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Elevate Your Income with Global Equities

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While the markets are challenging today, fixed income and cash yields are quite high. So, why should investors be considering equity income?

I think there is a very, very uncertain macro environment, but one thing most people would agree on is "higher for longer," and it doesn't really matter whether the interest rate is going to be higher for longer or inflation is going to be higher for longer. One of the main reasons that fixed income yield is attractive is because we have a high interest rate yield and because we are in a high inflation environment.

But in this very environment, what is important for investors to focus on is how to get an attractive real return to protect your purchasing power. Throughout our research, one of the most robust asset classes that you can have in this type of higher-for-longer inflationary environment is equity. Particularly, the higher dividend-paying segment of the equity market works very, very well in this type of environment. That's why we think investors started to consider when they wanted to come back into the equity market or were thinking about their existing equity market exposure; they should think about the equity income strategy as part of that mix.

What is Global Equity Enhanced Income (GEEI), and how is it different from a traditional equity income strategy?

Our global equity enhanced income strategy aims to produce an attractive level of income at 6% per annum but also focuses on delivering a total return to retain the growth potential for equity investors. How we differentiate is there are two components of this equity income strategy. The first one is an equity portfolio focusing on high dividend-paying equities. From that perspective, we use our Quantamental process, combining the best of quantitative as well as fundamental analysis, to focus on the company and the business, which can support their dividend-paying schedule.

On the other hand, we enhance this dividend income by using an actively managed option strategy. Essentially, we are selling call options, sacrificing a small part of the potential upside of our equity portfolio in exchange for a much more stable option premium, so an income-like premium. By combining

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these two sources of income, we have a much more diversified approach, and then we can achieve the attractive level of income as well as retain the growth potential of the equity investment.

How do you enhance income despite market volatility, and how can you improve portfolio resilience?

As I mentioned earlier, equity income is typically cyclical. A very good example is during 2020 when the COVID global lockdown hit, the first thing companies did was slash their dividends. In that environment, if you rely solely on equity dividends as your single source of income, then that will not be a very satisfactory outcome.

So, for us, it's about trying to diversify the different sources of income so that we can cover different types of environments, working backward in the same environment during the global lockdown I just mentioned. In that same environment, we had very high uncertainty in the market. By using our call overwriting strategy, our option strategy, essentially we are selling the options, and in that environment, all else being equal, the price of the option is actually very attractive. From that perspective, we can use the option premium to cover the reduction of the equity dividend. I think the idea is we can never predict the future, but it's more important to have different sources of income to diversify so that we can improve the resilience of how we can deliver the outcome our investors want.

Global Equity Enhanced Income Strategy – Key risks

Market risk: Securities may decline in value due to factors affecting securities markets generally, and equity securities generally have greater price volatility than debt securities.

Smaller-company securities risk: Securities of companies with smaller market capitalisations tend to be more volatile and less liquid than securities of larger companies.

Geographic concentration risk: Investments concentrated in specific geographic regions and markets may be subject to greater volatility due to economic downturns and other factors affecting the specific geographic regions.

Global investment risk: Securities of certain jurisdictions may experience more rapid and extreme changes in value and may be affected by uncertainties such as international political developments, currency fluctuations and other developments in the laws and regulations of countries in which an investment may be made.

Derivatives risk: The use of derivatives presents risks different from, and possibly greater than, the risks associated with investing directly in traditional securities. The use of derivatives can lead to losses because of adverse movements in the price or value of the underlying asset, index or rate, which may be magnified by certain features of the derivatives.

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