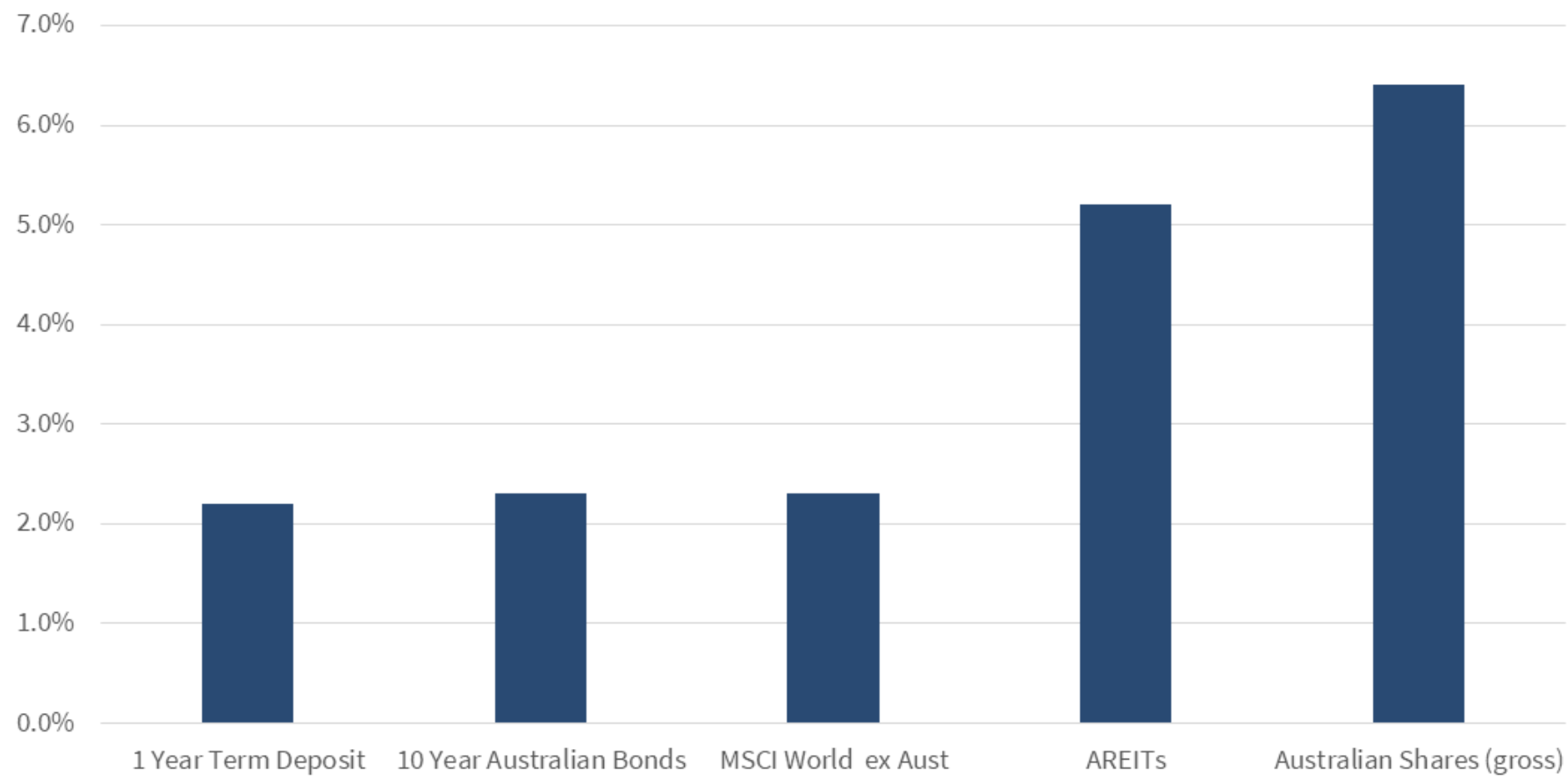
OFFICIAL RBA CASH RATE EXPECTATIONS



Source: Bloomberg, Macquarie Macro Strategy June 2019

Income is still hard to find

PLATO FORECAST INCOME 2019/20 FOR MAJOR ASSET CLASSES



Source: Plato, RBA, Bloomberg

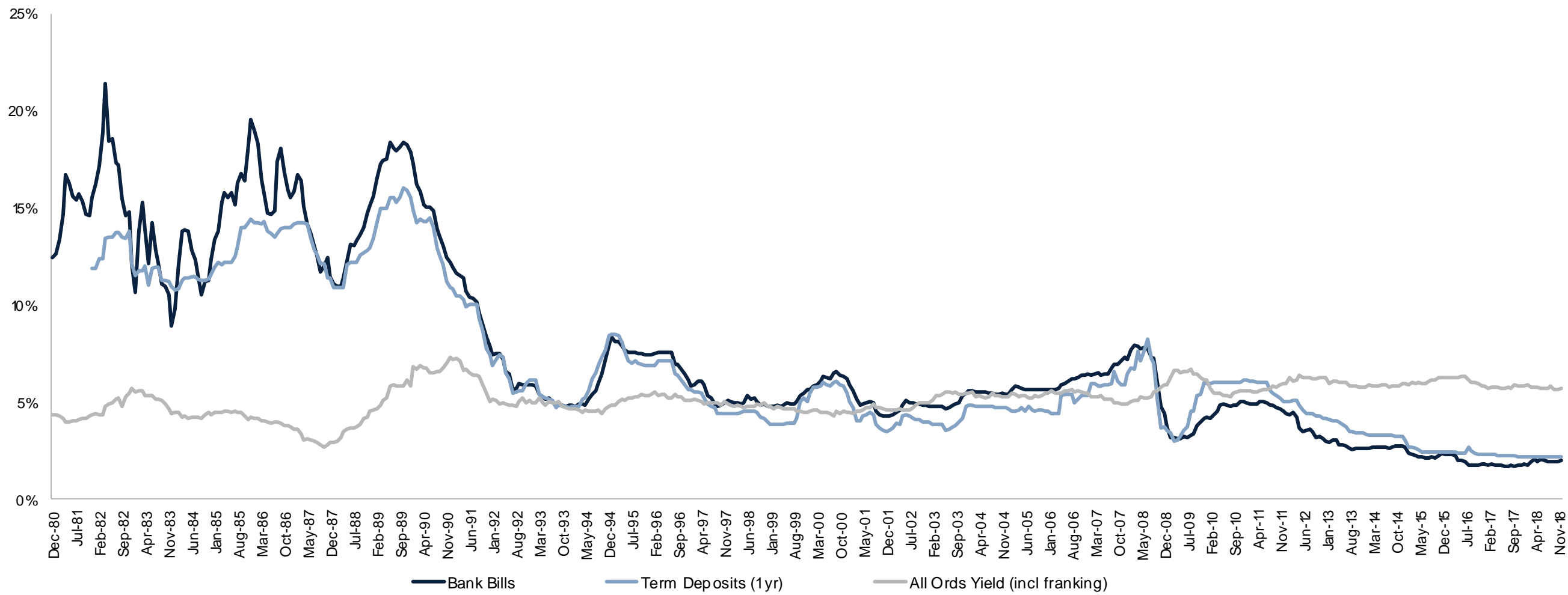
FY 2019: a dividend bonanza in Australia

BUT NOT IN THE USUAL PLACES!

- Record gross income for Plato Australian Shares Income Fund
 - 16.4% gross yield for FY19 versus normal 9%
- Buy-backs significant
 - RIO and BHP release \$10B in cash + franking
- Strong increases in dividends (+37%) in March quarter
 - Alumina (+65%), Fortescue (+172%). RIO (+158%), BHP \$7B special
- Some companies flushed out franking before election/potential ALP proposal
- But we expect dividends to normalise post 30 June 2019

Australian dividends have been remarkable stable

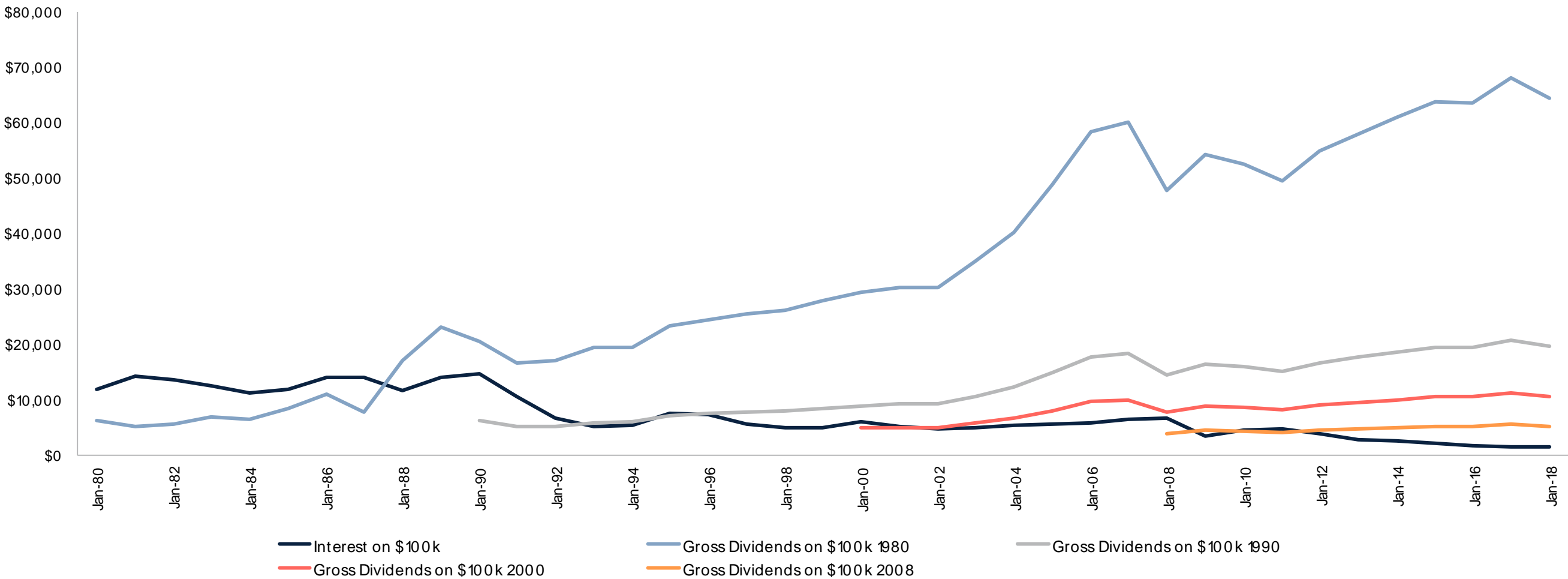
GROSS DIVIDENDS V CASH/BONDS



Source: Plato, RBA, S&P, invest \$100k at the start of the year

Comparing the income from \$100k investment

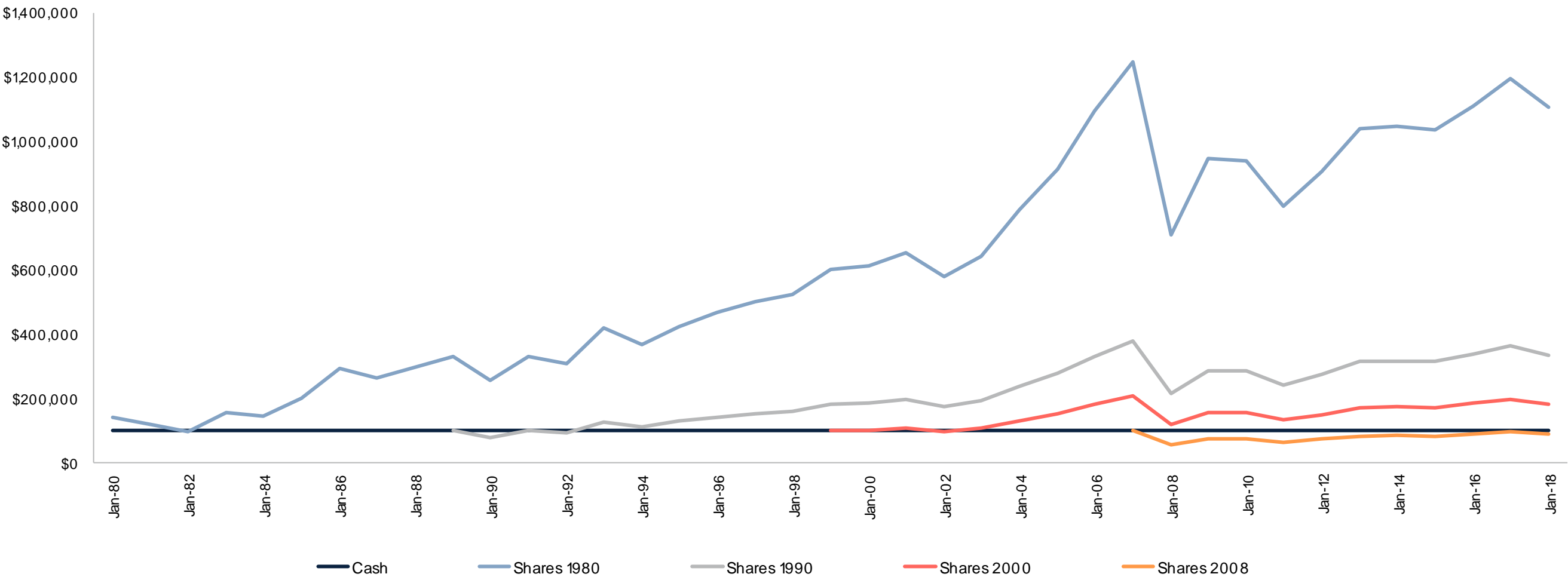
CASH VERSUS ALL ORDINARIES GROSS DIVIDENDS



Source: Plato, RBA, S&P, invest \$100k at the start of the year

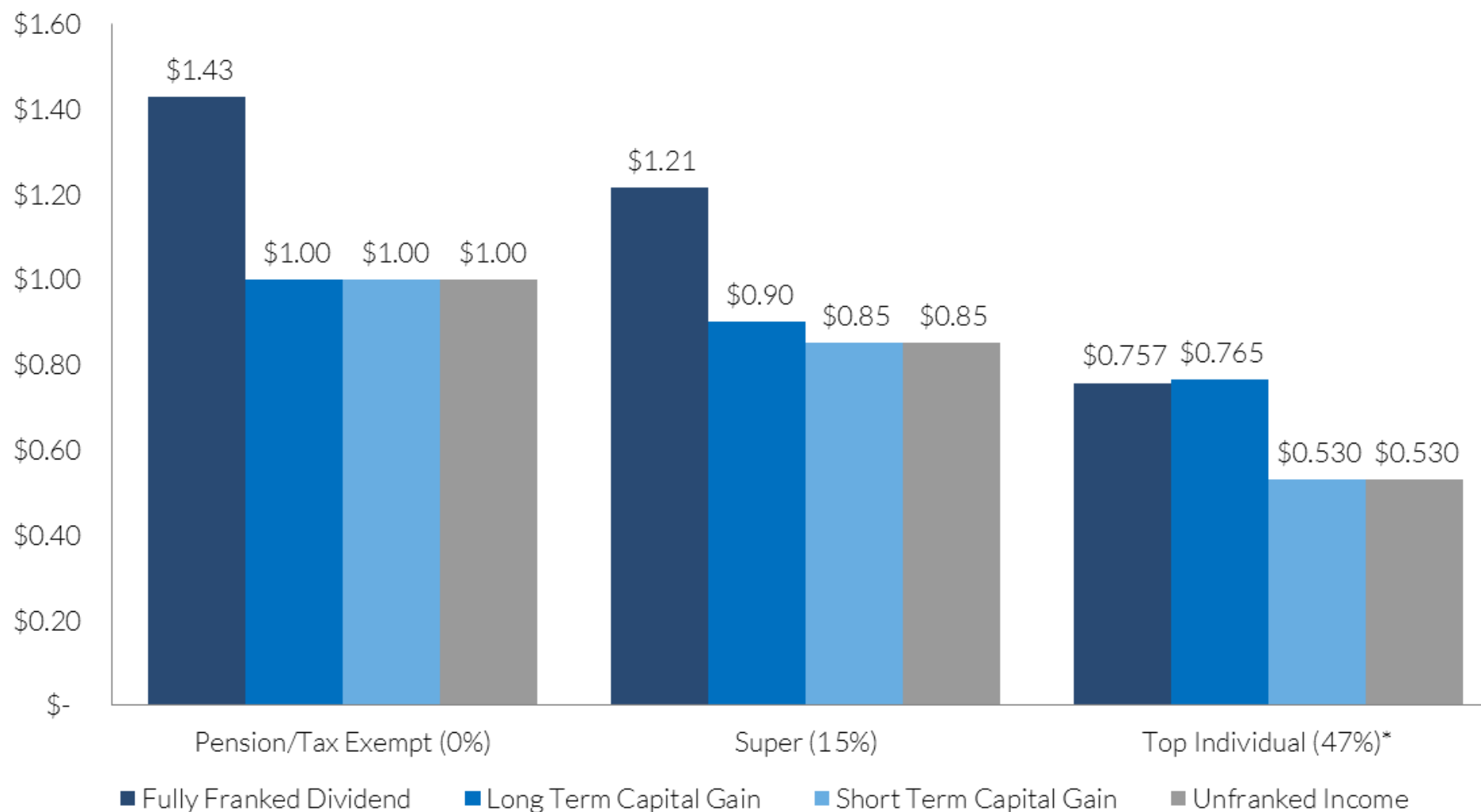
Comparing the capital from \$100k investment

CASH VERSUS ALL ORDINARIES GROSS DIVIDENDS



Source: Plato, RBA, S&P, invest \$100k at the start of the year

Pension phase super tax rates are different



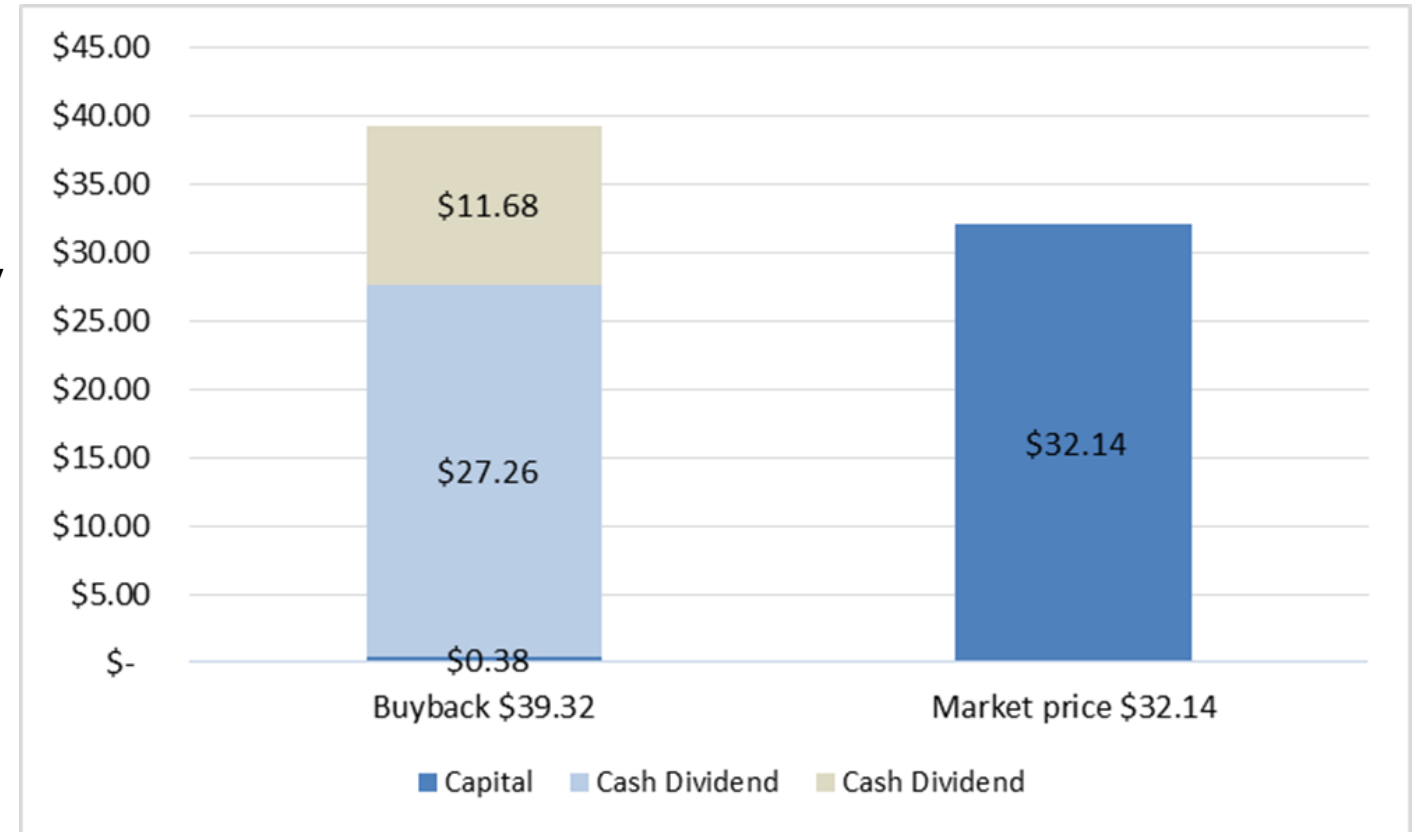
Tax effectiveness depends on your tax status!

Source : ATO, Plato using 1 July 2017 tax rates including Medicare levy. After tax value of \$1 of pre-tax return)

Strategy will participate in tax effective buy-backs

BHP BUYBACK – WORTH 21% AFTER TAX FOR ZERO TAX INVESTORS

- A\$7.3B off market buyback - 8.3% of shares on issue
- Worth 21% for pensioners for every share successfully tendered, 59% scaleback*



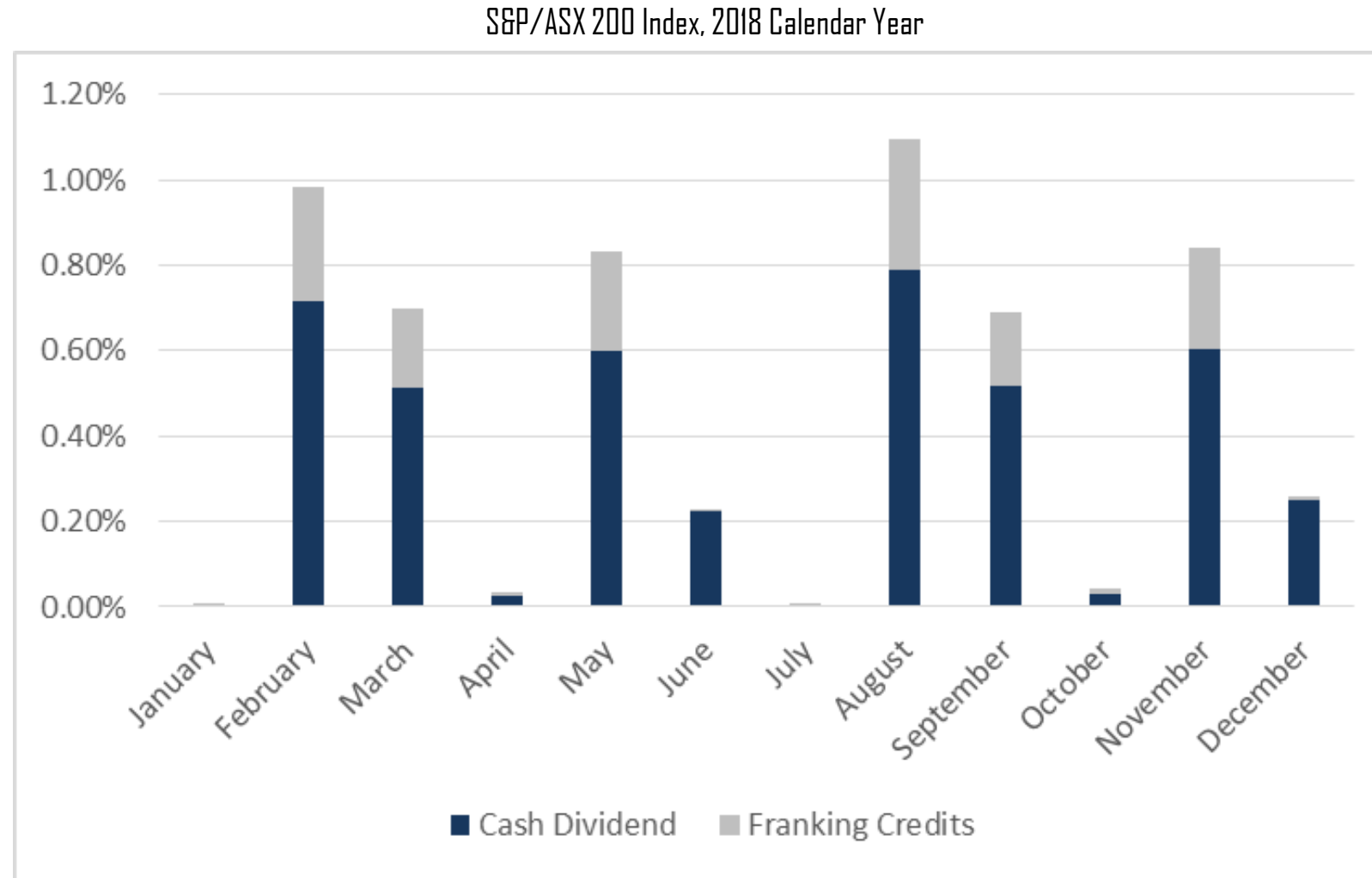
Source: Plato, BHP announcement 17/12/2018.

*based on closing price on 14/12/2018.

Highlights value of franking credits

Dividends are paid twice a year in Australia

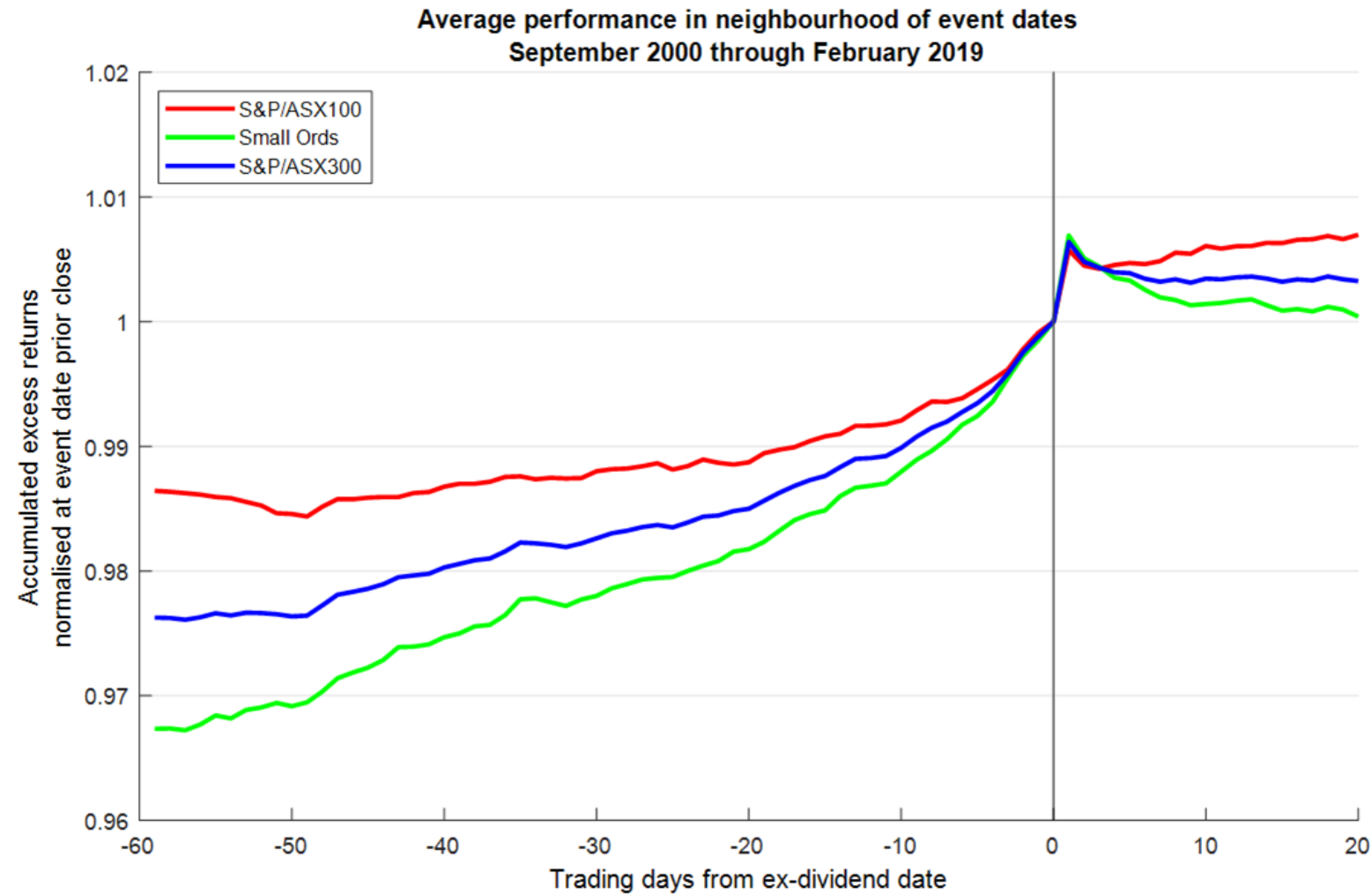
SO WHY ADOPT A BUY AND HOLD STRATEGY?



Source: Plato, Iress

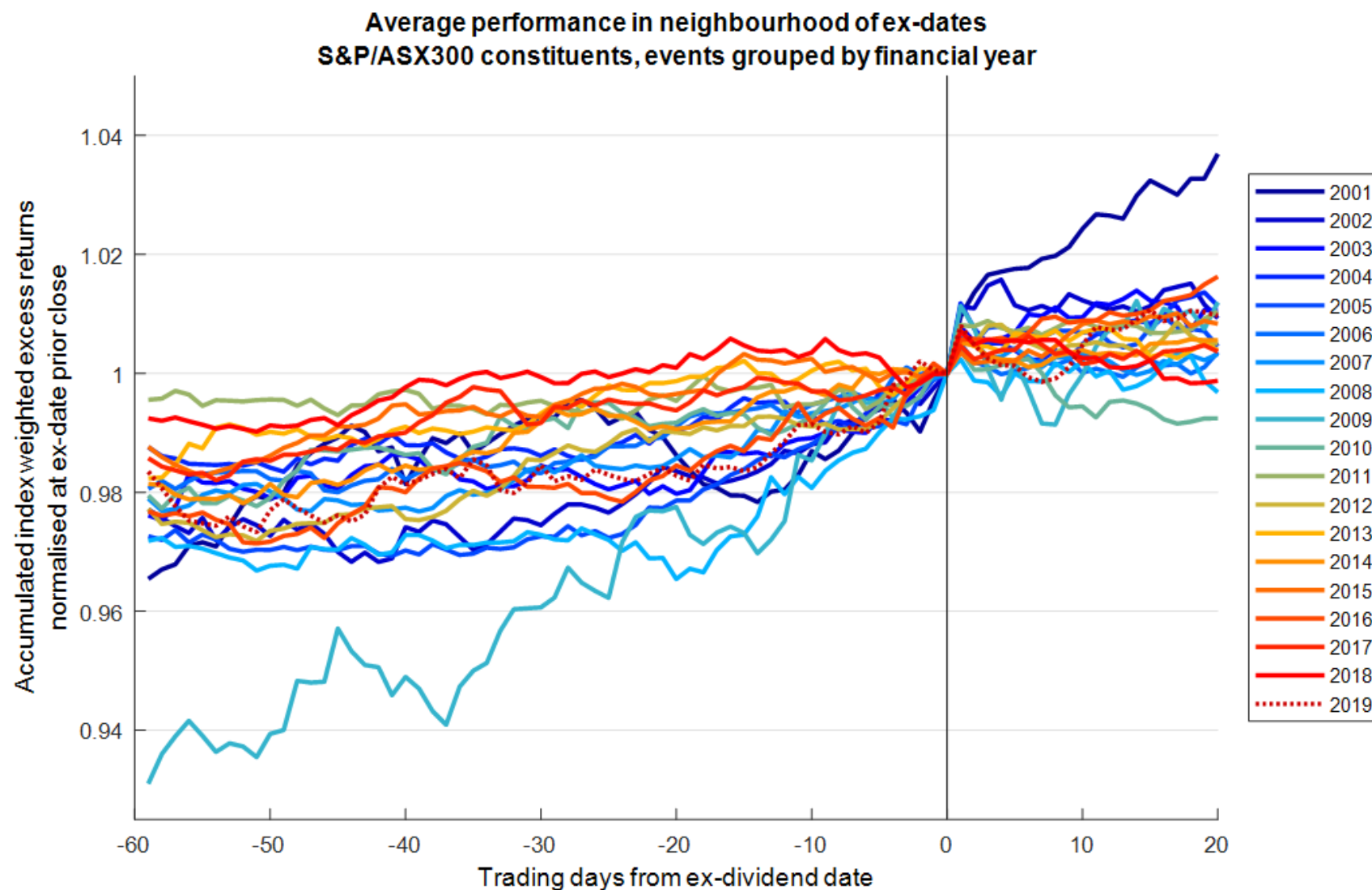
Dividend run-up effect in Australia

OPPORTUNITY TO ADD VALUE BUYING STOCKS CUM
DIVIDEND



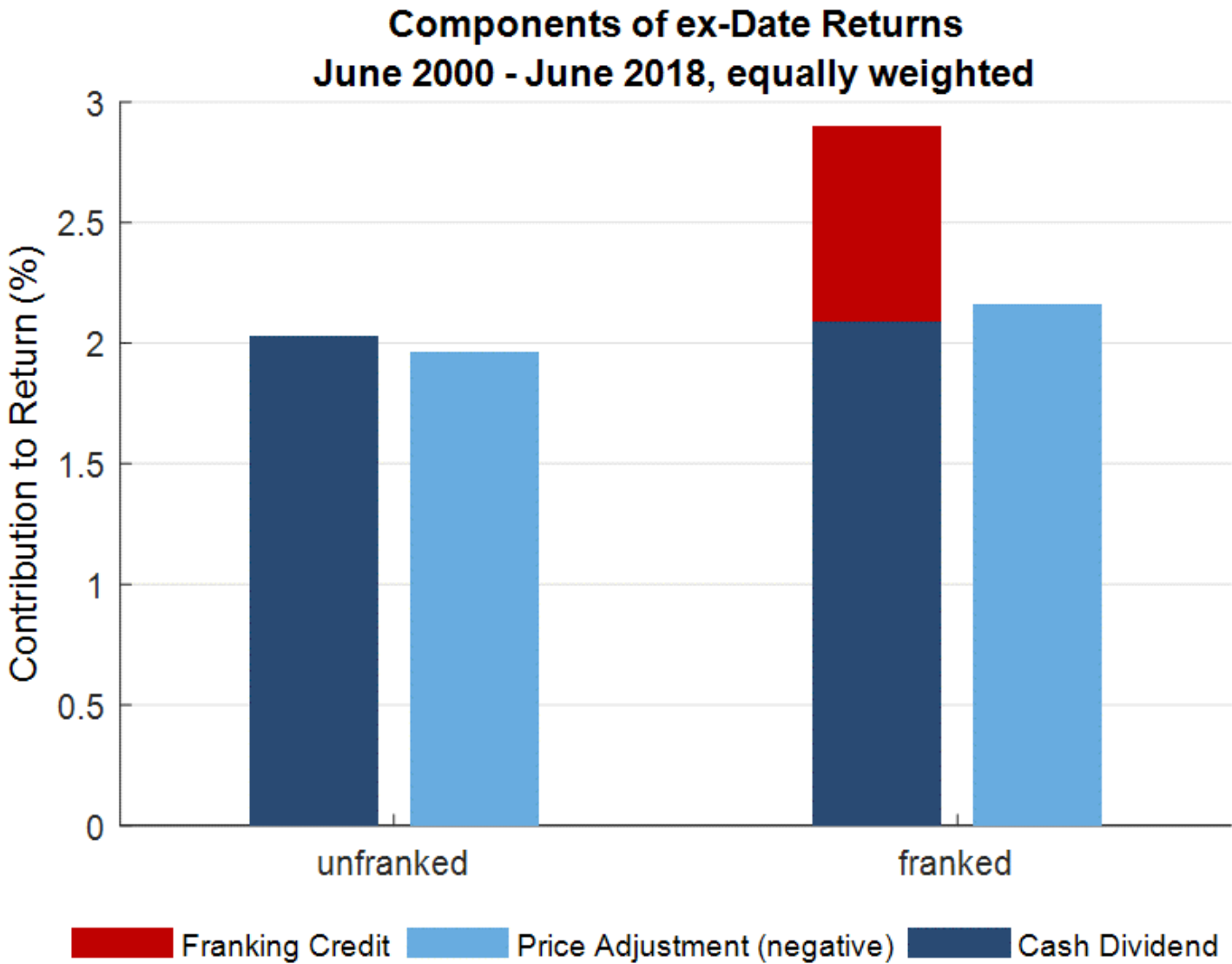
Source: Plato, Iress. Note performance includes franking credits receivable on the ex date (day+1)

Run up for each calendar year, includes franking credits



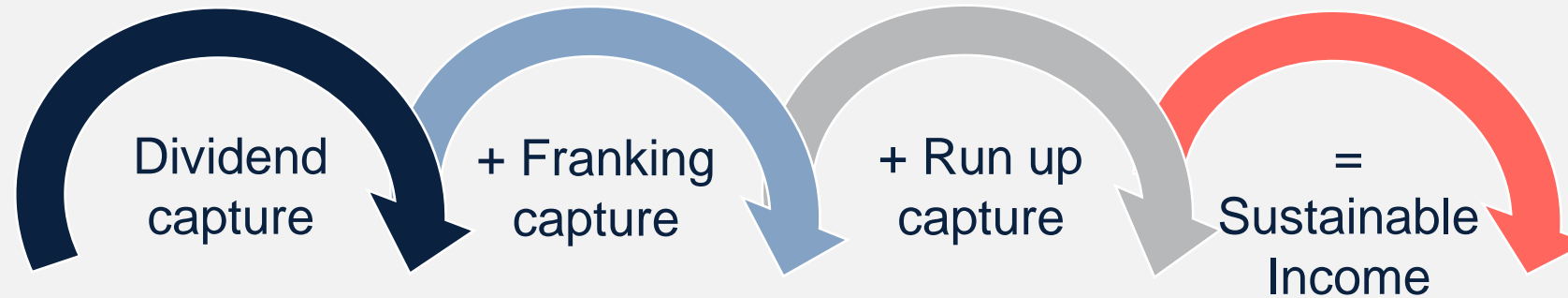
Source: Plato, Iress. Note performance includes franking credits receivable on the ex date (day+1)

Ex-date price adjustment by FY year



Source: Plato, Iress.

Dividend rotation combined with good value quality long term holdings provides income plus growth



Good value, quality long term holdings:

Good Value – Earnings, cash flow, EBITDA

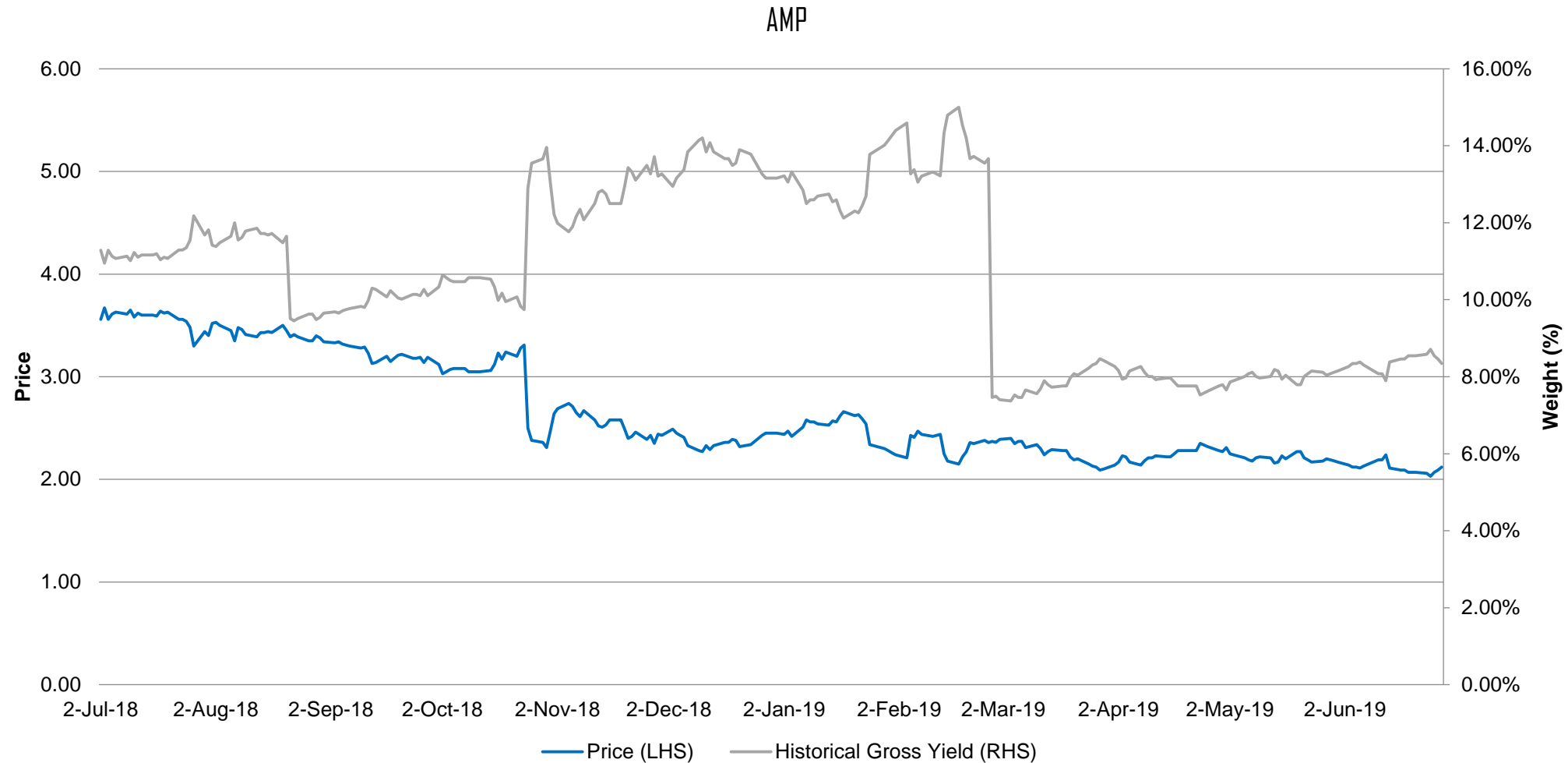
High Quality – low red flags

Good business momentum – EPS revisions

Predict and avoid dividend traps

Winning by not losing - avoiding dividend traps

AMP UP TO 15% GROSS HISTORICAL YIELD



Source: Plato, Iress

Dividend Traps

YEAR TO 30 JUNE 2019

Dividend Traps				Investment Reasoning				
Stock	Date of Divd	Div'd Cut (%)	Return (%)	Yield	Runup	Value	Momentum	Reasoning
AMP	22-Aug-18	-40%	-10.2	✓	✗		✗	Poor business momentum, suffering after royal commission revealed poor business practices.
Fletcher Building	Sep-18	-100%	-11.0		✗		✗	Poor business momentum, suffering from write downs from some of its contracts
Nufarm	4-Oct-18	-22%	-29.6		✗	✗	✗	Poor value and business momentum, reported a fall of 28% in its underlying net profit.
AMP	27-Feb-19	-72%	-0.2	✓	✗		✗	Poor business momentum, suffering after royal commission revealed poor business practices.
Lend Lease	1-Mar-19	-65%	2.6		✗		✗	Poor business momentum, suffering after reporting problems in its engineering business and weakening housing market.
Pact Group	1-Mar-19	-100%	-21.8		✗	✗	✗	Poor value and business momentum, cut its dividend to zero after its business is under sustained pressure.
Adelaide Brighton	1-Mar-19	-8%	-0.6	✓	✗	✗	✗	Poor business momentum, suffering from weakening housing market.
Nufarm	Apr-19	-100%	-41.5		✗	✗	✗	Poor value and business momentum, cut its dividend to zero after its business is under sustained pressure.

Source: Plato, Iress

Plato Australian Shares Income Fund – before and after franking

PAST PERFORMANCE TO 30 JUNE 2019 AFTER FEES

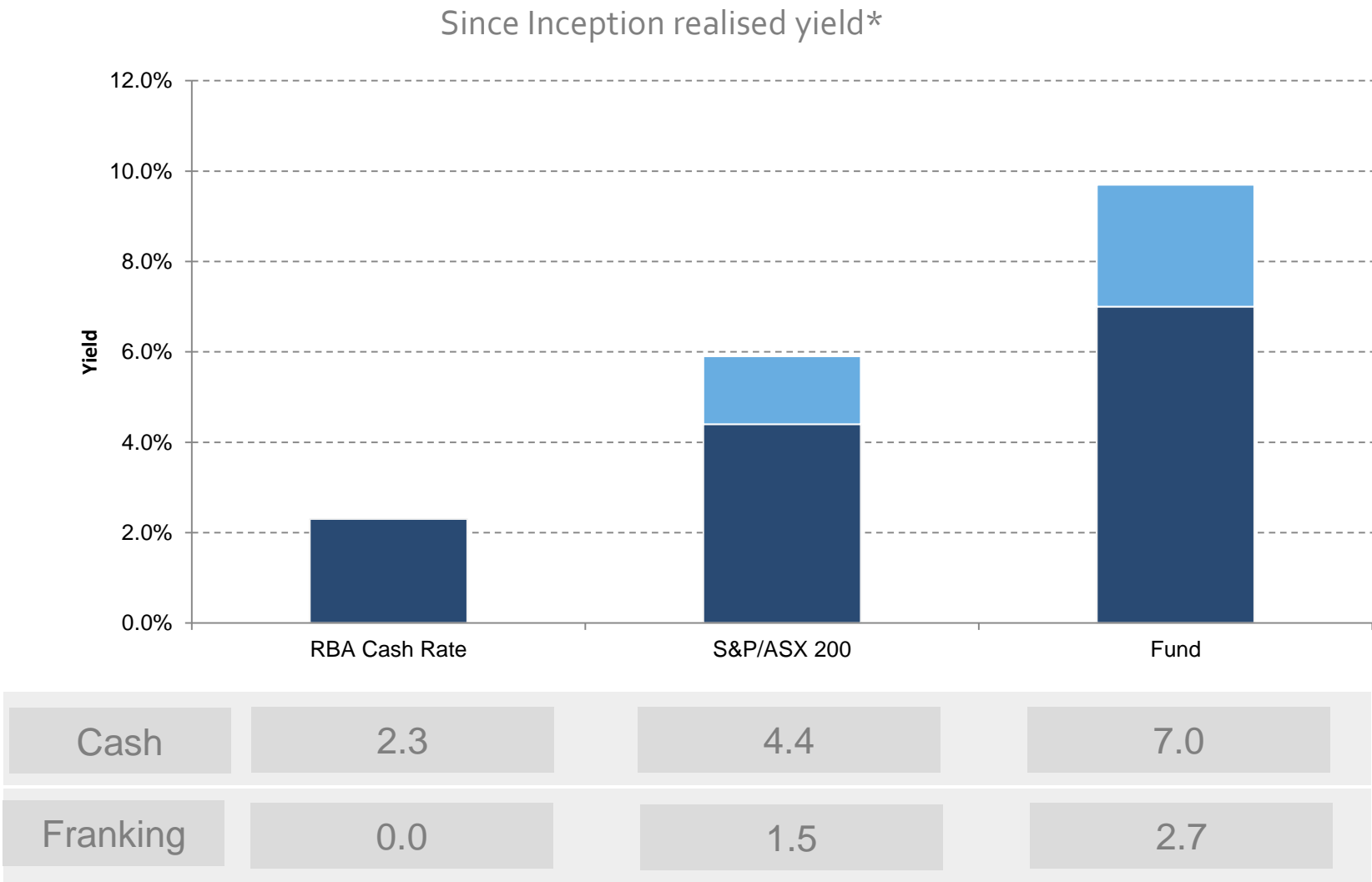
	1 year	3 years p.a.	Since Inception p.a. (9/9/11)
Excluding Franking			
Plato Income	9.5%	10.6%	10.5%
S&P/ASX200 Accumulation Index	11.5%	12.9%	10.8%
Active	-2.0%	-2.3%	-0.3%

	1 year	3 years p.a.	Since Inception p.a. (9/9/11)
Including Franking			
Plato Income with Franking	14.9%	14.3%	13.5%
S&P/ASX200 Tax Exempt	13.4%	14.6%	12.5%
Active	+1.5%	-0.3%	+1.0%
Active Difference	+3.5%	+2.0%	+1.3%

Past performance is not a reliable indicator of future performance

Plato Australian Shares Income Fund

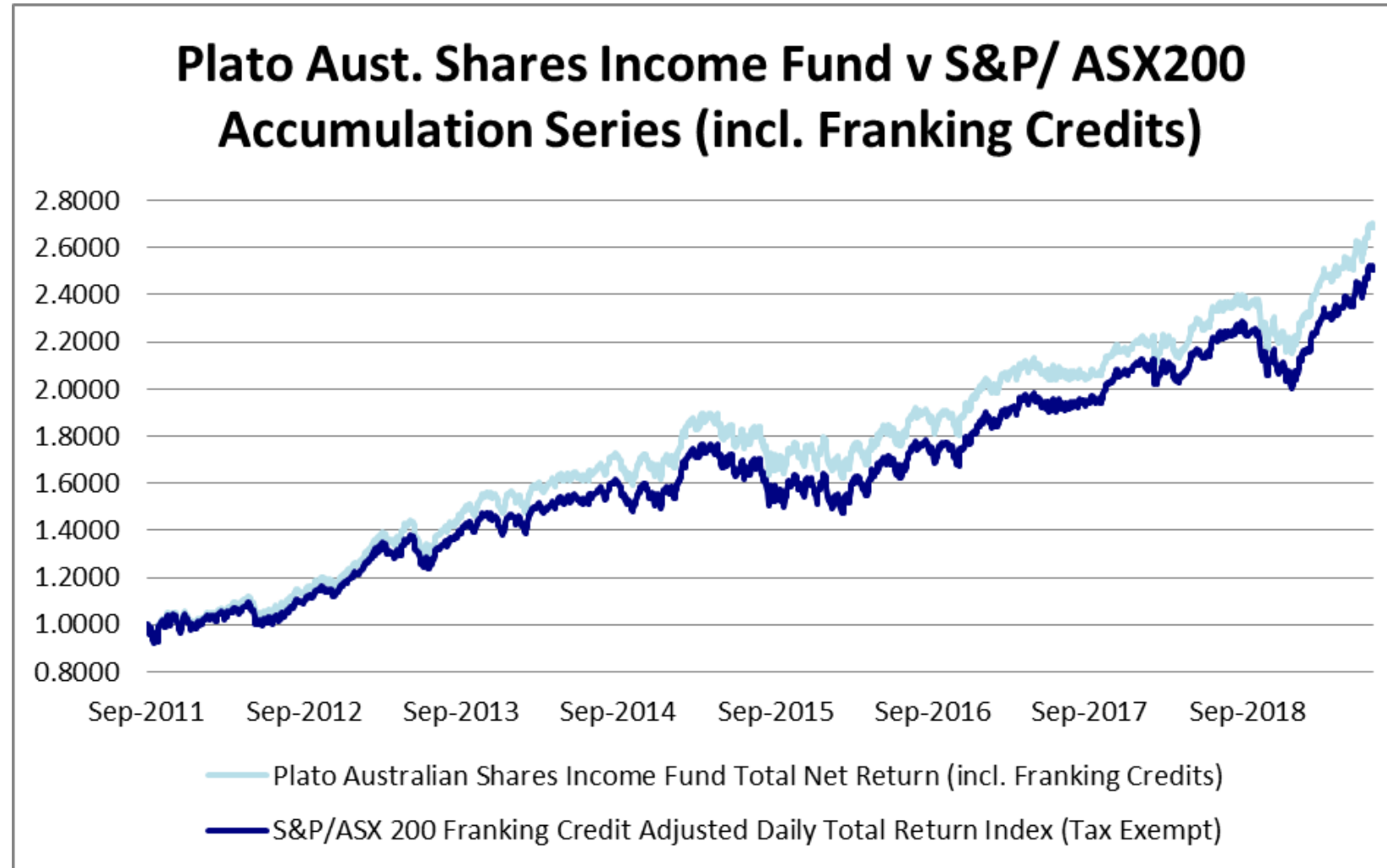
CONSISTENTLY DELIVERS HIGH INCOME



*to 30 June 2019 after fees, Inception date 9/9/2011

Chart of Plato Australian Shares Income Fund Performance

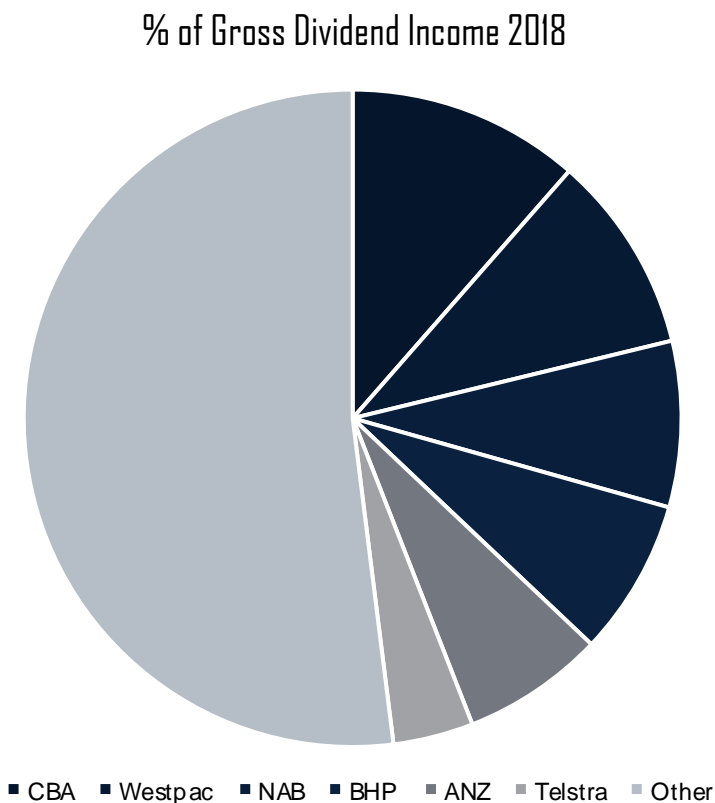
PERFORMANCE TO 30 JUNE 2019 AFTER FEES



Past performance is not a reliable indicator of future performance

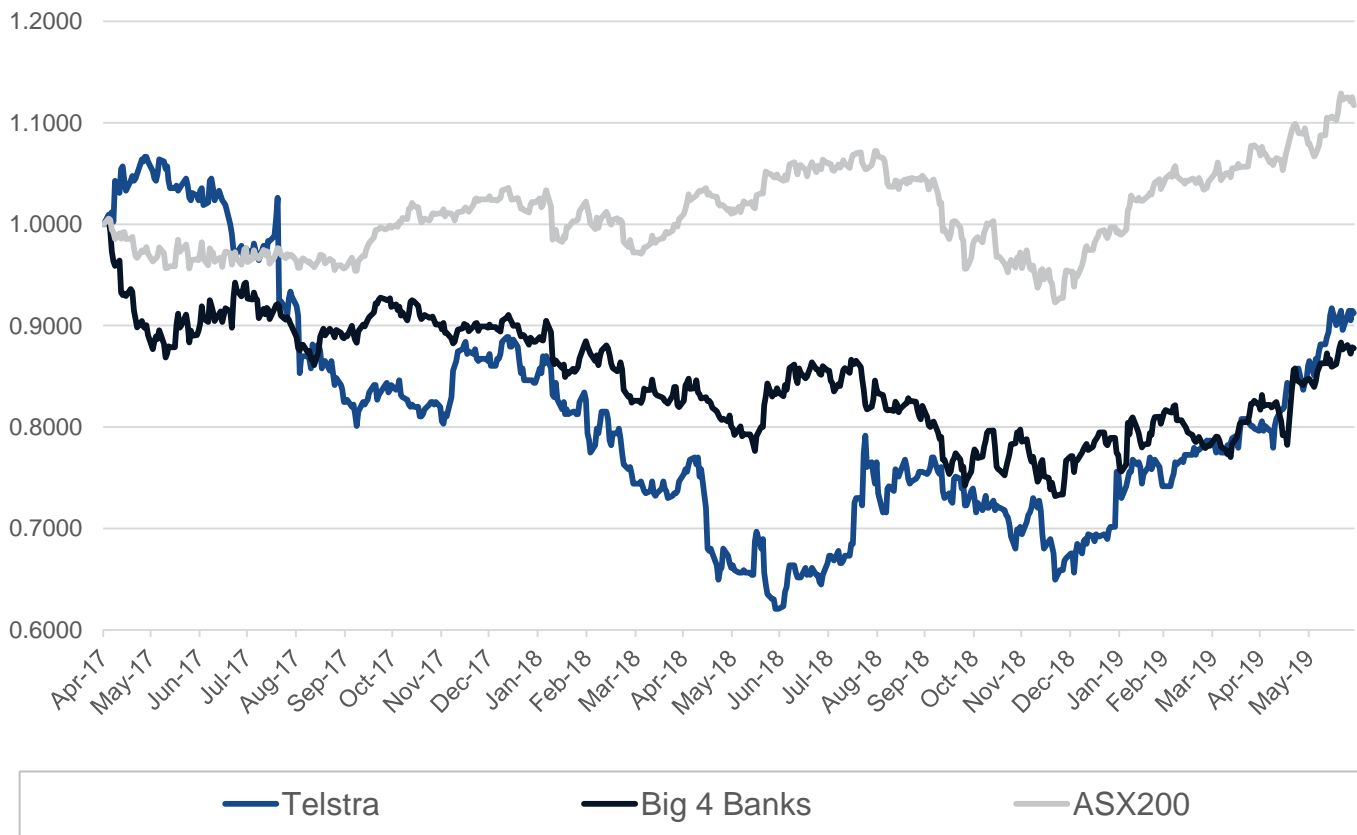
Australia is poorly diversified

6 STOCKS ACCOUNT FOR NEARLY HALF OF ALL DIVIDENDS



Source: Plato, Iress S&P200

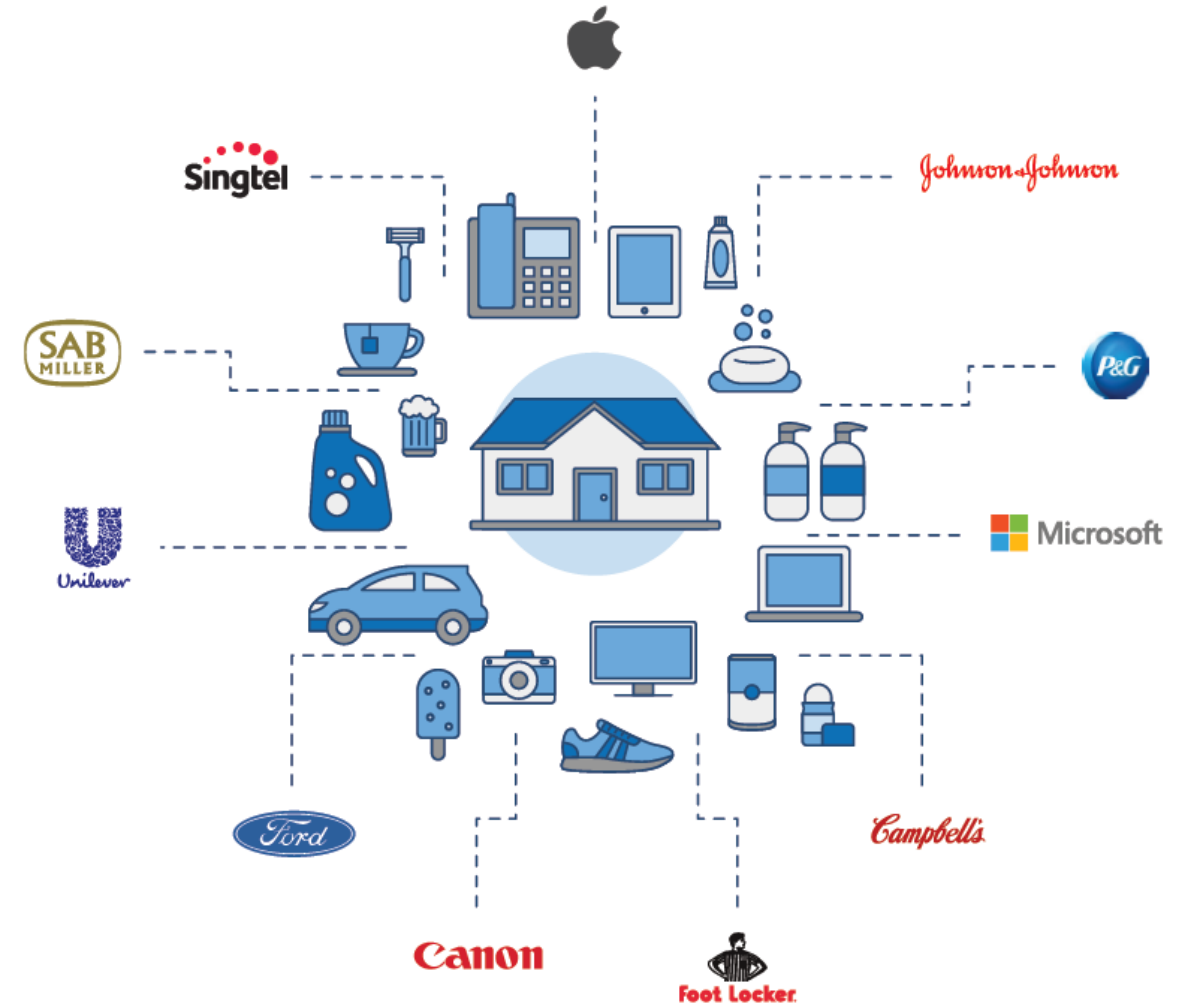
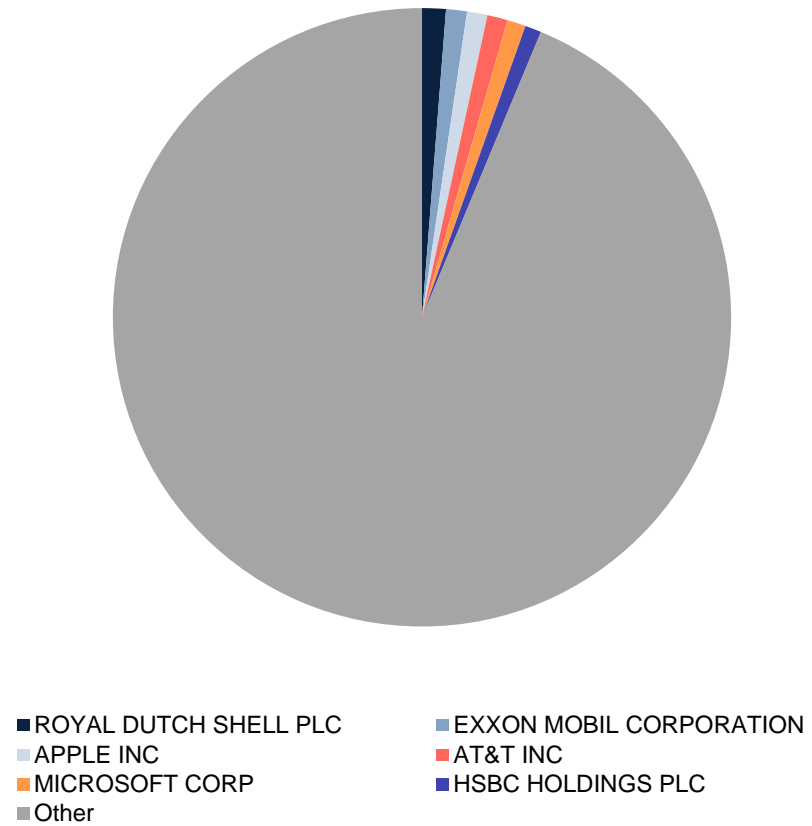
Price Performance



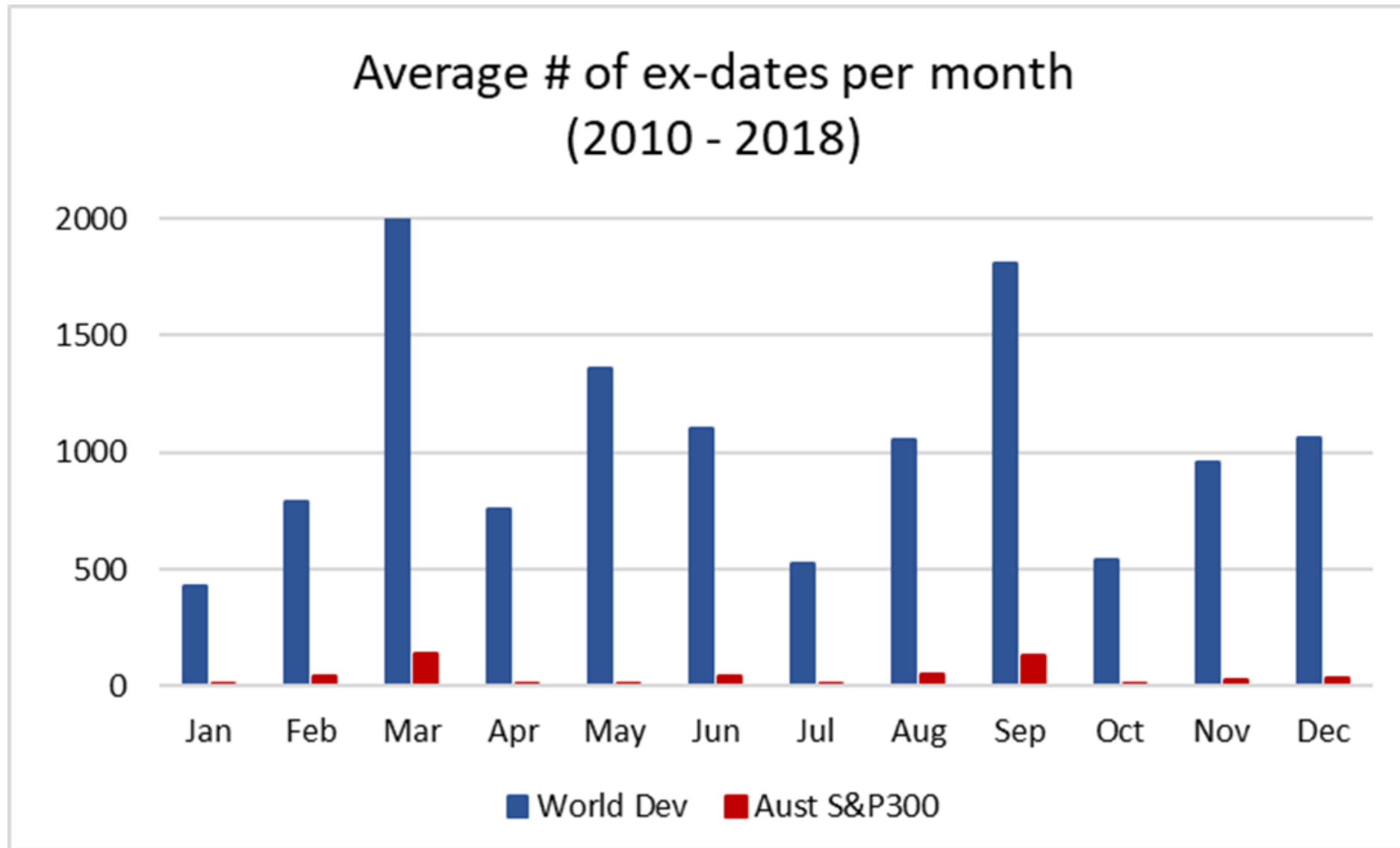
Domestic Income is concentrated!

The world is your oyster

% of Global Dividend Income 2018

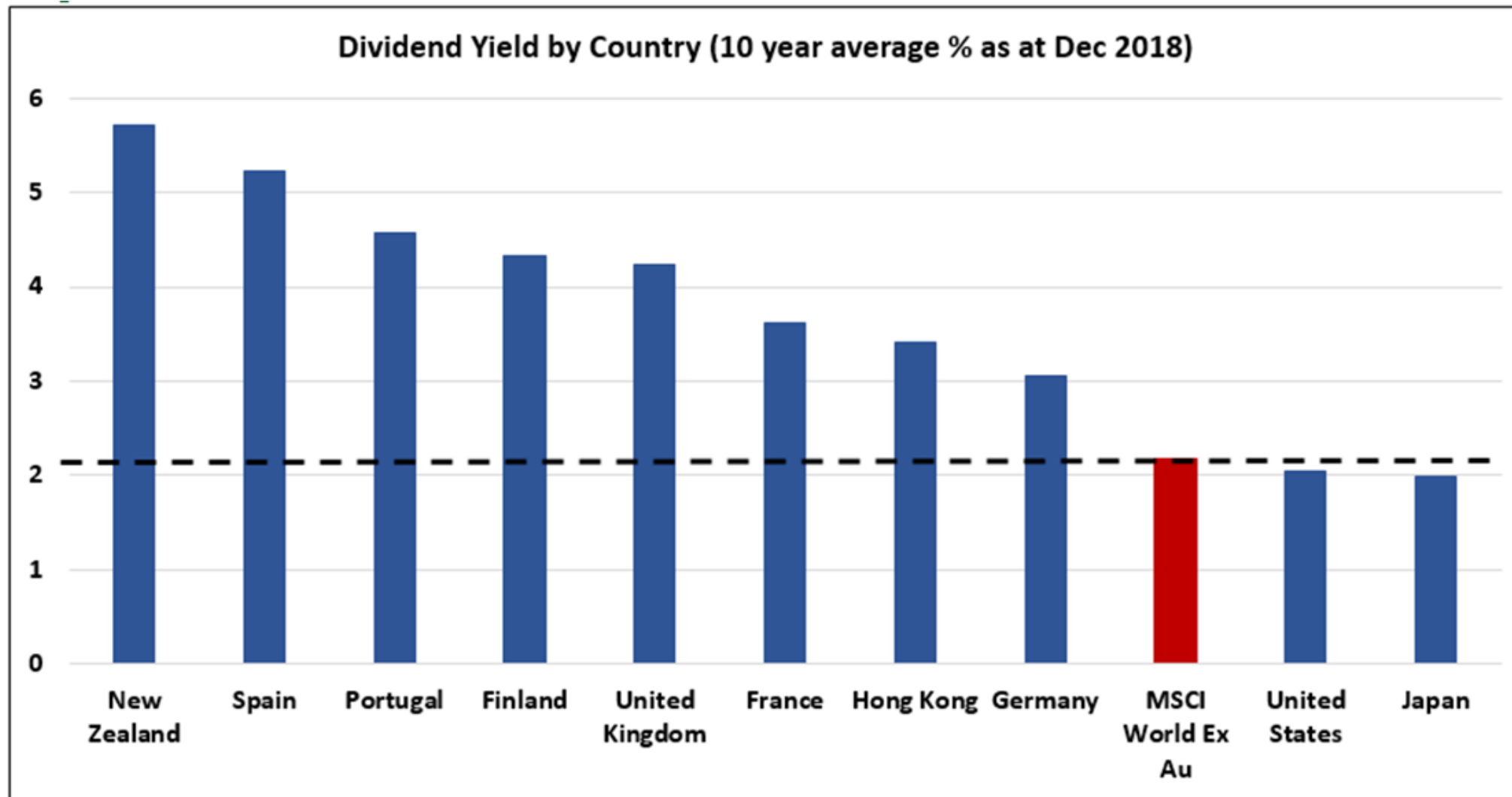


Global dividend opportunity set is vast



Source: Plato, Factset.

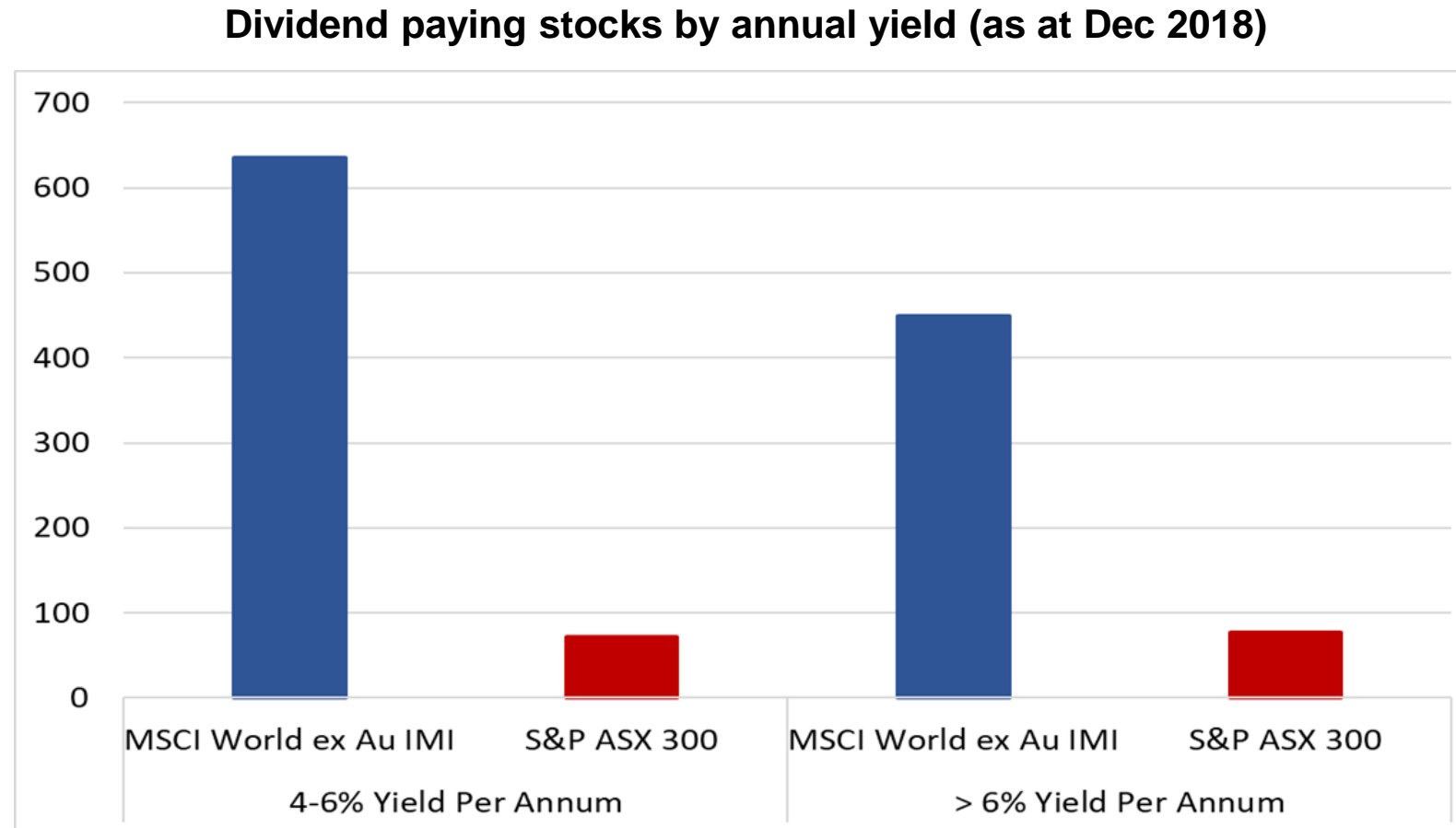
High yield does exist in global markets



Source: Bloomberg, Plato

Highlights value of franking credits

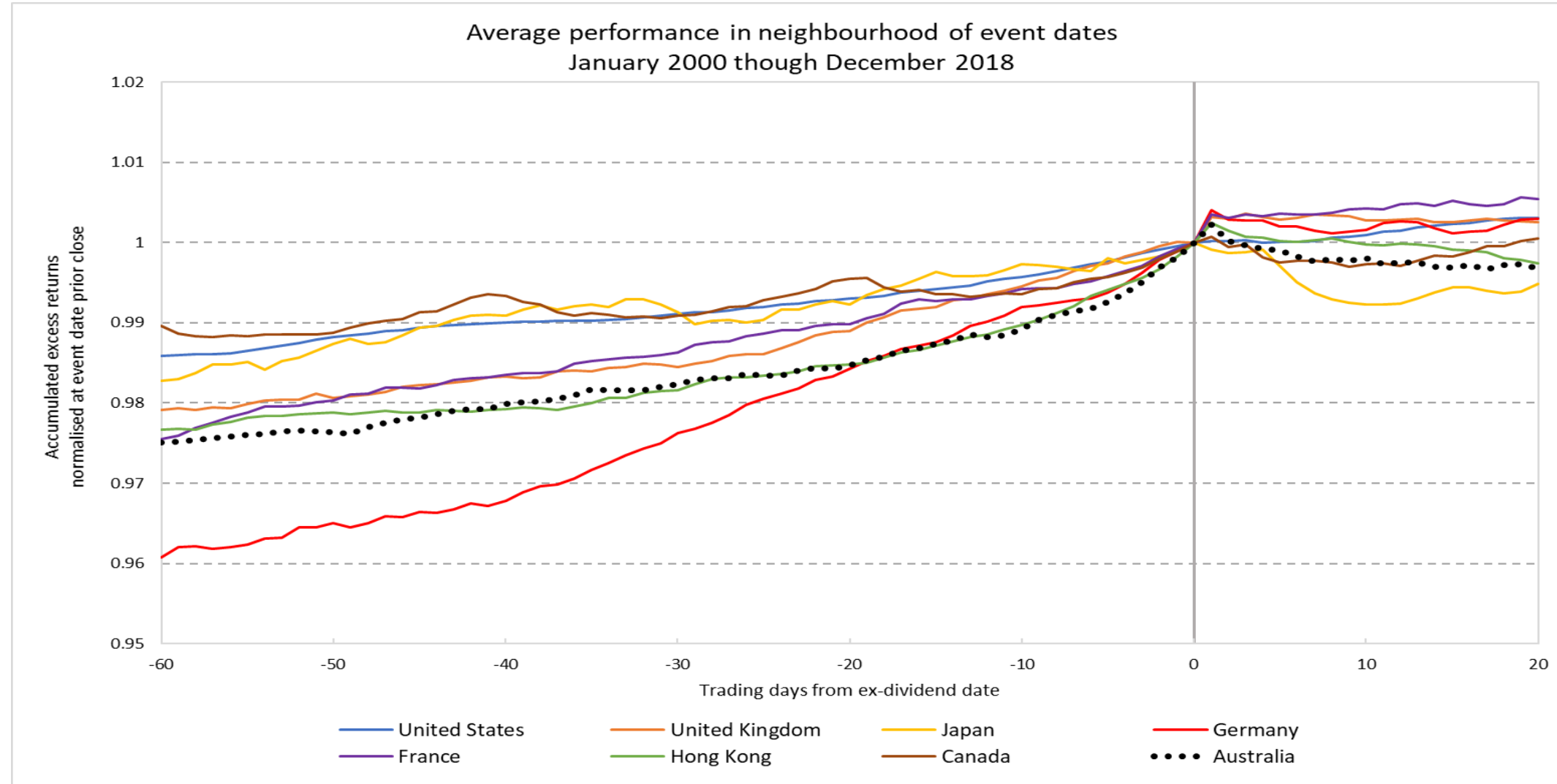
Large number of high yielders



Source: Factset, Plato

Global dividend run-up effect

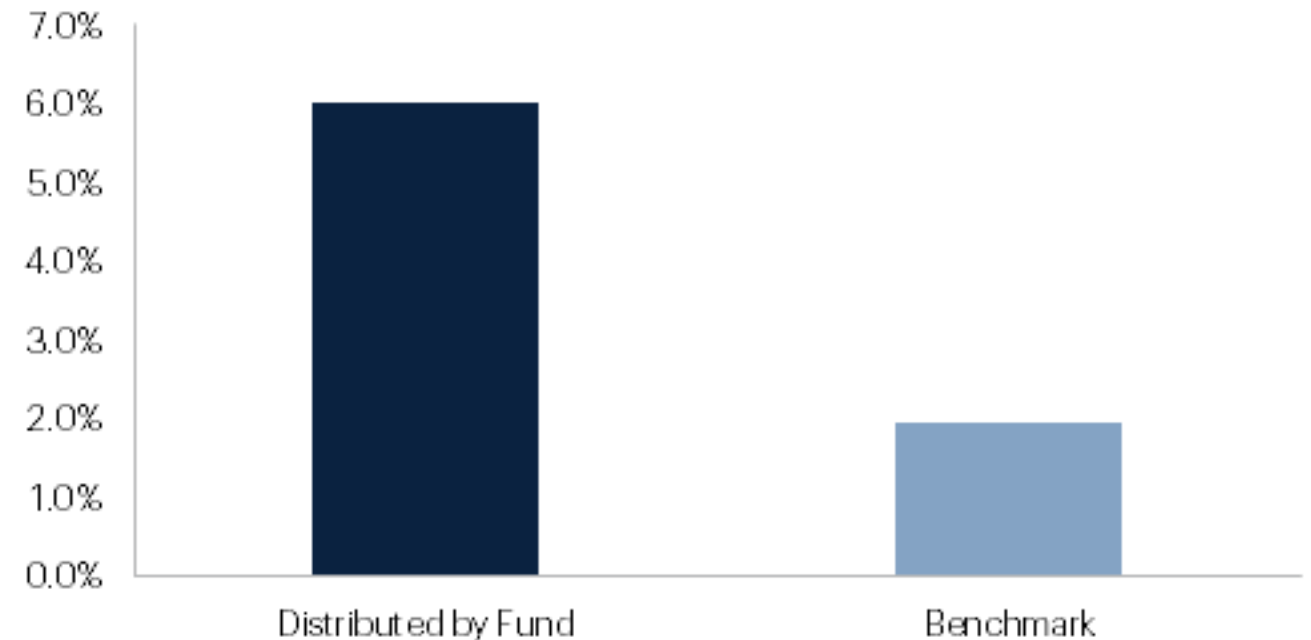
DIVIDEND PAYERS RALLY INTO THEIR EX-DATE



Source: Plato, Factset Returns are plotted versus respective country's MSCI IMI, withholding taxes removed on the ex-date.

Can global equities provide income for retirees?

- Income is still hard to find
- The diversification benefits of global shares are well known
- Global shares can provide significant dividend opportunities



Net Yield per annum after fees and taxes since Plato Global Shares Income Fund (Class A) inception 1 March 2016. Data as at Apr 2019.

Past performance is not a reliable indicator of future performance.

Highlights value of franking credits

Summary

01

Interest rates to remain lower for longer

02

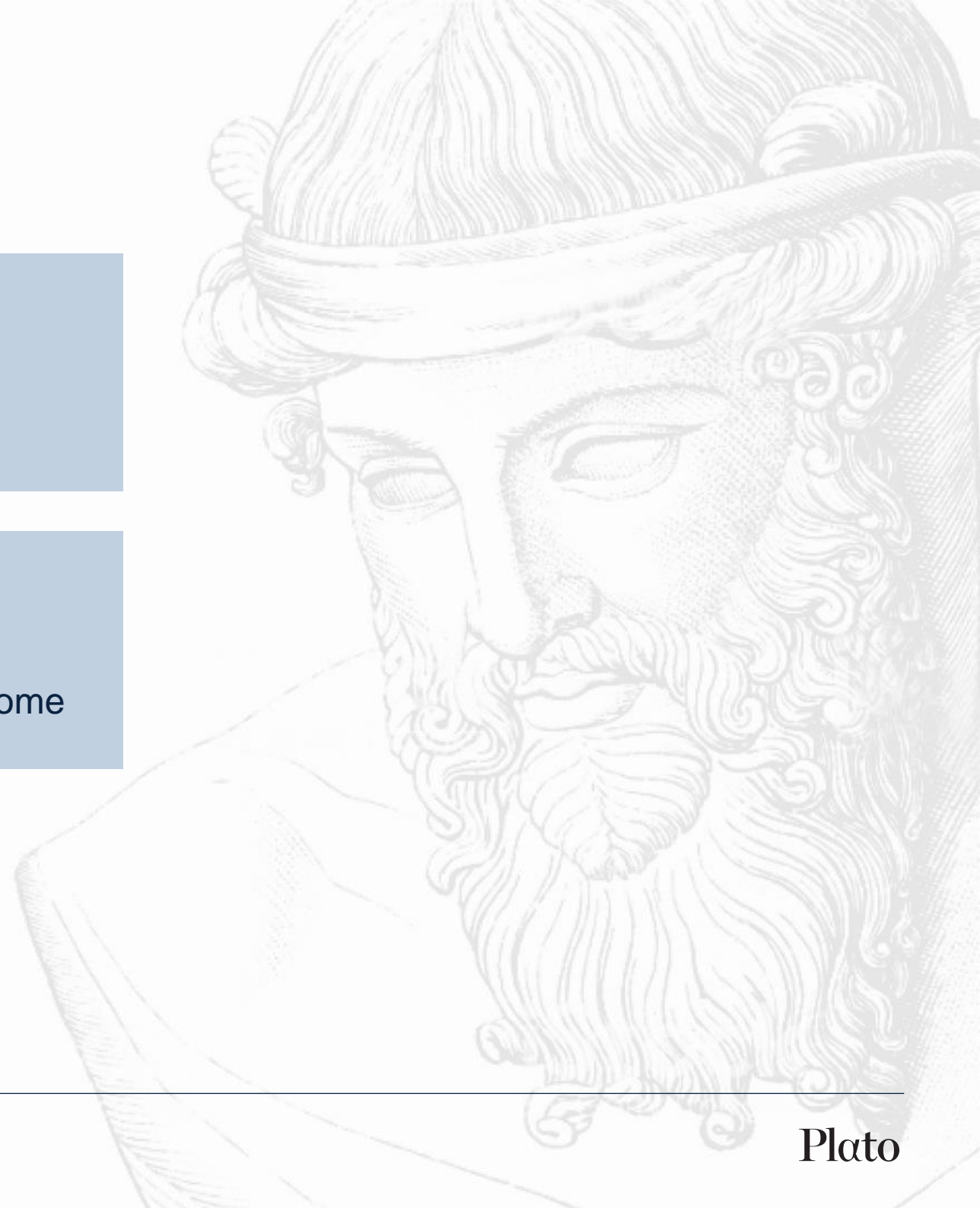
Equities can provide strong income and capital growth

03

Record Australian dividend “bonanza” coming to an end

04

Diversification and avoiding dividend traps are key to income investing



Retirement Solutions and Income Specialists

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