Many investors are turning to alternatives to meet their income requirements, but Newton Investment Management’s Nick Clay says a more conventional solution could be close at hand.

Volatile equity markets, asset prices stretched by loose monetary policy, and persistently low bond yields have made income yield harder to come by, while investors are living longer in retirement.

The hunt for the yield to provide this income has led some investors to start looking beyond the conventional equity and bond asset classes towards alternatives such as private equity and infrastructure, in an attempt to meet their income and growth requirements.

It is our contention, however, that by potentially replacing a portion of their global equity portfolio with long-term alternatives, investors may be missing a far more conventional opportunity right in front of their eyes.

TRADITIONS UNDER PRESSURE

In the traditional 60% equity/40% fixed income portfolio, the bond component is designed to provide income while the equity component serves to provide the potential for capital growth. We believe it is time for investors to take a less restrictive view on the role of equities within their portfolios.

Our view is it may be an oversight to have 60% of assets in non- or low-income-generating domestic equity strategies, when some of that could be better put to work in what we believe would be better growth- and income-producing global equity strategies.

If equity income is considered as a strategy in its own right, equities need not be in the portfolio purely to seek capital growth, but could also help investors meet their income requirements. To a certain degree, due to daily pricing, we believe short-term performance has become an obsession for many investors who might find temporary volatility hard to stomach.

While some might consider longer-time-horizon alternative assets to address this perceived short-term volatility, we believe they are overlooking the fact that equity income may represent an attractive opportunity, especially considering that, even if the capital value of the equity is falling, you are still being paid the income in most cases.
TAKING A LONG-TERM PERSPECTIVE

We would argue that not only should investors consider adopting global equity income as part of their equity component, but also that they should stop thinking of it purely as a short-term growth solution.

We believe that global equity income should be considered as an effective strategy over a longer-term time frame in the same way private equity or infrastructure investments are, but with the added advantage of having greater liquidity and the greater transparency that comes with investing in listed companies.

In our view, dividend payments should appeal to investors who may require a regular income for financing retirement, and if viewed as an integral part of the portfolio for the long term, global equity income may also offer reliable and steady capital growth to help investors achieve their dual objective of generating income without depleting capital over time.