

Dividends and Capital Retention

By David Walsh, PhD, Head of Investments

Introduction

A great deal of corporate and regulatory activity in the current economic environment has been focused on capital retention, especially with regard to dividends paid by financial institutions. It has generated significant financial press¹ and research coverage (for example, from the broker and academic community). This note attempts to untangle some of the issues, assess their magnitude and address at a high level the Realindex approach to these issues.

Why is this important for Realindex? Dividend payment is one of our four core portfolio metrics, and financials may be artificially down-weighted relative to other sectors if they are not allowed to pay dividends. This will potentially persist through time because we use a rolling five-year average of dividends paid. The issue also exists within the financial sector, where banks in countries with no regulatory restrictions may look artificially more attractive. This in turn could introduce small artificial country or region biases into the portfolio.

While potentially significant, the impacts to our core process are diluted somewhat, since dividend payment is one of four core measures, and we are averaging over 5 years.

It's important to note we (Realindex) are not currently at the point of arriving at a decision on appropriate action. Nevertheless, we decided to communicate this note to clients in the spirit of keeping up the information flow and to indicate that we are thinking hard and working on the question intently. It is intended that a future (shorter!) note will outline actual actions we take.

This paper covers:

- The likely ongoing demand for dividends
- Recent news and activity: government actions, oil price and the role of dividends
- Forecast changes to dividends and earnings per share
- The size and return components of dividends in history
- What does Realindex propose to do?

Demand for Dividends

One early comment that we can make – it is clear that dividends and dividend yield will remain very important factors in stock selection. There are two main reasons.

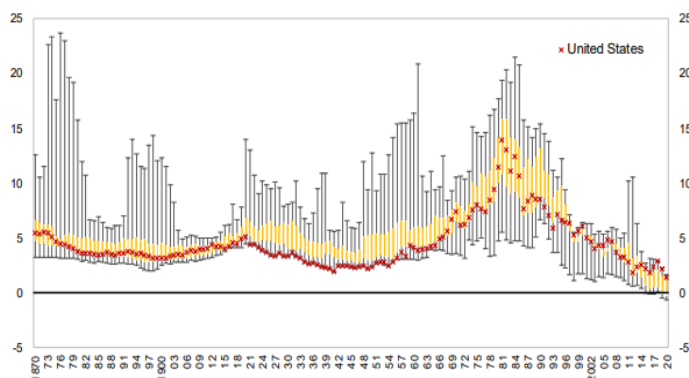
With the potential enforced cancellation of some dividends, continuing dividend payers will be increasingly sought after. So firms that are in a financially stable enough position to continue to pay dividends, the existing demand for dividends will rotate towards those stocks, driving up their prices.

With bond rates likely to be low for a long time, dividend payments and dividend yield will become even more important. Prior to the current crisis, US dividend plus buy-back yield was over 4%, while in Australia (including franking credits) yield was near 7%². These numbers will obviously fall, but they are unlikely to approach the level of bond yields. The chart below³ is the range of 10 year government bond yields for 17 major development countries since 1970, showing that rates are at all-time lows at the moment; in fact, negative in some cases. Red is US, yellow is interquartile range.

¹Dividends remain an essential component of returns for many shareholders, including for example Australian retirees, and the cut will affect them greatly (<https://www.msn.com/en-au/money/news/in-a-further-blow-to-millions-of-retirees-leading-portfolio-manager-says-asx-banks-could-slash-dividends-by-more-than-half/ar-BB12AJeQ?li=AAFsTE5>, and <https://www.afr.com/companies/financial-services/bank-shareholders-reel-as-banks-forced-to-suspend-dividends-20200408-p54i57>)

²For calendar year 2019. Source: FactSet, Realindex

³From the IMF Fiscal Monitor, April 2020, using the Jorda-Shularick-Taylor macrohistory database (<http://www.macrohistory.net/data/>) plus internal IMF data



Source: IMF Fiscal Monitor, April 2020

Recent News and Activity: Government Actions and Oil Price

The COVID-19 pandemic has generated health and economic crises of which we are critically aware. In response to the need for economic stimulus, governments enacted a number of policy initiatives in an attempt to keep unemployment and GDP shrinkage under control, and to provide stability, liquidity and solvency on the other side.

On this second question, financial institutions have been asked to reduce or drop entirely any capital management (dividends, buybacks, etc.) so that this capital can be retained to (a) help stimulate future growth (through provision of credit), (b) shore up balance sheets so that they are more resilient and can absorb losses and (c) stop taxpayer assistance/bailouts being passed through to shareholders.

These seems an entirely reasonable expectation until we notice a few important externalities that affect the investment market:

- Dividend payments are an important component of returns to shareholders, especially retirees who might rely on this income as part of their superannuation drawdown phase.
- Franking credits in Australia are paid to investors through dividends and the imputed tax credits represent a significant part of the attraction to investors.
- Dividends act as a signaling mechanism for firms. Strong consistent dividend payout ratios and payments are a way for investors to understand the confidence that management has in the business.

⁴Baker and Wurgler (2004) <https://www.hbs.edu/faculty/Pages/item.aspx?num=14736>

⁵Gormsen and Kojien (2020) "Coronavirus: Impact on stock prices and growth expectations"

⁶McCarthy et al (April 7 2020), Bernstein, Portfolio Strategy: Will there be any dividends left?

⁷Stoltz et al (15 April 2020), UBS, "Dividend risk: the most important trade this year?"

- Dividends provide certainty to investors and so are more highly prized than earnings. Our empirical evidence shows that dividend yield is more highly valued than earnings yield.
- Corporate behaviour can be driven by investor demand for dividends. That is, companies pay dividends if their shareholders pay a premium for this behaviour (and do not pay if they do not). This so-called Catering Theory of Dividends⁴ implies that firms "cater" to the demands of investors.
- Many investment processes rely on dividends as a key measure of company performance. This could be through core company metrics (like those utilised at Realindex) or more widely through dividend yield and dividend futures.

Other than pointing out and discussing these issues, we do not intend to delve further into their implications, *except in the final case, which we will discuss in the last section.*

A second issue relates to the drop in oil prices that we have seen during the crisis. This has been driven by two reasons which have compounded each other; firstly, the slowing of demand for oil with global growth slowing sharply, and secondly with the ongoing dispute between Russia and OPEC. The low oil price will test the resilience of many energy companies, and we assume that this will lead to dividends being at risk. As it turns out, Europe and Emerging Markets (EM) are the most affected regions by this.

An aside – a recent academic paper uses dividend futures to imply the expected fall in dividends and more broadly puts a lower bound under the drop in GDP expected from the current crisis. We defer discussion of this to the Appendix⁵.

There has been considerable research published by brokers on this topic as well, a sample of which is summarised below:

Bernstein⁶: expect dividends (and buybacks) to be at risk for two reasons: mandated by federal financial bodies and out of investor disapproval. They highlight the spread between dividend yield (even reduced) and bond yield, and the importance of investing in sustainable yield stocks.

UBS⁷: state that 87% of all returns in Australia were due to dividends and franking over the last decade, and estimate that dividends per share (DPS) could be down 30% over the next 12 months, led by Financials (-41%) and

Resources (-21%). This is slightly more than the DPS decline observed during the Global Financial Crisis (GFC) (-28%)

JP Morgan⁸: note that 130 of the top 600 stocks in Europe had cut their dividend by April 14, mostly in Industrials (40%) and Financials (37%). This is already more than during the GFC, and dividend cuts during the GFC amounted to approximately 30% of all dividend payments

According to the IMF⁹, many central banks or prudential regulatory authorities have initiated macro-prudential policy in an attempt to constrain dividend payments by financial institutions, primarily banks and insurance companies. A short list of *developed market* government actions to curb dividend payments is below¹⁰:

- Australia (APRA) released a guidance note on April 7, 2020 which recommended banks and insurers deferring, reducing or cancelling dividends without specifying a time period.
- Europe (ECB) asked banks to not pay dividends for the financial years 2019 and 2020 or buy back shares during COVID-19 pandemic. This appears to cover all EU banks (117 of them at last count¹¹)
- US (Federal Reserve) has not specifically asked banks and financial institutions to suspend or reduce dividends. It has however taken other actions, including:
 - Barring dividend payments by any firms that have received funds from the CARES Act (the US coronavirus aid bill)
 - Facilities to support the flow of credit, which include a gradual phase-in of dividend restrictions if a bank's capital buffer declines.
- UK (PRA) released a supervisory statement (March 31, 2020) that banks should not pay dividends, buybacks or other distributions, such as cash bonuses to staff, in response to policy actions, until the end of 2020, and to cancel any outstanding 2019 dividends.

There has been a somewhat limited response from emerging market regulators directly on the dividends and capital retention issue, other than those listed above. The largest emerging market economies of China, India, Brazil and Russia (the so-called BRIC economies) *have been*

slow to formally request financial institutions to constrain or cease dividend payments. At the time of writing, India is the only one of these four to enact policy. However, there have been some other very significant policy directives¹²:

- India (RBI) had until very recently only asked financial institutions to “assess the impact on their asset quality, liquidity, and other parameters due to spread of COVID-19 and take immediate contingency measures ...to manage the risks”. As of April 17, 2020, RBI requested suspension of any dividend payout by public, private, and foreign banks. The policy will be reassessed at the end of September, 2020. It also implemented policies on protecting lower income and vulnerable households, and announced liquidity and solvency protection for financial institutions, including relaxed default provisions.
- China (PBC) has taken a number of significant steps to protect liquidity and solvency in the financial sector, including greater tolerance for non-performing loans and greater support for credit guarantees. It has not, however, directly requested any changes of dividends. This includes Hong Kong.
- Russia (CBR) has provided fiscal and policy support for Small and Medium-sized Enterprises (SMEs), relaxed liquidity regulations for credit institutions and various other stability and solvency measures. The fiscal package is estimated to equate to about 3% of GDP.
- Brazil (BCB) has implemented fiscal measures to the extent of about 6.5% of GDP. It has moved to protect vulnerable households and provide employment and tax support, and to provide increased liquidity and solvency rules for financial institutions, including a reduction in reserve requirements.

Finally, a critical point is that it is not clear for how long this change will continue. If it is a temporary change, many investment processes and market and corporate behaviour will probably not change markedly when averaged over a longer period. However, if this represents a longer term change, or a permanent shift, then the implications may be very different.

⁸Matejka et al (14 April 2020), JP Morgan, “Equity Strategy: Assessing the state of dividends”

⁹<https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19>

¹⁰Countries whose central banks or regulatory bodies have issued guidance on deferral, reduction or cessation of dividends or buybacks during the crisis include Australia (APRA), Europe (ECB), Bosnia-Herzegovina, Bank of Central African States (BEAC), Croatia (CNB), Denmark (DFSA), Hungary (NBH), Mexico, Montenegro, New Zealand (RBNZ), Norway (NFSA), South Africa (SARB), Sweden (FSA), Switzerland (FINMA), Uganda (BOU), Ukraine (NBU), UK (PRA), Vietnam (SBV)

¹¹<https://www.bankingsupervision.europa.eu/press/pr/date/2019/html/ssm.pr191204~45bda0701a.en.html>

¹²<https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19>

More Than One Type of Capital Retention

We need to be a little careful here as firms may be retaining capital by not paying dividends for a variety of reasons, for example:

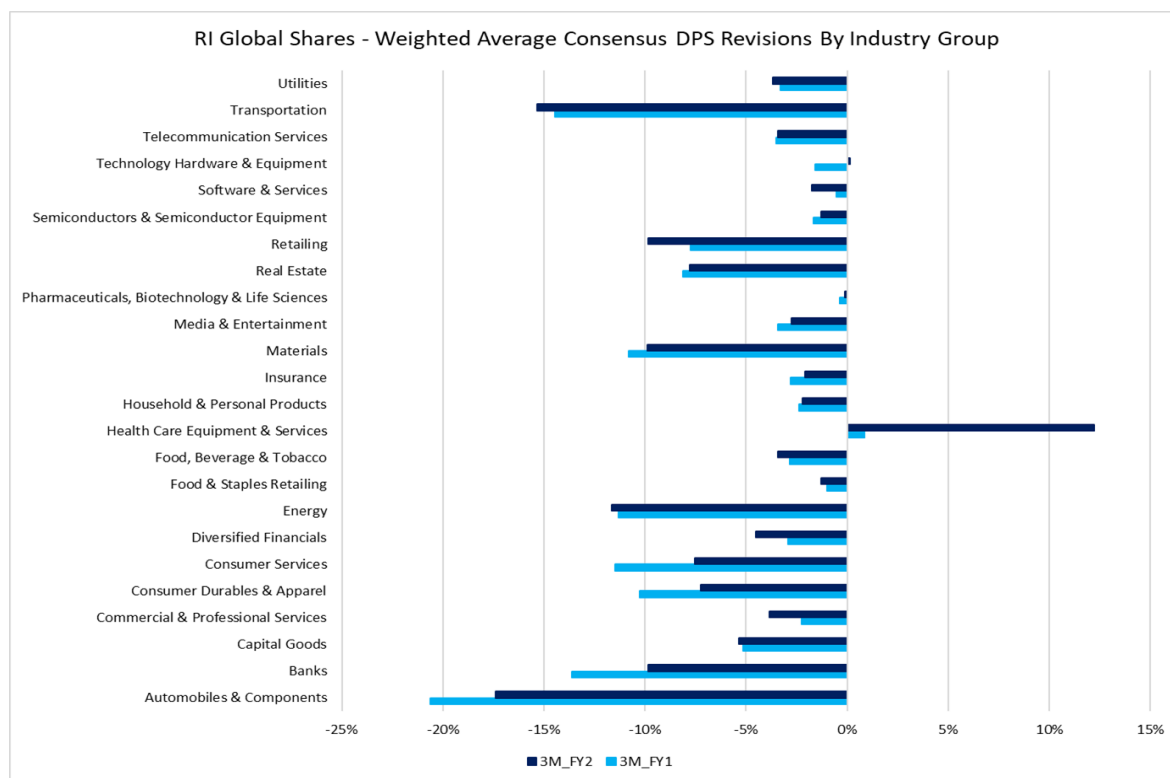
- Firms that are mandated or “recommended” to do so by regulatory bodies (for example, banks),
- Firms who are financially stable but choose financial conservatism and to take advantage of opportunities that arise (blue chip corporates, perhaps)
- Firms whose dividends are cancelled due to financial distress or problems with their ongoing business induced by the current crisis (airlines, discretionary retail, energy, ...)

We are really only focused on the first group here – firms whose ability to pay dividends is restricted or stopped. We could reasonably expect that the policy announcements from regulatory bodies will largely be directed at financial institutions like banks and other credit providers (for example, APRA directed its “recommendations” towards ADIs – Approved Deposit-Taking Institutions). *It is appropriate for us to direct our primary attention to these stocks.*

The other firms – those who choose to take this action – might be those which are stable and are willing to accept the market’s assessment of their decision. On the other hand, they might be in financial distress and could be identified using sector classifications and/or using measures of distress¹³. In both cases, existing model dynamics and processes will capture our views appropriately.

Magnitude of the proposed and likely changes

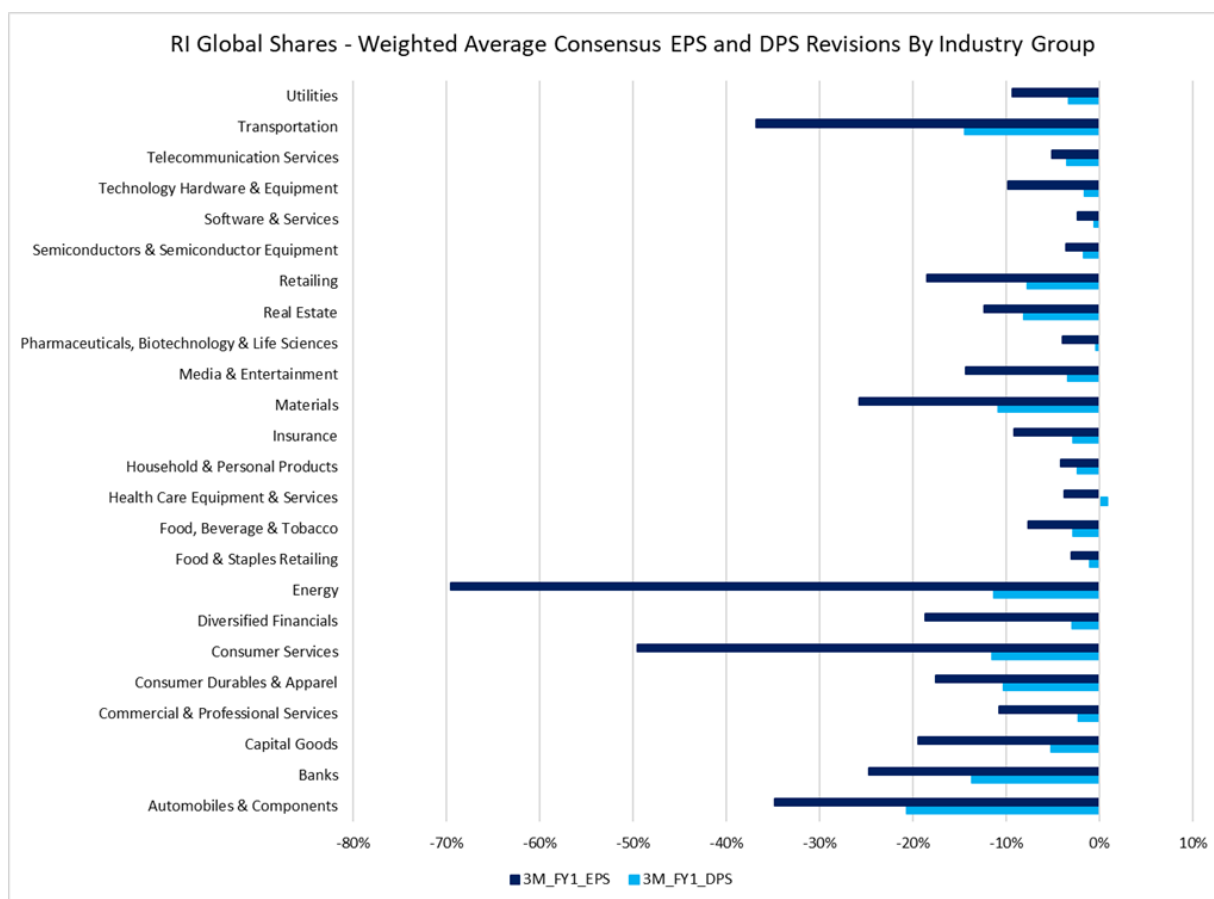
At first blush, the extent of the dividend cancellation/withdrawal is not clear. Below we attempt to measure the impact of this. We know that the full story has yet to play out, but many dividend forecast downgrades have already appeared in analyst forecasts. The chart below shows weighted average consensus DPS downgrades in the Realindex All Country World Index (ACWI) universe:



Source: Realindex, Factset as at 31 March 2020. 3M_FY1 measures the % change over 3 month in the consensus forecast for the upcoming financial year end (FY1). Forecasts for the following year end are FY2.

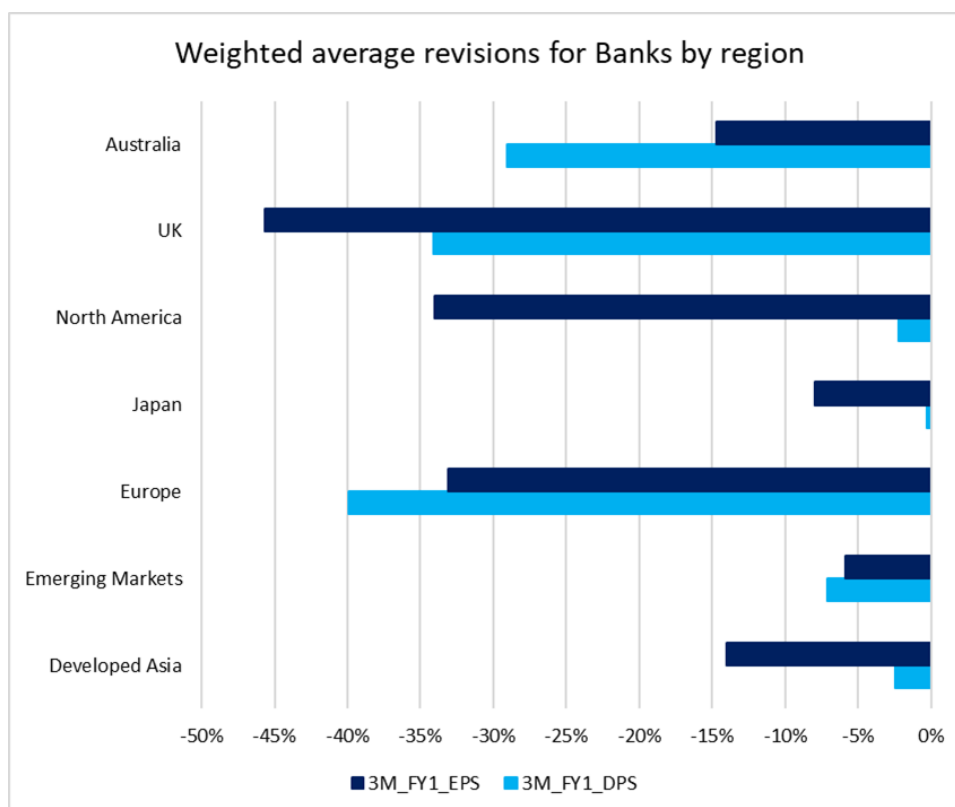
¹³ Like Merton distance to default, balance sheet resilience (for example, current ratio or interest cover) and leverage.

Downgrades for EPS are much larger than for DPS, suggesting that DPS downgrades will follow:



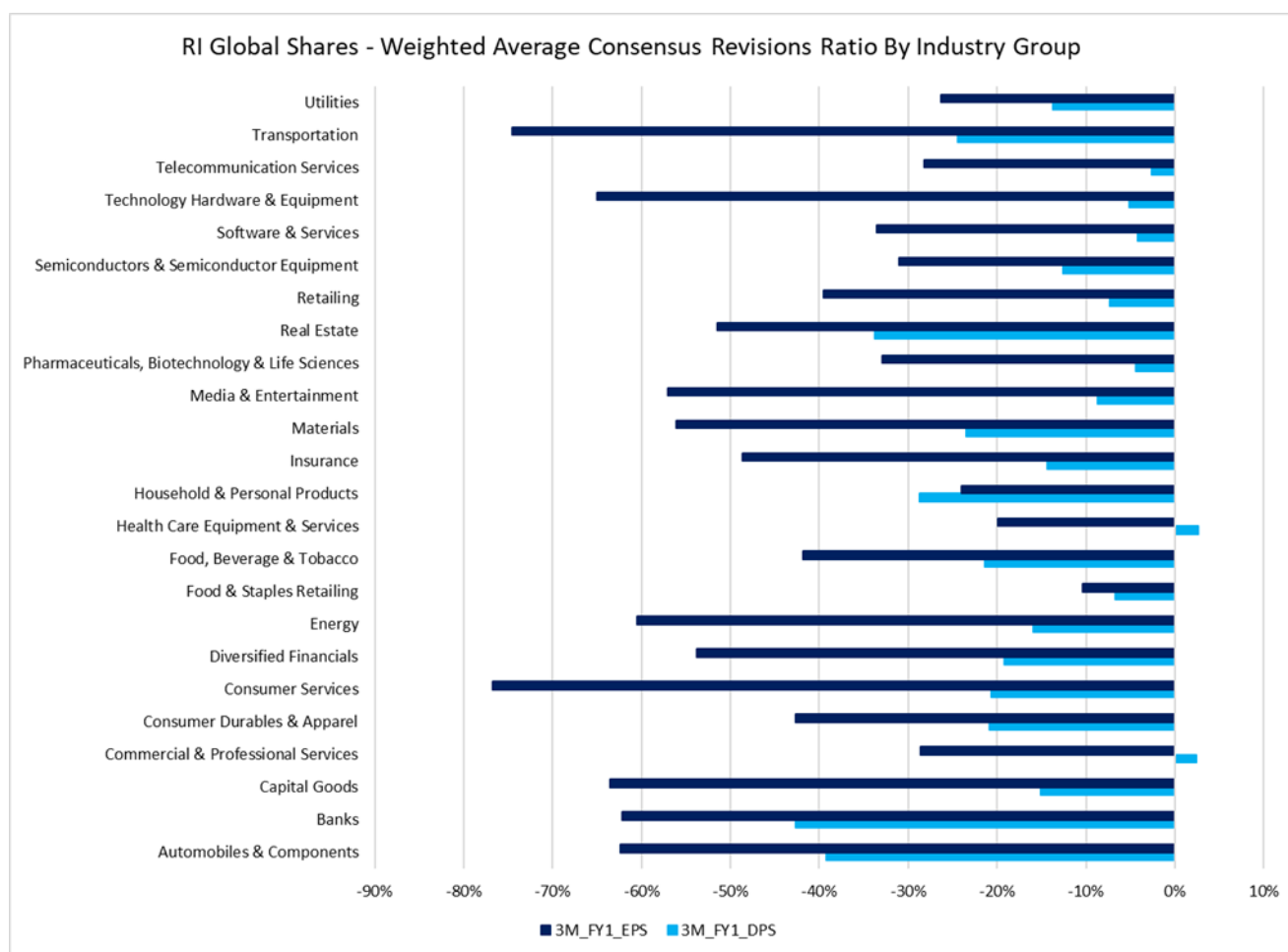
Source: Realindex, Factset as at 31 March 2020

Separating out the Banks industry group, we see significant revisions in DPS and EPS across all regions:



Source: Realindex, Factset as at 31 March 2020

Finally, the revisions ratio (number of upgrades less number of downgrades, divided by number of analysts with current forecasts) is also very much larger for EPS than for DPS. This also suggests that DPS downgrades are lagging and will appear shortly.



Source: Realindex, Factset as at 31 March 2020

The Size and Return Components of Dividends

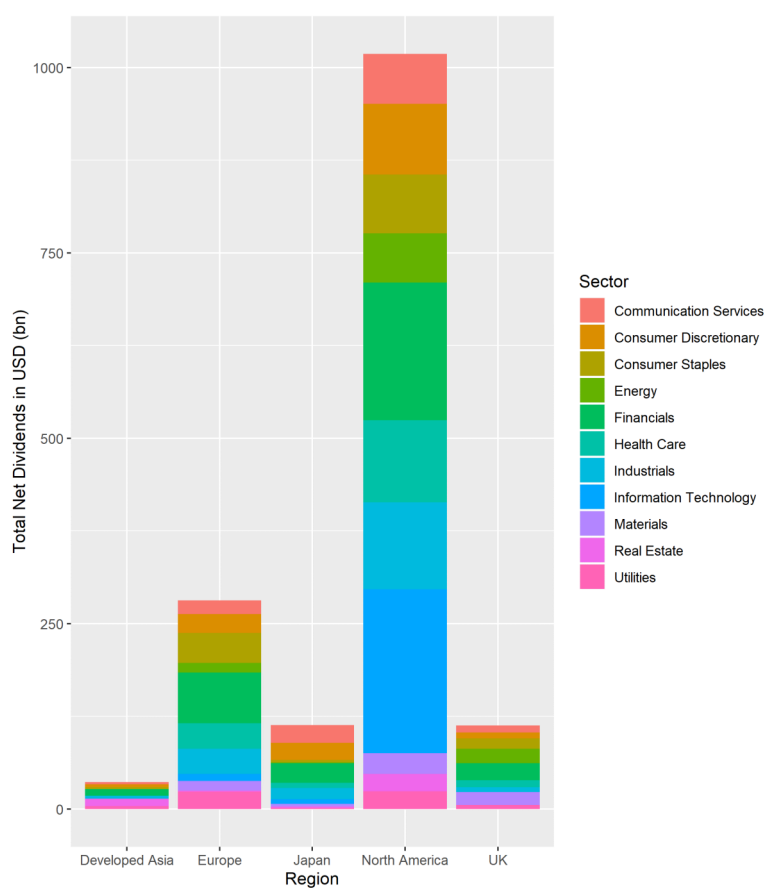
Next, we ask the question: *what proportion of dividends have come from which regions and sectors in the Realindex core portfolios?*

[Before proceeding, it is important to note again that dividends play two roles in the Realindex process. Currently, a five year average of the four core accounting measures is the basis for the core model. Dividends (and buybacks) form one quarter of the core, and 2020 will only be 20% of this input. Further, trailing and forecast dividend yield (and for that matter, earnings yield) play an important part in the near-term value component to the enhancements model.]

We look separately at the Realindex Core models for Developed Markets (DM), Australian Large Cap, and Emerging Markets. *Both dividends and buybacks are included.*

In developed markets, we see that most dividends are paid by North America (about 60%), and IT and Financials account for 22% and 18% of North American dividends.

Charts below show total dividends (net) paid by companies in developed markets (DM Core) for the five years ending on the 31st of March 2020. First chart is the split by region and sector.

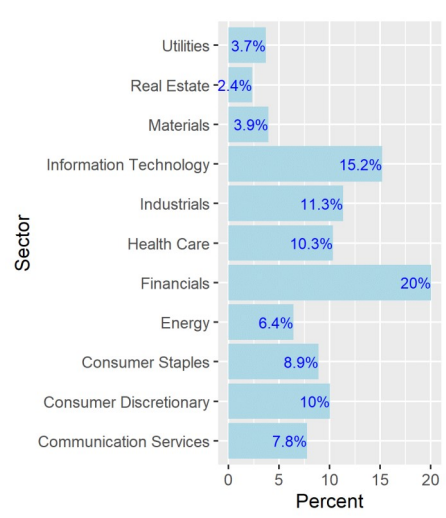


Source: Realindex, Factset as at 31 March 2020

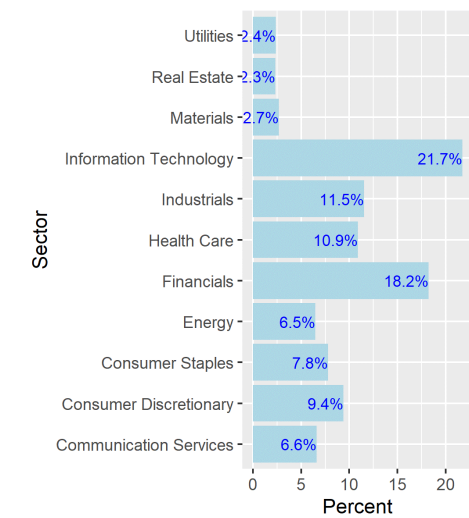
The next three charts show the split by sector – across all of Developed Markets, North America alone and finally for Europe and UK alone. Across all of Developed Markets, Financials account for 20% of all dividends, with IT next largest at 15.2%. It is a little different in North America, where IT is almost 22% of all dividends and Financials 18%. Energy accounts for about 6.5%.

In Europe and UK, there is a significant difference. IT is nowhere near as large; dividends are dominated by Financials (23%), Health Care (11%), Industrials (10%) and Consumer Staples (14%). If we consider dividends from financials and energy to be at risk, then as much as 31% of dividends are at risk of being deferred, reduced or cancelled.

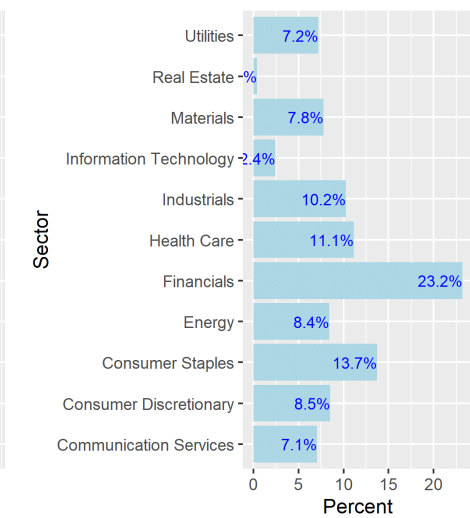
Total Net Dividends by Sector in DM (%)



Total Net Dividends by Sector in North America (%)



Total Net Dividends by Sector in Europe (%)

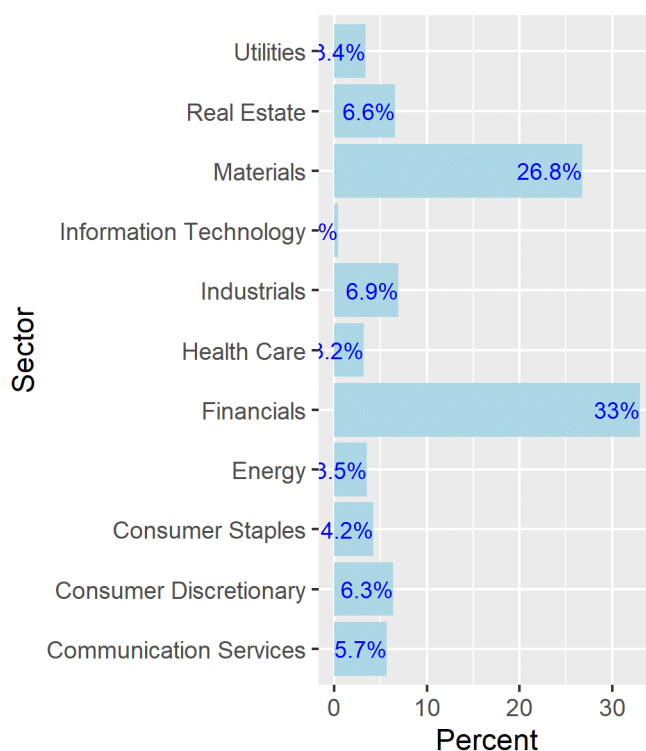


Source: Realindex, Factset as at 31 March 2020

Domestically, the split shows the importance of materials firms (27%) and financials (33%). Note that BHP and RIO pay their dividends in USD.

We expect dividends in Australia to be more severely impacted than other developed markets from Covid19. A decline in aggregate demand from China is likely to affect earnings in the Materials sector, at least in the short term, while the regulatory constraints will limit bank dividends.

Chart below shows total dividends (net) paid by companies in Australia (AUSLRG Core) split by sector for the last five years ending on the 31st of March 2020.

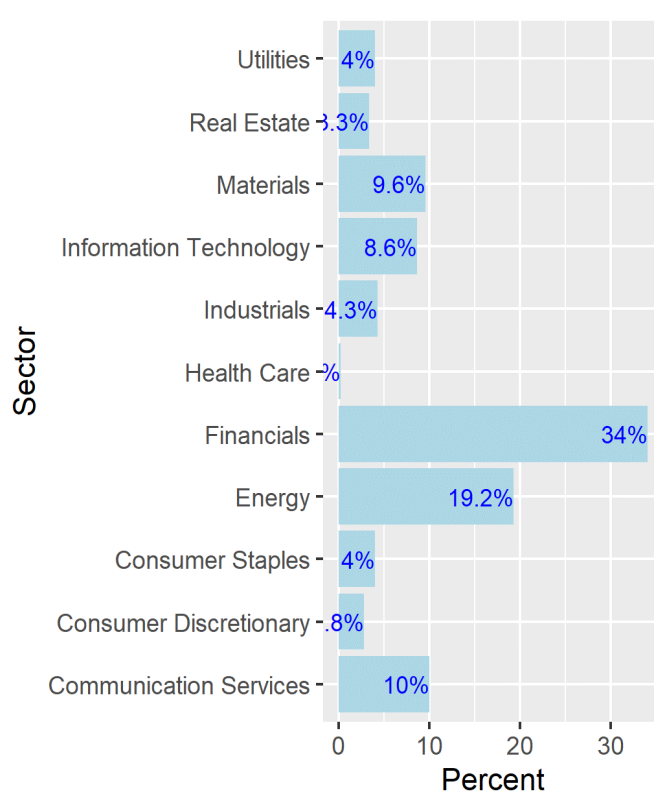
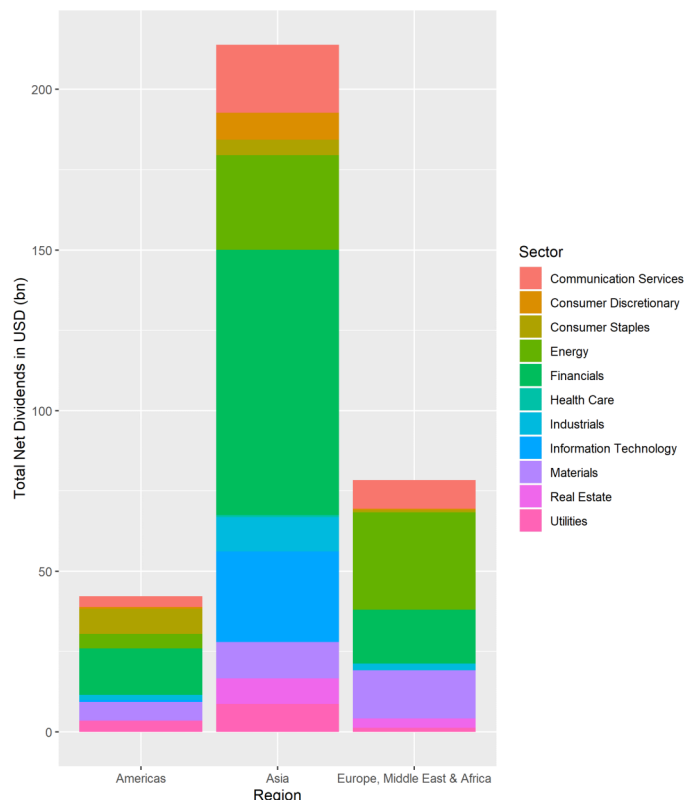


Source: Realindex, Factset as at 31 March 2020

In emerging markets, Asia is the largest regional contributor to dividends (63%), and financials are the biggest sector contributor, at 34% of total. Energy is the next biggest dividend paying sector at 19%. Regulatory constraints compounded with lower oil prices following the fallout between Russia and Saudi Arabia means at least 50% of dividends in emerging markets are at risk.

As noted above, it seems that many of the largest emerging market economies have not yet moved to directly recommending or enforcing dividend cuts in financial institutions. If this policy setting continues, the spotlight must then fall on the energy firms, which are highly exposed to lower oil prices and so must have risk applied to their ongoing dividend payments.

Chart below shows total dividends (net) paid by companies in emerging markets (EM Core) for the last five years ending on the 31st of March 2020.



Source: Realindex, Factset as at 31 March 2020

Our next question concerns returns; *how much of total market returns are driven by dividends?*

The idea here is to look at total returns for the benchmark (here we use MSCI ACWI ex AU), the full Realindex Global Core portfolio itself and finally just the dividend sleeve of the core portfolio. The dividend sleeve is 25% of the Core portfolio. We then repeat this for Australia and Emerging Markets. The data period is Jul 1995¹⁴ to Mar 2020.

The chart below shows the percentage of accumulated returns that are derived from net dividends by sector and region. We have examined three universes: i) the MSCI World ex AU benchmark, ii) the Realindex Core portfolio and iii) the Dividend sleeve of the Realindex Core portfolio.

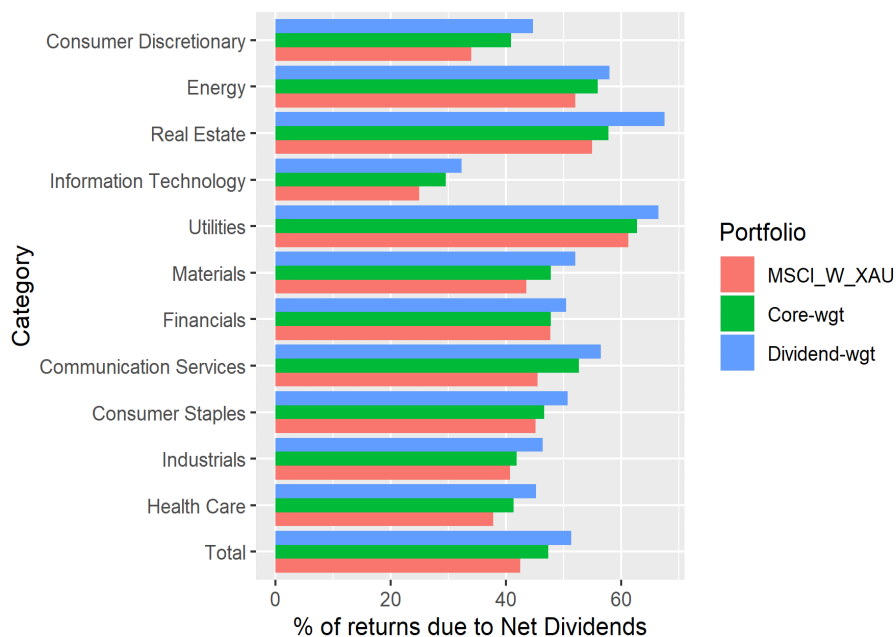
As expected, the component of returns due to dividends is very high. Across the entire MSCI ACWI ex AU universe, a little more than 40% of total return is due to dividends (and buybacks)¹⁵. In all cases, the returns to the Global Core portfolio, and to the dividend sleeve, are greater than the benchmark, but the magnitude of the difference is not especially high.

Sectors which rely more on dividends and buybacks clearly show a greater proportion of returns. For example, they account for over 60% of their returns in Utilities and nearly 60% in Real Estate.

To get a very rough idea of the impact of reduced dividends, if we assume an expected 10% p.a. total return for the benchmark, all else equal, a 30% reduction in dividends would take a bit more than 1% off total return. Of course, this is probably useless, as it ignores any other effects due to dividends, like corporate signaling or an increased return to continuing dividend payers due to demand for dividend yield.

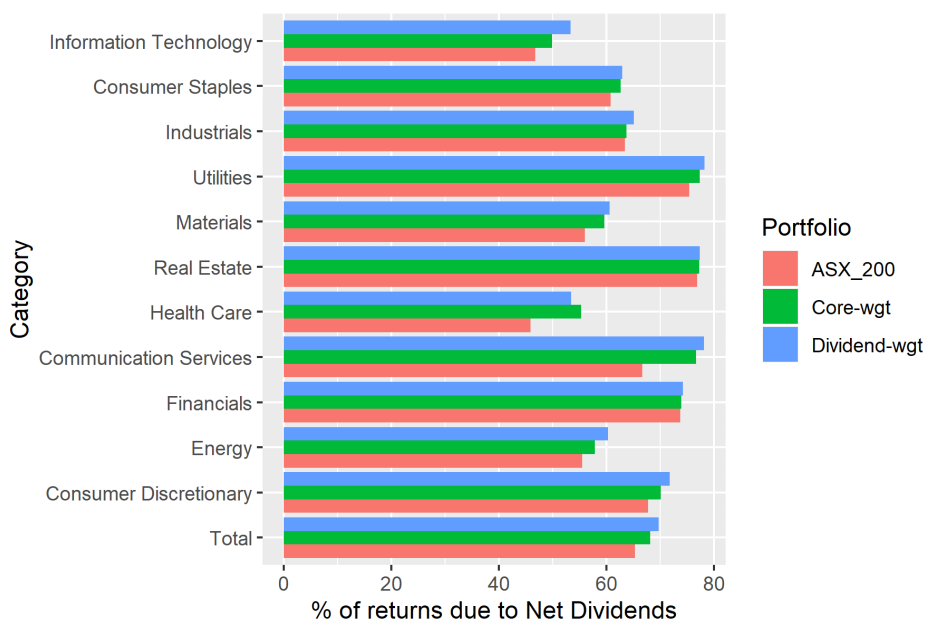
¹⁴ When our data begins

¹⁵ In the US, buyback yield is generally higher than dividend yield; in 2019, buyback yield was 2.6%, while dividend yield was only 1.7%. A total of 4.3% yield is similar to that received by holders of the Australian ASX200 index (ignoring franking credits). Source: FactSet, Realindex



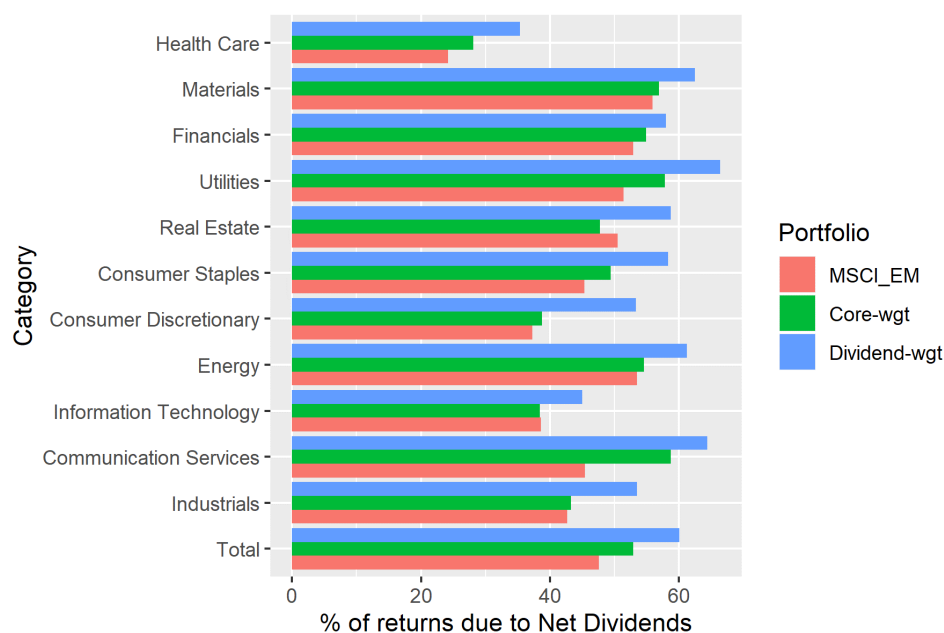
Source: Realindex, Factset as at 31 March 2020

In the Australian universe, the effect is more pronounced and consistent across sectors, and there is a smaller difference between the benchmark, the Core portfolio and the dividend sleeve. Financials, for example, show more than 70% of the total return is due to dividends and buybacks, as do Real Estate and Utilities. The ASX 200 benchmark itself has a total return more than 60% due to dividends.



Source: Realindex, Factset as at 31 March 2020

Finally, for emerging markets, the returns are less driven by dividends than in Australia and much closer to the proportions we saw in Developed Markets.

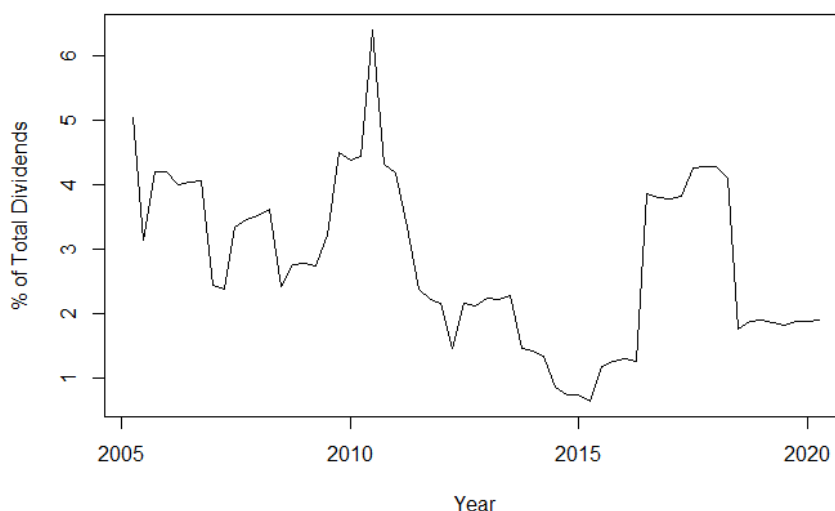


Source: Realindex, Factset as at 31 March 2020

Finally, we examine *what proportion of companies are paying dividends but under simple measures are “financially distressed”*. There are a variety of ways of measuring distress – for simplicity we choose to use interest cover (IC)¹⁶. A value below 1.0 means that Cash Flow from Operations (CFO) cannot cover current Interest Expense (IE), and so is used to screen our distressed stocks.

The first chart below shows the proportion of total dividends paid by companies in financial distress. As expected, this proportion is quite low. We have excluded all Financials firms here as their accounting doesn’t lend itself to a similar measure of interest cover.

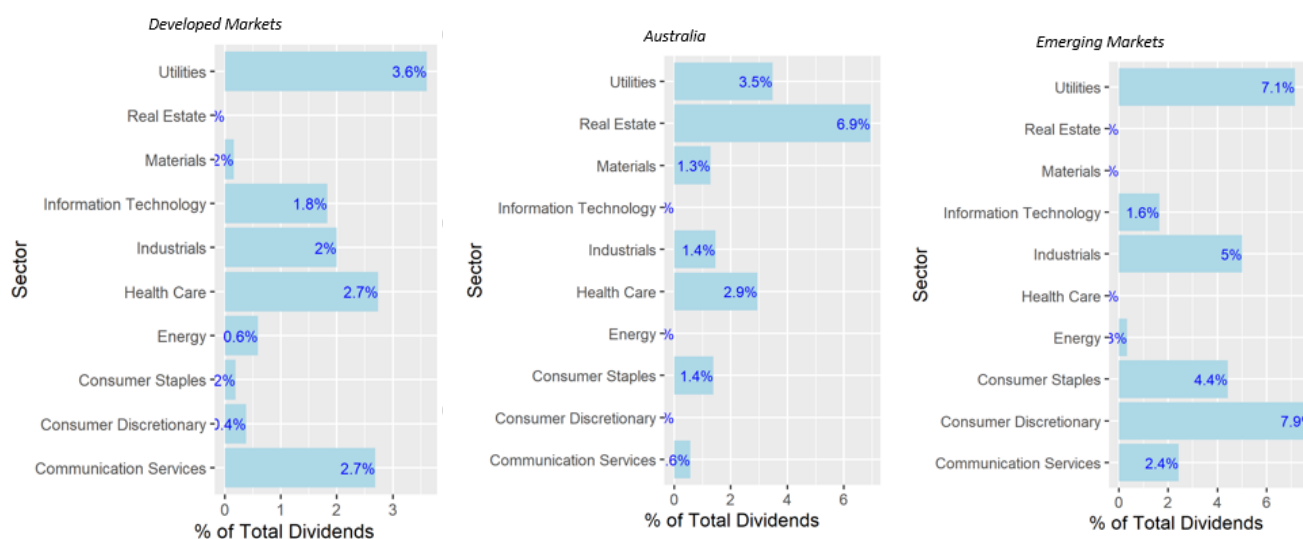
Percentage of Dividends paid by Companies under Financial Distress



Source: Realindex, Factset as at 31 March 2020

¹⁶ Interest cover is a useful and broad way to measure ability to repay debt, and measured here as Cash Flow from Operations (CFO) divided by Interest Expense (IE)

Split by sector we see the following:



Source: Realindex, Factset as at 31 March 2020

If interest cover is a reasonable measure of financial distress, then Australian real estate (retail shopping malls, for example) and US utilities stand out. In Emerging Markets, Utilities and Consumer Discretionary stand out as being the most exposed sectors.

What will Realindex do? Limited to the enforced changes to dividends.

A lot of what is given above is interesting background on current market dynamics. *However, the key issue here is to assess what impact an enforced reduction or cessation of dividends in financials might have on our investment process.*

We are spending a lot of time working through this question, and are hesitant to make any kind of decision without properly assessing all of the implications. For that reason, we are not currently at the point of arriving at a decision and have decided to communicate this note to clients in advance of that.

Our process is simple, transparent and low turnover, and if any changes are made then we intend to keep these attributes. No complex or high turnover solutions are being considered.

The impact on changes to dividends as discussed above arises in two areas. Firstly, it arises in our core process, which uses dividend payments as one of the four core accounting measures of a firm. Secondly, we use trailing and forecast dividend yield in our enhancements and alpha processes.

To refresh, in our core process, dividends are averaged over the last five years, which smooths out any short term periodic changes. If a firm misses a dividend for one year, that zero is included in the average. Options for us include:

- Do nothing. This assumes that the impact we are seeing on dividends does not disturb the economic footprint idea, and that the hole we will see in dividend payments is part of the natural course of the economy.
- Apply any decision we do make solely to financial institutions. This seem quite likely, as the direct mandated reduction in dividends applies primarily to this sector.
- Extend the window to six years to reduce the impact somewhat. We already know from backtest results that exact window length is not a key determinant of the return and risk profiles of the strategy. However, this is not really a suitable approach as it avoids addressing the issue directly.

- Use longer dated forecast dividends and dropping zero trailing dividends as they appear. Brokers provide forecasts of dividends in the same way that they provide earnings forecasts, and the forecasts extend out to FY1, FY2 and often FY3 as well. We currently use FY1 forecast dividend yield in our enhancements process, but if this is likely to be zero (or worse, zero for some groups of stocks and not for others) we could start to use FY2 instead. Further, as soon as the zero dividends are confirmed and move from forecast to trailing, we could drop these “zero” trailing dividend yields as well. We would not use this in our core process as it does not circumvent the problem there.
- Imply a “synthetic dividend”, using historical payout ratio and current net earnings. In some ways this would be using “dividends if they could have been paid”. This is much more likely to be applied in our core model, and not for our enhancements process as forecast dividends would be more appropriate.

The enhancements process uses trailing and forecast dividend yield and growth at different weights in different sectors and strategies, and they are good performers in backtest and live scenarios.

Doing nothing in our enhancements process is probably not an option but again we are yet to decide on a final course of action. Here we might expect to use the “synthetic dividend” idea above to create an implied dividend yield, and to substitute dividends with earnings in these calculations. The same signals using earnings have strong performance, but are not as highly rewarded as their dividend based counterparts.

In summary, we are considering a number of options for both the core process and the enhancements model. We are very conscious of continuing to be transparent and maintaining low turnover, and any decisions we make will reflect that philosophy.

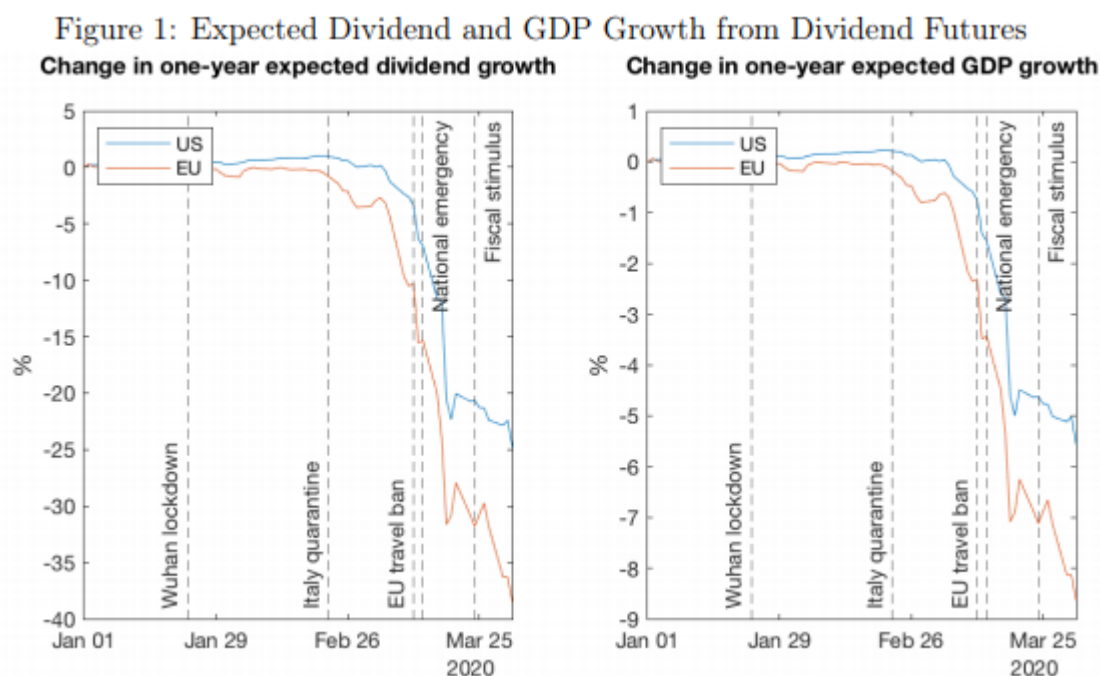
Appendix 1: Review of Gormsen and Koijen (2020)

Gormsen and Koijen (2020) have published a working paper titled “Coronavirus: Impact on stock prices and growth expectations” which looks at the expected change in dividend and GDP growth using aggregate equity market data and dividend futures. The data for this paper stops in April 3 2020, which includes some but not all of the regulatory recommendations to reduce or cancel dividends.

As such, the full implications of these actions will not be incorporated in this study, although the implications of the results are still very interesting.

Dividend futures can be used to imply growth expectations at different maturities. By extracting dividend strip prices (current price of each expected dividend) from dividend futures, dividend and GDP growth predictions can be made, implying a term structure for each. Further, by rolling these estimates through time, the expected dividend and GDP change over time can be shown.

Figure 1 from the paper is below. It shows the change in one-year US and EU dividend and GDP growth from the start of 2020 to early April 2020. We can see the dramatic drop off starting around the beginning of Italy’s quarantine period (mid Feb 2020), which coincides quite closely with the peak of the market prior to its dramatic sell off.



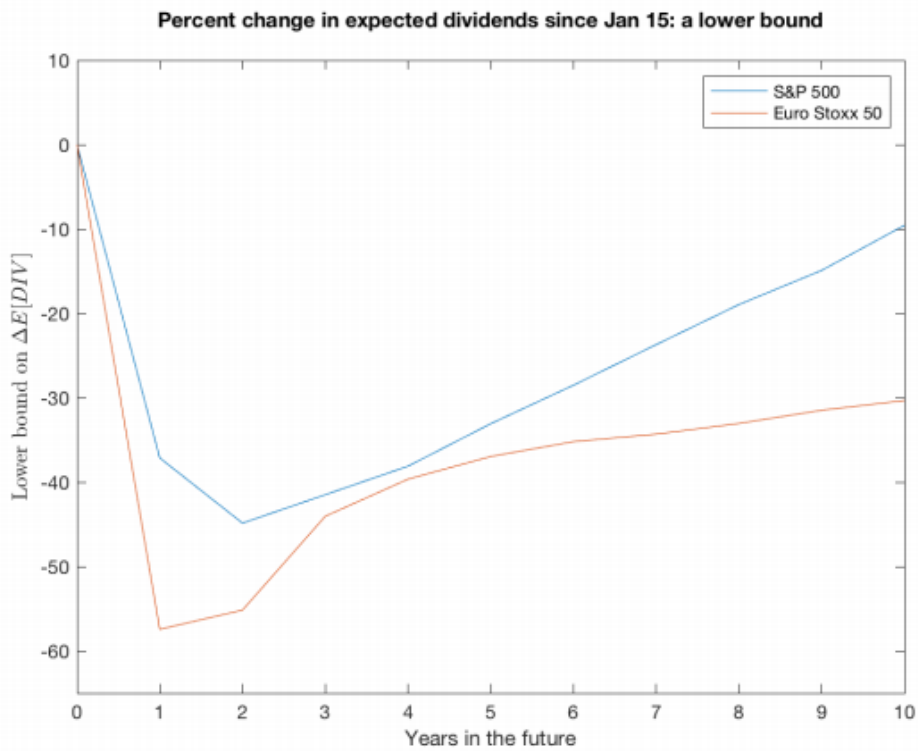
Source: Gormsen and Koijen (2020)

By the end of March 2020, implied dividend growth was down 27% in the US and 37% in the EU. Implied GDP growth was down 6.1% on the US and 8.2% in the EU.

We will not delve into its derivation, but the authors show change in dividend futures price should be no lower than change in the expected growth rate in dividends (assuming risk aversion is not less than it has been). Using this insight, and the known relationship between dividend growth and GDP growth, they build a lower bound term structure on GDP growth.

Figure 2 from the paper shows this:

Figure 2: Lower bound on revisions in expected growth at different horizons



Source: Gormsen and Kojen (2020)

The values themselves are quite extreme (lower bound of dividend growth of -45% in the US and -57% in the EU in two years) and so not very useful. However, the shape of the term structure suggests that the market is implying that dividend and GDP growth will stop falling in 1 to 2 years and start returning to more normal levels. However, even out to 10 years, the model is suggesting the possibility that both dividend and GDP will still be below current levels.

For further information contact: clientservices@realindex.com.au

Andrew Francis

Chief Executive

Andrew.Francis@realindex.com.au

+61 2 9303 7079

Iain McLearn

Investment Manager

imclear@realindex.com.au

+61 2 9303 6329

Bonnie Chow

Investment Analyst

bonnie.chow@realindex.com.au

+61 2 9303 1734

This material has been prepared and issued by First Sentier Investors Realindex Pty Ltd (ABN 24 133 312 017, AFSL 335381) (Realindex). Realindex forms part of First Sentier Investors, a global asset management business. First Sentier Investors is ultimately owned by Mitsubishi UFJ Financial Group, Inc (MUFG), a global financial group.

This material is directed at persons who are professional, sophisticated or 'wholesale clients' (as defined under the Corporations Act 2001 (Cth) (Corporations Act)) and has not been prepared for and is not intended for persons who are 'retail clients' (as defined under the Corporations Act). This material contains general information only. It is not intended to provide you with financial product advice and does not take into account your objectives, financial situation or needs. Before making an investment decision you should consider, with a financial advisor, whether this information is appropriate in light of your investment needs, objectives and financial situation. Any opinions expressed in this material are the opinions of the Realindex only and are subject to change without notice. Such opinions are not a recommendation to hold, purchase or sell a particular financial product and may not include all of the information needed to make an investment decision in relation to such a financial product.

The product disclosure statement (PDS) or Information Memorandum (IM) (as applicable) for those registered managed investment schemes mentioned herein that are managed by Realindex (Funds), which are issued by Colonial First State Investments Limited (ABN 98 002 348 352, AFSL 232468) (CFSIL), should be considered before deciding whether to acquire or hold units in the Funds. The PDS or IM are available from First Sentier Investors.

CFSIL is a subsidiary of the Commonwealth Bank of Australia (Bank). First Sentier Investors was acquired by MUFG on 2 August 2019 and is now financially and legally independent from the Bank. Realindex, MUFG, the Bank and their respective affiliates do not guarantee the performance of the Fund(s) or the repayment of capital by the Fund(s). Investments in the Fund(s) are not deposits or other liabilities of MUFG, the Bank nor their respective affiliates and investment-type products are subject to investment risk including loss of income and capital invested.

To the extent permitted by law, no liability is accepted by MUFG, Realindex, the Bank nor their affiliates for any loss or damage as a result of any reliance on this material. This material contains, or is based upon, information that Realindex believes to be accurate and reliable, however neither Realindex, MUFG, the Bank nor their respective affiliates offer any warranty that it contains no factual errors. No part of this material may be reproduced or transmitted in any form or by any means without the prior written consent of Realindex.

In Australia, 'Colonial', 'CFS' and 'Colonial First State' are trade marks of Colonial Holding Company Limited and 'Colonial First State Investments' is a trade mark of the Commonwealth Bank of Australia and all of these trade marks are used by First Sentier Investors under licence.

Copyright © First Sentier Investors (Australia) Services Pty Limited 2020

All rights reserved.