Income Watch

Multi-Manager Distribution fund income update

Edition 6 – September 2020

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Telephone calls may be recorded.

Key risks

The value of investments and any income from them can go down as well as up and investors may not get back the original amount invested.

The information, opinions, estimates or forecasts contained in this document were obtained from sources reasonably believed to be reliable and are subject to change at any time.

Income payments remain under intense scrutiny and pressure right now from a number of angles. Given the importance of income to many of our clients, and its role as a key driver of total returns for all investors, we are regularly sharing our observations and factual information with you.

Q Why are dividend payments under pressure?

The unknown ultimate scope of the economic impact of the coronavirus pandemic and associated lock-downs etc. is causing some companies to prioritise retaining cash over distributing equity dividends.

Q Do companies have to cut dividends?

In most cases it is voluntary, and many companies will want to preserve their dividend history through any relatively short-lived problem.

However, governments and central banks are forcing certain industries to cease pay-outs and share buybacks. This has already happened with the banking sector in the UK and Europe. This also makes it easier for boards in other sectors to cut or suspend dividends. There has been anecdotal suggestions that banks may be allowed to return to the dividend register in Q1 2021 – we will keep you posted. There is also pressure on companies that receive any state support in this crisis to suspend dividends.

Q Is the impact different in each asset class?

Equity dividends can be suspended, maintained, cut, deferred and even cancelled after they have been announced. They can of course also still potentially be increased.

Most bonds are contractual, so their interest payments cannot be cut unless agreed with the bond holders.

Funds enhancing income from covered call option writing may see some positive impact from the heightened volatility.

What is the likely impact on the BMO MM Navigator Distribution Fund's Monthly and Quarterly income units?

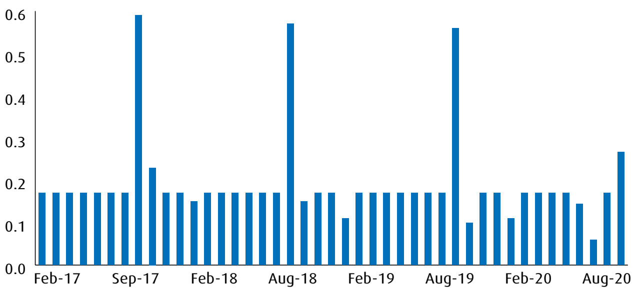
The impact on the income from our fund is continuing to develop. We provide the latest information and views below and will continue to do so on an ongoing basis in this report.

Monthly Income Units

The table below shows the monthly pence per unit payments, up to and including the ex-dividend amount for the end of August which is the distribution of all remaining income as it is the fund's financial year end. The amount expected to be paid is 0.267 pence per, and is due to be paid at the end of September.

There is the usual further caveat in that it is possible for already declared income payments to be cancelled – this is highly unusual, and unlikely in our view unless there are further very serious developments.

BMO MM Distribution M Income XD rates



Source: BMO Global Asset Management as at 31-Aug-20

The total payments for the year ended 31st August fell by 21%. This compares to the UK stock market as a whole falling by an estimated 57%, the better outcome reflecting the diversification benefits of the fund and active management.

From this point on it is probable that income payments will improve over the year ahead, closing some of the gap for investors. Economies are already improving, albeit not back to pre-Covid-19 levels.

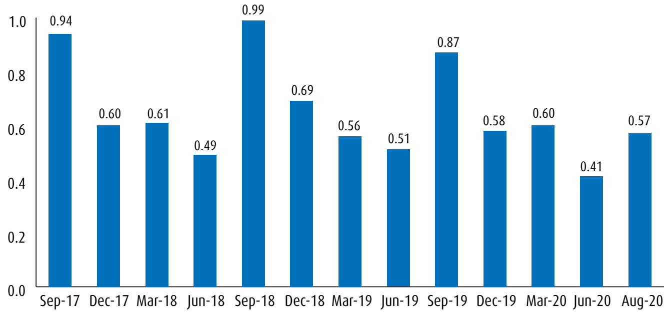
It is our intended policy in the new financial year for the fund just started to keep paying the smoothed monthly income amount from our fund whenever possible, or if necessary, a smaller sum representing all income received will be paid out.

Quarterly Income Units

The table below shows the quarterly pence per unit payments for the last twelve months for the C Inc share class, up to and including the ex-dividend amount for the end of August of 0.57 pence, due to be paid at the end of November.We intend, in the fund's new financial year just started, to continue to pay out as much income as we have at each quarter, rather than suspend.

We do anticipate an increase in income overall for the year ahead, Please keep an eye on future issues of this report for updates.

BMO MM Distribution C Inc XD rates



Source: BMO Global Asset Management as at 31-Aug-20

What other information can you provide about the outlook for income?

The purpose of this report is to keep you informed as the situation develops, and to provide as much up- to-date information as we can about the impact on payments from our Distribution fund as we become aware of them.

We will also be looking to reduce the impact through our active management of the portfolios we run whilst keeping to their objectives. Whereas as it is clearly difficult to avoid the impact of government controls on banks etc, it is possible to take advantage of the higher yields now available in corporate bonds for example.

In many cases it is highly likely, in our opinion, that some unpaid dividends will be paid later when conditions are normalising. In fact, many of the dividends being passed relate to profits from prior to the pandemic.

BMO MM Navigator Distribution Fund:

Detailed Analysis of Underlying Funds going XD since our last report:

Looking ahead, the Distribution fund holds 33 underlying positions, and of these we expect 6 to go ex-dividend in September. Some of the payment dates will be captured by the monthly share class, all will be captured by the quarterly share class. With the information we have at the moment the outcome

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is shown in the table below, and in summary:

- 1 holding increased income, by an average of 3%
- 2 maintained their dividends at the same level
- 3 reduced by 24%

Have we received any future guidance from other holdings, or other interesting dividend info during the last month?

End August / Start September

SEDOL	Fund Name	XD date	Pay Date	Latest Rate (p)	YoY Prev Rate (p)	% change
BYSYZN9	Fidelity Global Enhanced Income A W IM	01-Sep	18-Oct	0.47	0.47	0%
B0HWJ90	Schroder Income Maximiser A Inc	01-Sep	30-Oct	0.5415	0.9184	-41%
B8BG8H5	TwentyFour Dynamic Bond M IC	01-Sep	30-Sep	35.8301	34.9406	3%
B46M9G6	Ashmore EM Total Return I D	03-Sep	14-Sep	0.249592	0.312568	-20%
PSSL LN	Pollen Street Secured Lending	10-Sep	09-Oct	12	12	0%
LXI LN	LXI REIT	17-Sep	TBC	1.3	1.4375	-10%
SQN LN	SQN Asset Finance	–	–	–	–	

- JP Morgan Cazenove reported on 7th September: 'The number of companies to have reinstate dividends continues to slowly rise. We have now tracked 28 companies in the FTSE 350 reinstating or reintroducing dividend payments. 124 companies' latest dividend action remains a deferral, non-declaration or cut, and 104 companies have maintained or raised their dividend since the onset of the crisis. The FTSE 100 currently offers a 3.8% 2020 dividend yield (4.3% 2021), the FTSE 250 3.1% (4.6%), the Euro Stoxx 600 2.9% (3.4%) and the S&P 500 1.7% (1.7%).
- Polar Capital Europe ex-UK Income announced its dividend for 2020 is 15% down.
- They comment 'Of the 15% dividend cut, 5% relates to this rotation to lower but safe yielding stocks. Another 5% relates to companies we think were primarily influenced by balance sheet considerations, and a further 5% that we think could have paid but did not for social and political reasons. This gives us confidence that the dividend-per-share power of the portfolio is not materially impaired and should recover nicely over the medium term. In addition, none of our holdings have thus far undertaken capital raisings, reassuring us they are well capitalised.

What have we mentioned in earlier guidance that is still useful to remember?

- On 19 May the UK Government announced that companies accessing the Large Business Interruption Loan Scheme for £50m or more will be required to suspend dividends.
- The FT reported on 4th August that 'UK companies have restored £1bn of dividends in recent weeks, providing a boost to investors.
- The IA announced during April that it has temporarily relaxed the need for Equity Income funds to have a yield of 90% of the FTSE All-Share Index yield for 12 months.
- The conversations with equity income managers continue to vary a lot – some now predicting income growth in the twelve months ahead, others maintained payouts. This is an improvement on as recent as two months ago when cuts were still on the agenda. With economies recovering this makes stability or better possible.

As can be seen from the above, diversification is likely to be very useful in delivering a better outcome for dividends, helping to maintain a market-leading income for the fund. We will keep asking questions here and provide further updates when received.

Portfolio actions taken and comments around them

- We continue to take advantage of the generally higher yields still on offer in the bond markets post Covid-19. We also believe the prevailing economic conditions will favour bond holders compared to before in terms of risk/reward. This should go some way to offset the default risk increasing in a weaker economic backdrop.
- The relatively high overseas exposure of the fund could offset some of the dividend cuts whilst the pound remains weak.
- In particular, the overweight towards Asia should help as several of these economies are less affected by the outbreak and have clearer coping strategies.
- At some point we expect to be able to add to equities at very attractive yields, but for now the portfolio remains underweight equities against our benchmarks.
- The net result of the portfolio changes means that our fixed income weighting has now increased to 38% of the portfolio. Equities make up 39.5% of the portfolio – this

number is lower thanks to short term short futures positions across Hang Seng, FTSE100 and S&P500 indices.

- Our holding in Darwin Leisure continues to help relative performance. Their parks all opened in early July and are fully booked. October bookings are 50% higher than at the same time last year as an extended season helps cover the gap form the early season closure. Lodge sales are way above expectations. This contrasts with conventional property which is struggling in the recessionary conditions.

Summary

These remain challenging times for all investors, and it is very unfortunate that income-seeking investors should be potentially amongst the most affected from the March volatility. The BMO MM Navigator Distribution Fund has seen price volatility but the fund should be in a better relative position within the sector for income due to the structural advantages of a diversified, independent multi-manager product. We hope to be able to remain in the top decile for yield within the sector as we always have been since launch in 2007. In addition to that there is significant value in the portfolio at these levels which should see the capital base improve over time in our opinion.