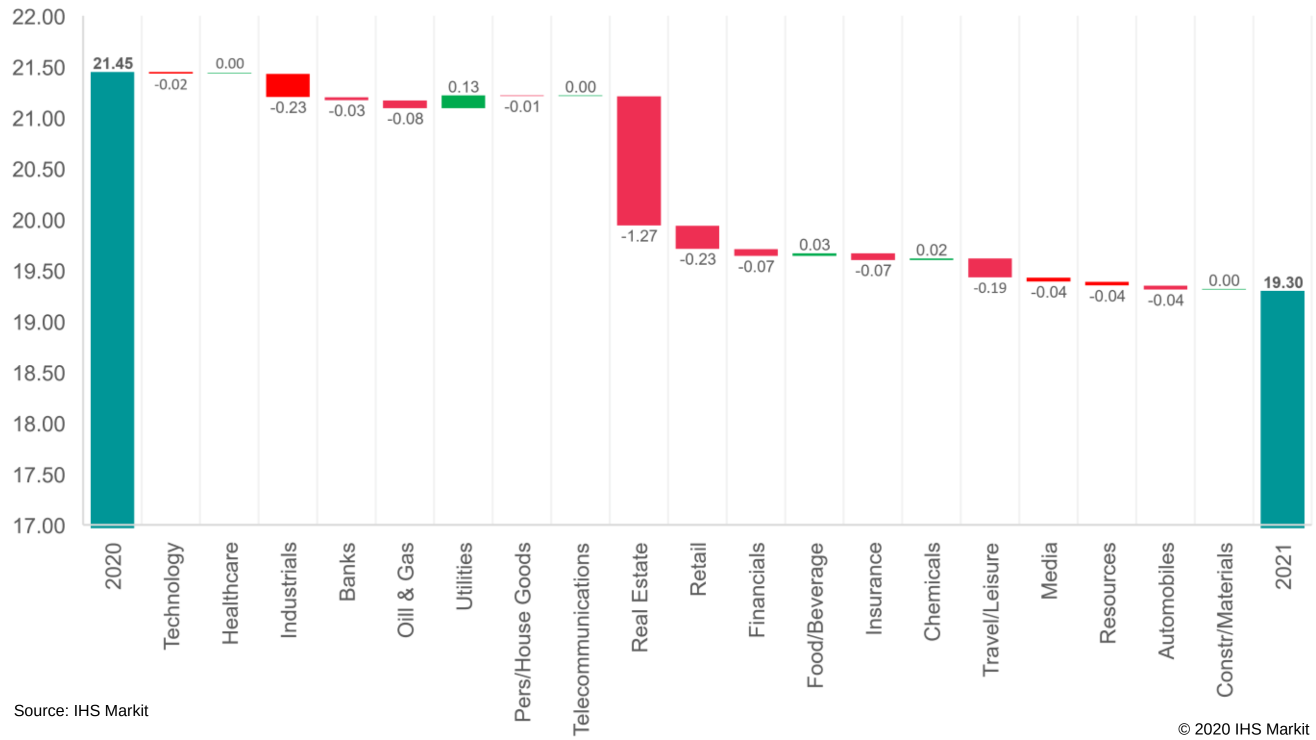
Russell 2000 DIPs Monitor

DIPs expected to decline 10% YoY

- Real estate, retail and industrial sectors among the poor performers dragging down DIPs for 2021
- Utilities and food and beverage, on the other hand, continue performing amidst the pandemic, but do not make up for the overall drop in DIPs

DIPs changes YoY



Source: IHS Markit

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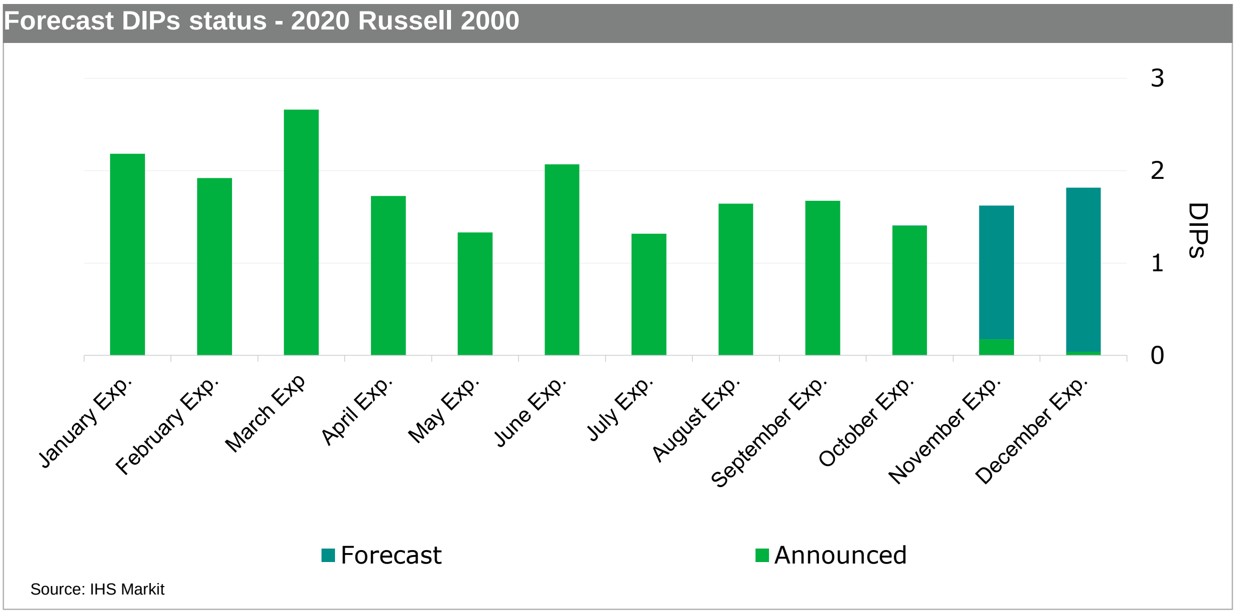
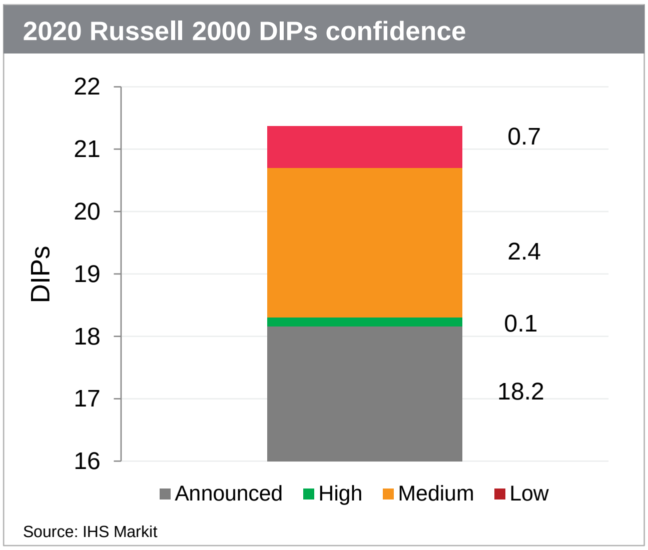
The lagging sectors, specifically real estate, retail and industrials, are still enduring the economic setback and contribute to 42% of the total DIPs for the upcoming year. While the index comprises sectors that continue to perform during the slump caused by the Covid pandemic, such as utilities and food and beverage, these sectors are not as heavily weighted as the sectors that are causing the decrease in overall DIPs for 2021.

DIPs by Expiry



We are expecting 623 dividends to go ex in November and December this year, contributing a total of 3.3 more DIPs to 2020. Of these points, we have low confidence in 0.7 – most notably, we have low confidence in the 0.04 remaining DIPs expected from **Frontline (FRO)** this year.

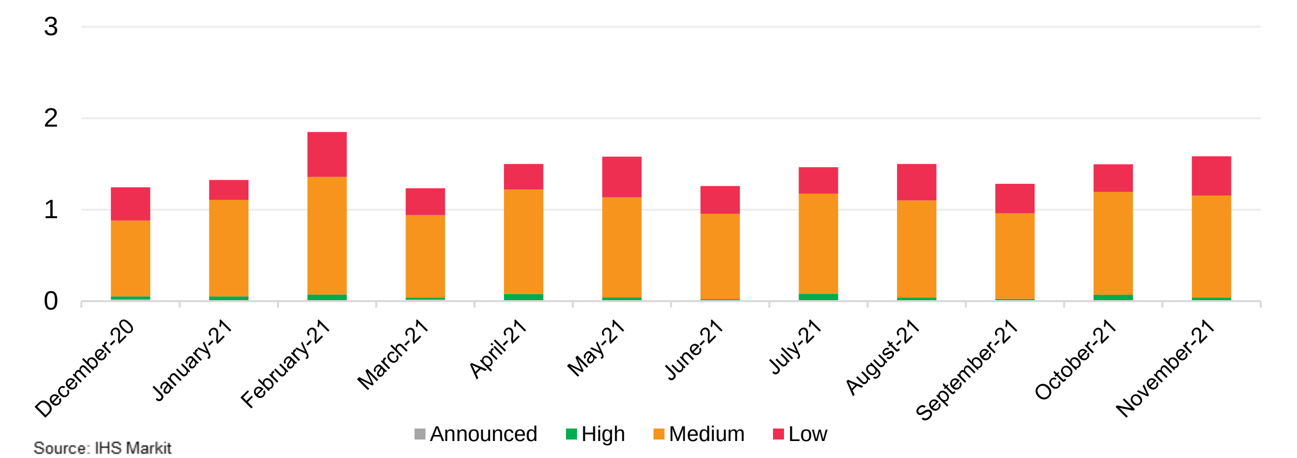


Low Confidence DIPs - 2020e		
Ticker	**DIPs expected**	**Ex-Date**
FRO	0.04	16-Dec
APAM	0.03	13-Nov
CIT	0.03	11-Feb
NAVI	0.02	03-Dec

Source: IHS Markit

Peak expiries are expected in February, May, August and November of 2021, while the months of December, March, June and September represent slow times for DIPs. Of note, all of the months show a minusucule amount of high level confidence when it comes to the estimated DIPs for the upcoming year, partially due to the unpredictability of the economy caused by the pandemic.

Russell 2000- 2021e DIPs by amount confidence

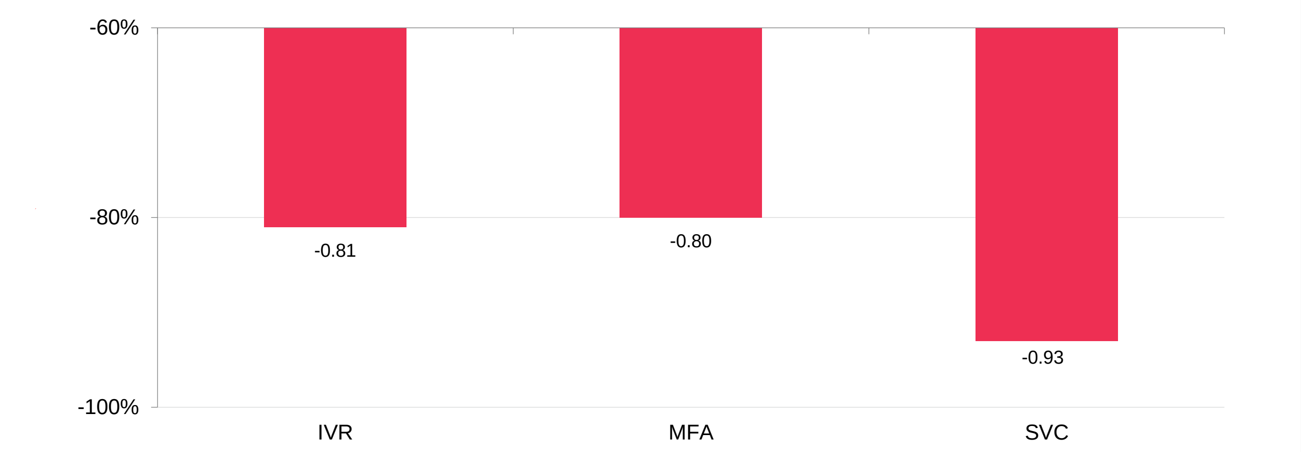


Source: IHS Markit

Real estate setback

The real estate sector was one of the many sectors affected by the pandemic, with a 18% decrease in DIPs projected for 2021. **Service Properties Trust (SVC)** is the biggest contributor to the decline, having a 93% drop YoY in DIPs. Although some of the biggest contributors to the sector's DIPs do show increases on its dividends for 2021, such as **STAG Industrial Inc (STAG)** and **National Health Investors (NHI),** their increases are minimal and not enough to make up for a drag by the poor performers on the sector.

Dividend action impact on DIPs- real estate



Source: IHS Markit

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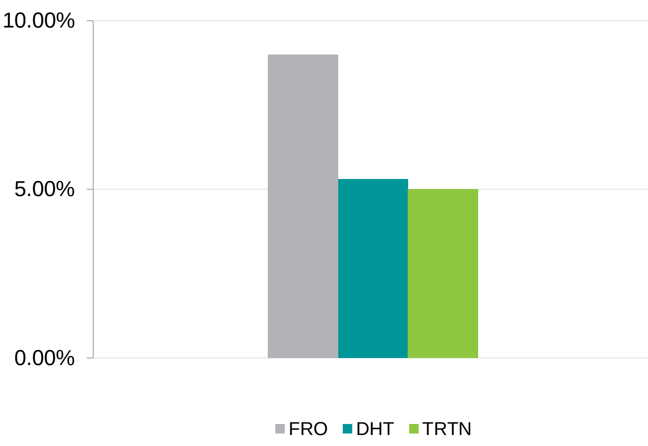
A sector marked by suspensions

We are expecting the retail sector to generate 0.41 DIPs in 2021, of which 0.017 of them are already announced. Retail is one of the biggest contributors to the overall drop in DIPs projected for 2021, with its changes YoY in DIPs decreasing 37%. A compelling factor is that **Macy's (M),** in 2020, was the biggest contributor to the sector's DIPs before its dividend suspension occurring in 2Q20. The company's suspension, along with **KAR Auction Services' (KAR)** suspension during the same quarter**,** together represent 50% of the 0.23 DIPs drop for 2021. Forecasts for both of the companies are that both will not pay dividends for FY'21.

Harvey Furniture (HVT) and **Rush Enterprises (RUSHB)** together represent the biggest increases in YoY DIPs, with 7% and 4%, respectively. Although the increases help to bolster retail by a certain margin, their contributions are not enough to cover the impact caused by the suspensions of some of the big names in the sector.

Industrial goods and services

Contribution to industrial DIPs- 2020



Source: IHS Markit

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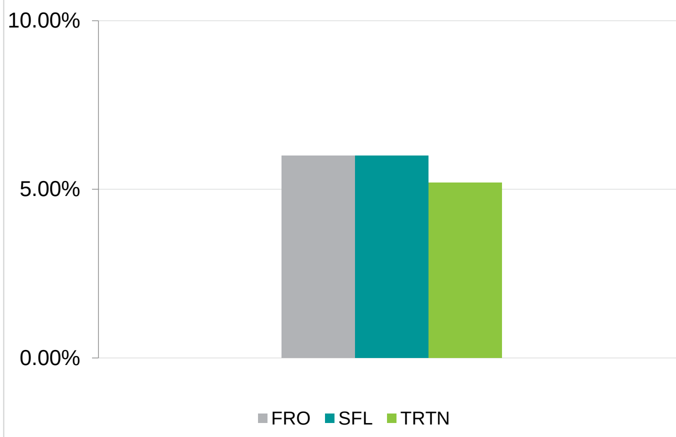
Contribution to industrial DIPs- 2021



Source: IHS Markit

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The industrial goods and services has shown interesting variations. Firstly, for both 2020 and 2021, the sector's top three DIPs contributors only represent 19% and 17% of the sector's total DIPs, respectively. **Frontline (FRO)** and **DHT Holdings (DHT**), companies that are a part of the 2020 contribution, are also the biggest reasons why the sector is projected to decrease its DIPs by 11%. Out of the 0.23 dividend index points drop for 2021, **FRO's** 0.08 DIPs reduction exhibit 33% of the sector's total decline, while **DHT** is responsible for 30%.

We have a "medium" amount confidence in 0.26 of the DIPs that are expected to be announced for the year, while "low" confidence is expected for 0.09 of the DIPs and "high" confidence is expected for 0.01 of the remaining DIPs. In terms of ex-date confidence, most DIPs have a "medium" level of confidence, in part due to the unpredictability of the economy and the impact caused by the Covid pandemic on the industrial sector.

Boring and steady

The utilities sector remains resilient with a projected 9% increase in DIPs for 2021. **Clearway Energy (CWEN.A**), **Spire Inc (SR)** and **ONE Gas (OGS)** are the biggest contributors to the sector's DIPs increase, together representing 27% of the sector's 0.05 dividend index points' increase. Additionally, companies such as **PNM Resources (PNM) and Southwest Gas Corp (SWX)** are projected to distribute even higher dividends for 2021, further increasing the DIPs potential.

PNM Resources is committed to maintaining its earnings growth target of 5% to 6% in 2023, taking advantage of capital markets to lock in long-term financings at lower rates. The company also plans on building upon its industry leading ESG goal for 100% emissions- free energy by 2040. The plan can potentially attract a higher number of investors that care about the reduction of the carbon-footprint**. Southwest Gas Corp,** on the other hand, is partnering with stakeholders on compressed natural gas and renewable natural gas. It also has plans to build interconnects with RNG suppliers, connecting to a utility pipeline network while planning to decarbonize supplies and expand efficiencies.

Utilities top contributors to DIPs			
Ticker	**2020**	**2021e**	**Contribution**
POR	0.11	0.11	7%
BKH	0.11	0.11	7%
ALE	0.10	0.11	7%
SR	0.10	0.11	7%

Source: IHS Markit

Essentials for the win

The food and beverage sector has increased overall DIPs contribution. While the Covid pandemic has eaten up a decent amount from shareholders' expected returns throughout the different sectors, resilience was observed with food and beverage due to the stable consumption that helped the sector see a 9% increase in DIPs for 2021. The momentum of earnings and dividend payouts in the future will gain traction with the support from re-openings of restaurants and exports.

Essentials top contributors for DIPs			
Ticker	**2020**	**2021e**	**Contribution**
BGS	0.09	0.09	26%
LANC	0.04	0.04	12%
MED	0.04	0.04	12%
PRMW	0.03	0.03	9%

Source: IHS Markit

John B. Sanfilippo & Son, Inc. (JBSS), **Sanderson Farms (SAFM)** and **MPG Ingredients Inc (MGPI)** are the largest contributors that added to the pie of DIPs increases. **JBSS** has been consistently increasing its annual dividend payout by 5 cents and the overall DIPs contribution is fueled by the two special dividends. The DIPs increase for **SAFM** is explained by the recent jump in the dividend payout due to positive business impact reported in the last few quarters. **MGPI** is also expected to contribute to the DIPs with an increase expected in the coming fiscal year, as it has consistently increased the annual dividend by 8 cents since FY'17. The 0.0211-point increase in DIPs contributed by the three stock highlights the sector's distinguished performance, with a higher level of DIPs being expected for the sector in 2021 as companies start to rebase their bottom lines with lesser uncertainty.

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