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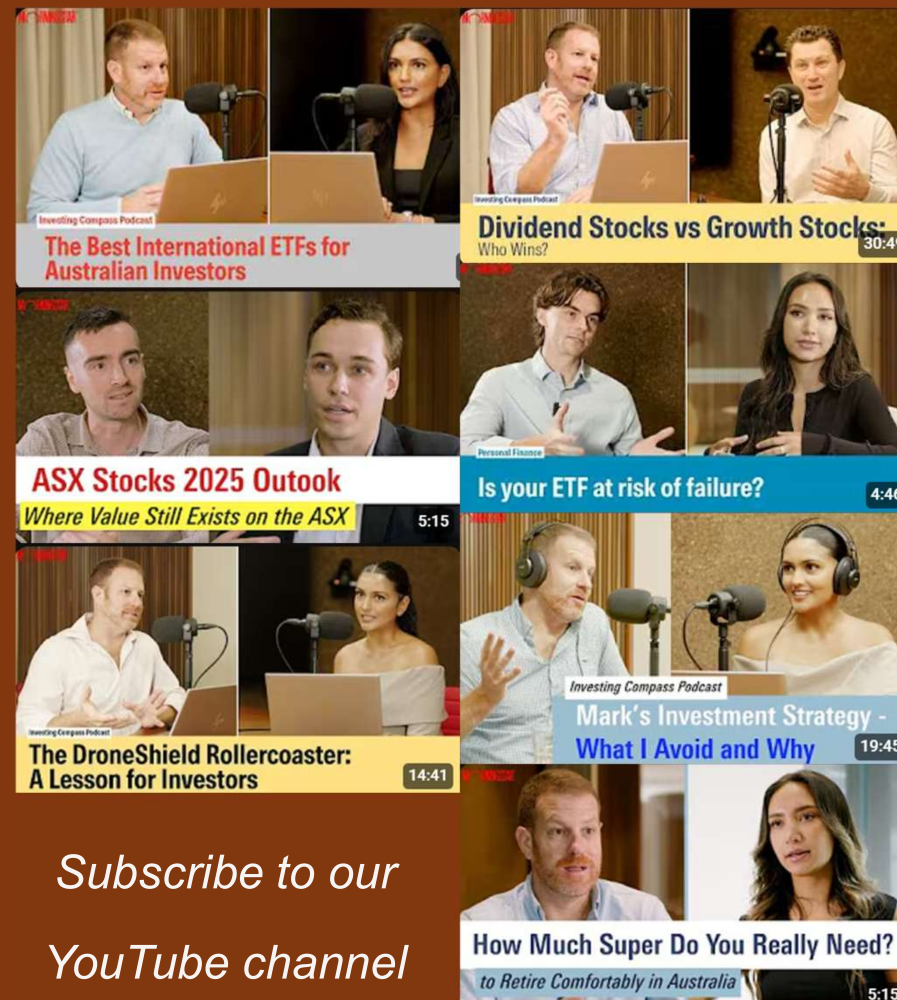

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Important Information

Morningstar income investing bootcamp

Webinar 1 – Building an income portfolio

Webinar 2 – Assessing individual shares

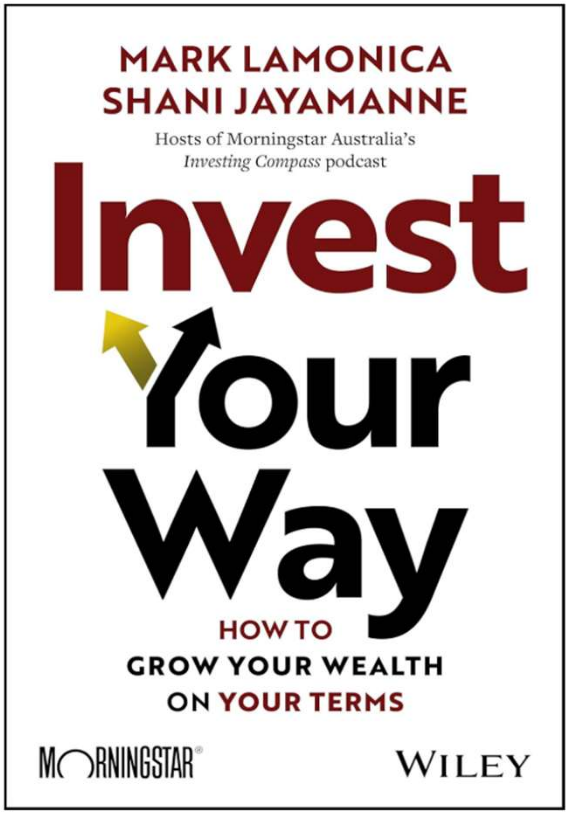
Webinar 3 – Using ETFs to generate income

Webinar 4 – Other income options (LICs, covered calls, dividend harvesting)

Learning objectives

1. Understand the trade-offs and environment for building an income portfolio today

Getting the foundations right



- The biggest issue many investors face is undermining their own outcomes by letting emotions influence decision making and making mistakes
- ETFs exacerbate these tendencies given the ease of trading, the proliferation of new ETFs and compelling marketing based on recent performance
- The key is adding structure to decision making by establishing goals, setting an investment strategy and developing a process to guide decision making

Agenda

- Why I’m an income investor
- The spectrum of income investing
- Income investing environment in Australia
- Principles of income investing
- What do you give up by being an income investor

Why I am an income investor

There are several investment strategies that can be successful. The key is finding one that resonates with your worldview and one you can follow over the long-term. I've chosen income investing for several reasons:

Clear alignment between investing and improving your life: At its core investing is earning a return on savings so you can spend money later and gain financial independence. Passive income provides financial flexibility and allows you to make incremental progress towards financial independence. .

It is easier: Income investing is a long-term strategy focused on the ability of a company to increase profits and correspondingly raise dividends. Short-term catalysts, guessing how other investors will react, and positioning portfolios to take advantage of the current environment can all be ignored.

An income focus improves my behaviour: Focusing on growing my passive income limits the impact of volatility on my actions which reduces the tendency of emotions influencing my decision making.

Limits drawdowns: Dividend shares tend to be countercyclical, less volatile and more mature companies which limits the impact of drawdowns on long-term portfolio performance and reduces the chances of permanent loss of capital.

Keeps management honest: The desire to maintain dividends imposes discipline on management to focus on cash generation and limit debt to maintain the financial flexibility to pay and grow dividends.

The spectrum of income investing

A common goal for income investors is to maintain the purchasing power of passive income which means growing income at least at the rate of inflation. Within this common goal there is spectrum for investors to consider:

Higher yield

Higher dividend growth

For investors spending their current dividends there may be more of a focus on yield and avoiding dividend traps

For many long-term investors dividend growth is key which means focusing on earnings growth to fund future dividend payments

Most investors sit somewhere along the spectrum and have both types of income investments. The tilt of a portfolio should be aligned to your goals and where you fall should be reflected in your investment strategy

The income investing environment in Australia

Changes to the tax treatment of capital gains has made income relatively more attractive than capital gains

	Returns from capital gains	Returns from fully franked dividends
Scenario	$1000 worth of shares on 1 of July 2027 and sold on 1 July 2032 for $2000 with 5% annual inflation at 37% marginal tax rate and 2% Medicare levy	$1000 worth of shares on 1 of July 2027 and sold on 1 July 2032 for $1000 with $1000 of fully franked dividends at 37% marginal tax rate and 2% Medicare levy
Taxes owed	$282	$128
After-tax return	71.80%	87.20%

The income investing environment in Australia

The following chart using ATO data shows the dividend yield and franking rebate yield for the All Ordinaries over the last ten years:

Year	Average annual yield	Average annual franking rebate yield	Grossed up yield
2026	2.97%	0.91%	3.88%
2025	3.56%	1.13%	4.69%
2024	4.33%	1.46%	5.79%
2023	4.09%	1.40%	5.49%
2022	3.15%	1.04%	4.19%
2021	3.57%	1.12%	4.69%
2020	4.17%	1.35%	5.52%
2019	4.16%	1.35%	5.51%
2018	4.19%	1.36%	5.55%
2017	4.43%	1.46%	5.89%
2016	4.39%	1.46%	5.85%

The income investing environment in Australia

A top-heavy market with a poorly performing top:

	Dividend growth from previous year						
Company	2025	2024	2023	2022	2021	2020	2019
BHP Group Ltd	-22.48%	-15.61%	-43.57%	15.04%	130.28%	-47.50%	113.25%
Commonwealth Bank of Australia	4.30%	3.33%	16.88%	10.00%	17.45%	-30.86%	0.00%
Westpac Banking Corp	-7.83%	16.90%	13.60%	5.93%	280.65%	-82.18%	-7.45%
National Australia Bank Ltd	0.59%	1.20%	10.60%	18.90%	111.67%	-63.86%	-16.16%
ANZ Group Holdings Ltd	0.00%	-5.14%	20.33%	3.23%	136.67%	-62.50%	0.00%
CSL Ltd	13.84%	9.49%	14.08%	8.25%	-0.07%	10.65%	16.41%
Wesfarmers Ltd	79.80%	3.66%	6.11%	-52.38%	122.35%	-38.85%	24.66%
Macquarie Group Ltd	3.88%	-8.51%	8.46%	7.08%	92.70%	-48.36%	14.02%
Goodman Group	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	2.56%
Fortescue Ltd	-44.16%	12.57%	-15.46%	-42.18%	103.41%	54.39%	395.65%
Average	**2.79%**	**1.79%**	**3.10%**	**-2.61%**	**99.51%**	**-30.91%**	**54.29%**
Median	**0.30%**	**2.27%**	**9.53%**	**6.51%**	**107.54%**	**-43.17%**	**8.29%**

Company	2026	2027	2028
BHP Group Ltd	-11.78%	-1.31%	-5.30%
Commonwealth Bank of Australia	4.90%	0.98%	4.85%
Westpac Banking Corp	0.65%	0.65%	4.52%
National Australia Bank Ltd	0.00%	1.18%	1.74%
ANZ Group Holdings Ltd	0.00%	0.00%	2.41%
CSL Ltd	-62.50%	1.80%	4.95%
Wesfarmers Ltd	-64.81%	7.87%	9.87%
Macquarie Group Ltd	10.67%	8.00%	4.94%
Goodman Group	0.00%	0.00%	0.00%
Fortescue Ltd	-30.95%	-16.67%	4.29%
Average	**-15.40%**	**0.25%**	**3.23%**
Median	**0.00%**	**0.81%**	**4.40%**

	Top 10		Rest of universe	
Year	Average	Median	Average	Median
2026 estimate	-15.40%	0.00%	10.03%	3.51%
2027 estimate	0.25%	0.81%	12.14%	7.57%
2028 estimate	3.23%	4.40%	9.97%	6.59%

Principles of income investing

- **Three drivers of passive income growth:** There are three elements that make-up passive income growth – dividend increases, new investments and dividend reinvestment. Consider their interplay when creating a portfolio.
- **There is often a trade-off between payout rate and dividend growth:** For example, traditionally Australian companies have paid out a higher percentage of earnings in dividends given the benefits of franking credits – as a result yields have been higher and growth lower
- **Dividend stability differs by market:** Australian shares typically set payout target rates with dividends fluctuating as earnings fluctuate – this is exacerbated by cyclical industries in Australia. In the US a dividend reduction is perceived poorly by investors and companies focus on stability and a steady history of increases (dividend kings / dividends aristocrats)
- **Measuring success:** Tracking total passive income is one measure of success but for individual investments yield at cost is an effective measure as it tracks the income earned from the dollar invested instead of relying on measures like yield which shifts with price.

What do you give up by being an income investor?

Does investing in dividend paying companies lower total returns? It depends on what types of dividend paying companies you own and the market environment.

The following chart is based on 133 ASX shares in Morningstar's coverage universe that pay dividends and have a ten-year history of returns.

Dividend yield ranking	Average annual return 10yrs	Median annual return 10yrs	% with higher current dividend	Average yield
Highest 1/3 of yields	5.16%	5.24%	11.36%	6.39%
Middle 1/3 of yields	8.23%	6.34%	38.63%	3.80%
Lowest 1/3 of yields	9.47%	9.25%	62.22%	1.85%
ASX 200 10-year annual return 9.16%				

Category	Average annual return 10yrs	Median annual return 10yrs
Companies that raised dividends	12.60%	10.61%
Companies that lowered dividends	4.05%	3.71%
ASX 200 10-year annual return 9.16%		