Why income investors should consider alternatives again

UK companies paid out £35.1bn in total dividends in Q2 2025, down 1.4% year-on-year, according to Computershare's latest Dividend Monitor. While the decline was not as severe as some feared, investors face growing headwinds in the months ahead, with the report forecasting further reductions in dividend income through the second half of the year.

For investors seeking reliable, consistent income, the current environment raises important questions about the sustainability of dividends and the case for revisiting alternative income strategies.

Key take-outs:

- Dividend income is under pressure
- Inflation is eroding returns
- Market resilience is uneven
- Alternative income strategies are gaining appeal
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Dividend growth under pressure

Several key factors are expected to weigh on dividend growth in the near term:

• Unfavourable dollar/sterling exchange rate effects have already knocked £934m off Q2 headline payouts. If current rates persist, full-year foreign exchange losses could reach £1.7bn*.

• Special dividends are drying up. Q2 2025 saw a 46% year-on-year drop in specials, with Computershare forecasting a continued "dearth" of these one-off payouts into the second half. This trend is already dragging overall dividend growth down by five percentage points*.

• Reflecting these headwinds, Computershare has cut its full-year headline dividend forecast by £1.8bn to £88.3bn. That's a clear signal that income reliability is becoming harder to find.

Inflation context

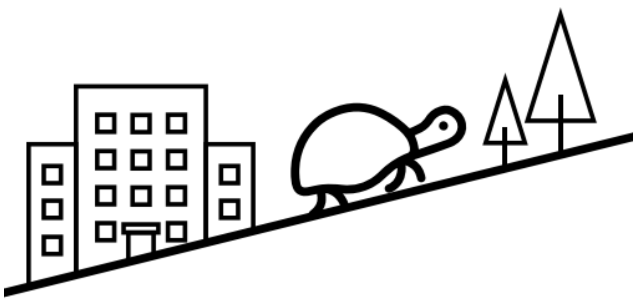
For investors reliant on dividends for income, it's not just about nominal growth - it's about real returns. While underlying dividend growth (excluding specials) has been upgraded slightly to 2.8% for 2025, median company-level growth of 4.1% is only just keeping pace with the current level of inflation*.

Traditional income strategies are being tested. Many equities are struggling to keep pace with inflation, let alone deliver the kind of consistent, real income investors have come to expect.

The case for alternatives

At Gravis, we believe now may be an opportune moment to look beyond traditional dividends and consider alternative income-generating assets that can offer stable, long-term cash flows.

STEADILY EARNING



Alternatives including infrastructure, real estate-backed securities, and renewable energy investments, can provide:

- Reliable and predictable income streams, often contracted or inflation-linked.
- Lower correlation to equity market volatility, offering defensive characteristics in uncertain markets.
- Opportunities for diversification, reducing reliance on cyclical sectors like banking and mining that dominate UK dividend payments.

GCP Infrastructure Investments Limited, for example, has a 15 year track record of dividend payments, returning £1,017 of income for every £1,000 invested at IPO. You can see this clearly in the chart below.

Today, 49% of its assets are inflation-protected and the current yield on share price is in excess of 9%.

Finding resilience amid market cycles

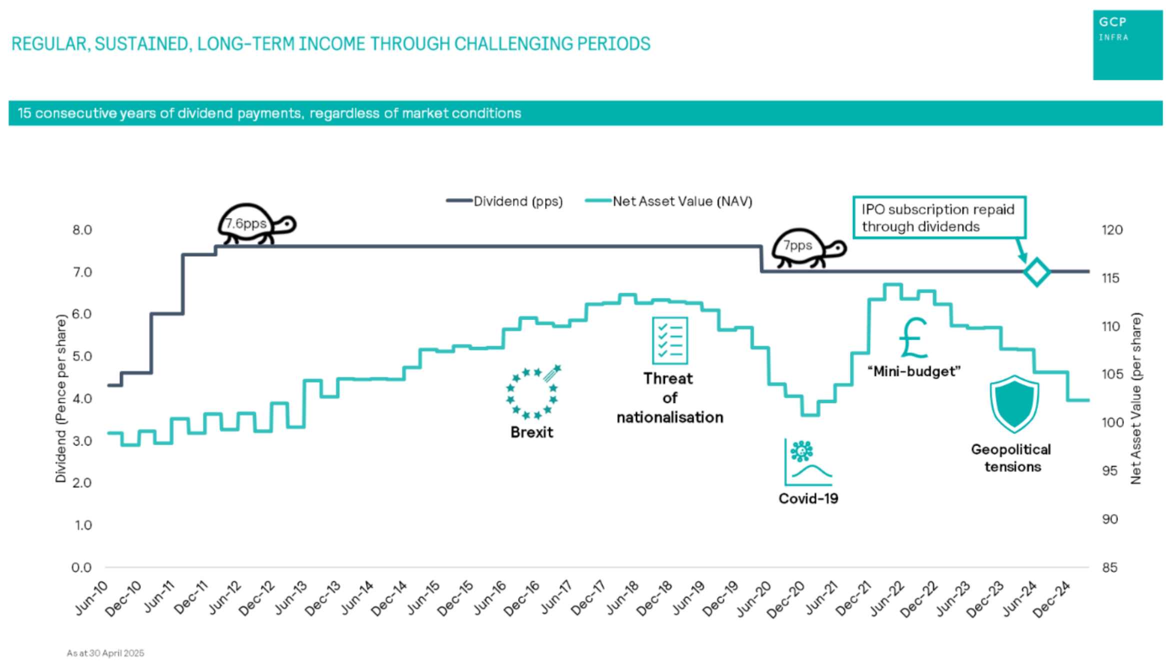
The Dividend monitor does highlight some bright spots. Companies like Rolls-Royce, which resumed dividends after eliminating debt, and insurers like Admiral, which benefited from sector recovery, illustrate the patchy nature of current dividend resilience. However, 22% of companies cut dividends year-on-year in Q2, underscoring inconsistency across the market*.

Against this backdrop, investors may want to reassess the sources of their income. With dividend growth under strain and headline payouts expected to decline, alternative income investments may provide greater certainty and a more robust buffer against inflation and rate volatility.

You can find out more about Gravis's income-producing funds, including VT Gravis UK Infrastructure Income and VT Gravis UK Listed Property (PAIF), at www.graviscapital.com.

**Source: Computershare Dividend Monitor, Q2 2025*

GCP Infrastructure Investments Limited: 15 year of consistent dividends



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