Where to find Income post COVID?

At Arlington Capital we are focused on wealth preservation and income generating strategies across asset classes. In the current COVID-19 crises where do investors find yield? The current economic malaise has disrupted traditional investment income sources. As a result, investors are likely to have to accept much lower income levels from their investments for at least the next couple of years. It's not all doom and gloom, Arlington continues to seek out income alternatives which offer a safe and reliable income.

It is now abundantly clear that the coronavirus and its related lockdown has caused considerable stress to the world economy and great damage to businesses. In an effort to stay afloat and stabilise their balance sheets, companies are cutting back on expenditure, whether labour, rents, interest on loans or, in many cases, dividends and share buybacks. The news is changing day by day but the total yield from dividends looks to be between 30 - 50% lower than it was a year ago. Indeed, financial markets are pricing in potentially an even more grim outlook, with the dividend swaps market indicating a 60% peak to trough decline.

Arlington, as managers of the Hanson Income Fund are having to look further afield for sustainable quality dividends. The UK market traditionally provides about one-third of the total value of European dividends. The US market is renowned for having a low dividend yield, with share buybacks the preferred way of returning surplus cash to shareholders. The Hanson Income Fund has concentrated on high quality dividend paying stocks in the UK, Continental Europe and the USA such as GlaxoSmithKline, Nestle, Novartis. Telenor, Philip Morris and PepsiCo. As a result of the Brexit vote we sought to diversify into less correlated markets and invested in Genesis Energy and Goodman Property Trust, both of which are listed in New Zealand. This strategy has succeeded in diversifying the fund's income streams which is essential in these tricky times.

When looking at European Real Estate Arlington invests in ultra-defensive markets such as Germany and Dutch multi-family housing. These markets generate defensive yields and there are very few vacancies in these markets. Whilst German social housing rents are in essence guaranteed by local government, normal rents have been steadily increasing over the past 10 years due to new asset construction being limited resulting from the limited number of planning permissions being granted by local authorities. Here we are seeing residential properties in Munich transacting at yields of 2% for ultra-prime locations and 3.5 - 4% for sensible locations. We compare this to an office in Berlin where we see yields between 3 - 5% depending on the location and covenant.

In the UK Real Estate markets, we've all read the headlines that many REITS won't be paying their dividends and tenants demanding rent holidays. Savills are seeing yields on city offices at 4% and within the M25 at 5%. On the face of it these seem attractive. However, for some time we have preferred government let buildings in towns and cities across the UK, this strategy can yield between 5-7% depending on the lease length and location. Whatever happens in the wider

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economy we have total confidence in Her Majesty's Government and its agencies' ability to pay their rent bill.

Arlington Capital was founded in 2017 as a professional family office advisor and asset manager with in-depth knowledge of investing in defensive income yielding investments across strategies. We continue to see attractive income investments across asset classes and are actively investing in these difficult times on behalf of our clients.

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