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FINANCIAL SERVICES

Investment company inflation busters

UK equity income sector dividend outstrips inflation by 2% a year over 20 years

After a sustained period of rock-bottom interest rates, investors have long been hungry for yield, meaning that income portfolios have work to do.

Research from the Association of Investment Companies (AIC) into the performance of the UK Equity Income sector makes sage reading for those concerned about the impact of inflation on their income in retirement, as well as those wanting to build up a capital sum to pass on.

INFLATION BUSTERS

Data from the AIC using Morningstar shows that £100,000 invested into the average UK Equity Income investment company on 31 December 1996 would have generated an initial annual income of £3,700 by 31 December 1997, which would have grown to an annual income of £8,516 in the year to 31 December 2016. Annual dividend growth was 4.5%, some 2% ahead of inflation (annualised RPI inflation over the period is 2.78%).

Over twenty years, investors would have received £119,872 of income from this portfolio. Meanwhile, in addition to the income generated, the capital value of the investment would have grown to £226,907 (an increase of 127%) – more than doubling.

The investment company sector's income track record is one of its crowning glories, boosted by some key structural advantages, most notably the freedom to squirrel away some of the income received each year for tougher times.

Dividends can be a crucial source of income for investors and could well become all the more so in the context of rising living costs. For those who are prepared to accept the risks, these figures make a compelling case for investment companies to be considered as part of a long-term income portfolio. ■

Source: AIC using Morningstar

Source data:

Performance figures are to 31 December 2016 and are based on the last official close share price on a capital return basis. Figures exclude charges. Source: AIC using Morningstar.

INVESTMENT MATTERS – IT'S GOOD TO TALK

If you would like to review your particular situation, please contact us – we look forward to hearing from you.

£100,000 INVESTED IN AVERAGE UK EQUITY INCOME INVESTMENT COMPANY SECTOR AT 31 DECEMBER 1996

	Capital return (£)	Income received (£)	Income yield (%)
31-Dec-97	124,480	3,700	3.0%
31-Dec-98	134,050	3,831	2.9%
31-Dec-99	146,915	4,043	2.8%
31-Dec-00	149,019	4,245	2.8%
31-Dec-01	133,357	4,422	3.3%
31-Dec-02	98,196	4,578	4.7%
31-Dec-03	114,240	4,779	4.2%
31-Dec-04	128,902	4,825	3.7%
31-Dec-05	152,466	5,115	3.4%
31-Dec-06	178,430	5,570	3.1%
31-Dec-07	165,330	6,336	3.8%
31-Dec-08	115,902	6,874	5.9%
31-Dec-09	136,440	6,912	5.1%
31-Dec-10	162,799	7,043	4.3%
31-Dec-11	159,104	7,212	4.5%
31-Dec-12	177,042	7,594	4.3%
31-Dec-13	219,025	7,864	3.6%
31-Dec-14	220,115	7,990	3.6%
31-Dec-15	221,278	8,423	3.8%
31-Dec-16	226,907	8,516	3.8%