EDISON

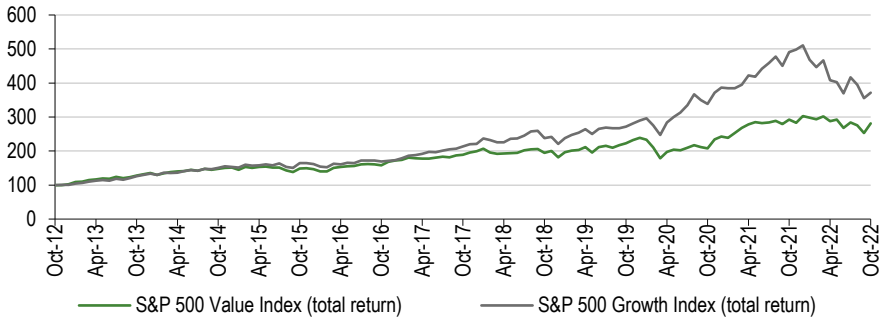
BlackRock Sustainable American Income Trust

Positioned for economic weakness

Investment trusts
American equities

BlackRock Sustainable American Income Trust (BRSA) changed its investment strategy at the end of July 2021 to integrate explicit ESG objectives. Its managers, Tony DeSpirito, David Zhao and Lisa Yang, aim to deliver an attractive level of income and long-term capital appreciation from a portfolio of dividend-paying companies that are trading at attractive valuations and are deemed to be ESG leaders, improvers or 'sustainability enablers'. The managers say the odds of a recession are now higher compared with the end of 2021; hence, the structure of the portfolio has changed since then from a barbell approach of stability versus cyclical value and is now skewed towards stability.

Investors falling out of love with growth stocks



Source: Morningstar, Edison Investment Research

The analyst's view

To gain a greater insight about BRSA's July 2021 change in strategy, please see our May 2022 initiation report. The trust offers a portfolio of reasonably priced companies with superior ESG traits, setting it apart from its peers in the AIC North America sector. Within the fund there are both growth and value stocks, but the overarching approach is a focus on quality, in terms of balance sheet strength and growing dividends, which should provide performance resilience during economic weakness and stock market volatility. BRSA is actively managed, so while the managers have positioned the fund for an economic downturn, they are mindful that the stock market is a discounting mechanism and will therefore be looking to move to a less defensive stance before there is clear evidence of an economic improvement. At the end of September 2022, c 82% of the fund was invested in North American equities and on a sectoral basis the largest overweight positions versus the reference index were information technology, healthcare and financials, while the greatest underweight exposures were industrials and real estate.

Discount is wider than historical averages

BRSA's 6.6% discount to cum-income NAV is wider than the 3.1% to 5.3% range of average discounts over the last one, three, five and 10 years. The trust is on track for the fifth consecutive year of an 8.0p per share annual dividend. Based on its current share price, BRSA offers an attractive 4.0% yield.

11 November 2022

Price	**200p**
Market cap	**£161m**
AUM	**£171m**

NAV*		214.2p
Discount to NAV		6.6%
*Including income. At 8 November 2022.		
Yield		4.0%
Ordinary shares in issue		80.2m
Code/ISIN		BRSA/GB00B7W0XJ61
Primary exchange		LSE
AIC sector		North America
Financial year end		31 October
52-week high/low	214.0p	184.3p
NAV* high/low	224.2p	197.0p
*Including income		
Net gearing*		4.0%
*At 30 September 2022		

Fund objective

BlackRock Sustainable American Income Trust (BRSA) aims to provide an attractive level of income and capital appreciation over the long term in a manner that is consistent with the trust's principles of sustainable investing. Performance is measured against a US 1000 value index (the reference index).

Bull points

- Fund offers exposure to a specialist US multi-cap value portfolio with an ESG focus.
- Attractive dividend yield.
- Value stocks tend to outperform during periods of rising inflation and interest rates.

Bear points

- FY21 dividend was not fully covered by income.
- Reference index is not ESG based.
- US market trading at a premium to global equities.

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BlackRock Sustainable American Income Trust is a research client of Edison Investment Research Limited

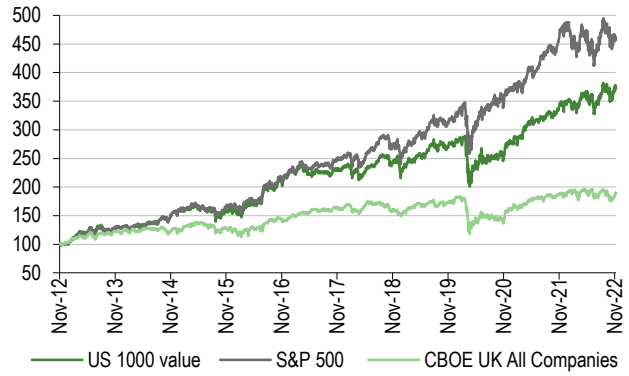
Market outlook: Macro uncertainties intensifying

Global equity markets have been very volatile so far in 2022 (Exhibit 1, left-hand side). Investors, many of whom have never experienced it before, are having to deal with a period of sustained inflationary pressure, which has been exacerbated by the war in Ukraine. Developed markets central banks are raising interest rates in an attempt to combat higher prices, which is adding pressure to already-stretched consumer balance sheets. In the US, the 10-year treasury yield has risen from c 1.5% to c 4.0% since the beginning of 2022.

So far this year, the majority of US share price weakness has been due to valuation compression. The forward P/E multiple of the Datastream US Index has declined by around 23% from 21.9x to 16.9x; however, with an increased chance of a recession, there is a risk of another step down in the US stock market if consensus earnings expectations prove to be too optimistic. With such an uncertain backdrop, investors should remain vigilant, and it would seem sensible to focus on high-quality companies with solid fundamentals that are trading on undemanding valuations.

Exhibit 1: Index performances and valuations

Total return performance of US and UK equities over 10 years (£)



Valuation metrics of Datastream indices (at 9 November 2022)

	Last	High	Low	10-year average	Last as % of average
US					
P/E 12 months forward (x)	16.9	23.5	12.3	17.6	96
Price to book (x)	3.6	4.6	1.9	3.1	118
Dividend yield (%)	1.8	2.7	1.2	1.9	92
Return on equity (%)	17.0	18.5	9.8	13.8	124
World					
P/E 12 months forward (x)	14.0	19.9	11.4	15.4	91
Price to book (x)	2.2	2.5	1.4	1.9	114
Dividend yield (%)	2.5	3.4	1.8	2.4	105
Return on equity (%)	13.3	14.0	7.2	10.9	121

Source: Refinitiv, Edison Investment Research

The fund managers: Tony DeSpirito, David Zhao and Lisa Yang

The managers' view: Expectation of economic weakness

DeSpirito, Zhao and Yang believe that the odds of a US recession have increased since the Federal Reserve started raising interest rates. The managers explain that the economic impacts of higher rates tend to occur within six to 24 months, so we are starting to see the effects of the first 25bp hike in March 2022. This also coincides with the lack of COVID-19-related fiscal support and higher inflation, meaning consumer demand is starting to weaken. While the Federal Reserve has indicated that it will continue to tighten monetary policy in a bid to bring inflation under control, how long this will last is unknown. The managers suggest an ideal outcome would be a soft economic landing, but this is incredibly difficult to achieve, and they say that the last successful soft landing was 20–30 years ago. While US inflation is starting to roll over, DeSpirito, Zhao and Yang say it is not happening fast enough – for example, energy, shipping and food costs remain elevated – hence, the odds of a recession are increasing.

The managers highlight that from an earnings perspective, there have been an increasing number of below-consensus announcements across a range of industries including FedEx Corporation

(transportation – its shares fell by more than 20% on the news), Carnival Corp (cruise lines), CarMax (used car retailer), Tesla (autos and clean energy), Nike (sports apparel), VF Corporation (apparel) and Ford Motor Company. Moving through Q422, they expect companies to guide down their earnings outlooks more aggressively. DeSpirito, Zhao and Yang comment that a silver lining could be if the Federal Reserve steps back from raising interest rates, which would likely lead to a stock market rally, but they are not willing to make that call. The managers are looking to take advantage of market opportunities but consider that stock prices are not yet washed out enough and they expect market volatility to continue.

DeSpirito, Zhao and Yang reiterate that we are starting to see higher interest rates take hold in the economy. Breaking the consumer down into five quintiles (one being the highest and five the lowest), they explain that until recently, there was pressure at the lower end (quintiles three to five) but now the impact is being felt in the higher cohorts. The managers comment that New York apartment sales have declined by 18%, indicating that economic weakness is trending up the chain, and note that since the beginning of 2022, 30-year mortgage rates have increased from c 3% to c 7%, and the last time they were this high was in Q101. DeSpirito, Zhao and Yang say this will take its toll on the economy with average monthly mortgage payments rising by hundreds of dollars. They expect a range of real estate pockets to roll over as there was increased demand for property in secondary markets due to people working at home during the pandemic.

The managers say that the consensus view is that there are now more things to worry about regarding the economy than at the beginning of 2022, and in such an environment, it is important to ensure that there is as much resilience as possible built into BRSA's portfolio as recession risk is higher. They comment that they are laser focused on company balance sheet quality and are undertaking recession analysis by modelling an economic downturn two-thirds as severe as during the global financial crisis to determine the potential financial impact on investee companies. DeSpirito, Zhao and Yang say it will be too late to conservatively position the portfolio if they wait for a recession, and conversely, it will be too late to position the fund more aggressively when there is clear evidence of an economic recovery. According to the managers, a potential outcome is that by mid- to end-2023, the Federal Reserve will start to acknowledge that its work is done, and monetary policy can ease. However, they suggest that it is likely that the central bank will overshoot in terms of raising interest rates. At which stage it will try to boost the economy by increasing the employment rate, but this is a delicate balancing act and has not been achieved before; hence, a soft landing looks unlikely.

Looking at the US stock market, DeSpirito, Zhao and Yang say the valuation of growth stocks has normalised. They explain that the highest quintile of growth stocks versus the market had two peaks: in the dot-com boom and during the COVID-19 pandemic, and now that valuations have normalised there are some very attractive opportunities in growth stocks. The managers are unsure why quality stocks are generally out of favour, suggesting they should not be so reasonably priced given the uncertain economic environment. DeSpirito, Zhao and Yang are focusing on companies with economic moats, strong balance sheets, robust cash flows and well-regarded management teams. They report that these stocks remain inexpensive versus the broader market.

Current portfolio positioning

At the end of September 2022, BRSA's largest 10 holdings made up 28.0% of the portfolio, which was a lower concentration compared with 31.3% 12 months earlier; five positions were common to both periods. Around 18% is held in non-North American listed companies.

Exhibit 2: Top 10 holdings (at 30 September 2022)

Company	Country	Sector	Portfolio weight %	
			30 September 2022	30 September 2021*
Verizon Communications	US	Communication services	3.1	2.4
Cisco Systems	US	Information technology	3.0	4.4
Willis Towers Watson	US	Financials	2.9	N/A
Sanofi	France	Healthcare	2.9	N/A
Laboratory Corporation of America	US	Healthcare	2.8	N/A
Wells Fargo	US	Financials	2.8	3.1
Cigna	US	Healthcare	2.7	N/A
Cognizant Technology Solutions	US	Information technology	2.6	3.2
AstraZeneca	UK	Healthcare	2.6	3.5
Pepsico	US	Consumer staples	2.6	N/A
Top 10 (% of portfolio)			**28.0**	**31.3**

Source: BRSA, Edison Investment Research. Note: *N/A where not in end-September 2021 top 10.

As shown in Exhibit 3, over the 12 months to end-August 2022, the largest changes in BRSA's geographic exposure were higher weightings in the UK (+4.6pp) and the US (+2.9pp) and lower weightings in Canada (-2.9pp) and Norway (-1.9pp).

Exhibit 3: Portfolio geographic exposure (% unless stated)

	Portfolio end-September 2022	Portfolio end-September 2021	Change (pp)
US	79.8	77.0	2.9
UK	8.1	3.5	4.6
Japan	3.8	4.5	(0.8)
France	2.9	3.8	(0.9)
Australia	2.1	1.3	0.8
Canada	1.9	4.8	(2.9)
Switzerland	1.0	2.0	(1.0)
Denmark	0.5	1.2	(0.7)
Norway	0.0	1.9	(1.9)
	100.0	**100.0**	

Source: BRSA, Edison Investment Research. Note: Rebased for net current assets/liabilities.

Over the 12 months to end-September 2022, there were higher weightings in energy (+4.1pp) and healthcare (+2.6pp), and lower weightings in financials (-2.9pp), communication services (-1.9pp) and utilities (-1.6pp).

Exhibit 4: Portfolio sector exposure versus reference index (% unless stated)

	Portfolio end-Sept 2022	Portfolio end-Sept 2021	Change (pp)	Index weight	Active weight vs index (pp)	Trust weight/ index weight (x)
Financials	21.6	24.5	(2.9)	19.4	2.2	1.1
Healthcare	20.0	17.3	2.6	16.1	3.9	1.2
Information technology	13.5	14.4	(0.9)	7.8	5.7	1.7
Consumer discretionary	9.6	10.5	(0.9)	10.1	(0.5)	0.9
Energy	8.6	4.5	4.1	8.9	(0.3)	1.0
Industrials	5.6	5.6	0.0	12.6	(7.0)	0.4
Materials	5.3	4.2	1.1	3.1	2.2	1.7
Consumer staples	5.1	5.0	0.1	7.2	(2.1)	0.7
Communication services	4.9	6.8	(1.9)	4.4	0.6	1.1
Utilities	4.4	6.0	(1.6)	5.7	(1.3)	0.8
Real estate	1.2	1.0	0.2	4.7	(3.5)	0.3
	100.0	**100.0**		**100.0**		

Source: BRSA, Edison Investment Research. Note: Rebased for net current assets/liabilities.

The trust's largest overweight exposure at end-September 2022 was technology (+5.7pp). Companies held are well-established names with strong balance sheets and cash flow generation with products that are heavily embedded in the corporate world, such as Cisco Systems, Microsoft Corporation and Oracle Corporation. DeSpirito, Zhao and Yang say that these firms' growth profiles hold up relatively well during periods of economic weakness given their recurring revenue streams and strong management teams. BRSA is also overweight healthcare stocks (+3.9pp) as the managers prefer this sector to other defensive areas of the market. They explain that consumer staple and utility stocks are trading at an average 20% premium to the market, as there is a general perception of safety, so these names have been bid up by investors, whereas, on average,

healthcare stocks are trading at a discount. Fundamentals within this sector are favourable supported by global demographic trends. There had been pressure on medtech stocks during COVID-19 as their products are widely used in elective procedures, but now volumes are rebounding.

BRSA remains overweight the financials sector (+2.2pp), although exposure has been reduced. The emphasis is on high-quality money-center banks, which have a range of businesses including wealth management, trading and investment banking. Their net interest margins are increasing in the rising interest rate environment as loans are repriced faster than deposits. In the past, bank credit losses have tended to spike during a recession, but now their Tier 1 capital ratios are higher, and their balance sheets are stronger, so they are better positioned to weather an economic storm. Within the portfolio, Wells Fargo is an example of a self-help story. It has had to spend more than its peers in recent years to get back on track following a series of scandals. The company has now worked through most of its issues and can think about reducing costs. BRSA's managers are avoiding regional banks as they are less diversified and loan losses are likely to have a more significant negative impact on their balance sheets than those of money-center banks.

The trust remains underweight the industrials (-7.0pp) and real estate (-3.5pp) sectors on valuation grounds, but DeSpirito, Zhao and Yang also consider fundamentals in the real estate sector are unattractive. There has been overbuilding and the shift from bricks and mortar to online retailing has increased the supply/demand imbalance. Given the 90% payout ratios, investors flocked to real estate stocks seeking yield during a period of low interest rates. Now interest rates have started to rise there have been asset allocation shifts from equities to fixed income securities and the managers expect this trend to accelerate.

DeSpirito, Zhao and Yang highlight a few recent changes in BRSA's portfolio. New positions include **JPMorgan Chase & Co**, which has an attractive valuation. The managers consider that the company has a better business mix now than at any time in its history, and also has a very strong management team. **Humana** is a health maintenance organisation, which is one of the areas favoured by DeSpirito, Zhao and Yang within the healthcare sector. They are less keen on pharma stocks due to the prospect of further drug pricing legislation. **Axalta Coatings Systems** is heavily exposed to the automotive sector, where the managers expect production to improve from recessionary levels and supply chain disruptions to be self-correcting.

Recent complete disposals include **Zimmer Biomet Holdings**, a medical device business where DeSpirito, Zhao and Yang think the company's opportunity set is no longer as robust as it was. **Warner Bros. Discovery** has made a series of acquisitions, the managers are unimpressed with the company's leadership team, and they consider the firm is less well-positioned with regards to its streaming assets compared with its peers. Home improvement retailer **Lowe's Companies** business had a considerable tailwind during COVID-19 and this benefit is now waning.

Performance: Some giveback over the last six months

Exhibit 7 shows BRSA's relative performance. The most relevant period is SC, which is since the trust's change in strategy at the end of July 2021. Since then, BRSA has underperformed the reference index.

The last six months have been a little challenging. Negative contributors include not holding oil majors Chevron Corporation and ExxonMobil Corporation, whose share prices have been supported by elevated commodity prices and BRSA's position in Dentsply Sirona, which has now been sold. While the volume of dental procedures continues to recover from COVID-19-affected weakness, this company's business is more economically sensitive compared with other parts of

the healthcare sector. It is also involved in some of the lower growth areas of the dental industry such as metal braces.

Positions that have made a positive contribution to the trust's performance include holdings in energy companies EQT Corporation, Hess Corporation, Sempra Energy and Australia-listed Woodside Energy Group, along with American multinational managed healthcare and insurance company Cigna Corporation.

It is worth highlighting BRSA's significant outperformance versus the broad UK market over the last one, three and five years, although it has done less well versus the US bellwether S&P 500 Index, whose performance has been dominated by growth stocks.

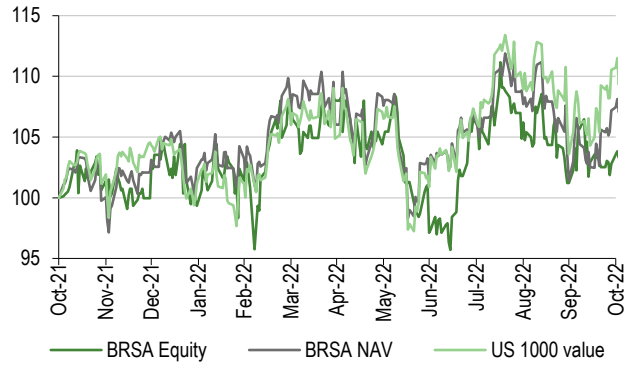
Exhibit 5: Five-year discrete performance data

12 months ending	Share price (%)	NAV (%)	US 1000 value (%)	S&P 500 (%)	CBOE UK All Cos (%)
31/10/18	10.3	6.6	7.1	11.6	(1.6)
31/10/19	15.0	8.5	9.8	12.9	6.9
31/10/20	(17.9)	(8.8)	(7.5)	9.8	(20.2)
31/10/21	42.4	35.9	35.6	34.8	36.0
31/10/22	3.6	7.4	10.7	1.7	(1.6)

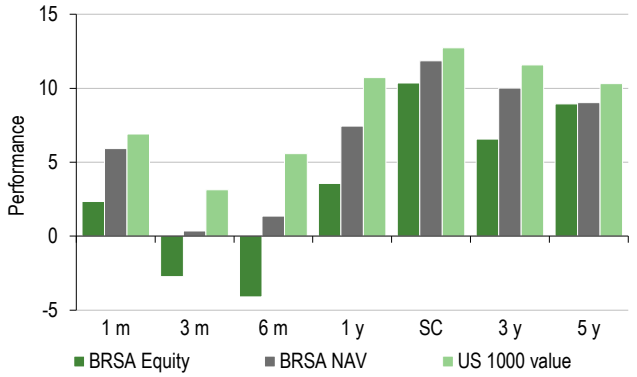
Source: Refinitiv. Note: All % on a total return basis in pounds sterling.

Exhibit 6: Investment trust performance to 31 October 2022

Price, NAV and reference index total return performance, one-year rebased



Price, NAV and reference index total return performance (%)



Source: Refinitiv, Edison Investment Research. Note: Three- and five-year performance figures annualised. SC = since change in strategy on 30 July 2021.

Exhibit 7: Share price and NAV total return performance, relative to indices (%)

	One month	Three months	Six months	One year	SC	Three years	Five years
Price relative to US 1000 value index	(4.3)	(5.7)	(9.2)	(6.5)	(2.6)	(12.9)	(6.0)
NAV relative to US 1000 value index	(0.9)	(2.7)	(4.0)	(3.0)	(1.0)	(4.1)	(5.7)
Price relative to S&P 500 Index	(2.4)	(2.2)	(6.9)	1.9	4.3	(19.6)	(19.0)
NAV relative to S&P 500 Index	1.1	0.9	(1.7)	5.7	6.1	(11.5)	(18.7)
Price relative to CBOE UK All Cos	(1.0)	1.7	1.1	5.3	11.4	13.4	36.7
NAV relative to CBOE UK All Cos	2.5	4.9	6.8	9.2	13.3	24.7	37.1

Source: Refinitiv, Edison Investment Research. Note: Data to end-October 2022. Geometric calculation.

Peer group comparison

BRSA is one of seven funds in the AIC North America sector that follow a variety of different mandates (both the Canadian companies have an allocation to US equities). Its distinguishing features are a relatively concentrated portfolio offering an attractive level of income and capital appreciation potential, premium ESG scores and lower carbon emissions. BRSA's closest peer is abrdn's North American Income Trust, whose portfolio is split between US equities (c 90%) and Canadian equities and cash (c 10%). Of the two funds, BRSA's NAV total returns are the highest over three and five years.

Compared with the whole sector, the trust ranks fourth out of seven funds over the last year, sixth out of seven funds over the last three years, fifth out of six funds over the last five years and third out of five funds over the last decade. BRSA has the second-lowest discount in the sector and an ongoing charge that is modestly above average, ranking fourth. It has a below-average level of gearing and the second-highest dividend yield, which is 1.6pp above the mean.

Exhibit 8: AIC North America sector at 9 November 2022*

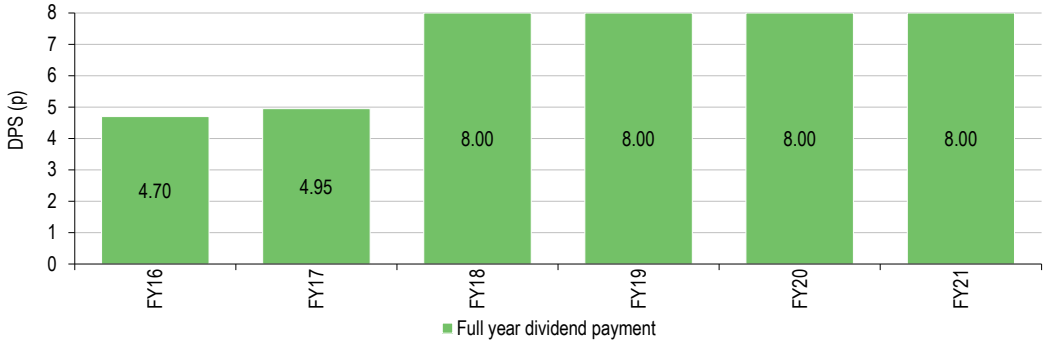
% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Discount (cum-fair)	Ongoing charge	Perf. fee	Net gearing	Dividend yield
BlackRock Sustainable American Income	160.5	5.3	30.1	53.3	221.6	(3.6)	1.1	No	103	4.0
Baillie Gifford US Growth	476.7	(47.0)	44.5			(14.3)	0.6	No	107	0.0
Canadian General Investments	437.4	(14.4)	57.8	81.1	199.9	(33.0)	1.4	No	114	2.9
JPMorgan American	1,384.1	(3.4)	51.6	84.2	353.5	(0.2)	0.4	No	109	1.0
Middlefield Canadian Income	126.2	5.9	39.8	53.5	124.2	(15.7)	1.2	No	118	4.3
North American Income Trust	438.9	11.0	25.4	45.7	227.8	(8.7)	0.9	No	106	3.2
Pershing Square Holdings	5,593.2	6.4	126.1	238.4		(33.4)	1.6	Yes	104	1.4
Simple average (7 funds)	**1,231.0**	**(5.2)**	**53.6**	**92.7**	**225.4**	**(15.6)**	**1.0**		**109**	**2.4**
BRSA rank in peer group	**6**	**4**	**6**	**5**	**3**	**2**	**4**		**7**	**2**

Source: Morningstar, Edison Investment Research. Note: *Performance at 8 November 2022 based on ex-par NAV. TR = total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

Dividends: Partly funded from distributable reserves

BRSA's earnings per share in H122 (ending 30 April) were 1.82p, which was 28.9% lower than 2.56p in H121; changes to the investment mandate and the decision to stop writing covered call options have negatively affected the trust's level of income. So far in FY22, three interim dividends of 2.0p per share have been paid, which were in line year-on-year. At the end of H122 the trust had c £124.7m in distributable reserves, which are equivalent to around 19x the last annual dividend payment. Based on its current share price, BRSA offers a 4.0% dividend yield.

Exhibit 9: Dividend history since FY16



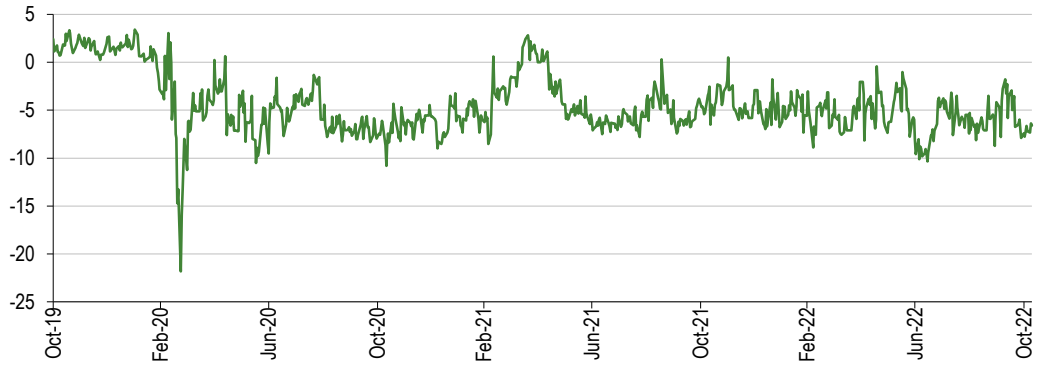
Source: Bloomberg, Edison Investment Research

Valuation: Continuing to trade in a narrow range

BRSA is trading at a 6.6% discount to cum-income NAV, which compares to a range of a 0.5% premium to a 10.4% discount over the last 12 months. It is not dissimilar to the average discounts of 5.3%, 4.5%, 3.1% and 3.6% over the last one, three, five and 10 years respectively.

Renewed annually, BRSA has the authority to repurchase up to 14.99% and allot up to 10% of its share capital. In November 2020, 190k shares were repurchased at an average 6.8% discount, costing c £0.3m, while in April 2021, 445k shares were reissued from treasury at an average 1.7% premium to NAV for a gross consideration of c £0.9m. No further shares have been repurchased or reissued since then.

Exhibit 10: Share price discount to NAV (including income) over three years (%)



Source: Bloomberg, Edison Investment Research

Fund profile: Focus on income and ESG

BRSA was launched on 24 October 2012 and is listed on the Premium Segment of the London Stock Exchange. It is managed by three of BlackRock's US income & value investment team: Tony DeSpirito (CIO, US fundamental equities), David Zhao (co-director of research) and Lisa Yang (consumer discretionary/staples specialist). There are more than 30 people in the US income & value team, which has c $60bn of assets under management. BRSA's managers primarily invest in a diversified portfolio of North American equities, focusing on large- and mid-cap companies that pay and grow their dividends. To mitigate risk, at the time of investment, a maximum 10% of gross assets may be invested in a single investment, a maximum 25% in non-North American companies, and a maximum 35% in any one sector. The managers also take firms' ESG characteristics into account seeking to deliver a superior ESG outcome compared with the reference index in terms of a better ESG score and a lower carbon emissions intensity score. Foreign currency is not hedged as a matter of course, but the managers may employ specific currency hedging.

Investment process: ESG is an integral element

There are three main elements to BRSA's investment process:

Idea generation – the managers aim to identify the best ESG and alpha opportunities from an investment universe primarily made up of North American large- and medium-cap equities, although up to 25% of the portfolio can be invested in liquid non-North American companies. ESG exclusion screens are used to narrow the investment universe. The managers are able to leverage the best fundamental and thematic ideas from BlackRock's US income & value platform to generate a pipeline and prioritise the research agenda.

Fundamental research – this involves assessing the materiality of a firm's ESG and sustainability factors and evaluating its important earnings drivers, along with engaging with company managements on business and ESG issues. A research document is prepared to illustrate the investment thesis and is discussed within the investment team. The managers evaluate how and over what time frame they expect their research insights to be reflected in a company's share price.

Portfolio construction – the fund typically has 30–60 high-conviction positions. Gearing of up to 20% of NAV is permitted, but is likely to be in a 0–10% range, with 5% seen as a neutral level. There are clear buy and sell disciplines for both fundamental and ESG considerations. Portfolio risks and exposures are carefully monitored, with an emphasis on stock-specific risk. The fund is diversified by sector, industry and style factors.

How ESG is integrated into the investment process

DeSpirito, Zhao and Yang seek to build a high-conviction portfolio of attractively priced, high-quality dividend-paying companies that are classified as either: ESG leaders – best-in-class companies that effectively manage environmental, social and governance factors to benefit all stakeholders such as Cisco Systems; ESG improvers – companies showing demonstratable progress on their ESG journey, where active engagement may lead to improving ESG practices and more sustainable outcomes such as Wells Fargo; and 'sustainability enablers' – firms advancing the transition to sustainable solutions, such as companies contributing to greater energy efficiency and a lower carbon footprint.

Outright exclusions from the fund include businesses manufacturing controversial weapons or civilian firearms, fossil fuel miners (thermal coal and tar sands) and tobacco companies. BRSA's resulting portfolio has a premium ESG score and lower carbon emissions intensity than the reference index, as measured by MSCI, which is a leading external ratings agency.

Exhibit 11: Portfolio characteristics at 31 July 2022

	Portfolio	Reference index	Difference (%)
Number of holdings	55	857	(93.6)
Gross dividend yield (%)	2.1	2.1	0.0
Return on equity (%)	11.9	12.6	(0.7)
Forward EPS growth (%)	26.6	35.2	(8.6)
Forward P/E multiple (x)	13.1	13.5	(3.0)
Non-US exposure (%)	19.4	0.2	19.2
MSCI ESG score (adjusted)	6.99	6.15	13.7
MSCI environmental score	7.27	6.68	8.8
MSCI social score	5.19	4.90	5.9
MSCI governance score	6.08	5.69	6.9
Carbon emissions intensity (sales)*	126.5	257.9	(51.0)

Source: BRSA, Edison Investment Research. Note: *Metric tons/$m sales.

As shown in Exhibit 11, at 31 July 2022, compared with the reference index, BRSA's portfolio had the same dividend yield, a modestly lower return on equity, a lower forward earnings growth and a lower forward P/E multiple. The portfolio had higher ESG scores in all three of the subsectors – environmental, social and governance, while its carbon emissions intensity is around half that of the reference index.

Gearing

Gearing of up to 20% of NAV is permitted but is typically in a range of 0–10%, with 5% deemed a neutral level. At end-September 2022, BRSA had net gearing of 4.0%.

Fees and charges

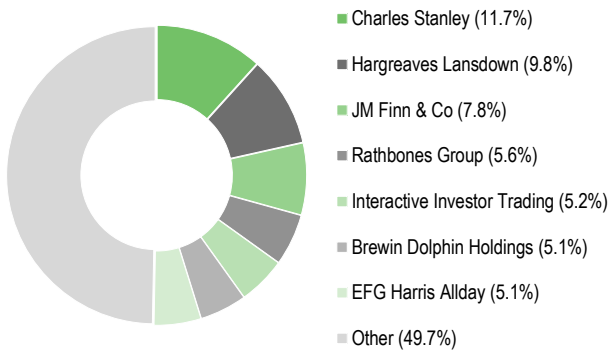
BlackRock Investment Management (UK) is paid an annual management fee of 0.70% of BRSA's NAV (0.75% before 30 July 2021). This is allocated 75% to the capital account and 25% to the revenue account. In FY21, the trust's ongoing charges were 1.06%, which was in line with FY20. The board anticipates that this will decline to less than 1.00% in FY22.

Capital structure

BRSA is a conventional investment trust with one class of share. There are 80.2m ordinary shares in issue. At end-FY21, 96.4% of the trust's shares were held by banks or nominees (including retail

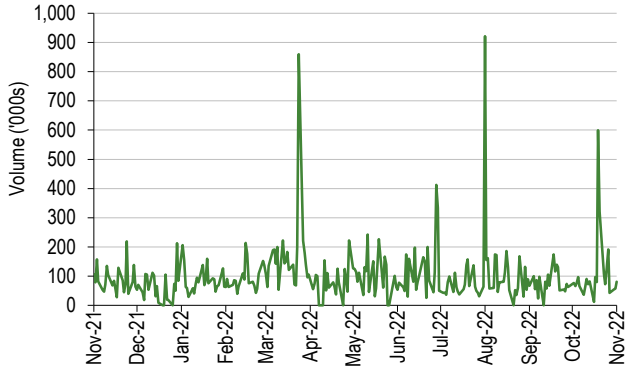
investor platforms), which was a modest decrease compared with 98.1% at end-FY20. BRSA's average daily trading volume over the last 12 months was c 105k shares.

Exhibit 12: Major shareholders



Source: Bloomberg, at 31 October 2022

Exhibit 13: Average daily volume



Source: Refinitiv. Note: 12 months to 9 November 2022.

The board

Exhibit 14: BRSA's board of directors at end-FY21

Board member	Date of appointment	Remuneration in FY21	Shareholdings at end-FY21
Simon Miller (chairman)	7 September 2012	£42,000	38,094
Christopher Casey	7 September 2012	£35,000	19,047
Andrew Irvine*	7 September 2012	£29,000	38,094
Melanie Roberts	1 October 2019	£29,000	0
Alice Ryder	12 June 2013	£29,000	9,047
David Barron	22 March 2022	£0	0

Source: BRSA. Note: *Retired at 22 March 2022 AGM.

Simon Miller retired at the end of BRSA's FY22 (31 October). The new chair is Alice Ryder. Melanie Roberts purchased 10,000 BRSA shares in June 2022 and David Barron purchased 5,000 shares in August 2022.

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