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[INTRODUCTION]
Chris Salih (CS): Hello and welcome to the Investing on the go podcast. I'm Chris Salih and today we're joined by Sue Noffke, manager of the Elite Rated Schroder Income Growth fund. Thanks for joining us today Sue.

Sue Noffke (SN): Good afternoon, thank you very much.

[INTERVIEW]
[0:16]

CS: I wanted to start with obviously dividends in the UK. It's not been, well 2020 was not the best of years, let's put it that way. Could you maybe just talk us through the environment and how the fund held up?

SN: Yeah, so an amazing year really, so, so much happened, and happened really quickly. So if we think back to 12 months ago, people were back from their half term holiday. And the first cases of COVID really were beginning to hit home in Italy. And what we saw was a rapid pulling in of horns in terms of increased caution from companies in response to that, really from about April/May. And that's super important for income investors because you're normally receiving the final payments in terms of dividends for the year that's just closed. So ,in that case, it was 2019. And what we saw was a lot of company managements, just say, the outlook is so uncertain, we're in an epidemic, pandemic, on a global scale, and we don't know how this is going to pan out. So, they decided to curtail their dividend payments or to, to just say, it's too early to say. And regulators also stepped in and prohibited a number of companies, particularly in the financial sector, from paying. So very difficult circumstances in 2020.

[1:50]

CS: One of the things I wanted to touch on is obviously you have the ability to use a revenue reserve within the portfolio. Could you maybe talk about how and if you used that last year and whether you still have the ability to use it this year, if needs be?

SN: Yeah. So that's the great thing about an investment trust in that you earn income during the year, but you don't have to pay it all out. So, in the good years, you can retain reserves, for a time when the environment is more tricky. And that's what we've been doing for the prior six or seven years to the COVID crisis. And that meant that we were not unduly perturbed by some companies' caution in the early stages of the COVID crisis. And we did draw on some of those reserves, but to a modest amount. So, we had one full year, so 12 months of dividend in reserves, and we used effectively one month of that, in the 12 months to the end of August 2020. So we still have 11 months of dividend in reserves and we had a dividend that was covered by earnings of 93%. So actually, the hit to the fund in income was far less than that of the market.

We've done some analysis of the market to the nearest calendar quarter to August, so the end of September, and market income fell about 35%. Our income fell by half of that, some 17%. So we were much more protected, as well as having those revenue reserves. So we feel very comfortable having the flexibility in our strategy and to be able to deliver income for our investors.

[3:44]

CS: And what is your outlook for UK dividends now, are you sort of bullish? Are you expecting more cuts? Are we through the worst? Are you… caution? optimism?

SN: Yeah, I think it depends on which sector, and I think we are broadly through the worst. So, when we opened up the conversation, we talked about that fear and panic that corporates had and the level of uncertainty. As we went through 2020 and particularly when we got the vaccination news that there were medical advances to ensure that there was a solution to the global health pandemic, that was very reassuring for corporates as well as society generally. And what we've seen is a number of companies having adapted to the crisis actually pretty well, outside of those main sectors in hospitality, which are completely closed. And so we've seen companies actually pay back a lot of government support to give them more flexibility, to invest their own opportunities for the future, and to reward their shareholders more generally. And so there's a lot more confidence in the future, I think. What does it mean in terms of dividend payments? I think for the market as a whole, the second half of calendar 2021 will look much brighter. Partly it's a comparison. So, the comparison in the second half of 2021 is going to look better against quite a weak second half of 2020, but I think we will be sort of through the worst, so to speak, and there should be definitely light at the end of the tunnel.

[5:29]

CS: I just want to broaden it out a bit more beyond dividends just to look at the UK market in general, you know, the Damocles of Brexit hanging over at, undervalued is a word that's become synonymous with the market. Could you maybe give us a view on the outlook for UK in general? Are we optimistic there as well?

SN: In terms of capital appreciation, yes I think we can be pretty optimistic about the UK equity market. It's been unloved and shunned by global investors for some years now, really five years since the UK's EU referendum vote. But with Brexit having been done, in that parlance, the valuation support is definitely there. And, with the vaccine news really underpinning the reopening of the UK economy, I think there are many attractions to investing in the UK equity market.

[6:27]

CS: And then just lastly, this is your 10th year running the trust. Could you maybe talk us through any stocks that you've held that would become stalwarts that perhaps you've held for a long time and just a bit more of a story behind that journey that investors have had in that time?

SN: Sure. Our typical turnover is between 15% and 20% per annum. So it's not surprising that we find quite a number of holdings have been in the portfolio for that decade. And some of those are Legal & General, the life insurance company, it's been one of the largest contributors to performance over that decade. And it remains within the fund today. But other companies from Intermediate Capital Group, so that's a specialty asset manager, Unilever, consumer goods company, very global in nature, mining company Rio Tinto and Relics, which has managed the analog to digital transition within its publishing businesses very successfully, have all been within the portfolio for the last 10 years.

CS: That's great Sue, thank you very much for joining us today. And if you'd like to learn more about the Schroder Income Growth fund, please visit fundcalibre.com and while you're there, remember to subscribe to the Investing on the go podcast.