Thorntons Investments AIM IHT Portfolio

Markets & Portfolio News

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Pocket Money

A couple of, slightly contradictory, financial news items on income this week, prompted some thoughts on this topic. The first was a report that AIM dividends are expected to slide by a third this year and the other on how UK savers had missed out on £38bn of income from holding record levels of cash over the last year.

The latter article was based on some research by Janus Henderson that UK household's cash savings had grown to a record £1.5 trillion over the first six months of the year. With about 80% of this estimated to be surplus to contingency requirements and interest rates on bank accounts at negligible levels, had it been invested in UK equities it would have generated an extra £38bn of income, or £1,350 per household. There were a number of 'if's' in this argument and it completely ignores risk, however, the assertion that ultra-low interest rates are here for some time looks quite probable; central banks are painted into a corner and we only have to look at Japan as a working example of how long it could last.

In contrast an exercise by Link estimated that AIM company dividends could fall by a third this year in a best-case scenario and by as much as 48% in a worst case. This is not as bad as the main market, where pay-outs have halved, but is still a pretty alarming forecast. Link's best estimate for the next twelve months is for AIM shares to yield 1.1%.

Fever-Tree – announced a 4% dividend increase

Our conservative estimate for the portfolio currently is a yield of 1.6% and recent company announcements give us reason to think the risk is to the upside.

Just this month so far, **EMIS** announced a 3% dividend increase, **Fever-Tree** a 4% increase and **Renew** and **Epwin** have heavily hinted that, if current trading continues, they hope to restore final dividends for the full year.

Dividends need to be paid with hard cash and to be sustainable companies need to be able to generate sufficient cash profits to pay all their working commitments, finance costs and make new investment, with enough left over to pay dividends. It also acts as an internal hurdle, or measure, against which to assess use of funds. If there is no dividend to pay, there will always be a temptation to invest in projects of diminishing return. Arguably much of the FTSE 100 had struggled to do this, allowing debt to rise in order to maintain dividends. This year's collapse in dividends has allowed a reset and recovery to last year's level now looks a distant prospect.

AIM companies, in comparison, should see a much faster recovery. Pay-out ratios were much lower and the proportion of companies paying dividends has been increasing steadily (from 26% in 2012 to 35% in 2019).

One of my first lessons as a cub analyst was that “dividends are the rent payable on shareholders’ capital”. Implicit in this is the recognition that capital growth, although expected, takes time to achieve and is more likely to be lumpy than smooth. An element of being paid to wait, as it were.

This lesson permeates how we assess companies for investment and how the portfolio is constructed.

“It has always been our aim to try and generate sufficient dividend income to cover all the costs that a client faces”

Matt Strachan

It has always been our aim to try and generate sufficient dividend income to cover all the costs that a client faces, helping lubricate the maintenance of the portfolio on a platform and minimising the number of transactions that might eventually need to be submitted for business relief.

Obviously, the extraordinary circumstances of this year have stressed this aim. However, we are now optimistic that it will be comfortably achievable before too long.

In the meantime, I wish you all a lovely weekend. I will be helping celebrate my parents diamond anniversary, with a family gathering before the ‘rule of six’ kicks in.

Matt Strachan
Chief Investment Officer, Thorntons Investments

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