

# INVESTMENT TRUST DIVIDEND MONITOR

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## Welcome to the second edition of the Investment Trust Dividend Monitor

which each year will reveal the latest trends in dividends paid by investment trusts to their shareholders. There's lots of detail in the appendix about what an investment trust is and how it works, but the essential point is that these rather special companies democratise access to asset classes that would otherwise be difficult for small investors to reach.

Simply put they are pots of assets looked after by a fund manager that are wrapped up inside a company structure and listed on the stock exchange so that all of us can buy them.

They invest in all sorts of assets, all over the world. Most of them focus on equities, but they cover venture capital, credit, private equity and much more too.

And very importantly, their regular dividends are a crucial part of the overall return for their shareholders.

Our main UK Dividend Monitor focuses on the industrial sectors of the stock market from banks to builders. It excludes investment trusts because they are often in turn investing in those self-same companies so there would be some unhelpful overlap and double-counting. But since millions of investors rely on the income investment trusts provide, we track that here in this supplementary edition.

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# SUMMARY



## Equity investment trusts – the wider context

- Equity investment trusts earn their income from companies making goods and delivering services – and then they pay dividends to their own shareholders
- UK dividends rebounded by a third in the twelve months to the end of March 2022, but have not recovered their pre-pandemic highs, according to our UK Dividend Monitor
- Global dividends have already surpassed pre-Covid-19 levels



## Investment trust dividends barely fell during the pandemic and are recovering more quickly than expected

- Total payouts were flat at £1.85bn in the twelve months to the end of March 2022
- In Q1 2022, they were 4.0% higher year on year at £437m



## Breakdown by region

- UK equity income, global trusts and global emerging markets account for two fifths of dividends
- UK equity income trusts are the largest payers of dividends – they fell 7.0% in the year to the end of March, reflecting a much larger fall in UK dividends a few months before; in Q1, payouts rose 2.3% year
- Trusts investing globally saw payouts fall 1.6% in the twelve months to the end of March 2022, reflecting the smaller fall in global dividends in the pandemic; they rose 1.0% in Q1



## Revenue reserves protected investment trust payouts from severe cuts

- Trusts can hold back income in good years to distribute in bad
- This revenue reserve fell by 6.8% in 2021 but is likely to start building again



## Beyond Equities – other kinds of investment trust have become dividend powerhouses

- Two thirds of investment trust dividends are now paid by trusts focused on alternative assets
- In the year to the end of March 2022, they paid £3.65bn, up 25.1%



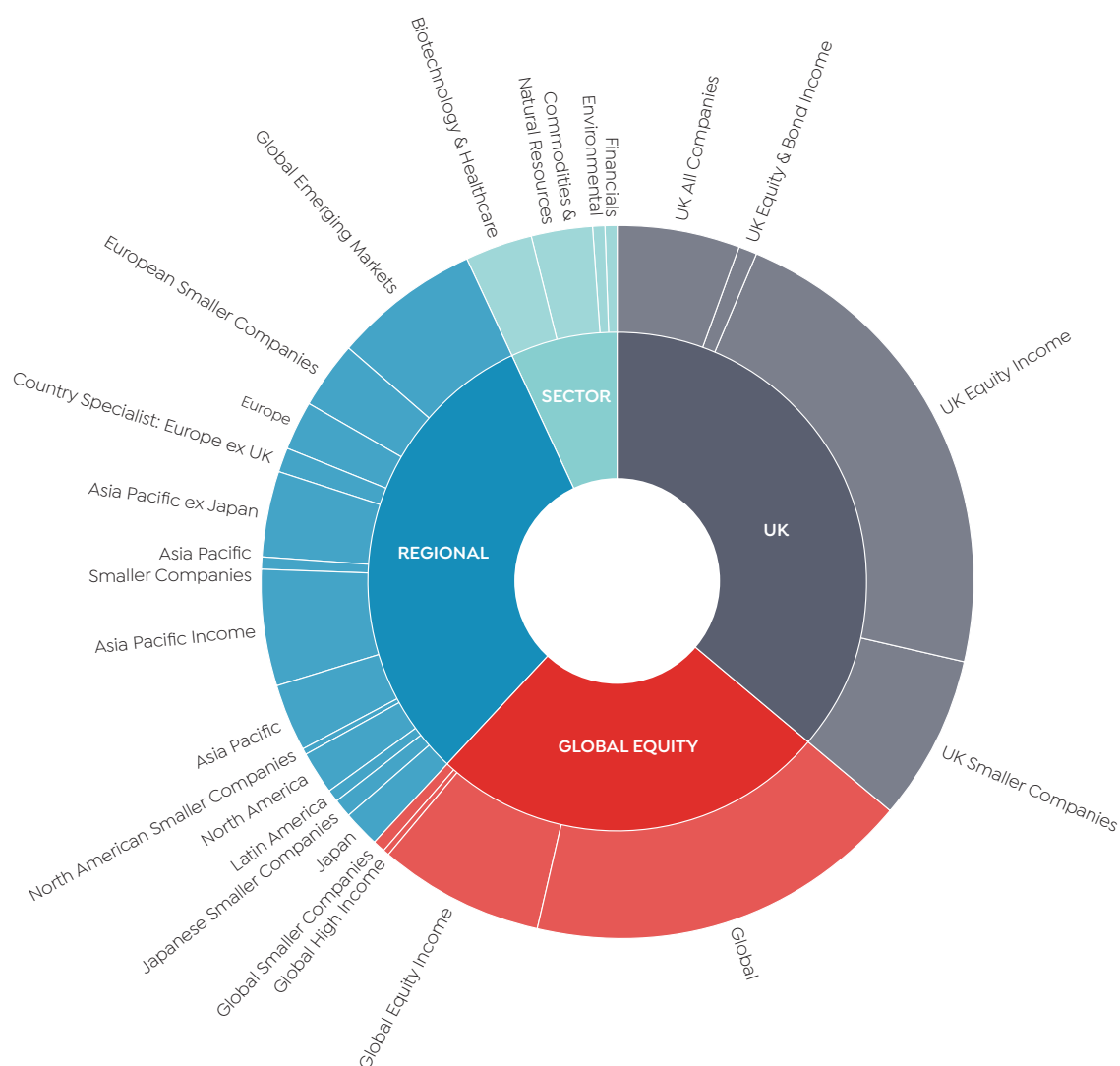
## Outlook

- We expect trusts investing in equities to grow dividends by 4% over the next twelve months, reaching a total of £1.92bn by the end of March 2023
- This is slower than the expected growth in UK and global dividends as trusts are likely to bolster revenue reserves where possible

# INVESTMENT TRUST DIVIDENDS

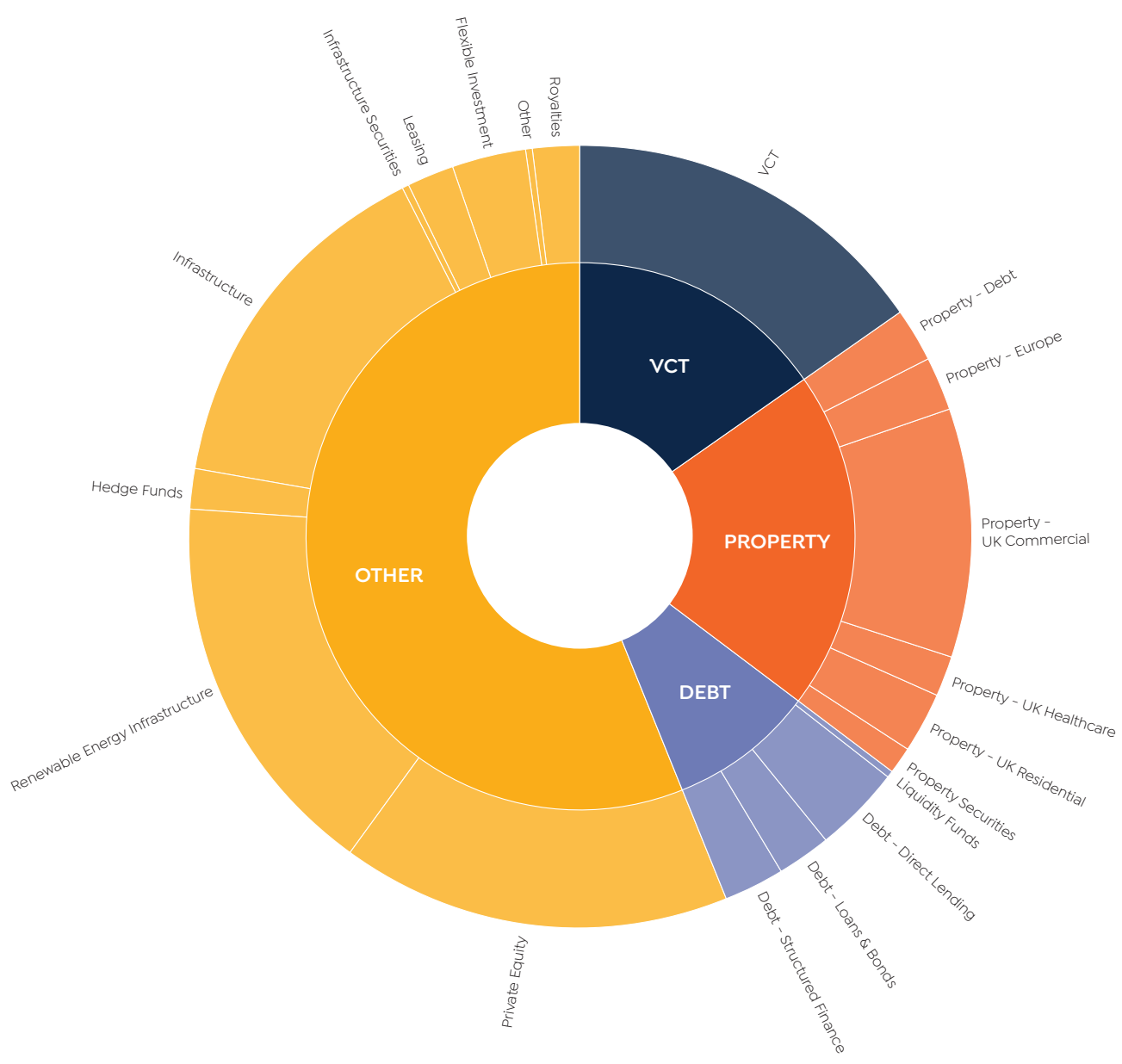
Investment Trust Dividends: £5.5bn – April 2021 to March 2022

Equity - Investment trust dividends: £1.8bn



Charts shown are for illustrative purposes only. Please see appendix for full figures and details.

Alternatives - Investment trust dividends: £3.6bn



Charts shown are for illustrative purposes only. Please see appendix for full figures and details.

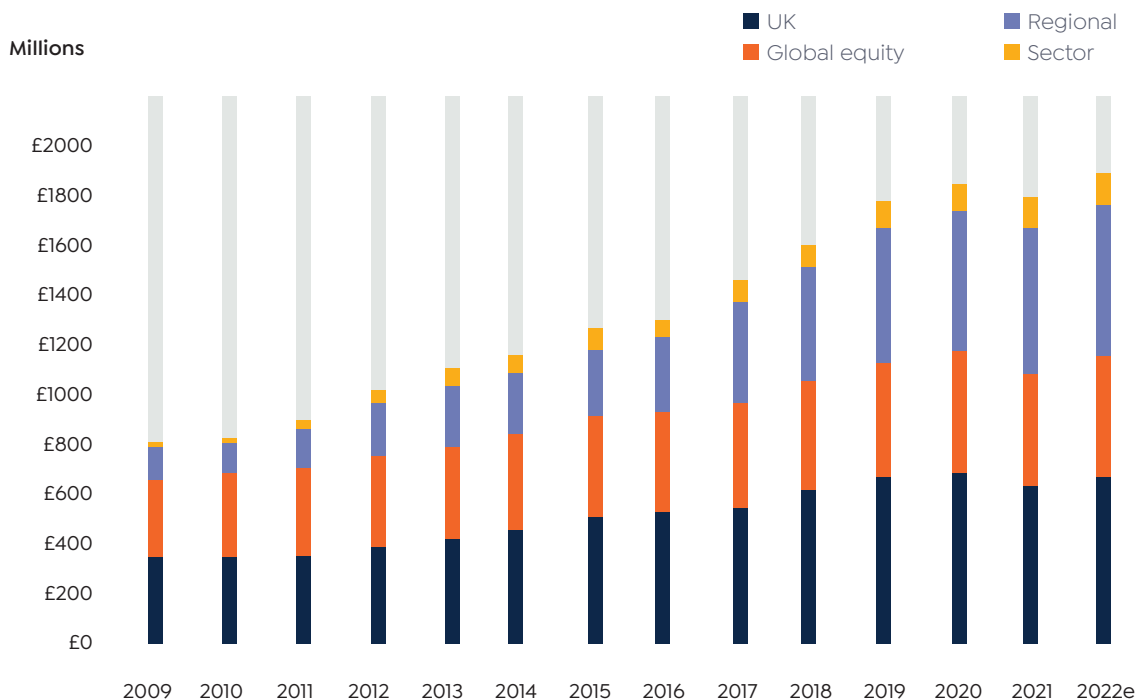
## Equity Investment Trusts – The wider context

After suffering drastic cuts during the worst phases of the pandemic in 2020, UK dividends have been recovering strongly for the last twelve months. Our main UK Dividend Monitor shows that payouts had rebounded by a third in the year to the end of March 2022.

This followed a two-fifths underlying fall in the first twelve months of the pandemic, meaning that payouts have not yet recovered their pre-pandemic strength. In fact, they are still almost a quarter below their peak, even if we adjust for companies like mining group BHP leaving the London Stock Exchange.

The recovery is taking place faster than we expected this time last year mainly owing to geopolitical factors and inflation benefitting oil and other commodity markets, so most sectors have been able to raise payouts. UK dividends will take some time to regain pre-pandemic highs, however. By contrast, the Janus Henderson Global Dividends Index shows that global payouts have now topped their pre-pandemic levels. The sector mix on the UK stock exchange, regulatory intervention on banking dividends during the pandemic, and the tendency of UK companies to have been paying out a large portion of their profits as dividends as the Covid-19 recession hit left the UK market more vulnerable to dividend cuts than many others.

## Equity – Investment trust dividends £m





### Investment trust dividends have been much steadier through crises

Investment trusts are different, and this has influenced how their dividends have performed over the last two years. First, they are able to invest almost anywhere in the world. Secondly, they can invest in different asset classes beyond just listed equities. Thirdly they are able to borrow modestly, using debt to buy more underlying assets, thereby enhancing returns to shareholders over the long term (this is known as gearing). And finally, many of them have reserves that they can draw on in bad times to cushion their shareholders when dividends from the companies they invest in go down. This last feature in particular distinguishes them from Open-Ended Investment Companies (OEICs) and other open-ended funds.

### Investment trust dividends barely fell during the pandemic and are recovering more quickly than expected

If we just look at investment trusts that invest in listed equities in the UK and around the world, we can see that payouts were exactly flat in the twelve months to the end of March 2022 compared to the previous twelve months. The £1.85bn total was nevertheless tracking just over 2% ahead of the forecast we made in July 2021 when they were at their lowest ebb. Even at that low point, however, they had only fallen 1.9% compared to the pre-Covid-19 peak. Having fallen so little they naturally have almost no ground to make up which explains why they appear to have lagged behind the wider market in recent months.

The first quarter of 2022 saw them 4.0% higher than the first quarter of 2021 (when they reached their nadir), a total of £437m.

### Breakdown by region

Among equity investment trusts, those badged as UK Equity Income are the largest distributors of dividend cash (though other UK equity categories of investment trust also make a significant contribution). It's a large sector in any case, but the trusts also tend to target companies that are higher-yielding dividend stalwarts. With a time lag, this group has echoed the cut in UK plc dividends that we have reported in the UK Dividend Monitor – down 7.0% in the last twelve months compared to the previous twelve. But the echo has been faint. If we take into account the time lags, we can see the decline has been one third as severe.

What's more, the most recent quarter shows that payouts are growing again, up 2.3%.

Global funds (one of four categories of trust that have a global equity mandate) also saw lower distributions over the last twelve months, down 1.6%. The lower reduction here is a function of the much smaller fall in global dividends during the worst of the pandemic than in the UK. Q1 showed 1.0% growth year-on-year which we expect to accelerate over the next couple of quarters.

Global emerging market funds also paid out less over the last twelve months. This is mainly because the impact of Covid-19 cuts happened later in emerging markets, where companies generally reduced their dividends after they had assessed the full impact on their profitability, whereas in most developed markets, firms took pre-emptive action.

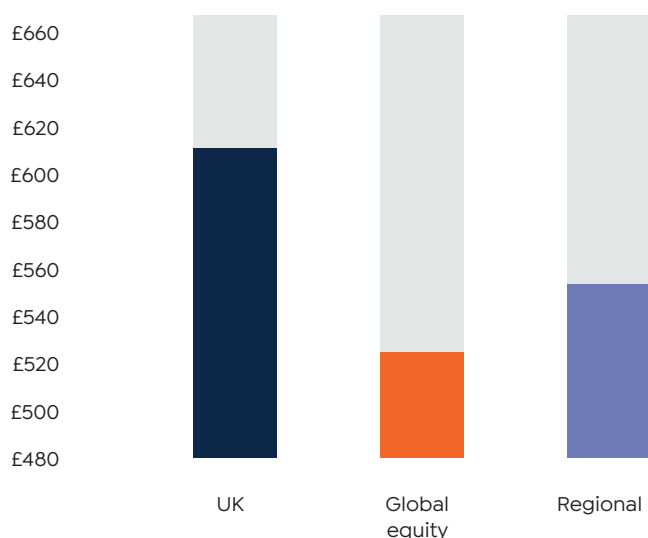
These three categories together account for two fifths of the dividends paid by investment trusts.

# THE REVENUE RESERVE

Revenue reserves protected investment trust payouts from severe cuts

Revenue reserves £m (latest annual report)

Millions



The revenue reserve explains why investment trust dividends proved so resistant to the effects of Covid-19 that so badly infected dividends from the companies around the world making goods and providing services in which trusts invest.

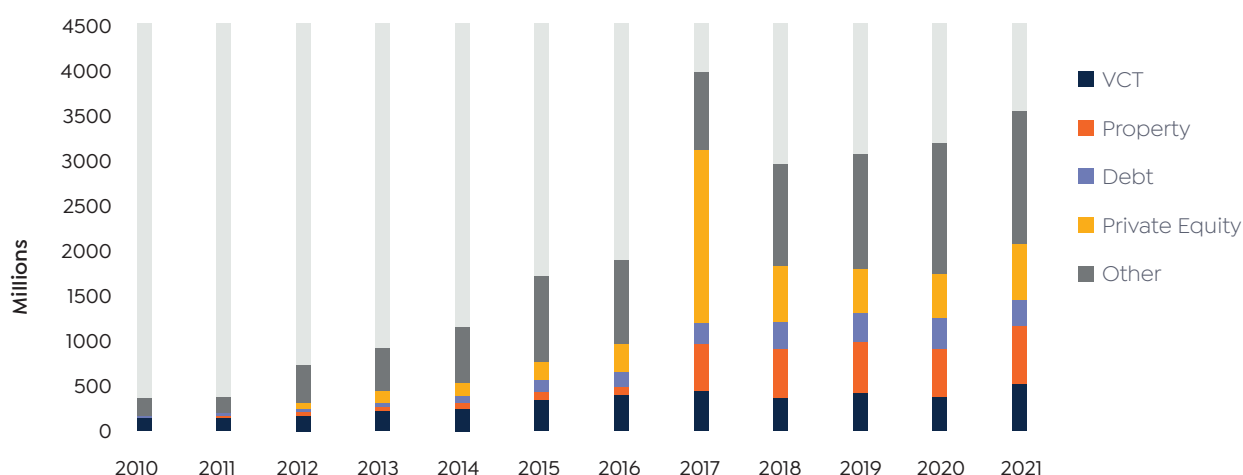
By tucking away a portion of the dividends a trust earns each year, in bad times it can release this cash and shield its investors from cuts in the dividends it receives. This smooths out short-term fluctuations and provides a steadier, more reliable income to its shareholders.

Trusts drew on their reserves through the pandemic, but they also took advantage of special rules that permit them to distribute some of their capital gains as dividends. In our last edition, we reported that reserves had fallen by one sixth. The decline in reserves has slowed markedly. Since last June (based on latest available accounts) they have fallen by a further 6.8% and we judge that trusts are likely to start rebuilding reserves from here on.



## Beyond Equities – other kinds of investment trusts have become dividend powerhouses

### Alternatives – Investment trust dividends £m



Beyond funds focused on listed equities, investors can choose from a broad range of other investment themes, covering private assets, debt, property (the largest dividend-paying alternative sector) and much more. This diverse group was responsible for two thirds of the total dividends paid by investment trusts of any kind in the year to the end of March 2022, up from just two fifths a decade ago. In the twelve months to the end of March they distributed £3.65bn between them, an increase of 25%. The biggest increase came from Venture Capital Trusts (VCTs), up by £221m or two thirds. Property trusts and renewable infrastructure also made a significant contribution to growth.

VCTs have proved very popular with investors in recent years who have been attracted by the generous tax breaks that come with this category of fund. A reduction in the lifetime allowance on pension funds is catching more and more savers with punitive tax on their pension pots. The measure has deterred pension saving among wealthier individuals who have looked elsewhere for tax-efficient options for their capital. With a 30% tax credit on capital subscribed in a VCT share issue and all income and capital gains tax free, VCTs are the first port of call for many investors now. VCTs have been very big issuers of shares in recent years as a result.

The companies held in a VCT do not tend to pay dividends, unlike 'regular' equities, because they are early-stage growth companies. Instead, VCT managers pay dividends from realised profits when they sell stakes in successful holdings. Octopus Titan, which has grown dramatically in recent years on the back of repeated issuance of new shares and good investment performance, is the largest dividend payer of them all.

It distributed a huge £135m in dividends in 2021, a record for the sector and more than a quarter of the total £492m paid out by VCTs last year.

VCT dividends fell by 6.6% in 2020 owing to the chilling effects of the pandemic, but have more than made up for that since. Moreover, they have more than tripled in the last ten years.

Private equity has some similarities to venture capital but the investment trusts do not attract the same tax breaks. It too has become a significant payer of dividends, worth £576m in 2021, the largest of any category of trust. 3i Group is dominant, accounting for two thirds of the dividends from the sector in 2021. The dividend stream from private equity investment trusts is more volatile than from VCTs owing to the way the business model functions but also because investors in the latter prize the tax-free income very highly, whereas investors in the former tend to focus more on capital gains.

Among other categories, renewable infrastructure funds, often in renewable energy generation, have become one of the largest dividend-paying sectors, along with 'traditional' infrastructure. The closed-ended nature of an investment trust (i.e., funds do not flow in and out like an OEIC) is particularly suited to long-term, illiquid assets like infrastructure – infrastructure projects are hard to sell in and out of quickly, but they tend to come with long-term contracts that guarantee cash flows. A relatively new category is royalty trusts that invest in the income stream from intellectual property rights like music, while property is a more traditional asset. These asset classes also favour the closed-ended structure.

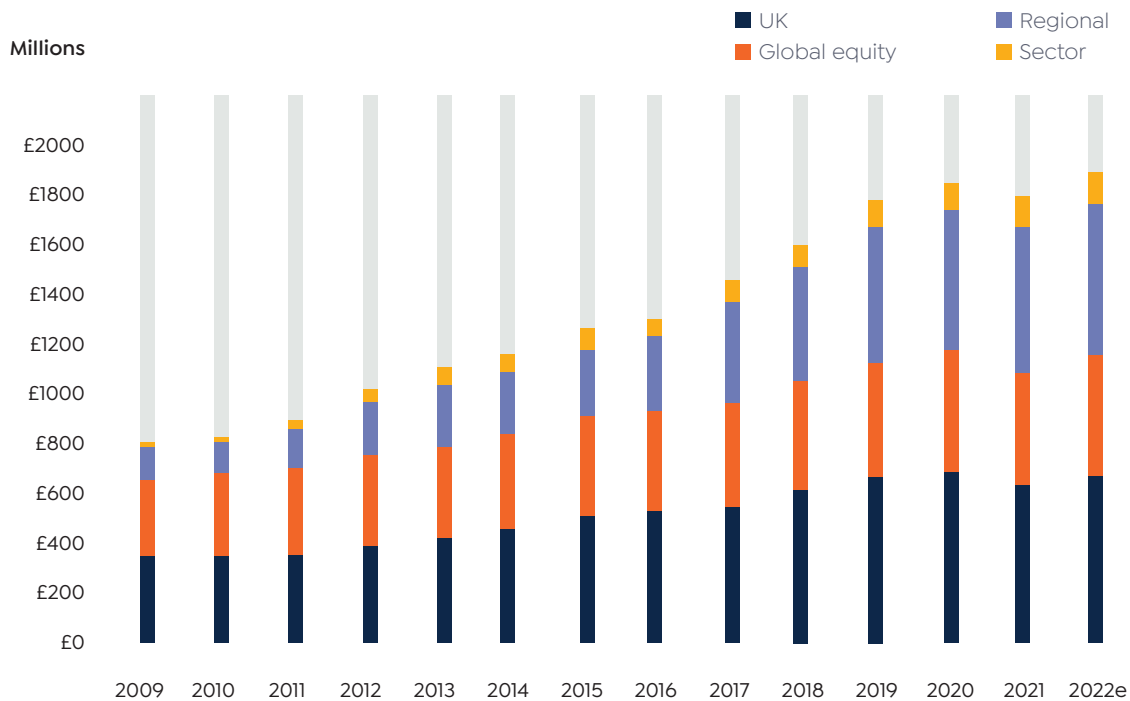
# OUTLOOK

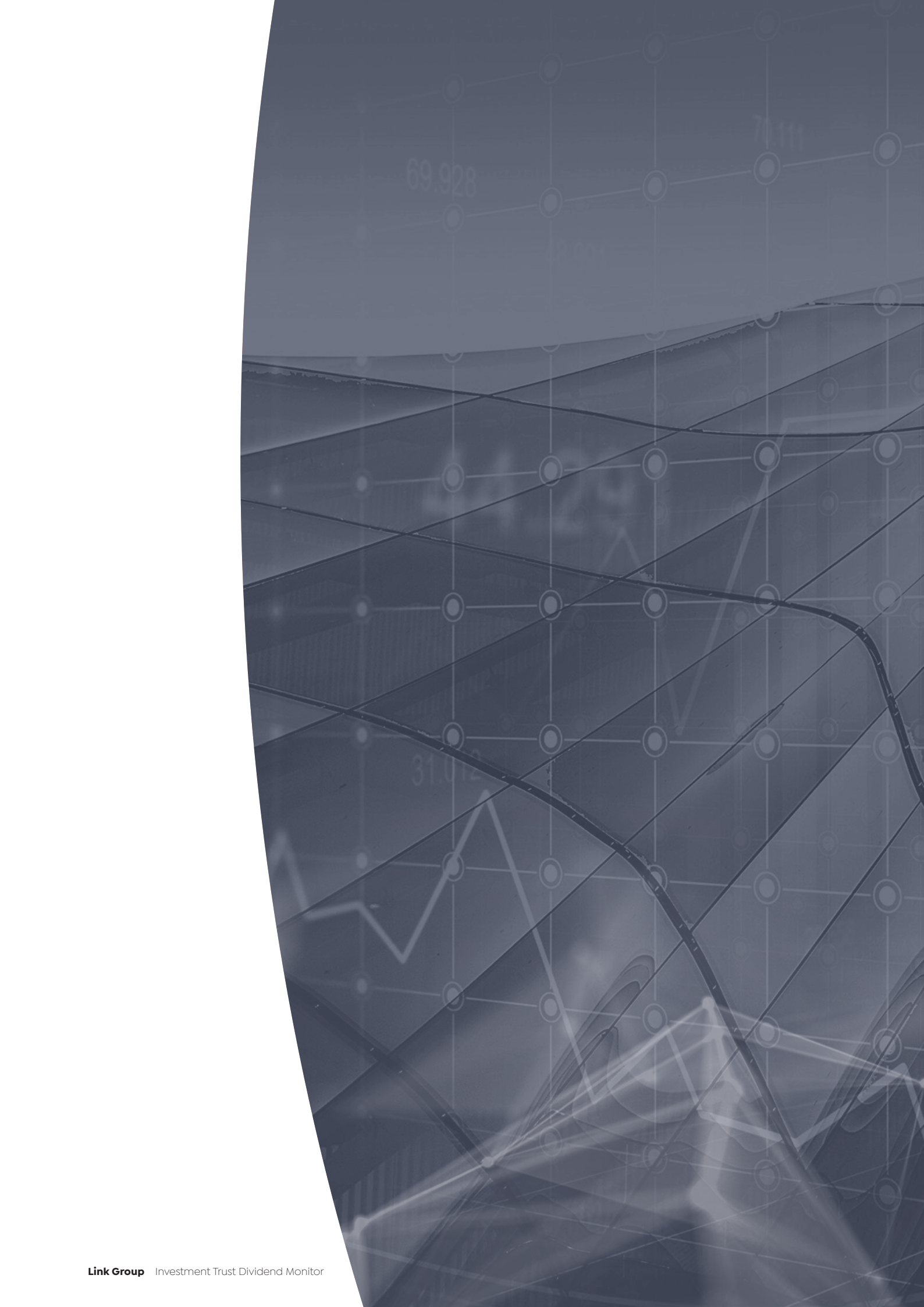
We do not attempt to forecast dividends from the alternative investment categories of investment trusts, since they are much more contingent on activity within each trust, such as particular deals or asset realisations, rather than due to wider market conditions.

For equity investment trusts, however, the picture is clearer as they will track trends in dividends paid by other listed companies, with a time lag and with the peaks and troughs smoothed out. Based on the outlook for payouts from UK companies and those elsewhere in the world, we expect investment trust dividends to rise 4% by the end of March 2023, to a total of £1.92bn.

This is slower than the rise in dividends from regular companies because we expect investment trusts to replenish reserves depleted during the pandemic.

## Equity - Investment trust dividends £m





# APPENDIX

## EQUITY FUNDS – Dividends Paid £m

Group	AIC Sector	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Q1 2021	Q1 2022
UK	UK All Companies	£70.7	£69.5	£70.8	£83.5	£88.1	£92.4	£93.9	£82.4	£92.4	£101.3	£112.0	£100.6	£26.6	£31.2
	UK Equity & Bond Income	£7.2	£7.4	£7.7	£8.3	£9.0	£10.2	£10.1	£13.7	£15.4	£15.0	£16.4	£15.5	£4.1	£3.2
	UK Equity Income	£244.2	£257.8	£269.3	£290.1	£315.9	£344.2	£358.5	£377.3	£406.4	£443.6	£452.1	£411.6	£90.0	£92.1
	UK Smaller Companies	£35.9	£37.0	£42.7	£45.2	£50.3	£66.8	£73.1	£85.6	£113.2	£120.7	£118.0	£120.7	£35.7	£52.3
Global Equity	Global	£263.7	£268.7	£291.0	£285.3	£291.0	£301.3	£292.2	£285.0	£297.9	£304.4	£330.2	£324.9	£28.7	£30.7
	Global Equity Income	£59.2	£63.2	£76.5	£83.7	£89.0	£93.9	£103.0	£117.8	£118.8	£126.4	£132.2	£138.0	£0.0	£0.0
	Global High Income	£0.0	£0.0	£0.0	£0.7	£1.1	£1.4	£1.5	£2.3	£2.4	£1.2	£1.1	£0.3	£3.2	£3.2
	Global Smaller Companies	£6.0	£5.9	£7.1	£7.9	£8.3	£9.6	£11.9	£13.9	£11.6	£14.2	£14.4	£10.1	£0.0	£0.0
	Growth Capital	£0.0	£0.0	£0.0	£0.0	£0.0	£0.0	£1.3	£0.0	£0.0	£0.0	£0.0	£0.0	£12.5	£12.8
Regional	Japan	£8.2	£5.0	£6.0	£8.8	£7.4	£7.4	£9.4	£13.7	£18.0	£23.9	£26.4	£27.2	£2.6	£2.3
	Japanese Smaller Companies	£0.0	£0.0	£0.1	£0.0	£0.0	£0.0	£0.0	£0.0	£5.3	£10.4	£16.1	£19.3	£4.4	£5.1
	Latin America	£5.1	£7.0	£10.6	£13.0	£9.9	£10.6	£5.8	£6.8	£8.9	£12.5	£9.6	£10.2	£0.0	£0.0
	North America	£7.4	£7.7	£11.5	£18.0	£19.8	£23.9	£26.2	£27.2	£29.8	£32.6	£34.7	£34.2	£14.4	£27.0
	North American Smaller Companies	£0.0	£0.0	£0.0	£0.0	£4.0	£0.0	£0.0	£0.0	£1.4	£1.4	£1.5	£1.6	£22.5	£23.0
	Asia Pacific	£18.4	£23.4	£25.1	£22.6	£23.0	£24.0	£26.5	£28.8	£32.8	£42.6	£44.0	£47.2	£3.3	£3.1
	Asia Pacific Income	£26.9	£31.3	£40.3	£50.5	£54.3	£58.7	£61.6	£84.6	£82.1	£86.6	£91.3	£97.6	£4.4	£4.7
	Asia Pacific Smaller Companies	£5.3	£7.1	£7.8	£9.0	£9.3	£10.6	£10.4	£12.4	£13.2	£16.2	£15.7	£9.7	£4.3	£10.1
	Country Specialist: Asia Pacific ex Japan	£2.1	£5.6	£10.4	£11.8	£12.4	£13.3	£16.0	£37.5	£53.3	£50.3	£59.4	£70.2	£7.2	£6.3
	Country Specialist: Europe ex UK	£0.0	£0.0	£0.0	£0.0	£8.0	£6.8	£12.0	£12.0	£13.0	£14.6	£15.5	£14.6	£9.5	£10.2
	Europe	£37.1	£42.0	£40.9	£45.2	£29.9	£48.1	£50.3	£66.1	£68.0	£85.1	£66.5	£44.5	£55.2	£21.4
	European Smaller Companies	£4.2	£4.7	£10.3	£10.6	£10.4	£11.1	£12.1	£12.5	£21.7	£45.0	£48.5	£52.4	£10.9	£12.3
	Global Emerging Markets	£16.0	£24.8	£39.0	£50.5	£49.8	£58.1	£66.1	£88.4	£105.9	£118.7	£133.4	£156.8	£2.0	£2.1
	Biotechnology & Healthcare	£4.0	£9.2	£11.1	£13.1	£18.8	£18.4	£21.2	£40.6	£46.6	£59.5	£48.4	£57.4	£0.0	£0.0
Sector	Commodities & Natural Resources	£16.7	£18.7	£46.0	£46.6	£47.0	£47.6	£42.0	£40.3	£36.2	£45.4	£46.5	£51.5	£0.0	£0.0
	Environmental	£2.4	£2.5	£2.7	£2.6	£3.0	£3.2	£3.0	£3.8	£4.8	£6.5	£10.8	£6.6	£2.7	£5.6
	Technology & Media	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£419.8	£437.0
	Financials	£0.0	£0.0	£0.0	£0.0	£4.3	£5.6	£5.8	£6.4	£8.2	£8.7	£7.0	£7.1	£0.0	£0.0
EQUITY FUNDS – TOTAL		£841.0	£898.4	£1,027.0	£1,106.9	£1,164.0	£1,267.1	£1,313.9	£1,459.1	£1,607.4	£1,786.7	£1,851.5	£1,829.6	£419.8	£437.0

## OTHER ASSET CLASSES – Dividends Paid £m

Group	AIC Sector	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Q1 2021	Q1 2022
Property	Property	£4.5	£6.1	£13.9	£19.9	£34.6	£57.8	£53.0	£425.4	£427.6	£441.8	£366.8	£0.0	£0.0	£0.0
	Property – Debt	£0.0	£0.0	£0.0	£0.0	£5.1	£6.5	£6.5	£18.6	£23.5	£28.4	£34.3	£81.3	£22.3	£31.6
	Property – Europe	£0.0	£0.0	£0.0	£0.0	£0.0	£0.0	£0.0	£5.5	£11.5	£18.2	£19.1	£43.4	£13.7	£29.4
	Property – Rest of World	£0.0	£0.0	£0.0	£0.0	£0.0	£0.0	£0.0	£0.0	£0.0	£0.0	£0.0	£0.0	£0.0	£0.0
	Property – UK Commercial	£0.0	£0.0	£0.0	£0.0	£0.0	£0.0	£1.4	£11.9	£18.2	£25.5	£32.6	£370.0	£78.0	£110.7
	Property – UK Healthcare	£0.0	£0.0	£0.0	£0.0	£0.0	£0.0	£0.0	£0.0	£0.0	£6.1	£25.9	£51.8	£10.2	£16.7
	Property – UK Residential	£0.0	£0.0	£0.0	£0.0	£0.0	£0.7	£0.0	£0.0	£0.0	£2.3	£1.6	£82.6	£22.6	£32.1
	Property Securities	£8.9	£15.4	£16.9	£22.2	£23.7	£24.4	£26.5	£33.3	£38.7	£42.8	£44.4	£45.1	£16.5	£16.8
Debt	Liquidity Funds	£0.0	£0.1	£0.1	£0.0	£0.0	£0.0	£0.0	£0.0	£0.0	£0.1	£0.0	£0.0	£0.0	£0.0
	Debt – Direct Lending	£0.0	£0.0	£0.0	£0.0	£1.2	£16.8	£49.5	£76.5	£108.1	£123.3	£131.5	£111.5	£17.7	£40.7
	Debt – Loans & Bonds	£14.5	£15.4	£29.1	£35.6	£56.7	£75.8	£80.2	£80.4	£73.2	£94.7	£90.8	£78.1	£21.5	£20.3
	Debt – Structured Finance	£0.0	£0.0	£0.0	£5.1	£18.4	£18.9	£39.0	£50.8	£99.1	£92.9	£123.3	£99.4	£26.4	£27.5
Other	Private Equity	£40.5	£51.1	£108.5	£127.1	£247.0	£265.5	£358.6	£2,105.8	£735.7	£514.8	£510.2	£575.5	£209.1	£217.1
	Renewable Energy Infrastructure	£0.0	£0.0	£0.0	£3.9	£60.4	£135.6	£171.5	£199.1	£263.1	£331.8	£387.8	£547.8	£124.8	£159.7
	Hedge Funds	£0.0	£0.0	£0.0	£0.0	£0.0	£0.0	£0.0	£0.0	£0.0	£32.7	£65.8	£61.9	£15.1	£16.3
	Infrastructure	£94.2	£68.9	£213.4	£252.8	£286.8	£460.9	£364.3	£454.1	£459.1	£461.2	£529.5	£541.6	£124.9	£129.5
	Infrastructure Securities	£0.7	£1.4	£1.6	£1.9	£2.3	£2.4	£3.4	£7.6	£8.0	£7.7	£8.0	£8.1	£2.1	£2.2
	Insurance & Reinsurance Strategies	£0.0	£0.0	£0.0	£0.0	£0.0	£0.0	£0.0	£0.0	£0.0	£0.0	£0.0	£0.0	£0.0	£0.0
	Leasing	£0.0	£0.0	£0.0	£0.0	£0.6	£10.9	£26.0	£25.9	£30.9	£36.7	£9.0	£49.6	£0.0	£17.5
	Flexible Investment	£54.0	£54.7	£96.7	£100.1	£103.7	£107.2	£116.5	£84.6	£90.9	£97.2	£109.0	£113.7	£17.1	£17.8
	Other	£27.6	£27.2	£20.7	£21.7	£23.0	£28.1	£38.2	£32.6	£37.8	£34.0	£30.4	£4.6	£0.2	£4.4
	Royalties	£0.0	£0.0	£0.0	£0.0	£0.0	£0.0	£0.0	£0.0	£1.0	£14.4	£30.7	£59.3	£13.3	£15.9
OTHER ASSET CLASSES – TOTAL		£382.2	£387.1	£678.6	£812.1	£1,107.0	£1,555.2	£1,723.4	£4,034.7	£2,783.4	£2,800.5	£2,918.3	£3,417.6	£801.4	£1,036.5

## Statistical Methodology

Link Group extracted investment trust data from its quarterly UK Dividend Monitor database for each quarter between 2009 and 2021 (the regular UK Dividend Monitor excludes investment trusts). All main-market UK listed trusts are included, though the analysis focuses on equity funds unless otherwise stated. Revenue reserve data was sourced from Factset. Dividends are included on the pay date. Link Group has categorised the trusts according to AIC investment trust sectors. VCTs are excluded. Link Group's series includes any investment trust in operation during each period, so it captures a full market picture at any point in time, rather than only those investment trusts that survive to this day.

The analysis looks at the total dividend paid. Trusts that have issued shares will therefore have seen their total dividend paid expand faster than their dividend per share. Those that have bought back shares will see their total dividend paid grow more slowly than their dividend per share.

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We help manage regulatory complexity, improve data management and connect people with their assets, through exceptional user experiences that leverages the expertise of our people combined with technology, digital connectivity and data insights.

For further information, including the legal and regulatory status of this company, visit <https://www.linkgroup.eu/legal-and-regulatory-status>

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