EDISON

BlackRock Sustainable American Income Trust

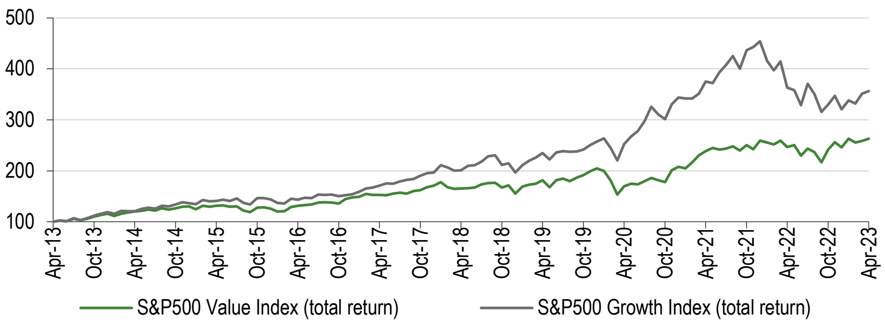
Unique value and ESG strategy

Investment trusts
American equities

23 May 2023

Since July 2021, BlackRock Sustainable American Income Trust (BRSA) has integrated explicit ESG objectives into its investment strategy. Managers Tony DeSpirito, David Zhao and Lisa Yang aim to deliver an attractive level of income and long-term capital growth 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 highlight that, over the long term, equities have delivered higher total returns compared with other asset classes such as cash and fixed income securities. Data from BlackRock show that value stocks tend to outperform during periods of high inflation and rising interest rates. Also, since 1970, in the one, two and three years following a recession, equities have generated positive returns, with value stocks outpacing the performance of the broader US market.

Change in investor preference for growth stocks started in early 2022



Source: Morningstar, Edison Investment Research

Price		**187.0p**
Market cap		**£150m**
Total assets		**£160m**
NAV*		198.4p
Discount to NAV		5.8%

*Including income. At 19 May 2023.

Yield		4.3%
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	182.0p
NAV* high/low	222.2p	192.1p

*Including income.

Net cash*	1.5%

*At 30 April 2023.

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

- FY22 dividend was not fully covered by income.
- Reference index is not ESG based.
- US market is trading at a premium to global equities.

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Edison profile page

The analyst's view

For more information on BRSA's July 2021 strategy change, please see our May 2022 initiation report. The trust's focus on companies with superior ESG traits is a clear differentiating feature compared with the other six funds in the AIC North America sector. BRSA's managers seek reasonably priced high-quality, dividend-paying stocks that should be relatively resilient during periods of economic weakness and high stock market volatility. The trust's portfolio is actively managed. At the end of April 2023, around 83% of the fund was invested in North American equities and, versus the reference index, the largest sector overweight positions were information technology and healthcare, while the greatest underweight exposures were industrials and real estate.

Discount wider than historical averages

BRSA's 5.8% discount to cum-income NAV is wider than the 3.0–5.1% range of average discounts over the last one, three, five and 10 years and it has the second-highest valuation of the seven funds in the AIC North America sector. The trust has paid an annual dividend of 8.0p per share in each of the last five financial years, using reserves when necessary. BRSA offers an attractive 4.3% yield.

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

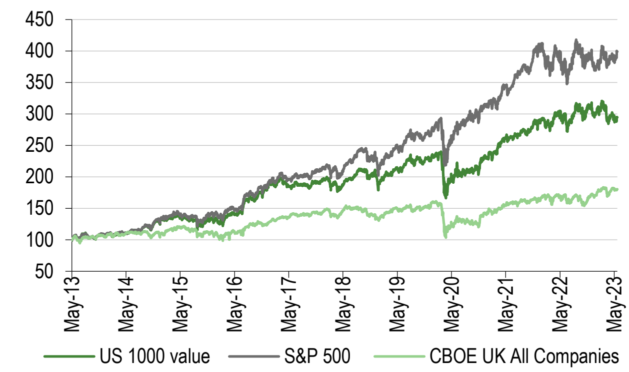
Market outlook: Seek quality/value to ride out the storm

As shown in Exhibit 1 (left-hand side), US stocks were very volatile in 2022. Investors had to adjust to a different environment with rising interest rates as the Federal Reserve sought to combat persistently higher levels of inflation, which were exacerbated by the war in Ukraine. Economic uncertainty has continued in 2023, with concerns that higher interest rates could lead to a recession. In addition, the March 2023 failures of Silicon Valley Bank and Signature Bank in the United States and the emergency acquisition of Credit Suisse by rival UBS in Europe have added to investor risk aversion.

Looking at the forward P/E valuation multiples in the table in Exhibit 1, in aggregate, US shares do not look attractively valued when compared with global equities. The Datastream US Index is trading at a c 22% premium to the Datastream World Index. In absolute terms, the US market has derated; at the beginning of 2022, the Datastream US Index was trading at a forward P/E multiple of around 22.0x. However, given economic uncertainty, earnings estimates could prove to be overly optimistic, in which case, company valuations could be higher than current numbers suggest. Investors may benefit from taking a longer-term perspective, seeking high-quality companies on sensible valuations that can ride out the current storm.

Exhibit 1: Index performances and valuations

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



Valuation metrics of Datastream indices (at 22 May 2023)

	Last	High	Low	10-year average	Last as % of average
US					
P/E 12 months forward (x)	18.3	23.4	14.1	17.9	103
Price to book (x)	3.9	4.6	2.2	3.2	125
Dividend yield (%)	1.6	2.7	1.2	1.9	85
Return on equity (%)	15.6	18.6	9.9	13.9	112
World					
P/E 12 months forward (x)	15.0	19.9	12.5	15.5	97
Price to book (x)	2.3	2.5	1.5	2.0	116
Dividend yield (%)	2.4	3.4	1.8	2.4	100
Return on equity (%)	12.8	14.0	7.3	11.1	115

Source: Refinitiv, Edison Investment Research

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

The manager's view: Risk of earnings downgrades

Although BRSA's stock selection process is bottom-up, Zhao provides interesting insights into the current investment backdrop. He says that market fundamentals are challenged, as while inflation is slowly coming down, it remains elevated and there are some 'sticky' elements of core inflation, such as wages. The manager highlights that this tightening interest rate cycle is the fastest since 1980 and the rapidly shrinking money supply will affect companies and the broader economy. Compared with six months ago, the odds of a US recession have increased, opines Zhao. He believes that a soft landing is priced into the market, but further earnings reductions are not. The manager says that recessions take time to play out, so we may not see the peak effect of tightening US monetary policy until Q323 at the earliest.

Zhao notes that, in aggregate, although US equity valuations are lower than 12 months ago, they are at the high end of the historical range. He highlights that there are wide valuation disparities at both the sector and stock level, which are providing opportunities for stock picking. On a forward P/E basis, the lowest valuation quintile of stocks are more than two standard deviations cheaper than the broader US market, which data from BlackRock show has only occurred three times in the last 40 years (during the global COVID-19 pandemic, the bursting of the dot-com bubble and in the early 1990s recession). The manager highlights that valuations have come down as would be expected in a higher interest rate environment because the discount rate is greater. He says that the US economy is less rate sensitive now as people have refinanced their mortgages, locking in low interest rates, and savings were built up during the COVID-19 pandemic. Zhao believes that the base case is for a 10–15% decline in earnings, a level seen during a typical recession, and much less severe than in 2008 during the global financial crisis. He comments that during the first two months of 2023, the US market rose despite the Federal Reserve's hawkish stance, and people were talking about a 'no landing', suggesting there would be no economic impact from the Federal Reserve hiking interest rates and rates would be reduced. However, the manager considers this is unlikely because if interest rates are cut and inflation rises again, the Federal Reserve will be deemed to have lost control.

Zhao says we are now seeing pressure building from interest rate hikes, illustrated by the duration mismatch at the recently failed Silicon Valley Bank. While the Federal Reserve has taken drastic action by taking duration risk off bank balance sheets, the manager believes that there will be economic consequences from troubles in the banking sector; for example, loan officers will be less keen to provide credit.

Commenting on the Q123 earnings season, Zhao says investors looked through areas of weakness, but he considers that evidence of companies restructuring their workforces is not a positive signal and indicates weakening end demand. He is also concerned about corporate balance sheet leverage and that many management teams lack experience of navigating a recession. The manager highlights that some companies are earning three to four times their 2019 profits, and could be overearning; in which case, 2023 year-on-year earnings comparisons could prove disappointing.

Current portfolio positioning

At the end of April 2023, BRSA's largest 10 holdings made up 24.6% of the portfolio, which was a lower concentration compared with 29.7% 12 months earlier; four positions were common to both periods. Around 17% of the fund is held in non-North American listed companies.

Exhibit 2: Top 10 holdings (at 30 April 2023)

Company	Country	Sector	Portfolio weight %	
			30 April 2023	30 April 2022*
Laboratory Corporation of America	US	Healthcare	2.9	N/A
Baxter International	US	Healthcare	2.9	N/A
Willis Towers Watson	US	Financials	2.9	N/A
Shell	UK	Energy	2.8	N/A
Microsoft	US	Information technology	2.7	N/A
Cisco Systems	US	Information technology	2.7	3.2
Cognizant Technology Solutions	US	Information technology	2.6	2.6
Verizon Communications	US	Communication services	2.6	3.2
Sanofi	France	Healthcare	2.5	3.3
Citigroup	US	Financials	2,5	N/A
Top 10 (% of portfolio)			**24.6**	**29.7**

Source: BRSA, Edison Investment Research. Note: *N/A where not in end-April 2023 top 10.

BRSA's geographic exposure is shown in Exhibit 3. Over the 12 months to the end of April 2023, the largest changes were higher UK (+2.2pp) and US (+1.1pp) weightings, while the Swiss holding was sold (-1.5pp).

Exhibit 3: Portfolio geographic exposure (% unless stated)

	Portfolio end-April 2023	Portfolio end-April 2022	Change (pp)
US	81.5	80.4	1.1
UK	7.8	5.6	2.2
Japan	4.0	4.6	(0.6)
France	2.5	3.3	(0.7)
Australia	1.7	2.0	(0.3)
Canada	1.3	2.2	(0.9)
Denmark	1.1	0.5	0.6
Switzerland	0.0	1.5	(1.5)
	100.0	**100.0**	

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

Looking at BRSA's sector exposure, over the 12 months to the end of April 2023, the largest changes were higher weightings in healthcare and industrials (both +1.8pp) and lower allocations to materials (-3.1pp) and communication services (-1.8pp). Compared with the reference index, the notable differences were overweight positions in technology and healthcare (both +5.5pp) and underweight exposures in industrials (-6.7pp) and real estate (-3.2pp).

In the technology sector, BRSA has positions in companies with stable earnings and strong balance sheets. This includes top 10 holding Cognizant Technology Solutions, an Indian IT services firm that generates strong cash flow and has net cash on its balance sheet. According to Zhao, the healthcare sector is more attractively valued than the other defensive areas, namely consumer staples and utilities, and its earnings have been more resilient in past recessions. Healthcare accounts for a growing percentage of US GDP and ageing populations are providing positive demographic trends. During the global pandemic, hospitals were inundated with COVID-19 cases, which meant discretionary procedures were deferred; these are now resuming, which is benefiting medtech companies.

BRSA has an underweight industrial exposure due to high valuations in the sector. Some companies are overearning, and their balance sheets are stretched. The manager believes that the benefits from reshoring are insufficient to offset a weaker economy. Problematic supply chains due to COVID-19 have led to companies over ordering, so their inventories will have to be worked down. Zhao highlights that real estate companies have leveraged business models, which is not helpful in a rising interest rate environment. He adds that the real estate investment trusts generally trade in line with one another, reducing stock picking opportunities, which further enforces BRSA's underweight exposure.

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

	Portfolio end-April 2023	Portfolio end-April 2022	Change (pp)	Index weight	Active weight vs index (pp)	Trust weight/ index weight (x)
Healthcare	21.2	19.4	1.8	15.8	5.5	1.3
Financials	19.4	20.2	(0.8)	18.4	1.0	1.1
Information technology	14.6	14.9	(0.3)	9.1	5.5	1.6
Consumer discretionary	9.8	9.6	0.3	10.3	(0.5)	1.0
Energy	8.6	7.6	1.1	8.2	0.4	1.1
Consumer staples	6.5	5.1	1.4	7.2	(0.7)	0.9
Industrials	6.1	4.3	1.8	12.8	(6.7)	0.5
Communication services	4.4	6.2	(1.8)	4.5	(0.1)	1.0
Utilities	4.1	5.1	(1.0)	5.9	(1.8)	0.7
Materials	3.8	6.9	(3.1)	3.3	0.5	1.1
Real estate	1.5	0.9	0.6	4.7	(3.2)	0.3
	100.0	**100.0**		**100.0**		

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

Zhao highlights some of the changes in BRSA's portfolio in recent months. **Zimmer Biomet Holdings** was sold in H222 as there were better opportunities available elsewhere. The company is now back in the fund as procedure volumes are exceeding expectations and its sustainability ESG score has increased based on fewer product recalls. There has been a switch in the railroad sector; the holding in **Norfolk Southern** was sold as it had a derailment causing a chemical spill, which will result in a lower ESG score. The proceeds were redeployed into **Union Pacific**; both companies have similar valuations and revenue breakdowns.

There is a new position in **Kosmos Energy**, which has large African offshore reserves. This means its operations are safer than they would be in the Gulf of Mexico, for example, as they are not close to existing ecosystems. The manager explains that Kosmos is attractively valued, and has long-dated assets that were acquired at the bottom of the energy cycle. It generates robust levels of cash flow and has a high ESG rating. Two other new names in the portfolio are: **Mondelēz International**, a reasonably valued consumer staples stock – Zhao says that demand for its snacks should remain resilient through an economic downturn; and apparel company **Gildan Brands**, a low-cost manufacturer with better safety standards versus its peers and a strong balance sheet.

Morgan Stanley is no longer in BRSA's portfolio and was sold on valuation grounds. The company is increasing its focus on its wealth management operations and acquired E-Trade in 2020. The manager says that Morgan Stanley's share price already reflects its higher-quality earnings. Three other recent sales are: temporary staffing company **Robert Half**, due to economic risk; healthcare services firm **Humana**, due to anticipated lower Medicare spending; and **PepsiCo**, on valuation grounds. Zhao comments that with a 60-name limit in the fund, he and his colleagues need to be selective and focus on their highest-conviction ideas.

Share price ahead of index since strategy change

Exhibit 5: Five-year discrete performance data

12 months ending	Share price (%)	NAV (%)	US 1000 value (%)	S&P 500 (%)	CBOE UK All Cos (%)
30/04/19	23.0	11.9	15.2	19.9	2.5
30/04/20	(7.3)	(5.4)	(8.0)	4.2	(17.2)
30/04/21	29.4	29.5	32.9	33.0	25.3
30/04/22	10.5	12.6	11.7	10.5	9.1
30/04/23	(4.1)	(3.1)	1.1	2.5	7.0

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

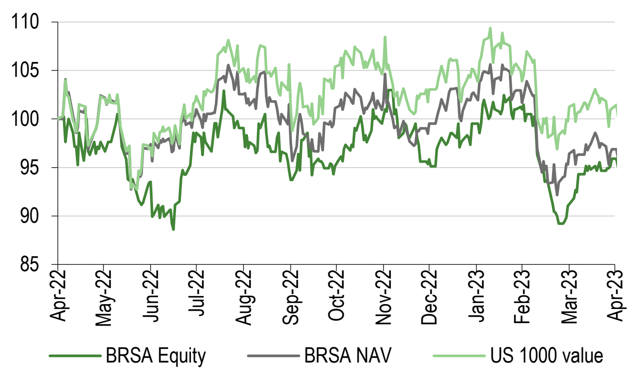
Commenting on BRSA's performance over the last 12 months, Zhao says the trust has benefited from its energy exposure; during 2022 this was the best performing sector by a wide margin. Holdings include EQT Corporation, which is a leading US independent natural gas producer with operations in Pennsylvania, West Virginia and Ohio.

Within healthcare, insurers were positive contributors to BRSA's performance. Cigna benefited from COVID-led higher volumes that were priced into its policies. These are repriced annually, while contracts with providers are repriced every three years; essentially, Cigna's revenues repriced faster than its costs, which led to margin expansion.

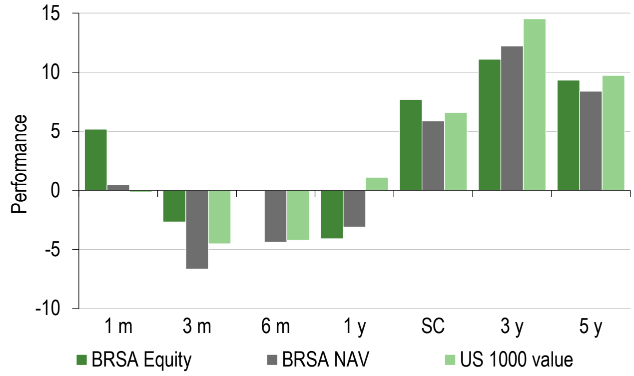
BRSA's holding in General Motors Company detracted from its performance over the last 12 months. The manager explains that the firm is trading on a single-digit P/E multiple, has maintained its earnings guidance, despite supply issues, and has net cash on its balance sheet. Zhao comments that General Motors filed for bankruptcy in 2008, so investors' gut reaction is to sell the stock heading into a recession. However, he says that the company is very different now. It has exited loss-making European and US auto businesses, and is focusing on trucks and sports utility vehicles and has a joint venture in China. The manager opines that General Motors' earnings are higher quality compared to the last business cycle. It has invested in robotaxis and electric vehicles that are now being rolled out. Another detractor was Newell Brands, which owns a large portfolio of consumer and commercial brands that resonate with customers, including Elmer's glue and Graco baby products. Newell's business was weak due to excess inventories at Walmart that had to be worked down.

Exhibit 6: Investment trust performance to 30 April 2023

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.

BRSA's relative returns are shown in Exhibit 7. The trust has had a difficult 12 months, with its NAV lagging the reference index by more than 4.0pp, which has negatively affected BRSA's record since the strategy change in July 2021 (its NAV has lagged the reference index, although its share price has outperformed). It is worth noting the trust's superior performance versus the broad UK market over the last five years.

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	5.3	1.9	4.4	(5.1)	1.7	(8.7)	(1.8)
NAV relative to US 1000 value index	0.6	(2.2)	(0.2)	(4.2)	(1.1)	(5.9)	(6.0)
Price relative to S&P 500 Index	5.3	(3.3)	0.5	(6.5)	4.9	(9.0)	(17.1)
NAV relative to S&P 500 Index	0.6	(7.2)	(3.9)	(5.5)	1.9	(6.2)	(20.6)
Price relative to CBOE UK All Cos	1.8	(4.7)	(11.3)	(10.4)	(1.2)	(6.3)	25.8
NAV relative to CBOE UK All Cos	(2.7)	(8.6)	(15.2)	(9.5)	(4.0)	(3.4)	20.4

Source: Refinitiv, Edison Investment Research. Note: Data to end-April 2023. Geometric calculation.

Peer group comparison

There are seven funds in the AIC North America sector, following a range of mandates. It should be noted that both Canadian funds usually have an allocation to US equities.

Exhibit 8: AIC North America sector at 22 May 2023*

% 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	150.0	0.2	40.7	46.1	154.4	(3.6)	1.0	No	100	4.3
Baillie Gifford US Growth	438.2	(4.2)	3.2	66.6		(22.7)	0.6	No	106	0.0
Canadian General Investments	422.7	7.0	67.1	73.5	182.5	(37.3)	1.4	No	113	2.8
JPMorgan American	1,344.1	7.6	61.8	84.1	272.4	(3.1)	0.4	No	106	1.0
Middlefield Canadian Income	117.4	(11.4)	54.5	41.9	80.1	(12.2)	1.3	No	116	4.6
North American Income Trust	381.0	(1.6)	34.7	32.2	136.0	(11.0)	0.9	No	106	4.0
Pershing Square Holdings	5,196.3	16.3	66.5	248.8		(36.2)	1.6	Yes	103	1.5
Simple average (7 funds)	**1,150.0**	**2.0**	**46.9**	**84.8**	**165.1**	**(18.0)**	**1.0**		**107**	**2.6**
BRSA rank in peer group	**6**	**4**	**5**	**5**	**3**	**2**	**4**		**7**	**2**

Source: Morningstar, Edison Investment Research. Note: *Performance at 19 May 2023 based on ex-par NAV. TR, total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

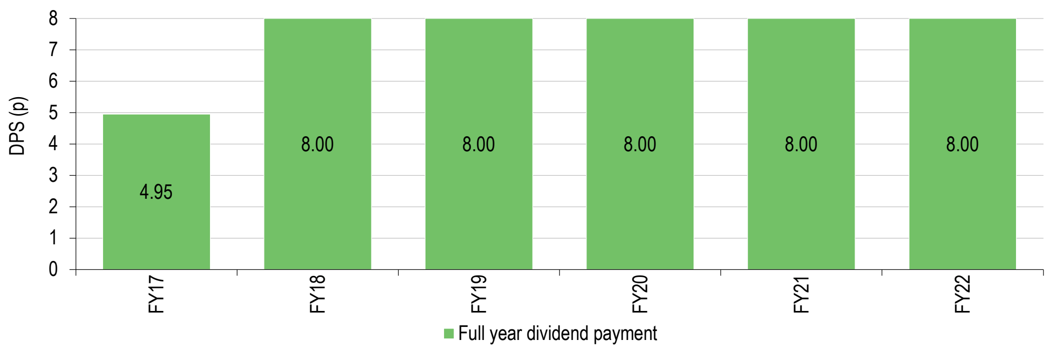
BRSA's distinguishing features are a relatively concentrated portfolio offering an attractive level of income and capital appreciation potential, premium ESG scores and lower carbon emissions. The trust's closest peer is abrdn's North American Income Trust, whose portfolio is split between US equities (c 90%), Canadian equities (c 8%) and cash (c 2%). BRSA is ahead of North American Income Trust over the last one, three and five years. Versus the whole sector, the trust's NAV is below average over the last one, three and five years. It has the second-highest valuation in the sector, an average ongoing charge, is currently ungeared and has an above-average dividend yield (1.7pp above the sector average).

Dividends: Partly funded from distributable reserves

In FY22, BRSA's earnings per share were 3.84p, which was a 5.4% decline compared with 4.06p per share in FY21. However, as the trust can no longer write covered call options, if earnings from these were excluded from the FY21 income, BRSA's earnings would be 29.7% higher year-on-year.

The annual dividend of 8.0p per share (four payments of 2.0p per share) has been held steady for the last five financial years; the board expects this trend to continue in FY23, by supplementing income with distributable reserves. In August 2022, BRSA's share premium account was converted to distributable reserves, which at the end of FY22 totalled c £168.6m (equivalent to c 26x the annual dividend payment).

Exhibit 9: Dividend history since FY17

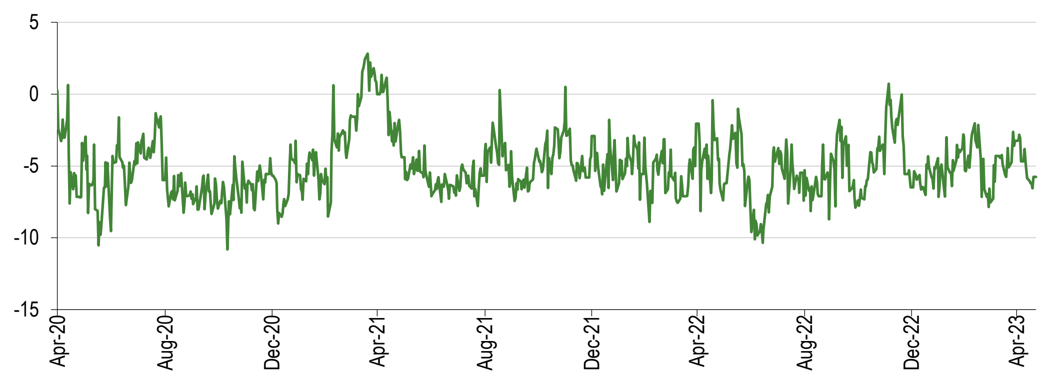


Source: Bloomberg, Edison Investment Research

Discount: Steady valuation range

BRSA's shares are trading at a 5.8% discount to cum-income NAV, which compares to a range of a 0.7% premium to a 10.4% discount over the last 12 months. Average discounts over the last one, three, five and 10 years are 5.1%, 5.1%, 3.0% and 4.0%, respectively. Renewed annually, BRSA has the authority to repurchase up to 14.99% and allot up to 10% of its share capital. There have been no share buybacks since November 2020 and no issuance since April 2021.

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 input

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 January 2023

	Portfolio	Reference index	Difference (%)
Number of holdings	60	854	(93.0)
Gross dividend yield (%)	2.5	2.3	0.2
Return on equity (%)	11.7	12.8	(1.1)
Forward EPS growth (%)	16.0	15.2	0.8
Forward P/E multiple (x)	12.5	14.9	(16.1)
Non-US exposure (%)	18.6	0.2	18.4
MSCI ESG score (adjusted)	7.20	6.29	14.5
MSCI environmental score	7.23	6.64	8.9
MSCI social score	5.10	4.87	4.7
MSCI governance score	6.05	5.66	6.9
Carbon emissions intensity (total capital)*	54.3	125.8	(56.9)

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

As shown in Exhibit 11, at 31 January 2023, compared with the reference index, BRSA's portfolio had a higher dividend yield, a lower return on equity, a modestly higher 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 was less than half that of the reference index.

Gearing

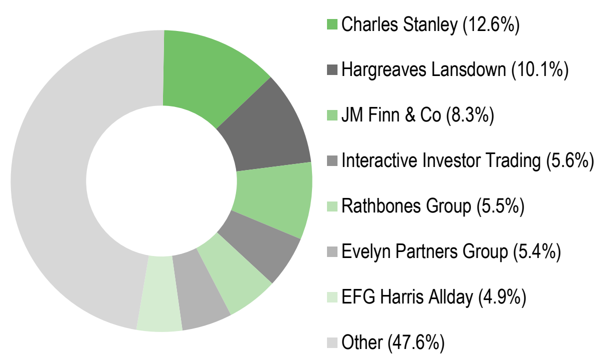
Gearing of up to 20% of NAV is permitted but is typically in a range of 0–10%, with 5% deemed a neutral level. At end-April 2023, BRSA had a net cash position of 1.5%.

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 FY22, the trust's ongoing charges were 1.01%, which was 5bp lower than 1.06% in FY21.

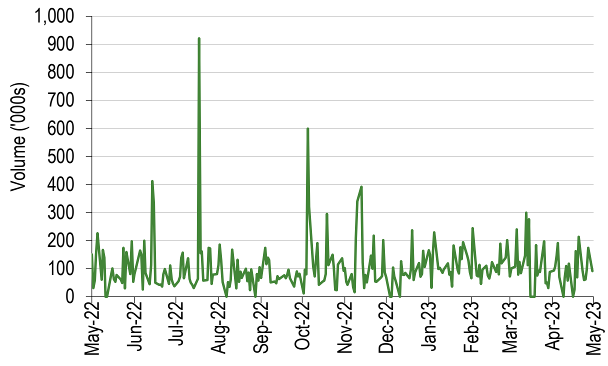
Capital structure

Exhibit 12: Major shareholders



Source: Bloomberg. Note: At 30 April 2023.

Exhibit 13: Average daily volume



Source: Refinitiv. Note: 12 months to 22 May 2023.

BRSA is a conventional investment trust with one class of share. There are 80.2m ordinary shares in issue plus another 20.1m held in treasury. At the end of FY22, 96.5% of the trust's shares were held by banks or nominees (including retail investor platforms), which was very similar to 96.4% at the end of FY21. BRSA's average daily trading volume over the last 12 months was c 110k shares.

The board

Exhibit 14: BRSA's board of directors at end-FY22

Board member	Date of appointment	Remuneration in FY22	Shareholdings at end-FY22
Alice Ryder (chair since 1 Nov 2022)	12 June 2013	£29,000	9,047
Christopher Casey*	7 September 2012	£35,000	19,047
Melanie Roberts	1 October 2019	£29,000	10,000
David Barron	22 March 2022	£17,800	5,000

Source: BRSA. Note: *Retired following the 21 March 2023 AGM.

Alice Ryder became chair following the retirement of Simon Miller on 31 October 2022. Christopher Casey retired following the AGM on 21 March 2023 and the board announced the appointment of Solomon Soquar as a non-executive director with immediate effect. He has more than 30 years of experience in investment banking, capital markets and wealth management, working with major financial institutions, including Goldman Sachs, Bankers Trust, Merrill Lynch, Citigroup and Barclays. Soquar's most recent executive role was CEO of Barclays Investments Solutions. He is a non-executive director of Ruffer Investment Company, chair of the Africa Research Excellence Fund and a business fellow of Oxford University, Smith School of Economics and Enterprise.

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