HENDERSON INTERNATIONAL INCOME TRUST

Janus Henderson
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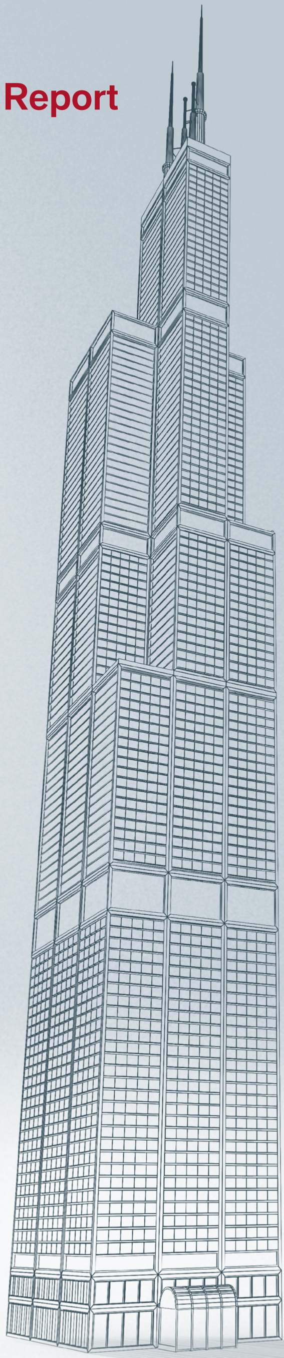
Global Dividend Cover Report

Tracking global dividend sustainability

October 2019



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Introduction - the importance of dividends

Most of the time, stock-market news focuses on share prices, and how they move in response to events that unfold in the wider world, to decisions taken by company managers, or to developments affecting particular companies. This is natural given that in the short term this news is a significant driver of investor returns.

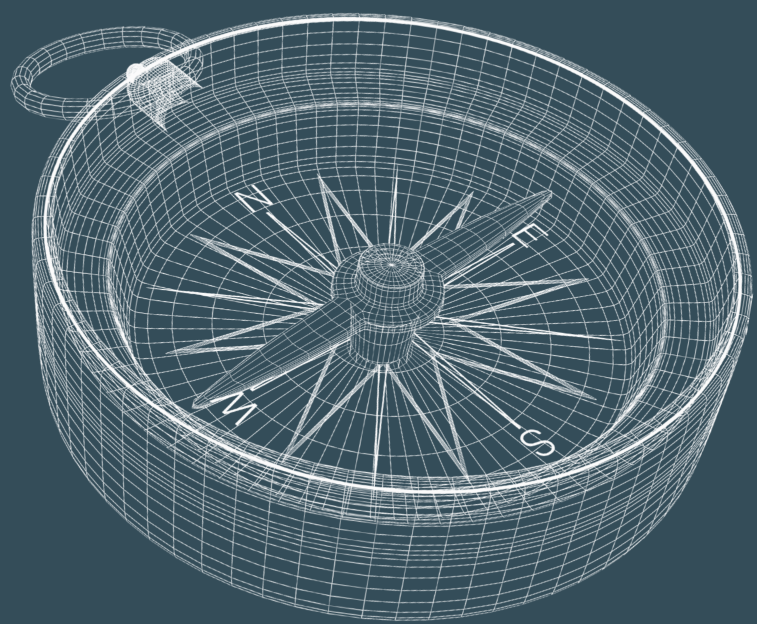
But there is another vital part of the picture – dividends. Dividends provide shareholders with a cut of the profits a company makes each year, usually paid on a regular basis, and usually in cash. In the long term, dividends often generate a significant proportion of total equity returns. Moreover, if a company is growing over the long term, then its dividends can grow sustainably too, often faster than inflation. In this respect the income from shares is very different from the income on bonds (called fixed income for a reason) or from cash savings. Investors may experience greater volatility of returns, but they gain a growing income that can prove very useful as we all expect to live longer in retirement. For example, if a dividend is growing every year sustainably at 6%, then it will double every 12 years. If, for the sake of illustration, the dividend yield remains steady over time, then it follows that the share price will double too. Finally, if dividends are reinvested each year rather than taken and spent, they can provide the bulk of an investor's returns, thanks to the power of compounding.

Methodology

Henderson International Income Trust (HINT) analysed ten years of data, from 2008 to 2018, on profits and dividends from the world's largest 1,200 listed companies by market capitalisation, all of which were constituents of the 2019 Janus Henderson Global Dividend Index (JHGDI). These companies collectively represent close to 85% of the profits made and dividends paid by the world's publicly listed companies. Profits and dividends were converted to sterling.

The companies are categorised by their country of domicile and follow JHGDI sector and industry classifications.

Raw data was sourced from Factset, Bloomberg and the Janus Henderson Global Dividend Index, and all analysis was conducted by HINT.



Past performance is no guarantee of future results. International investing involves certain risks and increased volatility. These risks include currency fluctuations, economic or financial instability, lack of timely or reliable financial information or unfavourable political or legal developments.

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Executive Summary

Sustainability is the key to dividends

- Sustainable, growing dividends are key to investors' long-term returns. Investors need to be careful though as one fifth of the world's dividend income may be unsustainable, or a so-called dividend trap
- Dividend cover is a key measure of dividend sustainability, comparing profits to payouts

Global profits

- Global profits hit a record in 2018, and will grow again in 2019, despite a slower world economy
- Companies made profits of £2.3 trillion in 2018, 4x the 2008 total, and 7.2% up on 2017
- Three fifths of companies grew their profits last year; sector trends were more consistent than national ones, highlighting the need to take an international approach

Global Dividends

- Record profits mean record dividends – 2018 saw global dividends top £1.0 trillion for the first time
- Seven tenths of companies paid record dividends in 2018
- Dividend growth has easily outpaced profit growth over the last five years, and is set to do so again in 2019

Dividend cover in decline, partly owing to normalisation in some industries and countries, and partly because profit growth is slowing

- Dividend cover peaked at 3.0x in 2010 on a profit-weighted basis, as companies recovered from the global financial crisis; median dividend cover peaked at 2.7x that year
- In 2018 it fell to 2.3x and will sink to 2.2x in 2019, the lowest since before the financial crisis
- 70% of companies have seen dividend cover fall over the last five years
- A maturing economic cycle, industry-specific developments, and cultural changes in Japan and Asia-Pacific all played their part in the decline in dividend cover

Regional & sector variation

- S Korea, China and Japan have among the highest dividend cover
- Australia, Switzerland and the UK have the highest dividend payout ratios, and therefore lowest dividend cover in the world
- Differences in culture, development, sector mix and taxation help explain the variation
- Stable, lower growth industries like tobacco and utilities have high yields but low dividend cover
- Some sectors, like banks and miners, see cover vary widely over the cycle
- High-growth sectors, like technology, generally have high cover

Outlook

- Our analysis expects forecast dividend growth of 8.7% in 2019, but profit growth of 5.6%
- Dividend cover will decline again slightly in 2019, down to 2.2x
- International diversification is the most effective way of diversifying dividend income away from regions or sectors that have the most vulnerable dividends

Avoid the dividend traps

Paying a dividend can be a powerful signal of a company's financial health, but investors need to be sure the dividend is affordable and sustainable. Henderson International Income Trust (HINT) research shows that companies paying one fifth, or £230bn, of the world's dividend income risk capturing their investors in a so-called dividend trap. A dividend trap, also known as a yield trap, is when a stock's yield[1] is just too good to be true compared to similar companies or to the wider market. If investors get caught in a dividend trap, they may find the income they hoped for is cut, or has no prospect of sustainable growth. This eliminates one of the main advantages of investing in equities, which is for dividends to grow over time.

Investors tempted by high yields are most at risk of falling into dividend traps. HINT's research identified that 81 out of the 163 highest yielding non-financial companies in the Janus Henderson Global Dividend Index are potential traps, meaning income investors who do not do careful research have a 50:50 chance of getting caught out. Investors must therefore look at more than just the enticing yield to spot the better companies. A recent example is Vodafone. Its shares yielded an apparent 9.3% before the company announced a 40% cut in its dividend in May 2019. Unwary buyers focusing solely on the high yield would have been caught out.

What is dividend cover?

To maximise their income and their potential for capital growth, investors should be looking for companies that can grow their dividends sustainably over time. One of the most important measures of dividend sustainability is dividend cover. Dividends are paid out of profits, so the cover ratio looks at the value of profits divided by the value of dividends.

Its main advantage is its simplicity. A ratio of more than one means companies are retaining some of their profits, usually for future investment. A ratio of 1 means a company is distributing all its profits as dividends. Less than 1 means dividends are larger than profits, a situation that cannot persist indefinitely, though it might be tolerable for a short time. If the ratio is negative, then it means a loss-making company is paying a dividend, which is likely to put its balance sheet under strain very quickly. Investors look for companies where dividends are comfortably covered by profits. Previous research from HINT identified that the average yield trap has dividend cover of only 1.4x compared to 2.2x for non-traps. This means they pay out a very large portion of their profits as dividends. Some companies even pay more in dividends than they make in profits – this is unsustainable in the long term.

Profit can be a slippery concept, as companies have some discretion over how they present their accounts. In particular, exceptional items, provisions for losses or adjustments that write down the value of assets can significantly depress profits in the short term. These adjustments also impact dividend cover, often very suddenly and very negatively, but they may have no cash flow impact, and so pose no immediate threat to the dividend. They cannot just be ignored, however. If an asset is being written down, it means a company has decided that asset will no longer produce the profits they hoped for, and that may affect future dividend firepower. It also means the initial capital invested has been wasted; capital that could have been used elsewhere or returned to shareholders via an earlier dividend. The lesson is therefore to consider the trend, to acknowledge the impact of one-offs, but not to disregard them altogether.

Global profits set to break a new record in 2019

Source: Henderson International Income Trust, September 2019

[1] A stock's yield is the value of its dividend divided by its share price. It provides a simple means of comparing the income delivered by different companies and different types of asset.

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Global Profit, top 1,200 companies, by region - £bn

£m	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019e
North America	£153	£401	£499	£554	£533	£624	£586	£584	£717	£855	£937	
Emerging Markets	£166	£182	£287	£341	£333	£376	£337	£335	£369	£449	£508	
Uk	£36	£78	£89	£117	£66	£81	£66	£35	£39	£102	£109	
Europe Ex Uk	£173	£191	£281	£240	£217	£227	£249	£199	£252	£338	£348	
Asia Pacific ex Japan	£60	£81	£132	£138	£133	£143	£157	£147	£143	£224	£233	
Japan	£7	£49	£91	£79	£97	£114	£104	£101	£151	£182	£172	
Global Top 1,200	£595	£982	£1,379	£1,469	£1,380	£1,565	£1,498	£1,401	£1,671	£2,151	£2,308	£2,437

Source: Henderson International Income Trust, September 2019

Global Profit, top 1,200 companies, by industry - £bn

£m	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Technology	£42	£57	£111	£117	£104	£148	£147	£150	£164	£207	£246
Consumer Discretionary	£1	£104	£88	£106	£109	£122	£120	£130	£160	£194	£202
Communications & Media	£73	£101	£120	£98	£87	£132	£113	£129	£162	£236	£212
Financials	£35	£240	£368	£396	£435	£498	£532	£568	£595	£727	£762
Healthcare & Pharmaceuticals	£61	£96	£91	£97	£94	£100	£101	£116	£136	£111	£147
Industrials	£61	£61	£118	£126	£119	£136	£129	£134	£157	£197	£185
Oil, Gas & Energy	£173	£138	£204	£271	£239	£232	£144	£12	£41	£144	£222
Consumer Basics	£64	£86	£105	£105	£109	£119	£104	£109	£127	£148	£140
Basic Materials	£48	£40	£116	£113	£49	£48	£65	£18	£68	£122	£140
Utilities	£38	£59	£57	£41	£35	£30	£44	£34	£61	£66	£53
Global Top 1,200	£595	£982	£1,379	£1,469	£1,380	£1,565	£1,498	£1,401	£1,671	£2,151	£2,308

Source: Henderson International Income Trust, September 2019

The world's top 1,200 listed companies as identified in the Janus Henderson Global Dividend Index enjoyed record profitability last year, booking a collective £2.3 trillion for 2018, almost four times as much as they made in 2008 at the low point of the financial crisis. They rose 7.2% compared to 2017. (On top of this total, we estimate that companies outside the top 1,200 made an additional £410bn last year). Even over the last five years, which included a rather soft patch for the world economy in 2015 and 2016, global profits have risen by almost half. The recent weakness of the pound has slightly exaggerated the increase in sterling terms, and a softer global economy means that profit growth is slowing down at present, but it's clear that many companies are currently highly profitable.

Profits in 2018 reached a record in every region of the world, except Japan, where car manufacturers suffered falling margins. Even so, Japan's profit growth has still been ahead of the rest of the world over the last five years, and more than half of Japanese sectors saw record profitability in 2018.

Worldwide, three-fifths of companies and two thirds of sectors grew their profits in 2018. The majority of companies and sectors posted record results, though the same pattern was not reflected on a country basis. This points to a lack of sector diversity within some stock markets, and also suggests that sector trends are more dependent on global rather than local factors, at least as far as large listed companies are concerned. Both these factors highlight the advantage of thinking internationally when investing, an approach which not only enables more effective diversification, but which also allows HINT to select the best stocks in each industry, regardless of where they are listed.

In 2019, the market expects profits to grow again, implying £2.4 trillion on the bottom line from the top 1,200 companies.

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Dividend growth outstrips profits

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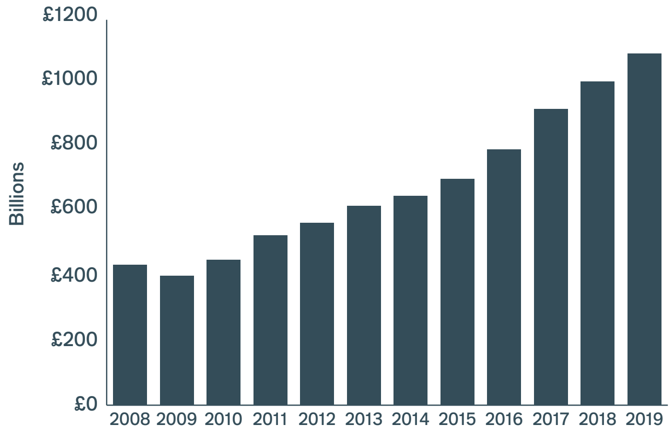


Source: Henderson International Income Trust, September 2019

Global Dividends, top 1,200 companies, by region - £bn

£m	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019e
North America	£137	£140	£151	£168	£199	£219	£230	£275	£321	£362	£388	
Emerging Markets	£60	£60	£83	£103	£114	£128	£133	£127	£133	£165	£181	
UK	£48	£41	£42	£44	£47	£51	£50	£52	£58	£69	£76	
Europe Ex UK	£140	£113	£115	£138	£128	£138	£150	£149	£167	£184	£205	
Asia Pacific ex Japan	£29	£28	£35	£44	£48	£55	£58	£66	£70	£90	£96	
Japan	£24	£20	£25	£31	£32	£30	£31	£36	£47	£52	£61	
Global Top 1,200	£437	£403	£453	£528	£567	£621	£652	£705	£796	£922	£1,007	£1,095

Source: Henderson International Income Trust, September 2019

Global Dividends, top 1,200 companies, by industry - £bn

£m	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Technology	£17	£18	£23	£25	£30	£39	£43	£54	£61	£74	£90
Consumer Discretionary	£22	£15	£19	£26	£33	£38	£42	£46	£55	£62	£68
Communications & Media	£48	£51	£57	£64	£62	£55	£52	£57	£66	£78	£79
Financials	£134	£90	£117	£130	£143	£171	£179	£210	£249	£272	£312
Healthcare & Pharmaceuticals	£30	£34	£41	£41	£47	£48	£49	£56	£68	£73	£76
Industrials	£37	£33	£34	£41	£47	£49	£54	£65	£70	£80	£79
Oil, Gas & Energy	£53	£64	£59	£73	£78	£82	£84	£74	£70	£92	£97
Consumer Basics	£35	£39	£46	£52	£55	£63	£62	£69	£80	£90	£89
Basic Materials	£31	£21	£26	£41	£41	£41	£42	£42	£38	£55	£75
Utilities	£30	£37	£30	£36	£31	£34	£45	£32	£38	£47	£42
Global Top 1,200	£437	£403	£453	£528	£567	£621	£652	£705	£796	£922	£1,007

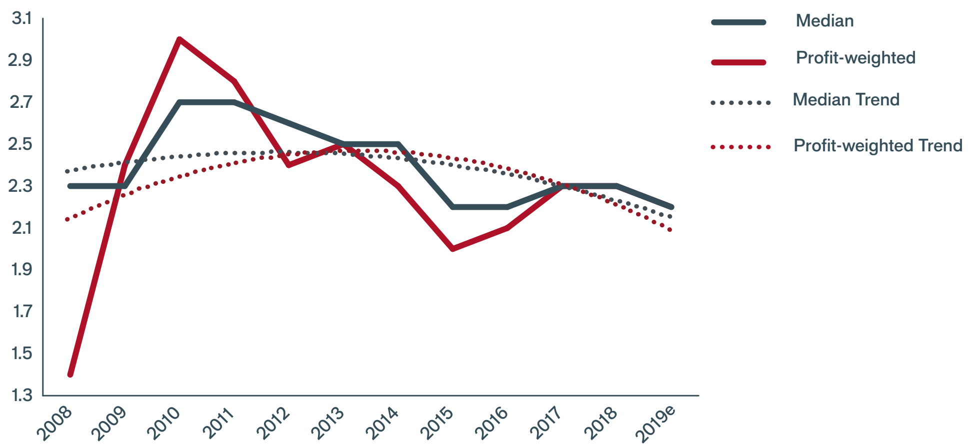
Source: Henderson International Income Trust, September 2019

Record profits mean record dividends, as companies distribute the fruits of their success to shareholders. In 2018, the global top 1,200 paid record dividends of £1.0 trillion, an increase of 9.2% year-on-year. Every region and three in five countries saw their highest ever payouts, including Japan, despite the reduction in corporate profits there. At the company and sector level, the picture was very positive too: seven tenths of companies and four fifths of sectors all beat new dividend records. The Janus Henderson Global Dividend Index forecasts further growth for 2019 too, though at a slower rate than over the last two years.

Dividend growth in 2018 was faster than profit growth in most regions, countries and sectors. This extends a trend that has persisted for several years. Since 2013, global dividend growth of 62.3% has been significantly faster than profit growth of 47.4%, a relationship that has held true in every region (except Europe ex UK), as well as in two thirds of both wider industry groupings and more detailed sectors globally. The consequence is that dividend cover has declined.

Dividend cover in decline as economic cycle matures and world economy slows

Global Dividend Cover



Source: Henderson International Income Trust, September 2019

Median Dividend Cover - By Region

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019e
North America	2.4	2.0	2.9	3.0	2.6	2.6	2.6	2.2	2.1	2.2	2.4	
Emerging Markets	2.8	2.9	2.9	2.8	2.8	2.9	2.6	2.5	2.5	2.3	2.3	
UK	1.5	1.9	2.1	2.3	1.7	1.6	1.6	1.4	1.5	2.0	1.6	
Europe Ex UK	2.2	2.0	2.3	2.0	2.0	1.9	1.9	1.9	1.8	2.0	1.9	
Asia Pacific ex Japan	2.3	2.6	3.2	3.2	2.9	2.5	2.9	2.6	2.7	2.6	2.4	
Japan	2.0	2.5	3.4	3.3	3.3	3.4	3.3	3.3	3.4	3.4	3.1	
Global	2.3	2.3	2.7	2.7	2.6	2.5	2.5	2.2	2.2	2.3	2.3	2.2

Source: Henderson International Income Trust, September 2019

Typically, dividend cover rises quickly as an economy turns upwards. A long economic expansion is then associated with a steady decline in cover ratios as companies “loosen the purse strings”. And finally, an economic contraction causes sudden drops in dividend cover, before the process begins again. Within this tide, there are separate currents within individual industries and between different parts of the world.

In 2010, when dividend cover reached its post-crisis peak, profits were 3.0x the value of dividends, up from a crisis-hit 2008 low point of just 1.4x. In 2018, profits were 2.3x dividends. The trend has been downwards since 2010, even allowing for a brief period in 2015 and 2016 during the soft patch for the world economy when the cover ratio was briefly lower. During this period, economic growth sank to only 2.5%, just above the 2% level considered ‘stall speed’, and profits fell around the world. Despite this most companies held firm, and the majority increased their payouts. In this short soft period, some industries were hit harder than others. For example, the sharp decline in oil and other commodity prices pushed oil profits in 2015 down 96% from their 2011 peak, and mining companies posted losses. Oil dividends only fell by a fifth, however, so the oil sector cover ratio dropped to just 0.1x for that year. Mining groups continued to pay dividends in 2015 too, despite their losses, so they had negative dividend cover. Mining firms, stung by the impact on their balance sheet, have now abandoned progressive dividend policies and instead pay out a proportion of annual profits, a much more sustainable approach for a cyclical business.

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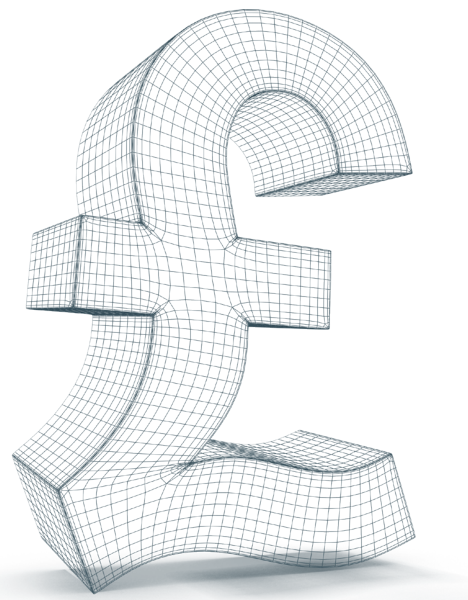
Dividend cover in decline as economic cycle matures and world economy slows

To avoid the biggest companies dominating the picture, the median[2] ratio is helpful. Median dividend cover peaked at 2.7x in 2010, and fell to 2.3x by 2018. In 2019 it is set to fall to below the level it hit in during the financial crisis and subsequent recession. Median cover is lower in every region than it was five years ago (and compared to 2010), and in every industry group. Moreover, 70% of the world's top 1,200 companies now have lower dividend cover than they did five years ago. Dividends cannot obviously outpace profits indefinitely, but we are not concerned by median cover at 2.2x. Though some companies and some sectors are under strain, the world's dividends are well supported even as the economy slows.

The faster pace of dividend growth compared to profits in recent years reflects a number of factors. First there is the economic cycle. As it has matured, profits have grown, and balance sheets have become stronger, so companies have felt able to distribute more of their earnings as dividends. This is especially so in the United States.

Secondly, there are structural factors to consider in different industries – for example, technology companies hardly paid any dividends at all ten years ago, though their profitability was rising fast; their dividends are now catching up. The result is declining dividend cover from a high base, though at a median 3.0x in 2018, it's still well above the average. Dividend cover has contracted for the telecoms sector too, but in this case because profits have been falling even as dividends have continued to rise. Telecoms dividend cover of 1.3x was the third lowest of any sector last year. In the case of technology, falling dividend cover has been a healthy change. For telecoms, it is heralding dividend cuts.

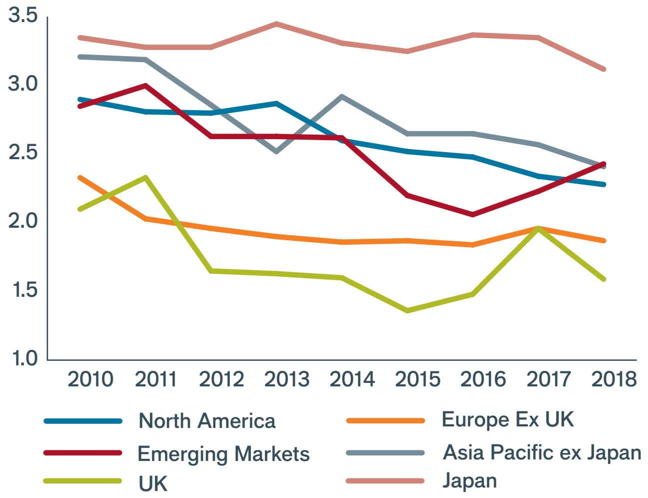
Finally, in some parts of the world, such as Japan, much of Asia and in emerging markets, companies have traditionally paid very limited dividends and have maintained consistently above-average dividend cover as a consequence. In recent years, companies here have increasingly adopted a more dividend-friendly culture and that has led to a convergence with dividend cover elsewhere in the world.



[2] The median is the middle value, half-way between the highest and the lowest, and is not skewed by extreme values.

Dividend cover varies widely geographically

Dividend Cover, median, by region



Source: Henderson International Income Trust, September 2019

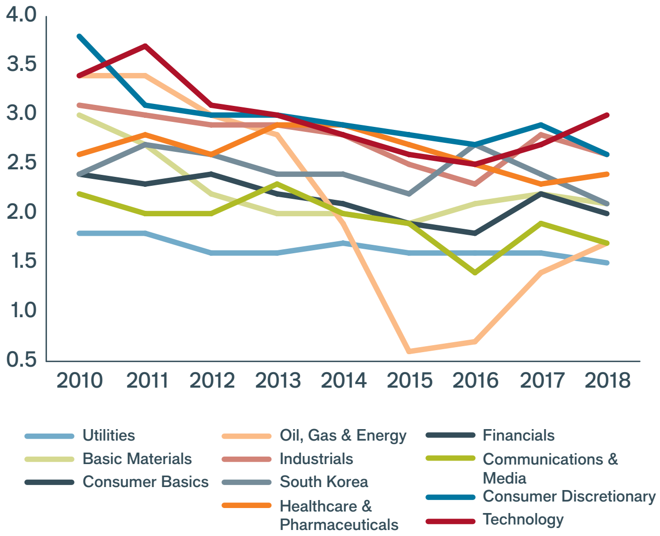
Geographical variation in dividend cover reflects both the local dividend culture, and the mix of sectors. Among the largest fifteen stock markets in the world, Australia consistently has the lowest median dividend cover every year. In 2018, it was just 1.4x, and it has never been above this level since at least 2008. Australian dividends receive favourable tax treatment and the stock market is dominated by very large, mature banks with limited growth opportunities. This has meant a very large share of Australian company profits are paid out as dividends. Switzerland is also low (1.5x), as its stock market is dominated by mature pharmaceutical, financial and consumer companies. With dividend cover of 1.6x, the UK is the third lowest. The deeply entrenched dividend culture in the UK (which has one of the highest yielding markets in the world) combines with a sector mix that is dominated by large oil and pharmaceutical companies, as well as banks and utilities. All mature, high-payout sectors.

At the other end of the scale sits South Korea. Dividend cover of 4x in 2018 was almost double the global median, though this belies the rapid dividend growth of recent years. In 2011, South Korean profits were 7.3x larger than dividends. Profits here have more than doubled since then, but dividends have almost quadrupled, thanks in particular to Samsung Electronics. China and Japan also maintain high dividend cover, at 3.4x and 3.1x respectively, though in both cases this has come down over the years.

Share buybacks also indirectly affect dividend cover. In some countries, such as the US, companies favour share buybacks as a means of returning cash to shareholders, partly in the pursuit of tax efficiency. Dividends are therefore lower as a result and so dividend cover is higher. It is also far easier for companies to turn share buybacks on and off without attracting much comment. It is more difficult to change the dividend: a dividend cut to preserve cash in bad times may upset investors, while a large dividend increase in good times may set unrealistic expectations for the future.

And by industry

Dividend Cover, median, by industry



Source: Henderson International Income Trust, September 2019

Sectors with steady, stable earnings can sustain dividends at much lower cover levels than those whose profits are more sensitive to the economic cycle. This is why tobacco and utilities maintain such low dividend cover, at 1.3x and 1.5x respectively in 2018. By contrast, the rise and fall of oil prices coupled with their much steadier dividends means median dividend cover for oil producers has swung from a high of 3.8x in 2011 to a low of 0.7x in 2015. Last year oil companies were only a touch below the global average at 2.1x. Meanwhile, the banking sector held back dividend growth for many years after the financial crisis as they rebuilt their battered balance sheets. That meant cover ratios rose to a peak of 3.1 by 2011. Banking dividends around the world have been growing quickly in the last three or four years and cover ratios have come right down towards the global median as a result. Each sector has its own dynamic across the economic cycle, is at a different level of maturity or is encountering disruptive forces. Dividend cover varies accordingly.

Median Dividend Cover - By Industry

£m	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Technology	3.2	2.4	3.4	3.7	3.1	3.0	2.8	2.6	2.5	2.7	3.0
Consumer Discretionary	2.6	2.7	3.8	3.1	3.0	3.0	2.9	2.8	2.7	2.9	2.6
Communications & Media	2.1	1.9	2.2	2.0	2.0	2.3	2.0	1.9	1.4	1.9	1.7
Financials	1.7	2.2	2.6	2.8	2.6	2.9	2.9	2.7	2.5	2.3	2.4
Healthcare & Pharmaceuticals	2.5	3.0	2.4	2.7	2.6	2.4	2.4	2.2	2.7	2.4	2.1
Industrials	3.0	2.6	3.1	3.0	2.9	2.9	2.8	2.5	2.3	2.8	2.6
Oil, Gas & Energy	2.9	2.5	3.4	3.4	3.0	2.8	1.9	0.6	0.7	1.4	1.7
Consumer Basics	2.3	2.3	2.4	2.3	2.4	2.2	2.1	1.9	1.8	2.2	2.0
Basic Materials	2.5	2.3	3.0	2.7	2.2	2.0	2.0	1.9	2.1	2.2	2.1
Utilities	1.8	1.9	1.8	1.8	1.6	1.6	1.7	1.6	1.6	1.6	1.5

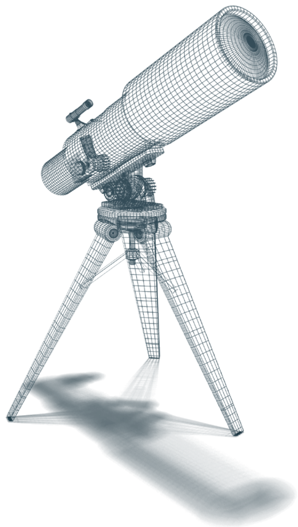
Source: Henderson International Income Trust, September 2019

Outlook

We expect dividends to grow 8.7% in sterling terms this year[3], but the consensus for profits is slower than this, at around 5.6%. Dividends lag profits by a few months but even allowing for this effect, dividend cover will therefore be slightly lower again this year. As the slowdown in economic growth intensifies, profit performance will become patchier depending on the sectors and countries where the impact is greatest. The possibility of an outright recession in many developed markets is also growing. If that happens, profits will come under more severe pressure.

Under these circumstances, dividend cuts will become more common. Dividends are, however, significantly more resilient than profits in bad times, because companies can flex their dividend cover over the economic cycle, as we saw in the economic soft patch in 2015-16. In big markets like the US, UK and Australia, companies are more likely to respond by holding their payouts steady for a time, rather than reducing them, even if that means tolerating lower dividend cover. Parts of the world, like Europe and Asia, where more companies allow dividends to rise and fall in a closer relationship with profits, would see a bigger impact. Overall, therefore, a weaker global economy means dividend cover would drop quite sharply until the economy recovers. Then we would expect profits to rebound more quickly than payouts, allowing cover ratios to be rebuilt.

Despite the downward trend, the good news is that dividend cover is relatively comfortable both at the global level, in most parts of the world and in most sectors; it is set to fall further, but it is able to weather some temporary turbulence. UK dividend cover is below its global peers, though even here it has recovered significantly from 2015/16 lows. Taking an international approach to income therefore brings significant benefits of diversification enabling investors to access a wider range of sectors and companies and to reduce their dependence on the prospects for their home market.



[3] Source JHGDI, converted to GBP

Past performance is no guarantee of future results. International investing involves certain risks and increased volatility. These risks include currency fluctuations, economic or financial instability, lack of timely or reliable financial information or unfavourable political or legal developments.

The value of an investment and the income from it can fall as well as rise and you may not get back the amount initially invested.

Glossary

Dividend – A payment made by a company to its shareholders. The amount is variable and is paid as a portion of the company's profits.

Dividend cover – The ratio of a company's income to its dividend payment. The measure helps indicate how sustainable a company's dividend is.

Fixed income/Bond – A debt security issued by a company or a government, used as a way of raising money. The investor buying the bond is effectively lending money to the issuer of the bond. Bonds offer a return to investors in the form of fixed periodic payments, and the eventual return at maturity of the original money invested – the par value. Because of their fixed periodic interest payments, they are also often called fixed income instruments.

Inflation - The rate at which the prices of goods and services are rising in an economy. The CPI and RPI are two common measures. The opposite of deflation.

Stall speed – Typically an aviation term referring to the slowest speed a plane can fly while maintaining level flight. Applied to economics, it refers to the point where a healthy growth rate can no longer be maintained.

Payout ratio - The proportion of earnings paid out as dividends to shareholders.

Volatility – The rate and extent at which the price of a security or market index, for example, moves up and down. If the price swings up and down with large movements, it has high volatility. If the price moves more slowly and to a lesser extent, it has lower volatility. Used as a measure of risk.

Appendix

Net Profit £m	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
North America	£152,711	£401,207	£499,059	£554,109	£533,485	£623,660	£585,635	£584,034	£716,987	£854,899	£937,267
Emerging Markets	£165,759	£182,383	£286,759	£341,148	£333,045	£376,346	£336,766	£334,914	£368,661	£449,354	£507,929
UK	£36,499	£77,803	£88,780	£116,779	£66,088	£81,219	£65,846	£35,290	£38,793	£101,871	£108,617
Europe Ex UK	£173,308	£190,978	£281,401	£240,199	£217,288	£227,450	£249,081	£199,016	£252,075	£338,397	£348,498
Asia Pacific ex Japan	£59,981	£80,862	£131,589	£138,240	£133,263	£142,838	£157,241	£147,456	£143,232	£224,480	£233,379
Japan	£6,685	£48,655	£91,041	£78,982	£96,776	£113,935	£103,843	£100,777	£150,855	£182,429	£172,439
GLOBAL	£594,943	£981,888	£1,378,629	£1,469,458	£1,379,945	£1,565,448	£1,498,412	£1,401,487	£1,670,603	£2,151,429	£2,308,130

Dividends £m	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
North America	£136,657	£139,981	£151,125	£167,915	£199,086	£218,939	£229,547	£274,540	£321,086	£362,476	£388,225
Emerging Markets	£60,005	£59,977	£83,450	£102,715	£113,619	£128,295	£133,050	£126,827	£133,433	£165,340	£181,484
UK	£48,315	£41,391	£42,205	£44,181	£47,126	£51,274	£50,426	£52,337	£57,564	£68,591	£76,349
Europe Ex UK	£139,560	£113,387	£115,428	£138,439	£127,824	£137,520	£149,667	£149,028	£166,804	£184,027	£204,626
Asia Pacific ex Japan	£28,630	£28,395	£35,122	£44,296	£48,198	£54,839	£58,317	£66,408	£70,276	£89,926	£95,787
Japan	£23,670	£19,716	£25,460	£30,922	£31,537	£29,759	£30,914	£35,504	£46,619	£51,979	£61,012
GLOBAL	£436,838	£402,848	£452,790	£528,468	£567,390	£620,628	£651,920	£704,644	£795,782	£922,339	£1,007,485

Dividend Cover - Profit Weighted	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
North America	1.1	2.9	3.3	3.3	2.7	2.8	2.6	2.1	2.2	2.4	2.4
Emerging Markets	2.8	3.0	3.4	3.3	2.9	2.9	2.5	2.6	2.8	2.7	2.8
UK	0.8	1.9	2.1	2.6	1.4	1.6	1.3	0.7	0.7	1.5	1.4
Europe Ex UK	1.2	1.7	2.4	1.7	1.7	1.7	1.7	1.3	1.5	1.8	1.7
Asia Pacific ex Japan	2.1	2.8	3.7	3.1	2.8	2.6	2.7	2.2	2.0	2.5	2.4
Japan	0.3	2.5	3.6	2.6	3.1	3.8	3.4	2.8	3.2	3.5	2.8
GLOBAL	1.4	2.4	3.0	2.8	2.4	2.5	2.3	2.0	2.1	2.3	2.3

Dividend Cover - Median	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
North America	2.4	2.0	2.9	3.0	2.6	2.6	2.6	2.2	2.1	2.2	2.4
Emerging Markets	2.8	2.9	2.9	2.8	2.8	2.9	2.6	2.5	2.5	2.3	2.3
UK	1.5	1.9	2.1	2.3	1.7	1.6	1.6	1.4	1.5	2.0	1.6
Europe Ex UK	2.2	2.0	2.3	2.0	2.0	1.9	1.9	1.9	1.8	2.0	1.9
Asia Pacific ex Japan	2.3	2.6	3.2	3.2	2.9	2.5	2.9	2.6	2.7	2.6	2.4
Japan	2.0	2.5	3.4	3.3	3.3	3.4	3.3	3.3	3.4	3.4	3.1
GLOBAL	2.3	2.3	2.7	2.7	2.6	2.5	2.5	2.2	2.2	2.3	2.3

Appendix

Dividend Cover - Median		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Asia Pacific ex Japan	South Korea	4.7	5.7	6.9	7.3	6.1	5.0	5.0	4.6	4.3	4.2	4.0
	Hong Kong	2.6	3.1	3.6	3.4	3.6	3.1	3.1	3.1	2.9	2.9	2.9
	Australia	1.4	1.3	1.4	1.4	1.2	1.2	1.3	1.3	1.2	1.4	1.4
	Singapore	2.0	2.4	2.7	2.4	3.1	2.5	2.9	2.8	2.7	2.5	2.1
Emerging Markets	China	2.9	3.5	3.8	3.2	3.2	3.4	3.6	3.5	3.3	3.1	3.4
	Taiwan	1.5	1.2	1.4	1.5	1.8	1.7	1.7	1.5	1.4	1.4	1.4
	India	3.3	3.8	3.9	3.9	3.9	3.7	3.9	3.5	3.1	3.0	3.2
	South Africa	2.5	2.2	2.3	2.1	1.9	2.0	1.9	1.9	1.8	1.9	1.8
	Brazil	2.8	3.6	3.2	2.4	0.9	1.4	1.1	1.4	2.4	3.3	1.7
	Russia	5.1	5.1	4.9	4.4	4.8	4.0	2.1	2.3	2.0	2.0	2.0
	Qatar	1.7	1.8	1.8	1.9	1.8	1.4	1.6	1.9	1.8	1.9	2.2
	Mexico	3.9	3.6	3.0	2.3	2.9	3.2	2.3	2.0	2.3	2.1	2.2
	Indonesia	2.6	2.8	2.4	2.5	2.6	2.8	3.3	2.0	2.2	2.2	2.0
	United Arab Emirates	3.4	2.5	2.6	3.3	2.6	2.3	2.4	2.1	2.1	1.6	1.7
	Thailand	2.3	2.5	2.5	2.5	2.6	2.5	2.2	2.0	2.2	2.2	2.1
	Colombia	1.3	1.4	1.4	1.4	1.4	1.4	1.0		1.7	1.8	1.1
	Malaysia	2.9	1.8	1.9	2.5	2.2	2.4	2.4	2.4	2.2	2.0	2.0
	Philippines	3.3	3.3	3.3	3.3	3.3	3.1	3.4	4.3	3.3	3.4	6.2
	Chile	2.1	2.5	2.0	2.0	2.4	2.0	2.0	2.4	2.3	2.1	2.2
	Peru	3.0	3.5	3.7	3.9	3.8	3.8	4.8	5.3	3.5	3.6	2.5
	Argentina				5.6	5.6	5.3	2.5	5.8	5.2	0.5	-5.6
	Poland	2.4	2.6	1.3	1.8	2.3	1.5	1.1	2.0	2.0	4.5	2.7
	Czech Republic	1.7	1.8	1.8	1.7	1.9	1.7	1.0	1.0	0.8	1.1	0.8
	Hungary			6.1	3.1	3.8	1.6	-2.6	1.4	4.0	4.9	5.5
Europe Ex UK	Switzerland	2.2	1.9	2.4	1.8	1.6	1.7	1.7	1.3	1.4	1.3	1.5
	France	2.1	2.0	2.0	2.0	2.1	2.0	1.8	1.9	1.9	2.0	1.9
	Netherlands	1.5	0.8	2.4	2.3	1.5	1.7	1.9	2.0	2.1	2.3	2.1
	Belgium	2.2	3.7	3.1	1.6	2.3	2.0	2.1	2.0	2.7	2.8	2.2
	Germany	2.4	2.3	2.6	2.4	2.6	2.5	2.5	2.3	2.6	2.6	2.0
	Denmark	4.8	3.0	4.6	3.3	3.5	3.6	2.0	1.8	2.2	2.0	2.0
	Spain	2.4	2.1	2.6	2.0	1.8	1.9	1.6	1.7	1.7	1.8	1.7
	Norway	4.7	2.1	2.3	3.9	3.0	2.1	1.0	0.6	1.3	1.6	1.1
	Italy	2.0	1.6	2.4	1.7	1.4	1.3	1.4	1.5	1.4	1.6	1.7
	Sweden	2.4	1.8	2.0	2.1	2.0	1.5	1.5	1.5	1.4	2.0	1.6
	Finland	1.6	1.3	1.8	1.7	1.6	1.3	1.3	1.8	1.3	1.3	1.0
	Ireland	3.1	3.1	3.8	3.9	2.7	0.2	3.8	3.7	5.3	3.3	2.3
	Israel	1.9	4.3	5.2	4.0	2.6	1.3	3.1	1.6	0.1		
	Austria	2.1	2.1	3.1	2.5	3.1	2.8	1.0	1.7	2.9	2.1	2.9
	Portugal	1.3	2.0	2.2	2.1	1.6	1.2	0.5	0.9	0.9	1.5	1.1
	Luxembourg	3.2	2.7	3.0	2.8	3.3	3.1	1.9	-0.2	0.1	1.0	1.7
Japan	Japan	2.0	2.5	3.4	3.3	3.3	3.4	3.3	3.3	3.4	3.4	3.1
North America	United States	2.5	2.1	3.1	3.1	2.7	2.8	2.7	2.3	2.1	2.3	2.6
	Canada	1.8	1.4	2.0	2.0	2.1	1.9	2.0	2.0	2.0	2.2	2.1
UK	United Kingdom	1.5	1.9	2.1	2.3	1.7	1.6	1.6	1.4	1.5	2.0	1.6

Appendix

Dividend Cover - Median		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Basic Materials	Metals & Mining	3.1	3.1	3.8	3.2	2.3	1.4	1.5	0.5	1.7	2.1	1.5
	Chemicals	2.3	2.0	2.8	2.7	2.5	2.4	2.3	2.3	2.1	2.2	2.1
	Building Materials	3.1	2.4	2.5	1.7	1.7	3.9	2.9	3.0	2.9	2.8	3.1
	Paper & Packaging	-2.0	0.7	2.2	2.4	1.7	2.3	1.2	1.8	2.0	2.2	2.2
Communications & Media	Media	3.6	2.3	3.7	4.4	4.0	4.2	4.2	3.2	4.0	3.5	4.1
	Telecoms	1.8	1.9	1.8	1.4	1.5	1.5	1.4	1.3	1.1	1.3	1.3
Consumer Basics	Food & Drug Retail	2.4	2.2	2.5	2.3	2.5	2.2	1.8	1.7	1.7	2.0	1.9
	Food	2.2	2.2	2.4	2.1	2.5	2.3	2.2	2.1	1.8	2.3	2.0
	Household & Personal Products	2.3	2.2	2.1	2.1	2.1	2.2	2.4	2.5	2.5	2.1	2.3
	Beverages	2.8	3.3	3.1	2.7	2.7	2.6	2.1	1.8	2.4	2.4	2.2
	Tobacco	2.3	2.4	1.8	1.8	1.6	1.4	1.3	1.3	1.5	1.6	1.3
Consumer Discretionary	General Retail	3.6	3.3	3.9	3.3	3.0	2.9	2.7	2.6	2.4	2.4	2.4
	Vehicles & Parts	2.1	3.1	5.2	4.1	4.0	4.3	3.6	3.4	3.4	3.6	3.2
	Consumer Durables & Clothing	2.7	2.7	3.2	2.9	3.2	3.0	2.8	2.4	2.5	2.3	2.4
	Leisure	1.9	2.0	2.7	2.4	1.9	1.5	1.8	2.1	2.1	2.3	1.9
Financials	General Financials	2.5	2.7	3.0	3.7	2.7	3.3	3.2	3.0	2.8	3.0	3.0
	Banks	1.9	2.5	2.9	3.1	3.0	2.9	2.9	2.9	2.6	2.4	2.4
	Insurance	1.0	2.3	2.4	2.3	2.3	2.5	2.8	2.7	2.2	2.1	2.2
	Real Estate	0.6	1.4	1.9	2.4	2.2	2.3	1.9	2.1	2.3	1.9	2.0
Healthcare & Pharmaceuticals	Pharmaceuticals & Biotech	1.7	2.1	1.8	1.6	1.6	1.8	2.0	2.0	2.0	2.1	1.9
	Health Care Equipment & Services	3.7	5.4	3.8	3.7	3.8	3.3	2.9	3.2	3.2	3.1	3.0
Industrials	Aerospace & Defence	3.5	3.0	2.8	3.2	2.9	2.9	2.9	1.9	2.6	2.4	2.6
	General Industrials	3.0	2.9	3.3	3.4	3.4	3.1	2.8	2.4	2.6	3.0	2.9
	Transport	3.3	2.4	3.8	3.5	3.6	3.5	3.0	3.4	3.2	4.4	3.7
	Construction, Engineering & Materials	3.2	2.1	2.8	3.3	2.8	2.9	2.7	2.5	2.0	2.4	2.6
	Support Services	1.9	2.1	2.0	1.8	2.0	1.9	2.2	1.8	2.0	2.6	2.2
	Electrical Equipment	2.8	1.8	2.6	2.6	1.9	2.1	1.9	2.1	1.9	2.1	1.9
Oil, Gas & Energy	Oil & Gas Producers	2.9	2.5	3.5	3.8	3.2	2.8	2.2	0.7	1.2	1.8	2.1
	Oil & Gas Equipment & Distribution	2.8	2.2	1.6	1.3	1.1	1.1	1.4	0.0	0.1	0.7	0.9
	Energy - non-oil	2.9	3.0	3.5	2.4	2.2	1.7	1.8	1.7	1.6	1.5	2.5
Technology	Software & Services	4.2	3.9	3.6	3.8	3.2	3.1	2.7	2.5	2.7	3.2	3.4
	IT Hardware & Electronics	3.8	2.9	3.8	4.9	3.5	3.5	3.6	3.0	2.9	2.7	2.8
	Semiconductors & Equipment	2.1	1.0	3.0	3.0	2.1	2.0	2.3	2.0	2.0	2.0	2.6
Utilities	Utilities	1.8	1.9	1.8	1.8	1.6	1.6	1.7	1.6	1.6	1.6	1.5

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—KNOWLEDGE. SHARED—

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