
MULTI ASSET INCOME FUND – MANAGER INSIGHTS

Steven Hay explains why the Multi Asset Income Team are looking forward with optimism, preferring to focus on areas where ‘great’ is used to describe the scale of the income opportunity rather than as an adjective describing the scale of this dividend crisis.

The value of an investment in the Multi Asset Income Fund, and any income from it, can fall as well as rise and investors may not get back the amount invested.

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Steven Hay: Hello, I’m Steven Hay and I’m one of the lead managers on our Multi Asset Income Strategy.

I hope everyone is doing okay out there. It’s bizarre to be filming this here in my bedroom, or should I say my home office. It’s yet another of the strange features of our current existence.

The recent environment has been very challenging for us all in many ways. One of those is financial and especially for income investors. It could be called the Great Dividend Crisis. Often people have invested in UK equities for income, and it’s not been short of a disaster. We estimate that almost half of UK companies have either cut or scrapped their dividend.

In some ways, that is what our Multi Asset Income Strategy was designed to cope with – to keep providing good resilient income no matter what the shock. One key reason is that we have a broad opportunity set with around a third of the portfolio in equities, a third in fixed income and a third in real assets, which is property and infrastructure.

Focus on equities

Let’s take the equities. The portfolio’s income mandate precludes some of the high-growth names that feature in other Baillie Gifford portfolios such as Scottish Mortgage, but the Baillie Gifford growth DNA still runs through the equity part of the portfolio, with meaningful weightings to areas such as technology and healthcare rather than the traditional fare of income portfolios, you know the type – the big businesses of yesterday like big oil companies.

The crisis has really driven home why this is so important. It has exposed those businesses that are not in control of their own destiny, that are overdistributing or where growth prospects are weak.

Take Roche, for example, the Swiss pharmaceutical company which is currently the fund's largest equity holding. Roche has had a ‘good crisis’ with its diagnostics capability seen as an important factor in Germany’s successful response to the virus. However, this success didn’t happen by accident and is not confined to its response to Covid-19. There was a culture that underpinned it, and that was what attracted us to the stock.



Our approach is to focus on resilient long-term income. We do expect a drop in income this year but we hope it will be limited to around 5 per cent. This is not great news for our investors, but neither is it disastrous and we are really confident that the income will bounce back next year. That's really important because our key objective is to grow the income in line with UK inflation while maintaining the value of the capital invested in real terms.

Changes to the portfolio

So what have we been doing in the portfolio? Well one of the biggest jobs for us has been testing all our investments for resilience to this new situation we find ourselves in and all but a handful of them satisfied the test. But there are a few investments we've had to sell. PureGym, for example, a business whose high yield corporate bonds we held, but where, because of the very specific nature of the crisis, we are no longer confident that they are a resilient investment.

Some impacts of the crisis will be more long lasting, such as how and where we all shop and work. So we've been reducing property retail exposure and are thinking hard about how resilient the income from office rents will be. We are only a small part exposed here as we have a well-diversified global property portfolio but this is a big question and no one yet knows the answer.

In fact the crisis has thrown up some great opportunities. We have added to the highest quality corporate bonds as yields rose significantly during the crisis yet the chance of default is negligible and central banks were using quantitative easing to buy corporate bonds adding further security, so it was a great chance to add income to the fund at attractive levels.

Outlook

We believe it is important to look beyond passive indices and to actively pick companies whose dividends or bond yields are more resilient. And a wide opportunity set allows freedom for active asset allocation. Active management really earns its stripes when markets get choppy. We look forward with optimism, preferring to focus our attention where 'great' is used to describe the scale of the income opportunity rather than as an adjective describing the scale of this dividend crisis.

Thank you very much for your time and stay safe everyone.

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