

# View from UBS Indexing

## European financials dividend cancellations in Q1 2020: implications for index equity investors

**In late March 2020, a number of European financial institutions cancelled their planned dividend payments to shareholders, on recommendations from regulators aimed at ensuring a sound capital base and providing support to the economy.**

**While the negative adjustment to the index levels was effective on 2 April 2020, the negative adjustment to index funds NAV depended on when the custodian processed the dividend cancellations.**

### Overview

In light of the economic situation resulting from the Covid-19 pandemic, in late March 2020 European financial regulators, including the European Banking Authority and the Bank of England, recommended all EU lenders to cancel their planned dividend payments and share buybacks. The step was aimed at maintaining robust capitalisation and avoiding the triggering of a credit crunch in Europe. On 31 March 2020, a number of UK-listed banks, including Barclays, HSBC, Lloyds Banking Group, Royal Bank of Scotland, and Standard Chartered, announced the cancellation of their planned 2020 dividend distributions to shareholders.

### Index impact

The ex-dates for four of the above-listed five banks (Barclays, HSBC, RBS, and Standard Chartered) had already taken place in February and March 2020, as shown in Exhibit 1, and reinvested across the relevant indices on those dates accordingly. As a result of the announced cancelled dividend payments, index providers adjusted the impacted indices by reinvesting the negative amounts of the dividends for the stocks that have already gone ex-dates. According to the FTSE Russell and MSCI index methodology books, these adjustments were effective on 2 April 2020.

### Exhibit 1: UK-listed banks announcing dividend payment cancellations on 31 March 2020

Company	Cash dividend per share	Ex-date
Barclays	GBP 0.06	27 Feb 2020
HSBC	USD 0.21	27 Feb 2020
Lloyds Banking Group	GBP 0.0225	16 Apr 2020
Royal Bank of Scotland	GBP 0.03 (regular) GBP 0.05 (special)	26 Mar 2020
Standard Chartered	USD 0.20	5 Mar 2020

Source: UBS Asset Management, company data, FTSE Russell, MSCI. Data as at 2 April 2020.

### Performance impact: fund vs. index

While the negative adjustment to the index levels was effective on 2 April 2020, the negative adjustment to index funds NAV depended on when the custodian processed the dividend cancellations. For example, in the UBS Life funds the custodian applied the adjustment on 31 March 2020, and in the UBS ETFs the custodian applied the adjustment on 1 April 2020.

**This timing difference could impact the performance differential between fund and index in March 2020 (and in Q1 2020)** when, other things being equal, the impacted funds would have underperformed the index approximately by the amount of the negative dividend adjustments, and in April 2020 (and in Q2 2020) when, other things being equal, the impacted funds would have outperformed the index approximately by the amount of the negative dividend adjustments. As an illustrative example, in **Exhibit 2** we show the estimated performance impact in the UBS Life UK Equity Tracker tracking FTSE All-Share Index. Other index equity funds tracking indices impacted by the dividend cancellations and experiencing timing difference between the adjustment being applied in the fund and in the index, would likely experience performance differentials as well.

### Exhibit 2: UBS Life UK Equity Tracker vs. FTSE All-Share Index: estimated performance impact

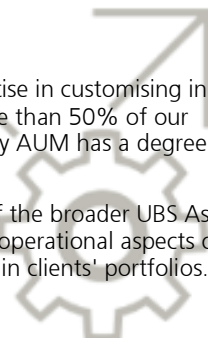
	Day		Month	Quarter
Data in GBP, %	31 Mar 2020	2 Apr-2020	March 2020	Q1 2020
UBS Life UK Equity Tracker Fund	1.86	0.33	-15.23	-25.23
FTSE All-Share Index	2.17	0.03	-15.07	-25.13
Difference	-0.31	0.30	-0.20	-0.13

Source: UBS Asset Management, FTSE Russell. Data as at 2 April 2020.

Note: Geometric difference between fund and index. Performance figures are gross of fees. These figures refer to the past. Past performance is not a reliable indicator of future results.

### **UBS Indexing experience**

(data as at 31 December 2019)<sup>1</sup>

- Over 35 years' indexing experience, USD 383 billion AUM, tracking over 150 indices.
  - Over 20 years' experience in managing European index equity with AUM of over USD 80 billion tracking dedicated Europe equity indices.
  - Big enough to benefit from economies of scale, but not too big to face liquidity constraints when trading for index changes.
  - Extensive experience and expertise in customising index and rules-based portfolios: more than 50% of our index equity book of business by AUM has a degree of customisation.
  - Building upon the experience of the broader UBS Asset Management: experience in all operational aspects of implementing corporate events in clients' portfolios.
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<sup>1</sup> Source: UBS Asset Management. Data as at 31 December 2019.

### **Americas**

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