EDISON

Murray Income Trust

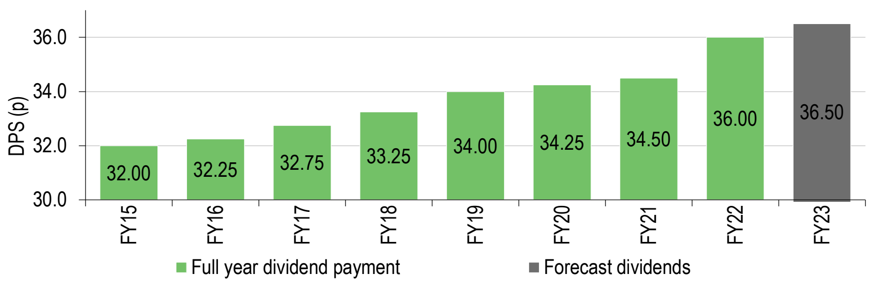
Attractive income at a discount

Investment trusts
UK equity income

30 November 2022

Murray Income Trust (MUT) invests mainly in UK equities and aims to provide a high and growing income, combined with capital growth. The trust is meeting these three objectives. The FY23 dividend is expected to be at least 36.5p, putting it on track to deliver its 50th consecutive year of dividend growth. This represents a prospective yield of 4.4%. MUT has underperformed during this year's market rotation away from the quality companies favoured by manager Charles Luke. However, the trust has slightly outpaced the market over the long term on an NAV basis; in the 10 years ended October 2022, MUT's average annualised NAV return was 6.7%, compared to an average market return of 6.3%.

Maintaining a long-term record of growing dividends



Source: Refinitiv, Edison Investment Research. Note: FY23 forecast dividend is a minimum, based on a November 2022 board announcement of three interim dividends each of 8.25p per share and a fourth interim dividend of 'at least 11.75p' per share.

Why consider UK equities now?

Following this year's sell-off, UK equities are, arguably, even more attractively valued relative to other major markets (see discussion on page 3). This suggests that good-quality companies are likely to continue attracting takeover bids by private equity investors and competitors, including foreign investors, who are underweight the UK market. Furthermore, the UK market's dividend yield compares favourably with other markets, and to other asset classes.

The analyst's view

- MUT offers investors a regular, predictable and rising income, delivered via quarterly dividend payments. Investors attracted by its 49-year record of successive dividend increases may be reassured by the trust's capacity to use its reserves, if necessary, to maintain its dividend growth record.
- Investors seeking broad exposure to the UK market, at a very competitive fee, may be attracted by the fact that MUT provides access to a well-diversified portfolio of high-quality companies, including vibrant mid-caps, run by an experienced manager with a track record of outperformance.
- MUT's share price discount is currently at historically wide levels – wider than the average of its UK equity income sector peers – providing a potentially attractive entry point to new investors. There is scope for the discount to narrow as and when the trust's performance returns to form and/or investor sentiment towards the UK market improves.

Price Ord.		**833.0p**
Market cap		**£963.7m**
AUM		**£1,041.0m**
NAV*		894.2p
Discount to NAV		6.8%

*Including income. At 28 November 2022.

Yield		4.4%
Shares in issue		115.7m
Code Ord/A-share		MUT
Primary exchange		LSE
AIC sector		UK Equity Income
52-week high/low	934.0p	715.0p
NAV* high/low	995.3p	804.4p

*Including income.

Gearing

Net gearing at 25 November 2022	6.1%

Fund objective

Murray Income Trust (MUT) aims for a high and growing income combined with capital growth through investment in a portfolio principally of UK equities. Its investment policy is to invest in companies that have potential for real earnings and dividend growth, while also providing an above-average portfolio yield. The emphasis is on the management of risk and the absolute return from the portfolio. MUT measures its performance versus the broad UK stock market.

Bull points

- 49 consecutive years of dividend growth and an attractive prospective yield, at a competitive fee.
- An experienced manager with a well-established track record of outperformance of the market.
- Scope for the discount to narrow when performance improves.

Bear points

- A quality focus means the trust underperforms during value stock rallies.
- MUT's gearing level increases its vulnerability to any market downturn.
- The UK market may remain out of favour with investors.

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Edison profile page

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NOT INTENDED FOR PERSONS IN THE EEA

The fund managers: Charles Luke and Iain Pyle

The managers' view: Still seeing good value in UK equities

Since our last note in May 2022, MUT's manager, Charles Luke, has become less positive about the global economic and market environment, for a number of reasons. The war in Ukraine has added to already significant inflation pressures and escalated geopolitical tensions to their highest level in decades. The aggressive response of the US Federal Reserve and other major central banks to rising inflation has shocked investors and ensured that global growth will be slower than previously anticipated.

The UK's growth prospects have been further dampened by recent, unusually high levels of political instability: political scandal that eventually drove one prime minister from office was followed by a period of policy inertia during the ensuing leadership contest, at a time when many households and businesses were seeking help to cope with the cost of living crisis and rising mortgage rates. The successful leadership contender's radical policy agenda was so poorly received it seriously destabilised UK bond and currency markets and forced her to resign after only weeks in office. The new government, under Prime Minister Rishi Sunak, has significantly tightened fiscal policy, which, combined with higher interest rates, will almost certainly drive the UK economy into recession next year.

Luke views this gloomy and uncertain environment as especially challenging for investors. Since the beginning of the year, rising interest rates have triggered a major rotation in global equity markets into cyclical and value stocks, at the expense of the technology and other high-growth stocks whose valuations depend on long-term cash flows, which are diminished by higher rates. The share prices of these growth stocks have fallen sharply, and the valuations of the kind of high-quality stocks Luke favours have also been caught in this sell-off, and the manager believes it is difficult to judge just how much bad news is priced into UK markets at current levels, or when the investment environment may improve.

However, if the near-term economic and market backdrop has deteriorated since our last note, Luke's assessment of the UK equity market's long-term prospects is as upbeat as it was then, and he believes the case for investment in UK equities remains strong. Firstly, UK equity valuations are 'compelling versus other markets, at the headline level and across sectors' he says. Indeed, they are even more attractive following the past year's sell-off. The manager further cites that the UK is now trading at a price earnings (P/E) ratio of c 9x, 15–20% cheaper than the world market's P/E of 11x (adjusted for sectoral differences), well above the UK's long-term discount of around 13.0%. In addition, Luke argues that the UK market offers investors access to global growth opportunities through companies with strong competitive advantages, while Britain's world class standards of corporate governance provide investors with a high level of confidence in the market. And he expects demand for UK equities to be supported over time by international investors, who remain significantly underweight this market.

In fact, Luke believes market conditions are now 'highly conducive' to merger and acquisition activity and he expects to see a continuation of the record takeover activity of recent years. In his view, global private equity companies tend to target the same kinds of quality companies, with strong cash flows and promising growth prospects, that MUT favours. Several of MUT's portfolio holdings have already been subject to takeover activity, including Sanne, an asset administrator, John Laing, an infrastructure management company, and most recently Euromoney, a stock exchange and financial data company in the process of being acquired by Becketts Bidco, a private equity consortium. With many other quality businesses now looking oversold, the manager would not be surprised to see other portfolio holdings targeted in future, providing him with scope to sell the target stock at an appealing price, which is usually bolstered by the glare of publicity related to the takeover, and switch into other interesting investment opportunities priced at more attractive levels.

Luke also believes equity income remains attractive relative to the income on offer from other asset classes, and that UK dividend yields remain at an appealing premium to those in other regional equity markets. Although the UK economy's near-term outlook is poor, the manager draws comfort from the fact that 80% of MUT's portfolio income is sourced from abroad, so the portfolio's income prospects are not strongly aligned with the fortunes of the domestic UK economy. In fact, any further sterling weakness sparked by a deterioration in the UK economy would boost the value of the portfolio's overseas income, as it has done over the past year.

Luke is therefore 'very comfortable' maintaining his long-term focus on investments in high-quality UK companies capable of delivering sustainable earnings and dividend growth, and he is confident that his strategy will ensure that MUT keeps delivering on its objectives of high and growing income, combined with capital growth. And with MUT's share price presently trading at a historically wide discount to NAV of around 7%, in Luke's view, this may be a particularly opportune time for investors who share his optimism about the long-term prospects for UK equities to gain exposure. In fact, Luke has recently added to his own shareholding in the trust.

Asset allocation

Investment process: A focus on income growth

Following an internal re-organisation at abrdn, MUT's managers Charles Luke and Iain Pyle are now members of a 20-person UK and European Equity team, which provides detailed coverage of the UK's 350 listed companies. This change in structure is intended to improve the team's focus and efficiency. For example, analysts now have responsibility for the coverage of their sector across Europe, an arrangement that allows the team as a whole to more easily identify investment opportunities both within and across markets. Luke and Pyle receive further support from abrdn's UK smaller companies team and from the firm's global research network. Investment ideas are tested against a quality filter, which includes assessments of the attractiveness of the industry, the durability of the company's business model, its financial strength, management capability and ESG risks. All ideas are subject to rigorous team scrutiny and debate. Fundamental research is supplemented by regular company meetings and ongoing dialogue with investee companies.

Luke and his team seek undervalued companies with high margins and return on equity, low levels of net debt, and above-average earnings and dividend growth potential over the long term. MUT's portfolio typically comprises between 50 and 70 stocks, which are held for an average of five years, to give holdings time to realise their potential value. Portfolio turnover is therefore low, although the managers will exit a stock quickly if a company's fundamentals deteriorate. All positions are kept under continuous review, supported by the UK equity team's daily meetings to discuss company news and outlook changes.

Diversification is crucial to MUT's approach. About 30% of the portfolio is invested in mid- and small-cap companies, while overseas stocks may represent up to 20% of holdings. This provides diversification by size and geography beyond that of some other UK equity income funds. Additionally, the team seeks to diversify holdings by income and capital (with a limit on each of 5% per holding) and by sector. The three largest sector weightings ('sector' is the third tier as defined by Industry Classification Benchmark (ICB) classifications, after industry and super-sector) are limited to 50% of the portfolio, and the top five holdings in aggregate may not exceed 40% of the total. Overseas holdings also provide scope for MUT to benefit from currency gains during periods of sterling weakness.

The team uses option writing to augment the investment process in two ways. Firstly, it allows the team to optimise exposure to individual holdings, mainly via the writing of call options, to potentially reduce exposure to stocks where the managers would be happy to take some profits at a given price. Additionally, option premium income provides a modest, uncorrelated supplement to portfolio income and also gives the manager some ‘headroom’ to invest in attractive quality stocks with lower dividends.

ESG considerations

ESG considerations are a key component of abrdn’s philosophy, based on the view that this helps foster stronger long-term performance and mitigate risk. MUT’s managers dedicate significant time and resources to understanding the ESG characteristics of the companies in which they invest. They are assisted in this task by the expertise and proprietary research of abrdn’s more than 40-strong, in-house ESG team. The team engages with companies on a variety of ESG issues including board diversity, experience and expertise, climate change and child labour, to ensure that they are acting in the long-term interests of shareholders and broader society. As one example of very positive behaviour that augments the investment case for Novo Nordisk, a pharmaceutical company, Luke is very supportive of this company’s programme to provide access to medicines to 1.5 million people in low-income countries.

MUT’s approach to ESG considerations is dynamic rather than static. The team’s ESG conclusions can change if the inputs change. In the company’s FY22 annual report, the chairman cites as an example Russia’s invasion of Ukraine, which in some instances may have boosted the importance of the social factor of security and personal safety within ESG assessments, or increased the priority placed on energy security, relative to concerns about CO_2 emissions. Such shifts may result in a new conclusion on whether or not to hold an energy stock. The trust holds a Morningstar Sustainability Rating of four out of five.

Current portfolio positioning

Exhibit 1: Top 10 holdings (as at 31 October 2022)

Company	Country	Industry	Portfolio weight %	
			31 October 2022	31 October 2021*
AstraZeneca	UK	Healthcare	6.1	5.1
Diageo	UK	Consumer goods	5.2	4.8
Unilever	UK	Consumer goods	4.6	2.5
RELX	UK	Media	4.4	3.7
TotalEnergies	France	Oil & gas producers	3.8	2.5
SSE	UK	Utilities	3.2	2.9
BP	UK	Oil & gas producers	3.2	N/A
BHP	Australia	Metals & mining	3.1	N/A
Anglo American	UK	Metals & mining	2.7	N/A
Aveva	UK	IT - Software	2.5	N/A
Top 10 (% of portfolio)			**38.8**	**31.8**

Source: MUT, Edison Investment Research, Bloomberg, Morningstar. Note: *N/A where not in end-October 2021 top 10.

In Luke’s view, one positive upshot of the past year’s style rotation away from high-quality stocks is that it has created interesting investment opportunities, as the sell-off in many quality stocks looks overdone given that their fundamentals remain strong. During the financial year ended 30 June 2022, the manager capitalised on these opportunities by adding several new names to the portfolio at attractive prices.

In addition to the acquisitions mentioned in our last note, the manager opened a position in London Stock Exchange, a leading exchange group business he likes due to its high barriers to entry, recurring revenue base and strong cash flow generation. He also purchased Oxford Instruments, which produces advanced instrumentation equipment for use in a range of high-tech applications, including the production of semiconductors. The investment case for this acquisition is based on the company's leading technology, strong order book, net cash balance sheet and high return on capital. The number of MUT's overseas holdings (Exhibit 2) was increased by two, to 13, with the acquisition of French luxury goods producer LVMH, and in September the addition of Roche, aSwiss pharmaceutical company with a healthy balance sheet and a strong drugs pipeline, which Luke believes is undervalued by the market.

Exhibit 2: MUT's overseas holdings as at 31 October 2022

Company	Country	Sector	% of portfolio end October 2022
TotalEnergies	France	Oil & gas producers	3.9
Novo-Nordisk	Denmark	Pharmaceuticals & biotechnology	2.0
Nordea	Finnish	Financials	1.5
OCBC	Singapore	Financials	1.5
Microsoft	USA	Software & computer services	1.2
Kone	Finland	Industrial engineering	1.2
Nestlé	Switzerland	Food producers	1.0
LVMH	France	Luxury goods	1.0
Roche	Switzerland	Pharmaceuticals	0.9
Telenor	Norway	Mobile telecommunications	0.8
VAT Group	Switzerland	Industrial engineering	0.7
Mowi	Norway	Industrial engineering	0.5
Accton Technology	Taiwan	Telecommunications equipment	0.5
Total non-UK exposure			**16.7**

Source: MUT, Edison Investment Research

The manager also added to existing positions in a number of names including Unilever, a UK household and personal products supplier, Experian, a credit rating agency, Hiscox, an insurer, and Kone, a Finnish producer of lifts and escalators, which Luke believes are 'all good quality companies at depressed valuations'.

Recent portfolio sales have included the closure of a position in The Weir Group, a specialist equipment supplier. This is a cyclical business whose high leverage suggests it will struggle as UK interest rates rise, and growth slows. Luke also sold Sirius, a commercial property real estate investment trust, for similar reasons, while takeover bids prompted the sale of two names: Euromoney, discussed above, and Countryside Partnerships, a housebuilder that is the subject of a bid by its rival Vistry. This company was vulnerable to takeover interest as its failure to meet build targets has put the share price under severe pressure and led to the departure of the CEO. Luke used the proceeds of this latter disposal to switch into Vistry, which has a more attractive dividend yield. The manager also trimmed a position in Nestle, the Swiss food giant, with the proceeds used to fund the top-up to Unilever, which offers a higher dividend yield, at a more attractive valuation.

At the end of October 2022, MUT's largest overweight exposure was to technology (Exhibit 3). This overweight has increased modestly over the past year, as has the overweight to healthcare, while an overweight to utilities is unchanged. The portfolio has maintained an existing overweight to industrials, but it is smaller than a year ago, while the portfolio's exposure to real estate is now benchmark neutral, compared to a previous overweight. These reduced exposures to industrials and real estate are in part a reflection of the deteriorating economic outlook. MUT's heaviest underweight was to energy, due in part to quality and ESG considerations, although this underweight is less significant than previously as the sector has benefited from rising prices. The portfolio's significant underweight to financials was reduced slightly, as was the lesser underweight to consumer staples. However, the manager has increased the underweight to consumer discretionary, as a result of expected weakness in discretionary expenditure as rising prices and higher mortgage payments curtail consumers' spending power.

Exhibit 3: Portfolio sector exposure* versus benchmark (% unless stated)

	Portfolio end-October 2022	Portfolio end-October 2021	Change (pp)	Index weight	Active weight vs index (pp)	Trust weight/ index weight (x)
Financials	17.5	16.7	0.8	21.4	(3.9)	0.8
Consumer staples	14.1	12.7	1.4	16.4	(2.3)	0.9
Industrials	14.0	17.3	(3.3)	11.0	3.0	1.3
Healthcare	14.0	11.7	2.3	11.2	2.8	1.2
Consumer discretionary	8.9	10.2	(1.3)	10.5	(1.6)	0.8
Basic materials	7.9	8.3	(0.4)	7.9	(0.0)	1.0
Energy	7.3	4.2	3.0	12.4	(5.1)	0.6
Utilities	6.5	6.5	0.1	3.4	3.1	1.9
Technology	5.9	4.4	1.5	1.3	4.6	4.5
Real estate	2.6	6.5	(3.9)	2.6	(0.0)	1.0
Telecommunications	1.3	1.5	(0.2)	1.8	(0.5)	0.7
	100.0	**100.0**		**100.0**		

Source: MUT, Edison Investment Research. Note: *Adjusted for cash.

Luke continues to write a modest amount of options to supplement and diversify portfolio income. About 80% of these positions are covered calls and the remainder are puts, which together usually provide about 5% of total portfolio income. At the moment, option positions include covered calls on two pharmaceutical manufacturers, Novo Nordisk and Astra Zeneca, on SSE, a conventional utilities company, and on Drax, a renewable energy producer, all of which have performed strongly.

Performance: Competitive, risk-adjusted returns

Exhibit 4: Five-year discrete performance data

12 months ending	Share price (%)	NAV (%)	CBOE UK All Companies (%)	MSCI AC World (%)
31/10/18	(3.1)	(2.5)	(1.6)	3.9
31/10/19	22.2	15.2	6.9	11.8
31/10/20	(12.6)	(11.3)	(20.2)	5.5
31/10/21	31.2	33.7	36.0	30.0
31/10/22	(10.9)	(10.5)	(1.6)	(4.3)

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

In the six months to end October 2022, MUT declined by 8.7% on an NAV basis and by 11.2% in share price terms, compared to a market decline of 5.1% (represented here by the CBOE UK All Companies Index). The trust also underperformed over the year to end October 2022, declining by 10.5% in NAV terms and 10.9% in share price terms, versus a market return of -1.6%.

As previously mentioned, this recent underperformance is due to MUT's investment style. The trust's approach does not lead to a tech or internet bias, but Luke's search for quality means it will typically be underweight the lower-quality, value sectors of the market such as banks, and, like many other managers, ESG considerations lead the manager to limit exposure to oil and gas, and tobacco. However, over the past year, banks have benefited from interest rate increases, while resource stocks have performed well since the outbreak of war in Ukraine, and both these factors have been a drag on MUT's performance. The largest detractors from performance over the year to end June 2022 included the portfolio's underweights to HSBC, Shell, Glencore (a metals and mining company) and British American Tobacco, which benefited from the rotation into value.

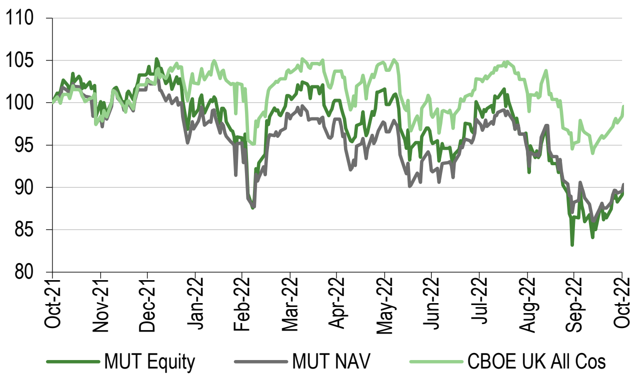
This year's sharp sell-off in tech and other higher-quality growth stocks such as Microsoft and VAT Group, a Swiss industrial engineering company, also detracted from performance, as did the portfolio's allocation to mid-cap stocks, which underperformed large caps. Some stock-specific issues also weighed. The portfolio's positions in Coca-Cola Hellenic, Inchcape, an auto distributor, and Mondi, a packaging supplier, were all hurt by their Russian exposure, although these names remain in the portfolio as their long-term investment cases remain intact and the manager expects them to weather near-term challenges. Countryside Partnerships' recent problems also detracted until the position was closed. More recently, Safestore and other real estate stocks have underperformed due to fears that rising interest rates will weaken the housing market.

The detrimental performance impact of these holdings was partially offset by the positive effect of MUT's to overweights to TotalEnergies, Drax and BHP, which all benefited from rising commodity prices. BHP and other iron ore miners have also gained from the recent improvement in sentiment towards the Chinese construction market. Novo Nordisk has performed strongly due to high demand for its diabetes and obesity drugs, while rising interest rates boosted the outlook for Standard Chartered. MUT's overweight holding in Euromoney also supported relative returns over the year to end June 2022 and, subsequently, until it was sold in September, as its share price continued to trade close to the takeover bid price offered in July 2022, outperforming the declining market. Underweights to Scottish Mortgage Investment Trust, Ashtead, which rents industrial equipment, and Paddy Power Betfair made more modest contributions to returns.

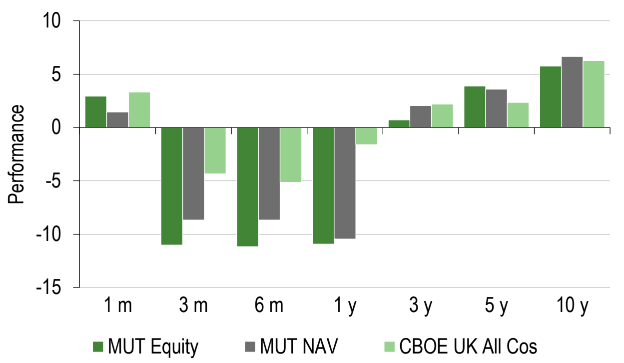
Although MUT's recent performance has been disappointing, it is more meaningful to judge the performance of long-term investment strategies over longer periods, and on this basis, MUT continues to perform strongly. Although its recent underperformance has dragged down average annual returns over three years, the trust has outperformed the market over five and 10 years on an NAV basis (Exhibit 5, right-hand side). Over the 10 years to end October 2022, MUT has realised an average annualised return of 6.7% in NAV terms (and 5.8% on a share price basis), compared to an average annualised market return of 6.3%. MUT has also outpaced the average of its AIC sector peers over three and five years (Exhibit 7).

Exhibit 5: Investment company performance to 31 October 2022

Price, NAV and index total return performance, three-year rebased



Price, NAV and index total return performance (%)



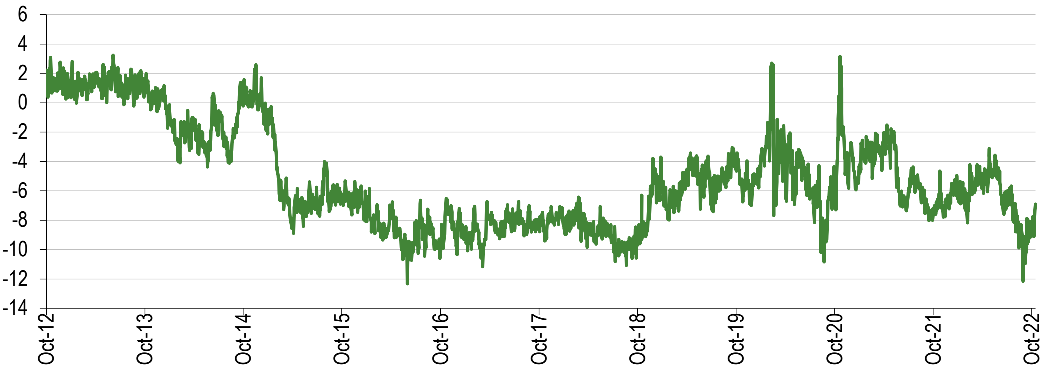
Source: Refinitiv, Edison Investment Research. Note: Three-, five- and 10-year performance figures annualised.

Discount

MUT's share price historically trades at a discount to its NAV. However, the share price moved into premium territory during late 2020 and 2021, following MUT's combination with Perpetual Income and Growth Investment Trust (PLI), which doubled MUT's assets under management and lowered its fees and ongoing charge. The company's strong NAV performance also supported the share price. However, the company's recent, rare bout of underperformance has seen the share price discount return. The discount has hovered in a recent range around 9%, well above the 5.2% average discount over the 10 years to end October 2022 (Exhibit 6).

The board monitors the discount closely and, to support the share price, the company repurchased 356,000 shares (0.3% of share capital) into treasury in FY22, and has purchased a further 419,000 shares so far in the current fiscal year (as at 29 November 2022). In our view there is scope for MUT's discount to narrow back towards its long-term average should the company's performance return to form, or if investors come to a greater appreciation of the relative attractiveness of UK equities.

Exhibit 6: Share price premium/discount to NAV (including income) over 10 years (%)



Source: Refinitiv, Edison Investment Research

Peer group comparison

MUT is a member of the AIC's UK Equity Income sector, which comprises 18 investment trusts, although it is differentiated from many of the constituents of this sector in several respects. While MUT is focused on companies with high-quality characteristics, several of its peers have a more value-oriented investment approach. MUT's portfolio is more diversified than some, across sectors, stocks and geographies, as around a third of its portfolio is invested in mid-cap stocks and more than 10% is held in international stocks. The manager also seeks to supplement and diversify income sources with modest option writing.

Exhibit 7: UK Equity Income peer group as at 29 November 2022*

% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Ongoing charge	Perf. fee	Disc/Prem (cum-fair)	Net gearing	Dividend yield
Murray Income Trust	963.6	(4.3)	10.4	29.3	106.0	0.5	No	(6.8)	106	4.4
abrdn Equity Income Trust	152.8	(1.5)	1.8	(4.7)	77.0	0.9	No	(10.0)	112	6.8
BlackRock Income and Growth	39.5	3.2	10.8	18.0	93.3	1.2	No	(8.1)	102	3.8
Chelverton UK Dividend Trust	35.4	(19.6)	4.8	(11.1)	155.9	2.0	No	(0.7)	169	6.9
City of London	1,936.5	5.4	10.4	20.1	102.6	0.4	No	1.7	107	4.9
Diverse Income Trust	322.8	(12.6)	13.7	12.7	147.1	1.1	No	(5.3)	100	4.3
Dunedin Income Growth	426.3	(6.6)	10.4	26.0	93.0	0.6	No	(1.8)	108	4.5
Edinburgh Investment	1,051.7	(0.9)	9.9	7.3	96.3	0.5	No	(8.0)	110	4.1
Finsbury Growth & Income	1,860.7	(2.4)	9.0	32.2	191.0	0.6	No	(4.6)	102	2.1
JPMorgan Claverhouse	417.1	(6.6)	5.3	13.2	108.6	0.7	No	(0.8)	106	4.6
JPMorgan Elect Managed Inc	71.0	(2.2)	10.1	12.1	86.9	0.8	No	(2.7)	103	4.9
Law Debenture Corporation	993.9	(4.2)	27.3	34.9	150.6	0.5	No	2.5	122	3.7
Lowland	313.4	(8.6)	3.4	(1.0)	84.4	0.6	No	(10.0)	112	5.3
Merchants Trust	780.0	2.5	26.2	40.0	118.6	0.6	No	1.1	111	4.9
Schroder Income Growth	202.1	3.7	11.1	18.8	112.8	0.7	No	(1.7)	113	4.5
Shires Income	78.7	(3.6)	9.5	16.9	113.6	1.0	No	(1.1)	123	5.4
Temple Bar	733.3	(0.6)	(5.0)	7.6	74.2	0.5	No	(4.6)	100	3.6
Troy Income & Growth	197.1	(8.2)	(4.8)	9.4	83.5	0.9	No	(1.7)	100	2.8
Simple average	**587.5**	**(3.7)**	**9.1**	**15.6**	**110.9**	**0.8**		**(3.5)**	**111**	**4.5**
MUT rank in sector	**5**	**12**	**6**	**4**	**9**	**=2****		**14**	**=7**	**11**

Source: Morningstar, Edison Investment Research. Note: *Performance to 25 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 (100 = ungeared). **Denotes second lowest fee within the peer group.

MUT's merger with PLI in November 2020 doubled its market capitalisation, making it the fifth largest fund in this sector (Exhibit 7). It has outperformed the average of its peers over three and five years and almost matched the average over 10 years. MUT's ongoing charge is the second lowest among peers following the merger, reflecting a drop in management fees. Its discount is above the average, and its gearing is lower. Its dividend yield is also slightly below the average of its peers.

Dividend policy and record

MUT aims to provide investors with a high and growing dividend, paid quarterly in December, March, June and September each year. The dividend for the year ended June 2022 (FY22) was 36.0p, up 4.3% on the 34.5p paid the previous financial year. As discussed above, this makes FY22 the 49th successive year of dividend increases. Revenue per share stood at an all-time high of 40.5p in FY22, up 20.2% on the previous year, thanks to a post-pandemic surge in dividend payments, as many companies sought to make up for the dividends not paid during the crisis. Some companies paid special dividends. In all, the resultant rise in MUT's portfolio income provided dividend cover of 112%, and revenue reserves thus increased over the period. Following the year's final dividend payment in September 2022, revenue per share stood at 17.5p, available to support future dividends. This is equivalent to 48% of FY22's total dividend per share.

In MUT's latest Annual Report, chairman Neil Rogan discussed the board's deliberations on how much to increase the FY22 dividend, and how much to add to reserves. He said that the board was very mindful of the impact inflation is having on shareholders' real income. However, two factors influenced the decision not to pay out all income as dividends, and instead use some to increase the revenue reserve. Firstly, the board aims to ensure that reserves per share equal between half and a full year's dividend per share, to give the company scope to draw on revenue reserves if necessary to maintain its long track record of annual dividend increases. Second, MUT's manager, Charles Luke, is forecasting that revenue per share will be lower in the current year than it was in FY22, due mainly to the absence of last year's bumper dividends from the mining companies. This year's dividend payments may also be hit by continued supply chain disruptions and rising inflation. So it seemed prudent to retain some FY22 income to help offset this year's anticipated decline. However, Luke expects dividends to rise again in FY24 and thereafter.

The board recently announced the first three interim dividend payments for FY23, each of 8.25p (totalling 24.75p), to be paid in December 2022, and March and June 2023. The board expects the fourth interim dividend, to be announced in August 2023, to be 'at least 11.75p', taking the total dividend for the year to 36.50p, a 1.4% increase on the previous financial year (see chart on page one). The chairman recently stated that there would be no special dividend to mark MUT's 100th anniversary next year. However, a dividend of 36.5p would still be sufficient to ensure MUT's dividend payment record remains in place for 50 successive years. This represents a prospective dividend yield of 4.4% based on the current share price.

Fund profile: Pursuing high and rising income, and growth

MUT was founded in Scotland in 1923 and has been part of the Aberdeen Asset Management (formerly AAM, then Aberdeen Standard Investments (ASI) and now called abrdn) stable since 2000. The company will celebrate its 100th anniversary in 2023. Charles Luke has been the trust's portfolio manager since 2006. His deputy, Iain Pyle, joined the team in 2018.

MUT is structured as an investment trust, with one share class. Its assets under management almost doubled to c £1.1bn in November 2020 following a merger with Perpetual Income and Growth Investment Trust (PLI), after a competitive tender. PLI's chairman, Richard Laing, said the PLI board opted for the combination, instead of taking the more usual route of appointing a new manager, because of MUT's top-quartile performance over the short and longer term and the strength of its team. This combination also offered all shareholders in the enlarged trust – both MUT's existing shareholders and those PLI investors who took up the offer of shares in MUT – the opportunity to realise significant cost savings thanks to lower marginal fee rates and an enlarged capital base over which to spread fixed costs. The merger made MUT the third-largest fund in the Association of Investment Companies' (AIC's) UK equity income sector, delivering a higher profile and greater liquidity. (See MUT chairman Neil Rogan's comments on the combination with PLI here.)

The newly enlarged MUT maintains its objective of realising a high and growing income, combined with capital growth, through investment in a diversified portfolio of mainly UK equities, although up to 20% may be invested in non-UK stocks. The trust has a longer-term investment focus and targets good quality, well-managed companies with attractive valuations and strong ESG characteristics.

MUT uses a broad UK stock market index as its benchmark. For comparison purposes in this note, we use the CBOE UK All Companies Index. Performance is also measured against peers in the UK equity income sector. The company has £100m of long-term borrowings with £40m due to mature in 2027 and £60m in 2029. The blended interest rate for these borrowings is 3.6%. During the financial year ended 30 June 2022 (FY22), the company's short-term multi-currency facility with the Bank of Nova Scotia was increased by £30m to £50m. Consequently, at year end, the company had £150m of borrowing facilities available, totalling 14.9% of its net asset value. At the end of FY22, net gearing stood at 9.4% (2021: 10.3%), but by 25 November 2022 this had been reduced to 6.1%. MUT has a 49-year record of annual dividend growth.

Fees and charges

MUT's 2020 merger with PLI has enabled the company to substantially reduce the level of ongoing charges to shareholders. The largest cost is the investment management fee payable to abrdn, which is calculated on a sliding scale based on net assets: 0.55% up to £350m, 0.45% up to £450m and 0.25% per annum on assets over £450m. The effect of expanding the company produced a blended management fee rate of 0.40% for FY22, down from 0.46% in FY21. Other ongoing charges are fixed costs, and the overall ongoing fee rate as a percentage of NAV rose slightly to 0.48% in FY22, from 0.46% the previous year, due to the fall in MUT's NAV over the period.

The board

MUT's board usually comprises six independent, non-executive directors. However, following the combination with PLI, Alan Giles, a PLI board member, joined MUT's board to ensure continuity for PLI shareholders. This increase in the size of MUT's board was intended to be temporary, as Jean Park and Donald Cameron retired from board at the conclusion of the November 2021 AGM. Nandita Sahgal Tully joined the board in November 2021. These changes take the board back to its normal complement of six directors.

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