



LOST DIVIDENDS CUT OFF INCOME STREAM IN BERMUDA ECONOMY

The Royal Gazette – September 22, 2011 BY: MARINA MELLO

Local company dividends were a bedrock of retirement income for thousands of Bermudian investors, but recently they've come under unprecedented pressure. Both Butterfield Bank and Argus have frozen their dividends, while other BSX-listed companies have slashed them

And as share prices and yields have dropped, investors' ability to exit a sizeable investment in a local company is limited due to the illiquidity of the Bermuda stock market, financial managers said. It can take days, even months to sell shares on the BSX depending on the amount.

Many retirees and other investors also relied on rental incomes, which have also declined significantly. That has left many investors, especially retirees, facing extremely challenging times financially.

The overall economy took a hit as well, given that, for example, Butterfield Bank in 2007 paid out more than \$55 million in dividends to shareholders.

Many Bermudians had invested heavily in the bank, as the most liquid stock they could buy on the BSX, and watched their shares lose about 95 percent of their value in the space of three years.

AFL Investments chief operating officer Cindy Campbell estimated that

as many as 20 percent of retired clients relied on dividends payments from equities in local companies as their main source of retirement income.

Certified financial planner Martha Harris Myron said local dividends in Bermuda were considered "almost a God-given right".

"...traditionally in Bermuda, individuals have focused on three main sources of income in retirement- a pension plan; rental incomes; and dividend payment from local equities."

"Every single quarter, almost without fail, a decent dividend from locally listed public companies was remitted to shareholders," said Ms Myron, a partner with Patterson Partners Ltd - Financial Counsel for Cross Border Living.

"The local Bermuda financial investment market was small, secure, relatively stable, and isolated. In fact, the old informal Bermuda financial plan, if you will, for retirees and families was to live off your dividends, rents and interest from long-term well paying term deposits. Times have changed. Bermuda investors and financial institutions alike entered global capital markets and are now subject to that volatility, global interest rates and investment risks."

Ms Campbell agreed, saying that traditionally in Bermuda, individuals have focused on three main sources of income in retirement- a pension plan; rental incomes; and dividend payment from local equities.

"Historically, Bermudians have found these sound investment choices, however, the world has changed and Bermuda is part of the global economy and is not shielded from global trends.

"As the world's population ages, all government pension programmes



LOST DIVIDENDS CUT OFF INCOME STREAM IN BERMUDA ECONOMY

Continued...

are facing sustainability issues. Secondly, rental income is not guaranteed and we know from recent experience these can decline. Finally, dividends are also not guaranteed.”

LOM portfolio manager Bryan Dooley said it did take a while for the financial crisis to catch up with Bermuda but it eventually did.

“Now companies are having to really rethink what their cash flow is and where it can go ... they are saving every penny they can to put back into the business,” he said.

Butterfield Bank, he noted, cut its dividend in 2008 to 11 cents, then to less than three cents by late 2009, and now it is suspended.

Many Bermudians lost their reliance upon five-to-six-plus percent tax-free yields that they had lived off for many years.

“It was good while it lasted,” Mr. Dooley said.

So will those fat dividends ever come back?

In July, Brad Kopp, Butterfield’s President and CEO, said the bank was still a “couple of years” away from paying a dividend to its common shareholders again.

Ms Campbell said that the reinstatement of dividends depends on a number of factors.

“Companies have to balance their responsibilities to three main stakeholders: clients, employees and shareholders.

“Generally, companies issue dividends when they are profitable and when they are not retaining earnings in order to grow or strengthen their business. Companies may take the decision to reduce or suspend dividend payments for various reasons. Ultimately, it is in the best interest of all stakeholders that the company remains financially healthy.”

She added: “The profitability of a company relies on a number of internal and external drivers relating to whichever industry it operates in. For example, financial institutions that have a large portion of their income driven by loans and deposits will obviously perform better in higher interest rate environments.

“Other industries, such as insurance, are more affected by natural disasters and loss ratios and their income is driven by underwriting results supported by investment income.

“A company’s ability to pay dividends is based upon the profitability drivers of their particular industry.”

Anchor Investment Management chief financial officer Nathan Kowalski said the dividend cuts are clearly reflections of the particular company’s recent performance and outlook.

“It is difficult to predict when or even if dividends will be reinstated or raised for many companies that depends on a company by company basis and will be determined, ultimately, by the economic conditions here in Bermuda and each company’s performance,” Mr Kowalski said.

Ms Myron said: “In uncertain economically volatile environments, even if company is relatively profitable, company boards may decide to hoard cash for contingencies rather than dividend out to shareholders.”

She believes local dividends will come back but only “when company directors feel that the conditions described above that affected the reduction of, or cessation of dividends, change for the better.

“Ultimately, when companies must return to sustained profitability, the outside economic environment improves, their debt load decreases, and markets are stable, then and only then, will they consider rewarding shareholders with a dividend again.”



LOST DIVIDENDS CUT OFF INCOME STREAM IN BERMUDA ECONOMY

Continued...

Ms Myron and Ms Campbell said the dividend cuts showed it's vital for investors to increase the diversification in their portfolio in order to meet their financial goals and get sound financial planning advice.

Ms Myron said investors must do their home work on the strength, viability, capitalisation, business model, market share, competition and all those criteria and more before they buy anything, no matter how good the yield.

She added: "Common stock holders get paid last, if at all, when a company is not strong and cash rich."

Marina Mello