For professional investors only

IncomeWatch

CT MM Navigator Distribution Fund income quarterly update

Edition 32 – Review of Q4 2023

COLUMBIA THREADNEEDLE INVESTMENTS

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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.

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Welcome to IncomeWatch

Our quarterly round-up of income news, analysis and data for the CT MM Navigator Distribution Fund and the broader income market.

Survey data over the past quarter shows further equity dividend growth, but with predictions for slowing rates of growth, and possibly even falls in the UK. We expect good equity income fund managers to find growth still.

Q4 2023 saw cash deposit rates remain stable; we are receiving 5.02% for fund cash balances. This is all passed through to our clients – unlike certain other solutions providers and platforms.

Portfolio activity over the quarter

Two holdings left the portfolio during the quarter. Cash proceeds were received following the off-market takeover of Roundhill Music Royalty Fund for a very healthy premium, and Jupiter Monthly Income Bond was also sold. We introduced two new holdings in the listed specialist area. These were Greencoat UK Wind and The Renewables Infrastructure Group – both are good value at present after falls in listed infrastructure and renewables and they offer interesting diversifying qualities to the portfolio's income stream.

Executive Summary – Q1 2024

Dividends in General

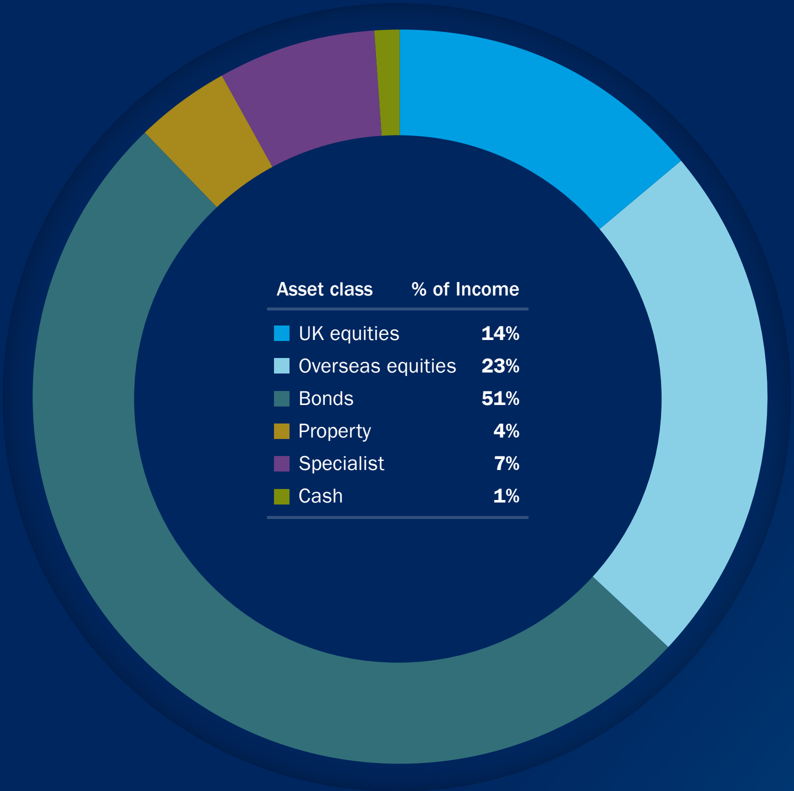
- Surveys are becoming more varied with headline falls in some cases
- These are driven by certain areas with dividend reductions such as miners where falling commodity prices have impacted some of the biggest payers, both in the UK and globally.
- Global dividends grew on an underlying basis if special dividends were excluded .
- Cash rates held at over 5% for the fund – higher than 10 of the income paying holdings in the fund now

CT MM Navigator Distribution Fund

- Fund yield remains in top decile for Q4 2023 at 4.82%% (9th percentile, and with 0.06% of headroom).
- Total return top quartile over 3 years.
- Dividends for the first four months of the fund's new financial year ending 31/08/2024 were broadly flat year on year

Source: Lipper as at 31-Dec-23

What makes up the yield of the distribution portfolio?



Diversification of income streams occurs on a number of levels

- Well over 2,000 underlying holdings
- 33 distinct fund holdings
- 5 broad asset classes, with multiple country diversification below across equities, currencies and bonds
- From 26 providers with differing investment styles

Comment on each major asset class:

UK Equities
(makes up 14% of the overall portfolio yield)

Headline rates are falling due to mining and oils but since the year end oil prices are rising again, UK dividend cover is at a high and income remains important to investors. On top of this there is an element of inflation pass-through with company earnings and this gives further potential for nominal dividend increases.

Overseas Equities
(makes up 23% of the overall portfolio yield)

Global dividend surveys are becoming more muted, but continued strength from certain overseas economies have seen dividends hit new all-time highs again this quarter. The outlook is good in certain globally for dividend growth.

Bonds
(makes up 51% of the overall portfolio yield)

It's been back-to back big quarters for interest rate movements after the US authorities' comments intrigued markets and a recession failed to materialise. The underlying volatility in inflation expectations should continue to give active managers opportunities. The default cycle remains relatively benign and so total returns are still compelling with many bonds trading below par.

Property
(makes up 4% of the overall portfolio yield)

Yields here have some element of inflation protection and are generally upwards only revisions. Assets held in the fund are generally less economically sensitive than the typical property investment, and usually held in closed-ended funds to alleviate any liquidity issues. Corporate activity remains a feature in the sector.

Specialist
(makes up 7% of the overall portfolio yield)

Assets held here are stable to rising income investments in the main.

Cash
(makes up 1% of the overall portfolio yield)

We are now receiving over 5% income on cash held which is starting to become a viable investment asset class for the first time since 2007

Looking closer

What are the developments in dividends? A round-up of the 3 main surveys released during the quarter.

Survey: Janus Henderson Dividend Index Edition 40 (Q3 2023)

- Global Dividends fell back by 0.9% in Q3 on a headline basis to $421.9bn
- Underlying growth was +0.3% after adjusting for lower special dividends and currency movements.
- A number of large dividend cuts impacted the growth rate significantly. Without the two largest cuts, dividend growth was +5.3%
- 89% of companies raised or held dividends.
- The total payout for 2023 is expected to be $1.63 trillion which equates to headline growth of 4.4% year on year.
- The US, Canada, France, Switzerland and China are on track to deliver a record level of payouts in 2023.
- Dividend cuts from Petrobras and BHP, the two biggest dividend payers in 2022, reduce 2023's growth rate by two percentage points.

Dashboard: AJ Bell Dividend Dashboard Q4 2023

- Dividend forecasts for 2023 and 2024 continue to slide, with estimates for both years around 10% down on a year ago.
- Share buybacks continue to grow, with 2023 having a chance of showing a record level of FTSE100 cash returns when dividends, special dividends and buybacks are combined.
- The 2023 running total of £137.2 bn is just behind 2022's £137.6bn and equates to a cash yield on the FTSE 100 of 6.9% for 2023
- The 2023 FTSE100 dividend yield is expected to increase from 3.9% to 4.0% in 2024.
- FTSE100 pre-tax profits are expected to make a new all time high in 2023, at £250.7bn, up 9.5% on 2022 and substantially ahead of the prior peak of £195bn set in 2018. Cuts to expectations for banks, miners and oil have seen the expected total profit for 2023 slip back from £275.5bn over the past year.

Ten biggest forecast dividend increases and declines in 2023

2023 E			
Dividend growth (£ million)		Dividend decline (£ million)	
HSBC	1,448	WPP	(34)
Shell	949	Dechra Pharmaceuticals	(34)
NatWest Group	270	Melrose Industries	(45)
British American Tobacco	266	Fresnillo	(46)
BP	264	Barratt Developments	(49)
Haleon	240	Antofagasta	(166)
Barclays	206	SSE	(386)
Compass	176	Rio Tinto	(400)
Lloyds	135	Glencore	(610)
National Grid	101	Anglo American	(889)

Source: AJ Bell as at 31-Dec23

The highest yielding stocks in the UK

	Dividend Yield %	Dividend Cover (x)	Pay-out ratio (%)	Cut in last decade?
Phoenix Group	11.0%	0	2650%	2016, 2018
Vodafone	10.8%	0.6	171%	2018
British American Tobacco	10.6%	1.5	68%	No
M&G	9.2%	0.7	141%	No
Legal and General	8.6%	0.9	118%	No
Imperial Brands	8.1%	1.9	53%	2020
St. James's Place	8.0%	1.3	76%	No
NatWest Group	7.8%	2.5	40%	2019
Aviva	7.7%	0.9	106%	2013, 2019
Glencore	7.4%	1.4	69%	2015, 2016, 2020

Soure: Company Acocunts, Marketscreener, consensus analysts's forecast, LSEG Datastream data. Ordinary dividends only.

Survey:
Computershare (formerly Link) UK Dividend Monitor Q3 2023

- Q3 dividends fell by 8.3% on a headline basis to £27.5bn
- Underlying growth (which excludes special dividends) was 2.4%
- The weakness in Q3 was driven by steep falls in mining sector dividends and lower special dividends.
- Mining sector payouts were down 23.6%. Outside of the mining sector, underlying growth was a more encouraging 7.2%
- Against a backdrop of a weaker phase of the commodity cycle, mining dividends fell by a quarter.
- One in six companies cut their dividend in Q3, including the majority of mining companies.
- Mining dividends are expected to total £11.5bn in 2023, down from £16bn in 2022.
- They expect UK equities to yield 4.0% over the next twelve months.
- The weakness in Q3 will not be offset by what they expect to be a strong Q4. Their full year forecast is therefore revised lower. They expect headline payouts to be down 3.4% to £90.7bn but regular dividends to rise 5.4% to £88.5bn

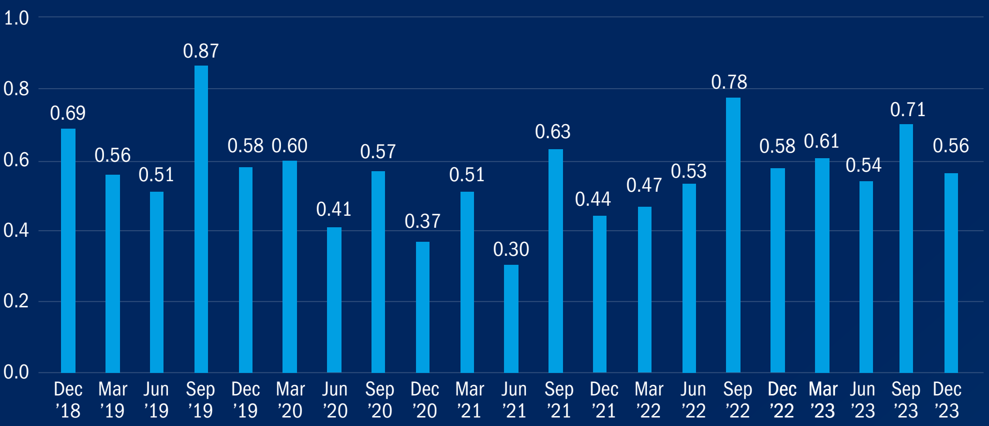
Our view:
CT MM Team Comment on the Surveys and Regulations

As per the previous quarters report, we continue to expect the global dividend outlook for your diversified fund to be better than the UK-focused surveys, due to a combination of active management and international diversification. However, capital return potential for UK shares from current low levels looks attractive. We also note the more recent survey reports for dividends are tempering somewhat although there are some technical reasons in part. The possibility of a recession still looms for some countries but with less expectation in surveys but, this together with continued geo-political uncertainty, mean vigilance in portfolio management remains key for income as well as capital preservation and growth. As we head into 2024, there will be a record volume of elections around the world adding a further element to consider. We continue to manage the Distribution fund's overall positioning to be slightly cautious.

Fund's up-to-date income history

CT MM Navigator Distribution C Income XD rates – quarterly

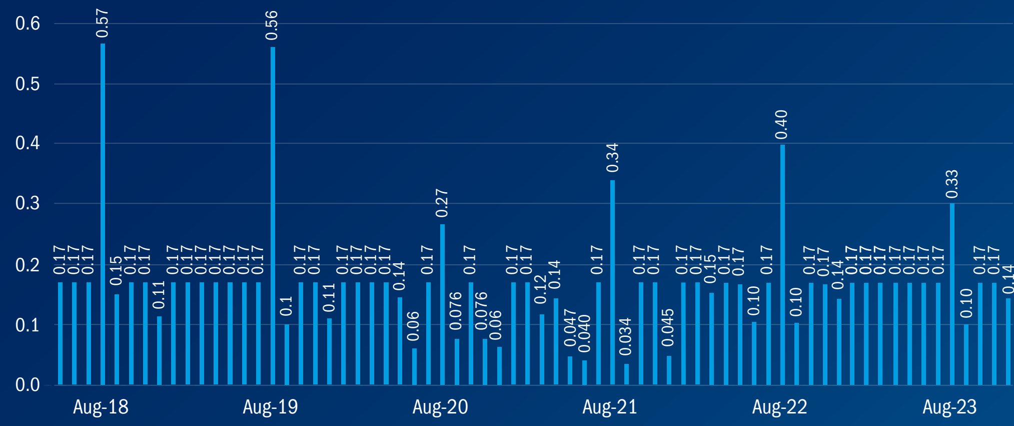
The Fund XD payments for the quarterly paying C share class can be seen below. This quarter's payment is 0.5637p and is broadly in-line with the same period last year. This payment will be made at the end of February 2024.



Source: Columbia Threadneedle Investments as at 31-Dec-23

CT MM Distribution M Inc XD rates – monthly

With regards to the monthly paying M class, the three xd payments since our last quarterly report total 0.4878 p per unit vs 0.4888p in the previous year's equivalent. The latest of these payments at 0.1478p went xd as at the end of December 2023 to be paid by 31st January 2024.



Source: Columbia Threadneedle Investments as at 31-Dec-23

5 year rolling performance

	2023	2022	2021	2020	2019	2018
CT MM Navigator Distribution C Acc	0.22%	-6.36%	11.16%	-7.64%	9.72%	-3.69%

Source Lipper 30-Sep-23

Past performance should not be seen as an indication of future performance.

All fund performance data is net of management fees. Costs may increase or decrease as a result of currency and exchange rate fluctuations.

Outlook

As mentioned last time, the recovery in income payments to pre-Covid 19 levels is now largely complete for the various global markets and for the CT MM Navigator Distribution fund. Looking ahead, high levels of dividend cover and elements of inflation pass-through via price increases for goods and services add support, offsetting economic concerns somewhat. If we add the stock-selection and income management skills of the underlying managers, then the outlook remains encouraging. In addition, we have been able to access higher yields in the bond markets too where a big reallocation took place last year. On balance we remain optimistic that further progress in income can be made from here for equities, and that with perhaps rates having peaked there may be a path towards better capital returns in the future.

Underlying Fund declared income

Since our Q3 report

The trend remains positive with the majority of funds increasing dividends, and the rate of those decreasing is also marginally lower than the rate of those increasing.

There have been 35 dividends declared since we last reported;

Of those:

- 22 have increased, by an average of 24.15%
- 11 have decreased, by an average of 21.91%
- 2 are unchanged

Fund Name	XD date	Pay Date	Latest Rate (p)	YOY Prev Rate (p)	% change
Barings EMD Total Return	02-Oct	06-Oct	1.195631	1.124475	6.33%
Janus Henderson Strategic Bond I Inc	02-Oct	30-Nov	0.9514	0.8026	18.54%
JOHCM UK Equity Income Y Inc	02-Oct	30-Nov	2.342419	2.1227	10.35%
Jupiter Monthly Income Bond Fund U1 GBP Inc	02-Oct	31-Oct	0.47	0.3922	19.84%
Liontrust Global Dividend Fund MGI	02-Oct	30-Nov	0.463	0.802961	-42.34%
Man GLG High Yield Opportunities Fund	02-Oct	30-Nov	0.687949	0.600641	14.54%
Man GLG Sterling Corporate Bond Fund	02-Oct	30-Nov	0.575957	0.643543	-10.50%
Montanaro European Income GBP Dis	02-Oct	16-Oct	0.003779	0.007744	-51.20%
Montanaro UK Equity Income F GBP	02-Oct	16-Oct	0.010596	0.009857	7.50%
Polar European ex-UK Income X GBP Inc	02-Oct	31-Oct	0.0335	0.0132	153.79%
Premier Miton Financial Capital Securities Fund GBP I	02-Oct	27-Oct	0.4379	0.5296	-17.31%
Schroder Asian Income Maximiser	02-Oct	30-Nov	1.0812	1.0917	-0.96%
TwentyFour Dynamic Bond M IC	02-Oct	31-Oct	47.1157	48.7063	-3.27%
TwentyFour Monument Bond Fund	02-Oct	30-Nov	2.7412	1.3188	107.86%
Pacific North Of South Emerging Market Equity Income	02-Oct	16-Oct	0.216591	0.409157	-47.06%
Amedeo Air Four Plus Ltd Common Stock	13-Oct	31-Oct	1.75	1.5	16.67%
Supermarket Income REIT	12-Oct	16-Nov	1.515	1.5	1.00%
TwentyFour Income Fund	19-Oct	03-Nov	2	1.75	14.29%

Fund Name	XD date	Pay Date	Latest Rate (p)	YOY Prev Rate (p)	% change
Schroder US Equity Income Maximiser Z Inc	23-Oct	20-Dec	0.8594	0.8311	3.41%
Artemis Short Dated Global High Yield Fund	01-Nov	29-Dec	0.015639	0.012999	20.31%
Jupiter Monthly Income Bond Fund U1 GBP Inc	01-Nov	30-Nov	0.4931	0.3661	34.69%
Man GLG High Yield Opportunities Fund	01-Nov	31-Dec	0.681705	0.600641	13.50%
Man GLG Sterling Corporate Bond Fund	01-Nov	31-Dec	0.555311	0.707596	-21.52%
Premier Miton Financial Capital Securities Fund GBP I	01-Nov	28-Nov	0.4755	0.4637	2.54%
TwentyFour Dynamic Bond M IC	01-Nov	30-Nov	46.0296	42.7429	7.69%
GCP Infrastructure	09-Nov	05-Dec	1.75	1.75	0.00%
GCP Asset Backed Income Fund Ltd	16-Nov	15-Dec	1.58125	1.58125	0.00%
CIFC Floating Rate Credit Income B2 GBP Dist	03-Nov	10-Nov	20.69207	14.35	44.20%
Franklin Templeton ClearBridge Global Infra Income X Inc	02-Oct	30-Nov	1.509091	2.179	-30.74%
LXI REIT plc	07-Dec	10-Jan	1.65	1.575	4.76%
Man GLG High Yield Opportunities Fund	01-Dec	31-Jan	0.599842	0.588255	1.97%
Man GLG Sterling Corporate Bond Fund	01-Dec	31-Jan	0.670035	0.658336	1.78%
Premier Miton Financial Capital Securities Fund GBP I	01-Dec	28-Dec	0.4342	0.512	-15.20%
TwentyFour Dynamic Bond M IC	01-Dec	29-Dec	41.9254	42.3186	-0.93%
Schroder Income Maximiser A Inc	01-Dec	31-Jan	0.5845	0.4651	25.67%

Source: Columbia Threadneedle Investments as at 31-Dec-23. *No historical comparison eg new fund launch

News snippet

Updates from the underlying managers during the quarter.

Montanaro UK Income Fund

The managers of this fund regularly review their dividend forecasts and have done so again this quarter. Here is an extract from their encouraging report.

Please see below comments on the UK Income Fund's distributions in 2023 and my current expectations for 2024.

1) 2023 dividend out-turn

The UK Income Fund delivered a full year **distribution of 7.27p in 2023**, comprising c. 6.76p of ordinary dividends and 0.51p of special dividends (7% of total distribution).

This out-turn was significantly ahead of my forecast this time last year (7.00p), driven primarily by higher-than-expected special dividends. The final result was also marginally ahead of my reforecast at the start of October (7.23p).

2) 2024 forecast

I currently **anticipate a distribution of 6.38p in 2024, which represents a headline decline of 12% vs 2023**. Ordinary dividends are expected to be down 7.5% y-o-y (impacted by some one-off headwinds, as explained below), while I conservatively model a 76% reduction in special dividends.

At the company level, I expect the vast majority of our holdings (>95%, aside from the one-offs explained below) to hold or growth their ordinary dividend in 2024. In addition, I anticipate a return to good growth in fund-level distributions in 2025, supported also by the unwind of some of the 2024 headwinds.

My **2024 forecast implies a current yield on the fund of c. 3.4%**. Through good "dividend capture", I am hopeful that I may be able to improve on the current forecast, all things being equal.

Background income information

Q: Why did dividend payments come under pressure in 2020 and 2021?

A: The unknown ultimate scope of the economic impact of the coronavirus pandemic and associated lockdowns etc. initially caused many companies to prioritise retaining cash over distributing equity dividends. This has now largely eased.

Q: Do companies have to cut dividends?

A: 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 did force certain industries to cease pay-outs and share buybacks during the worst of the pandemic. This has happened with the banking sector in the UK and Europe.

This action did make it easier for boards in other sectors to cut or suspend dividends. In November 2020, the ECB said banks can resume dividend payments in Q1 2021 if their balance sheets show resilience. In the UK, the Bank of England relaxed restrictions on bank dividends on 13th July 2021.

There was also pressure on companies that receive any state support in this crisis to suspend dividends. A number of major companies have repaid state aid, which has freed up dividend policy.

Q: Is the impact different in each asset class?

A: 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 through covered call option writing may see some positive impact from the heightened volatility.

Summary and conclusions

These remain potentially challenging times for all investors should the various economic and geo-political concerns prevail. However, income producing funds in particular tend to normally ride out difficult periods better than the average fund. Some funds were hit hard during Covid but they are now amongst the better performing sectors in total return terms as well. Whereas recession comments are receding, growth may slow somewhat this year and we would expect them to be more resilient in a more typical economic downturn.

It would appear that the polarised markets of the last few years have become more even-handed over the past twelve months of higher rates and inflation. In addition, although there remain several geo-political issues and other market concerns, we believe that there is still significant value in the portfolio at these levels which should see the capital base improve over time in our opinion.

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