

# UK EQUITY INCOME – A MORE POSITIVE OUTLOOK IN 2021

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# UK INCOME BACKDROP AND OUTLOOK

# UK INCOME BACKDROP

2020 saw a larger drop in UK dividends than the financial crisis

## UK dividends (full year basis)

£ Billions



Source: Link Q3 2020 dividend monitor.

# UK INCOME OUTLOOK

What are companies saying on their dividends?

“...Our first and foremost focus is on getting our normal dividend reliably and safely paid out to our investors. And that’s why it was so important that we restored it and restored the catch-up at Q2.”

– **Penny James, Direct Line CEO**  
Q3 2020 conference call

“I’m very happy to have the strong capital ratios that we do at 18.2%. And I’ve been clear that it is my clear intent to start paying dividends as soon as possible.”

– **Alison Rose, Natwest CEO**  
Q3 2020 conference call

# UK INCOME OUTLOOK

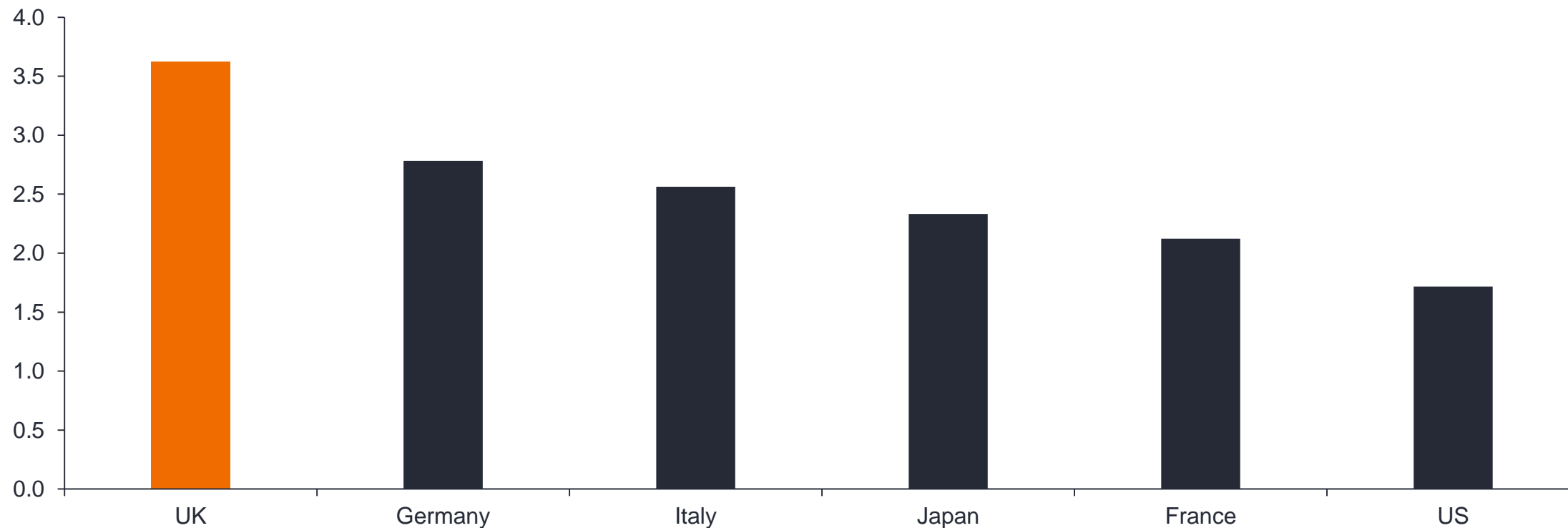
- The outlook for dividends is improving – many companies that had previously suspended dividends have resumed paying (eg BAE Systems, Direct Line, Land Securities)
- The widespread paying back of government support (eg business rates relief, furlough scheme payments) removes a further impediment to paying dividends
- The remaining key unknown for 2021 UK dividends is banks (15% of total UK income in 2019, currently dividends are suspended by the PRA)



# UK INCOME OUTLOOK

Despite the rebasing, the UK continues to look attractive for income

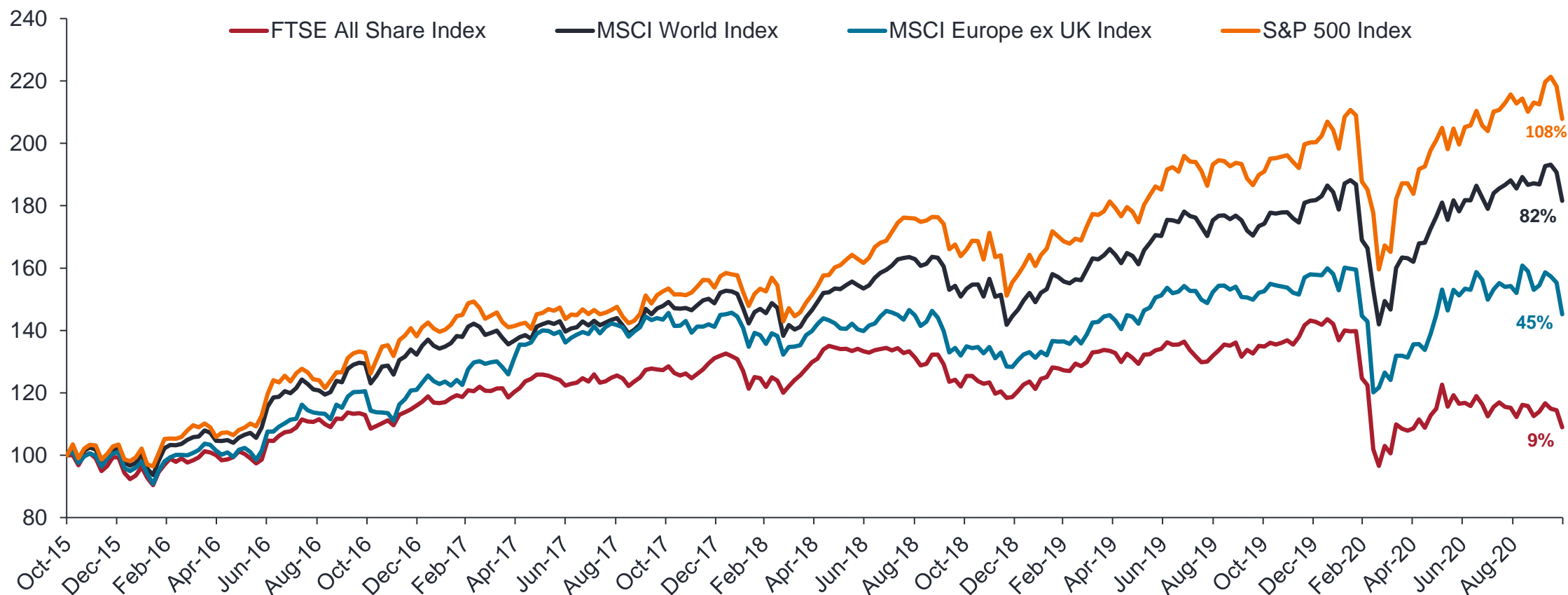
2021e Dividend Yield (%)



Source: Lazarus Economics as at 8<sup>th</sup> December 2020.

# UK MARKET BACKDROP AND OUTLOOK

# THE UK HAS MATERIALLY UNDERPERFORMED OTHER GLOBAL MARKETS



Source: Datastream, as at 31 October 2020. Total return, GBP, rebased to 100 as at 31 October 2015

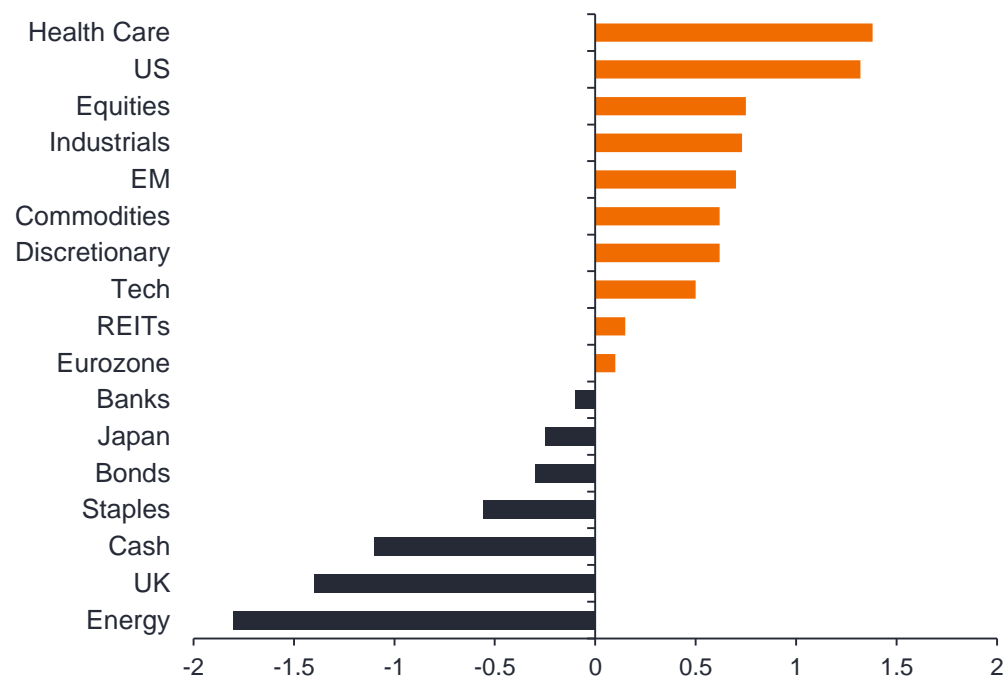
Note: For illustrative purposes and not indicative of any actual investment



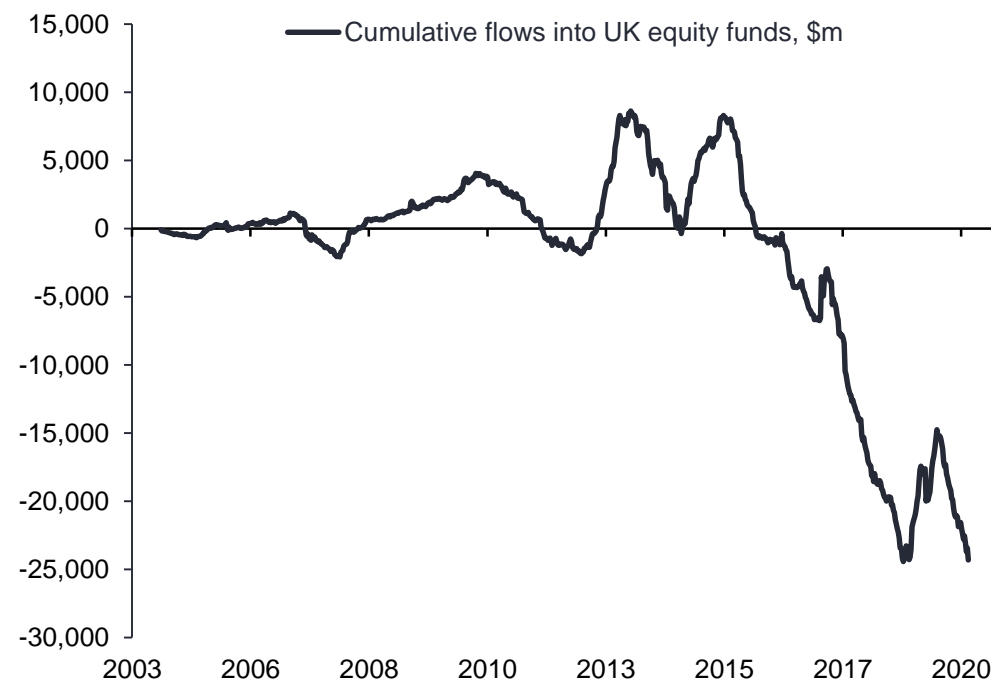
# THE UK MARKET REMAINS OUT OF FAVOUR

## The UK Remains a Large 'Underweight' Position

November 2020 Global FMS, Positioning vs. history (z-score)



## There Have Been Material Outflows Since Brexit

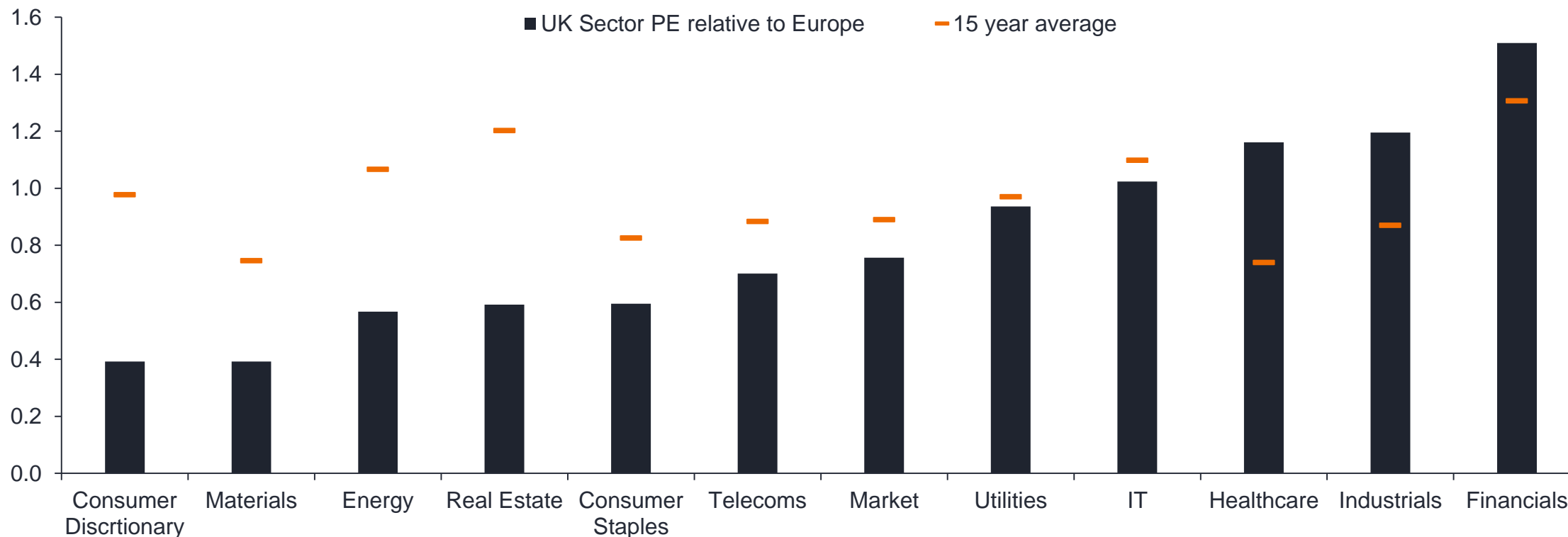


Source: BoA, as at 17 November 2020

Source: Credit Suisse, as at 2 December 2020

# UK VALUATIONS ARE LOW VS PEERS AND VS HISTORY

Across almost all sectors UK valuations are lower than peers (not just in energy!)



Source: DataStream, as at 7th November 2020.

Notes: MSCI UK Sector 12 month forward PE relative to European peers

# TAKEOVER INTEREST IN THE UK IS INCREASING



Recent takeover approaches within the UK market include:

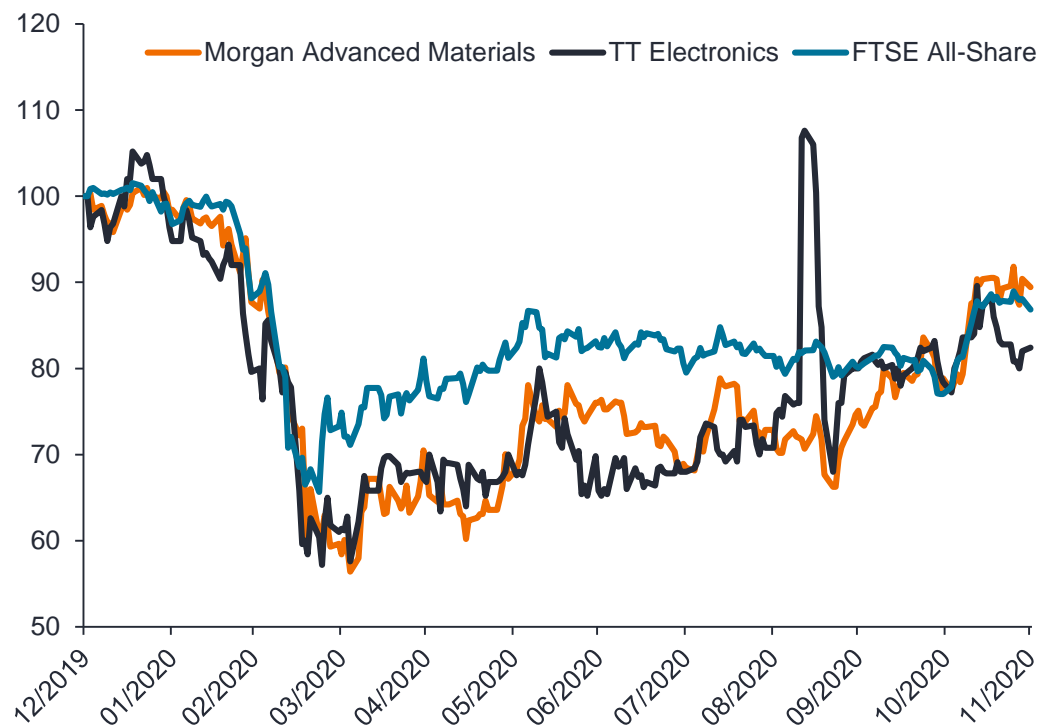
- **RSA**  
Cash bid at 685p by consortium of two peers (held in JH UK Equity Income & Growth portfolio when the takeover offer was made public)
- **Elementis**  
Cash bid at 130p from US peer (held in portfolio)
- Other recent examples of companies not held include William Hill, Hastings, McCarthy & Stone, Horizon Discovery...

**A Brexit deal, if agreed, could drive further interest.**

# WHERE ARE THE OPPORTUNITIES?

## Industrials

### Share Prices Have Recovered Well From Their Lows



Source: Refinitiv Eikon as at 30th November 2020.

Note: Total return, GBP, rebased to 100 as at 31st December 2019.

### But on a Recovered Earnings Basis Valuations Look Reasonable

Company	2019 EPS	2022e EPS*	2022e P/E*	Cost savings announced post Covid
Morgan Advanced Materials	28p	26p	11.4x	£20mn
TT Electronics	18.7p	18.3p	11.0x	£11-12mn

Source: Bloomberg as at 8th December 2020.

Note: \*Consensus estimates.

# WHERE ARE THE OPPORTUNITIES?

## Consumer

### The UK Savings Ratio Is High Versus History

Household Saving Ratio (% disposable income)



### Consensus Does Not Assume Historic Earnings Can Be Recovered

Company	FY19 EPS	FY22e EPS*	2022e P/E*
Halfords	26p	22.5p	12.1x
Marks & Spencer	23p	12.5p	10.9x

Source: Lazarus Economics, 8th December 2020

Source: Bloomberg as at 8th December 2020.

Note: \*Consensus estimates.

# INTRODUCTION TO JANUS HENDERSON UK EQUITY INCOME & GROWTH

# JANUS HENDERSON UK EQUITY INCOME & GROWTH

## Introduction

1

**“Best ideas”  
UK income and growth  
fund**

Investing flexibly across the breadth of the UK market (and opportunistically overseas)

2

**Multi-Cap**

The Fund will invest across large, medium and selective smaller companies in the UK

3

**Value-based  
investment process**

Pragmatic process that aims to identify good quality companies trading at a valuation discount to peers and/or their own history

4

**ESG fully  
incorporated into the  
investment process**

Both the Fund Manager level and via the Governance & Responsible Investing team

# JANUS HENDERSON UK EQUITY INCOME & GROWTH

## Investment process

- Valuation driven investment approach that aims to identify good quality companies at the point at which they are either unloved or unknown:
  - Identify companies trading at a valuation discount either to peer group and/or historic valuation levels
  - Companies will often be the market leader in their specialism and/or geography, with high barriers to entry
  - Thorough assessment of end market dynamics
  - **No positions held for valuation reasons alone** – there needs to be a clear route to sales/earnings growth and/or a clear catalyst (such as a potential break-up of the business)

Note: There is no assurance the stated objectives will be met.





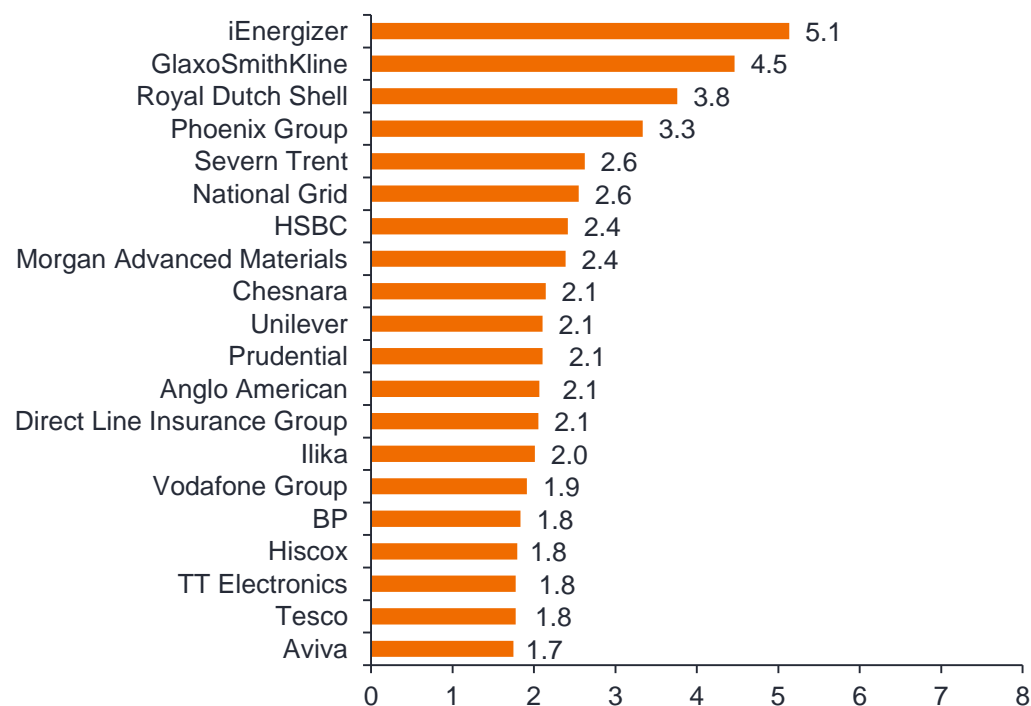
# CONCLUSION

- 2020 was a very difficult year for UK dividends, but 2021 should see a return to dividend growth
- The dividend yield on the UK market remains attractive relative to other developed equity markets
- The UK market is out of favour and lowly valued (versus peers and versus history), with signs of takeover interest increasing
- Despite recent market strength, there continue to be attractive valuation opportunities relative to 'normalised' earnings

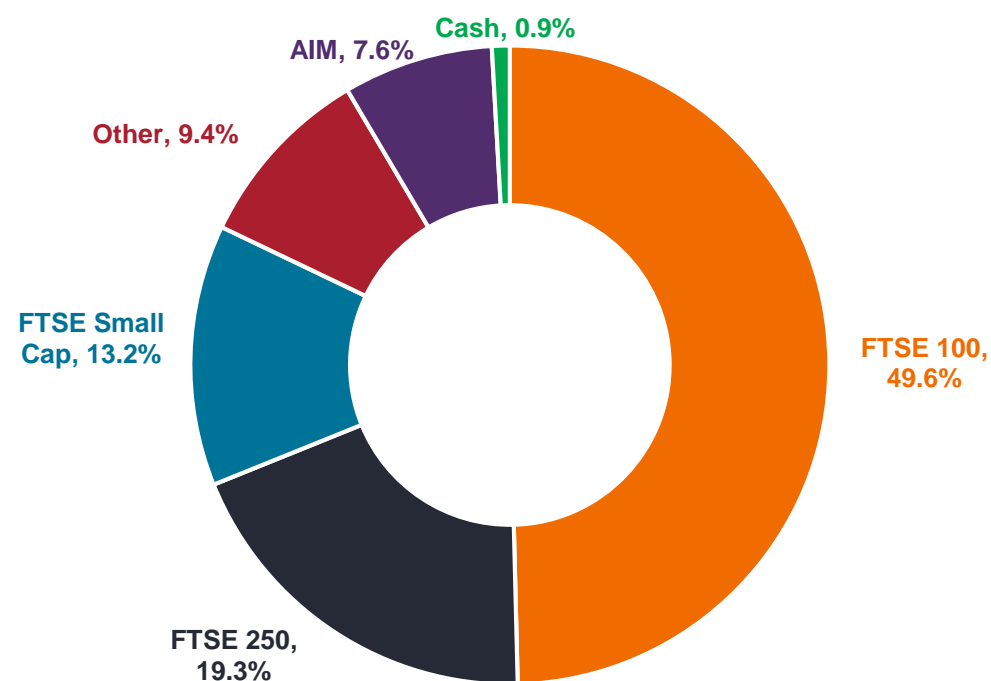
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# CURRENT FUND POSITIONING

Top 20 Holdings (%)



Size Allocation



Source: Janus Henderson Investors, as at 31 October 2020

Note: Figures exclude cash and derivatives. Fund holdings are subject to change without notice.

References made to individual securities should not constitute or form part of any offer or solicitation to issue, sell, subscribe or purchase, and neither should be assumed profitable.

# APPENDIX

# BIOGRAPHY



**Laura Foll, CFA**  
**Portfolio Manager**

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Laura Foll is a Portfolio Manager on the Global Equity Income Team at Janus Henderson Investors, a position she has held since 2014. Laura joined Henderson in 2009 as part of the graduate scheme. She was subsequently named a global analyst and later an assistant fund manager for the Global Equity Income Team.

Laura graduated with a BSc degree (Hons) in economics and economic history from the London School of Economics. She holds the Chartered Financial Analyst designation and has 12 years of financial industry experience.

Source: Janus Henderson Investors, as at 31 December 2020

# UK EQUITY INCOME AND GROWTH FUND

## Annualised Performance (%)

	5 Year	10 Year	Since Inception
Fund – I Acc GBP (Net)	-0.71	6.21	4.51
FTSE All Share Index	4.07	5.89	3.92
IA UK Equity Income	2.23	6.10	4.61

## Discrete Performance (%)

	I Acc GBP (Net)	Index	Peer Group
30 Sep 2019 – 30 Sep 2020	-23.93	-16.59	-17.41
30 Sep 2018 – 30 Sep 2019	-6.36	2.68	-0.14
30 Sep 2017 – 30 Sep 2018	0.58	5.87	3.47
30 Sep 2016 – 30 Sep 2017	10.17	11.94	10.84
30 Sep 2015 – 30 Sep 2016	8.61	16.82	11.25

### Index Description

The FTSE All Share Index is a measure of the combined performance of a large number of the companies listed on the London Stock Exchange and includes large, medium and smaller companies. It provides a useful comparison against which the Fund's performance can be assessed over time.

### Peer Group Description

The Investment Association (IA) groups funds with similar geographic and/or investment remit into sectors. The fund's ranking within the sector (as calculated by a number of data providers) can be a useful performance comparison against other funds with similar aims.

Source: Janus Henderson Investors, as at 30 November 2020. Discrete performance as at 30 September 2020.

Note: Inception: 04 September 2000

Index: 50% FTSE All Share Index, usage: comparator. Peer group benchmark: The Investment Association (IA) usage: comparator

The Fund aims to provide a dividend income, with prospects for both income and capital growth over the long term (5 years or more).

All performance data includes both income and capital gains or losses and reflects the deduction of any ongoing charges or other fund expenses.

**Past performance is not a guide to future performance.**

## Contact us

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