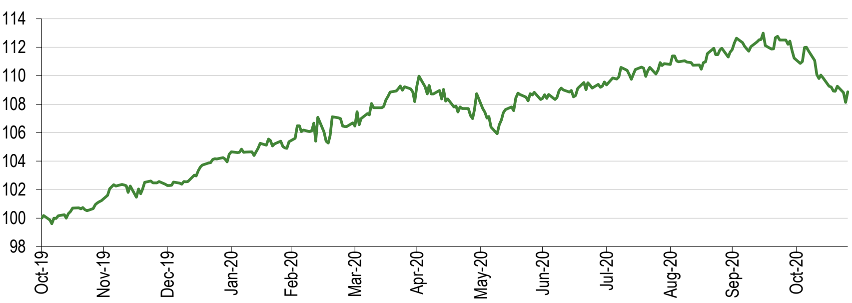
Murray Income Trust

Quality focus continues to deliver rising income

Murray Income Trust's (MUT) recent combination with Perpetual Income and Growth Investment Trust (PLI) has doubled the trust's assets under management to £1.1bn and is expected to deliver a substantial fee reduction to investors. MUT invests in a diversified portfolio of mainly UK equities and aims to provide a high and growing income, combined with capital growth. It has achieved these objectives, having just delivered its 47th consecutive year of increasing annual dividends, while also outperforming its benchmark (a broad UK stock market index) and most of its peers over both the short and longer term. Manager Charles Luke's success – even in the current climate, which has been characterised by widespread dividend cuts – confirms his conviction that 'quality, sustainable and growing income is out there, if you know where to look'. He intends to maintain his research-intensive search for resilient companies capable of growing future earnings and dividends over time.

MUT delivering outperformance (NAV TR relative to UK index)



Source: Refinitiv, Edison Investment Research

The market opportunity

UK equities remain undervalued relative to global markets, and there are many opportunities for investors to acquire attractively priced, high-quality UK companies which are well positioned to outperform as and when investor sentiment improves.

Why consider investing in Murray Income Trust?

- A high-quality portfolio which has performed relatively well in the recent challenging environment and over the long term.
- A focus on quality income has delivered an attractive, resilient dividend yield and means MUT may be particularly well placed to serve shareholders searching for a reliable, diversified and growing income stream.
- A 47-year record of annual dividend growth.

Now trading at a premium

A favourable investor response to the recent combination with PLI has seen MUT's shares trade into premium territory. As at 24 November, this premium to cum-income NAV was 0.2%. This compares with average discounts of 4.8%, 6.4%, 7.2% and 4.1% over the past one, three, five and 10 years. MUT's current dividend yield stands at 4.1%.

Investment trusts
UK equity income

26 November 2020

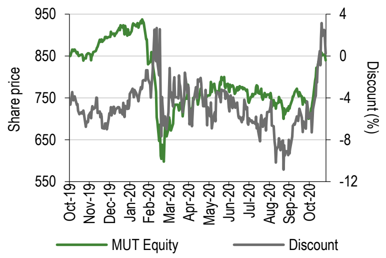
Price	**840.0p**
Market cap	**£983.2m**
AUM	**£980.9m**

NAV*	837.8p
Premium to NAV	0.3%
NAV**	838.0p
Premium to NAV	0.2%

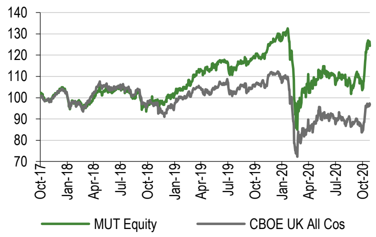
*Excluding income. **Including income. As at 24 November 2020.

Yield	4.1%
Ordinary shares in issue	117.0m
Code	MUT
Primary exchange	LSE
AIC sector	UK Equity Income

Share price/discount performance



Three-year performance vs index



52-week high/low	938.0p	598.0p
NAV** high/low	974.0p	640.6p

**Including income.

Gearing

Net*	8.3%

*As at 23 November 2020.

Analysts

Joanne Collins +44 (0)20 3077 5000
Sarah Godfrey +44 (0)20 3681 2519
investmenttrusts@edisongroup.com
Edison profile page

Murray Income Trust is a research client of Edison Investment Research Limited

Exhibit 1: Trust at a glance

Investment objective and fund background

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.

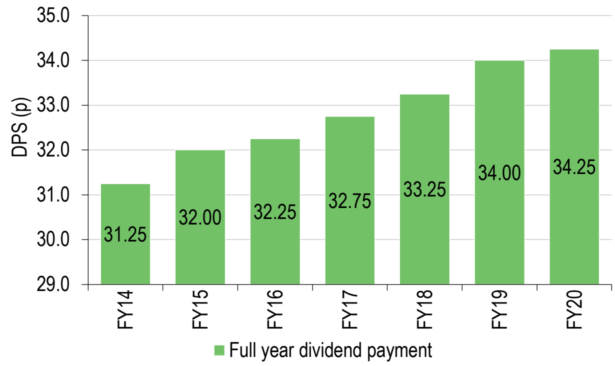
Recent developments

- 17 November 2020: MUT's combination with PLI completed. MUT acquired £427m of net assets from PLI and issued an additional 50.9m shares.
- 12 October 2020: Declaration of three interim quarterly dividends for FY21. The first, of 12.55p, to be paid on 17 December 2020, the second, of 3.95p, to be paid on 18 March 2021 and the third, of 8.25p, to be paid on 17 June 2021.

Forthcoming		Capital structure		Fund details	
AGM	27 November 2020	Ongoing charges	0.64% (FY20)	Group	Aberdeen Standard Investments
Interim results	February 2021	Net gearing	8.3%	Managers	Charles Luke (lead), Iain Pyle (deputy)
Year end	30 June	Annual mgmt fee	Tiered (see page 10)	Address	1 George Street, Edinburgh, EH2 2LL
Dividend paid	Quarterly	Performance fee	None		
Launch date	1923	Trust life	Indefinite	Phone	0808 500 0040 (retail)/ 0131 222 1863
Continuation vote	No	Loan facilities	£100m loan notes/£20m bank loans	Website	www.murray-income.co.uk

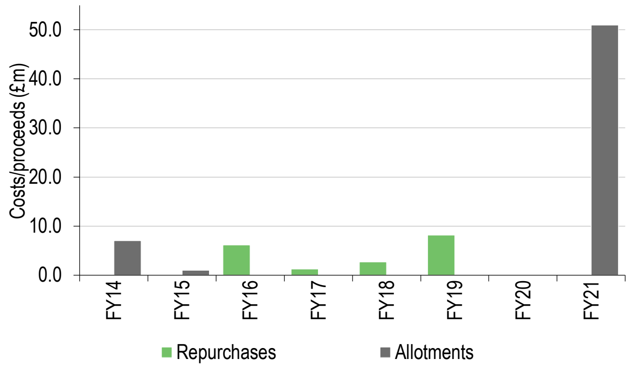
Dividend policy and history (financial years)

MUT's board aims to increase the total dividend each year. Four interim dividends are normally paid each year in March, June, September and December.

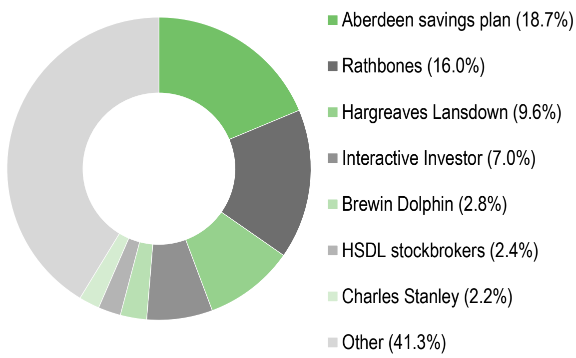


Share buyback policy and history (financial years)

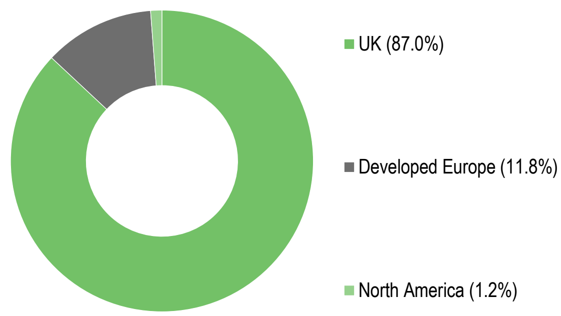
Renewed annually, MUT's board has the authority to allot shares up to the equivalent of 5% of the share capital, and buy back up to 14.99% of shares, in order to manage a premium or a discount.



Shareholder base (as at 31 October 2020)



Portfolio exposure by region (as at 24 November 2020)



Top 10 holdings (as at 31 October 2020)

			Portfolio weight %	
Company	Country	Industry	31 October 2020	31 October 2019*
AstraZeneca	UK	Healthcare	4.4	2.9
Unilever	UK	Consumer goods	3.8	2.9
Rio Tinto	UK	Basic materials	3.5	N/A
Diageo	UK	Consumer goods	3.5	3.4
GlaxoSmithKline	UK	Healthcare	3.3	3.0
BHP	UK	Basic materials	3.3	2.8
RELX	UK	Consumer services	3.2	3.1
National Grid	UK	Utilities	2.9	2.7
Aveva	UK	Technology	2.7	2.6
Close Brothers	UK	Financials	2.7	N/A
Top 10 (% of portfolio)			**33.3**	**28.9**

Source: Murray Income Trust, Edison Investment Research, Bloomberg, Morningstar Note: *N/A where not in end-October 2019 top 10.

Market outlook: UK stocks cheap versus other markets

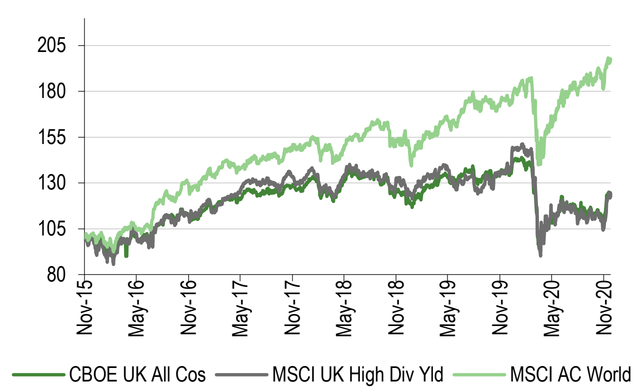
UK equity markets have made only a partial recovery from the Q120 market sell-off triggered by the coronavirus crisis. After an initial bounce in April and May, the market traded more or less sideways over the summer and autumn, until hopes of a Brexit deal – combined with positive news on vaccines and the resolution of uncertainties related to the US presidential election – pushed UK stocks higher in November. On the economic front, there was positive news in the form of record Q3 GDP growth (albeit after a record contraction in Q2) and an extension of the UK government's employment protection scheme until March 2021. In addition, the Bank of England increased its quantitative easing programme by raising the target stock of government bond purchases by £150bn, to £875bn. However, positive reaction to these developments was tempered by the re-imposition of temporary lockdowns across the country as a second wave of the virus rapidly gained momentum in the autumn, and indications from the government that even once these are lifted, localised restrictions will continue in virus hot spots.

Rolling out mass vaccination will take some time. Meanwhile, the UK economy is likely to remain dogged by below-trend growth, rising unemployment, low inflation, low interest rates and high corporate debt. An initial period of adjustment after the Brexit transition period ends on 1 January 2021 will also weigh on activity and investor sentiment, especially if last-minute negotiations fail to reach a deal.

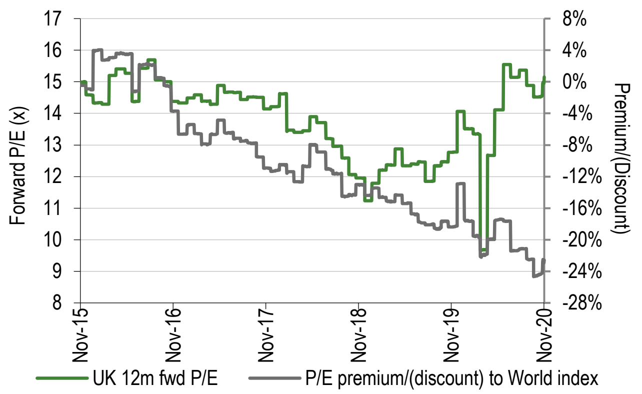
All this suggests the near-term outlook for UK equities remains subdued. However, valuations of quality UK stocks remain very low relative to other markets (Exhibit 2) and while there has been some recent improvement in the relative performance of UK equities on some measures, there are still many opportunities for investors to acquire undervalued, quality UK stocks which are well positioned to survive the current challenging environment and flourish as and when the economy, and investor sentiment towards UK equities, improves.

Exhibit 2: Market performance and valuation

Market performance



Forward P/E and P/E premium/discount to World Index*



Source: Refinitiv, Edison Investment Research. *Note: Valuation data as at 25 November 2020.

Fund profile: A 'win-win' combination lowers costs

MUT was founded in Scotland in 1923 and has been part of the Aberdeen Asset Management (AAM, now Aberdeen Standard Investments, or ASI) stable since 2000. Charles Luke has been the trust's portfolio manager since 2006. His deputy, Iain Pyle, joined the team in 2018. The Aberdeen/Standard Life merger in 2017 saw the UK part of AAM's Pan-European equity team (of which Luke was a member) merge with SLI's UK team to create ASI's 16-strong UK equity team.

In April 2020, Perpetual Income and Growth Investment Trust (PLI) announced it was terminating its management agreement with Invesco and in July, after a competitive tender, it released details of a proposed merger with MUT. 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, completed on 17 November 2020, saw MUT's total assets under management rise to c £1.1bn, making it the third largest fund in the Association of Investment Companies' (AIC) 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. Following the combination with PLI, gearing of up to £120m is accessible via long-term, fixed-rate borrowings and a flexible multi-currency bank loan. Net gearing as at 23 November 2020 was 8.3%. MUT has a 47-year record of annual dividend growth.

The fund managers: Charles Luke and Iain Pyle

The manager's view: Quality income more important than ever

Almost half of the largest 100 UK companies have suspended, cancelled or reduced dividends since the onset of the pandemic and at least 100 of the next 250 by market capitalisation have followed suit, leaving total 2020 dividends about 40% below their level in 2019. This unparalleled hit to company payouts means that MUT's managers, Charles Luke and Iain Pyle, are more focused than ever on quality income, and their close attention has paid off. Luke expects MUT's income to decline by 14% this calendar year, well below the cuts experienced by the market as a whole. This result is all the more impressive for being realised at a time when the managers are also focusing increasingly on acquiring companies with better long-term capital and dividend growth characteristics, rather than just a high headline yield.

Luke sees the outlook for dividend payments as mixed. He expects that many companies which have cut their dividends will probably wait for clarity on a vaccine and post-virus economic activity before resuming regular dividend payments. Luke believes many will prioritise repayment of government support and additional borrowings over payments to shareholders. Also, even when they reinstate dividends, it may not be at the same level as previously. 'Priorities have changed for most companies,' he says.

However, despite these uncertainties, Luke insists that income investing can still work. 'Quality, sustainable and growing income is out there, if you know where to look,' he says. Some companies maintained their dividend payouts, supported by strong demand, robust balance sheets and recurring or needs-driven revenues. He cites as one example the strong iron ore price, which supported mining companies and allowed Rio Tinto, among others, to increase its payout. The majority of healthcare and pharmaceutical companies, including AstraZeneca, GlaxoSmithKline and Smith & Nephew also maintained payments and for some sectors, it has been, relatively speaking, business as usual, says Luke. Utilities and food producers including National Grid, SSE and Unilever all continue to pay dividends. Beverage companies Diageo and Coca-Cola Hellenic did the same, assisted by strong sales to supermarkets. Furthermore, Luke is encouraged by recent signs that some companies are becoming more confident about reinstating their dividends. In his view, some were excessively cautious initially, while others, such as insurers, have seen continued or increased demand for their products and services. Some are even signalling their willingness to pay missed dividends.

MUT's managers expect the general corporate environment to remain unusually challenging, with profits under pressure for the foreseeable future. In this low growth world, earnings growth will be prized more highly than ever, says Luke. 'So,' he concludes, it is 'eminently sensible for us to maintain our careful, research-intensive approach – to seek out and invest in resilient, high-quality companies, with compelling, long-term structural growth stories, that should be able to thrive in this difficult environment and emerge in a stronger competitive position, with a greater capacity to grow future earnings and dividends.'

Asset allocation

Investment process: A focus on income growth prospects

MUT's managers Charles Luke and Iain Pyle are members of a five-person UK equity income team which is part of ASI's wider UK equity group. The group provides detailed coverage of the UK's largest 350 listed companies. Luke receives further support from ASI'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 environmental, social and governance (ESG) risks. All ideas are subject to rigorous team scrutiny and debate. Fundamental research is supplemented by regular company meetings.

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 ASI 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 supersector) 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.

ESG considerations are a key component of ASI'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 ASI's more than 30-strong, in-house ESG team. Over the most recent financial year, the team has engaged 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. The trust holds a Morningstar Sustainability Rating of four out of five.

Exhibit 3: MUT quantitative quality characteristics

	MUT (%)	Benchmark (%)
Return on equity	16.0	10.6
Operating margin	19.3	16.7
Net debt (ex-financials)	78.8	82.5
EPS growth three-year forward	7.9	9.5
DPS growth three-year forward	5.0	3.7

Source: Murray Income Trust, Edison Investment Research. Note: Calculated as weighted medians, as at 30 September 2020.

Current portfolio positioning

At the end of October 2020, MUT's portfolio comprised 56 stocks, lower than the 61 positions held a year earlier. Turnover this year has been around 26%, a little higher than usual. Activity was focused on increasing the quality of the portfolio, while maintaining the focus on capital and dividend growth. Most recent acquisitions have been mid-cap stocks.

The managers have initiated positions in Unite Group, a student accommodation provider with strong relationships with universities, Marshalls, a construction materials manufacturer, and Sanne, an alternatives fund administrator with attractive margins. They have also acquired holdings in drinks companies Fevertree, which has a growth opportunity in the US, and Coca Cola Hellenic, the second largest soft drinks bottler in Europe, with good growth potential, along with a position in John Laing, a manager of infrastructure and renewables projects, with a long history of strong returns.

Disposals have included profit-taking on a holding in the London Stock Exchange after a period of very strong share price performance, and Diploma, a supplier of industrial goods. The managers also disposed of several companies adversely affected by the pandemic, including WH Smith, whose airport outlets have been hit by the collapse in air travel, Experian, a credit rating company hit by rising unemployment, and Workspace, whose flexible workspace offering has been undermined by the trend towards home working, along with accommodation providers Hostelworld and InterContinental Hotels Group. They also reduced exposure to Aveva, a supplier of engineering software and services, although this remains a top 10 holding.

Exhibit 4: Portfolio industry exposure vs benchmark (% unless stated)

	Portfolio end-Oct 2020	Portfolio end-Oct 2019	Change (pp)	Broad UK Index weight	Active weight vs index (pp)	Trust weight/ index weight (x)
Financials	22.0	21.3	0.7	25.7	(3.7)	0.9
Consumer goods	16.6	15.4	1.2	15.3	1.4	1.1
Healthcare	15.3	13.0	2.3	10.9	4.4	1.4
Industrials	12.5	13.5	(1.0)	13.2	(0.7)	0.9
Basic materials	11.0	7.1	3.9	8.8	2.2	1.3
Consumer services	7.2	11.0	(3.8)	12.7	(5.5)	0.6
Utilities	5.1	4.8	0.4	3.6	1.5	1.4
Technology	4.2	5.1	(0.9)	1.2	3.0	3.5
Telecommunications	3.1	3.0	0.1	2.2	0.9	1.4
Oil & gas	2.9	5.9	(3.0)	6.5	(3.6)	0.4
	100.0	**100.0**		**100.0**		

Source: Murray Income Trust, Edison Investment Research

As at end-October 2020, MUT's top 10 holdings comprised 33.3% of the portfolio, representing an increase in portfolio concentration over the past year, as the top 10 holdings comprised only 28.9% at end-October 2019 (Exhibit 1). The portfolio remains well diversified on an industry basis, as can be seen in Exhibit 4. The most significant active overweight positions versus the benchmark are in healthcare (4.4pp overweight compared to the benchmark), technology (3.0pp overweight) and basic materials (2.2pp overweight). The portfolio has notable underweights in consumer services (5.5pp underweight), financials (3.7pp underweight), and oil and gas (3.6pp underweight).

The number of holdings in overseas companies, shown in Exhibit 5, rose to 10 (16.1% of the portfolio) at end-June 2020, up from seven companies (11% of the portfolio) in September 2019. With the exception of Microsoft and Total, all of the foreign holdings are listed in Switzerland and the Nordic countries.

Exhibit 5: MUT's overseas holdings as at 30 June 2020

Company	Country	Sector	% of portfolio end June 2020
Roche	Switzerland	Pharmaceuticals & biotechnology	2.6
Total	France	Oil & gas producers	2.2
Coca-Cola HBC	Switzerland	Beverages	1.9
Nestlé	Switzerland	Food producers	1.7
Telenor	Norway	Mobile telecommunications	1.5
Kone	Finland	Industrial engineering	1.5
Microsoft	United States	Software & computer services	1.4
Novo-Nordisk	Denmark	Pharmaceuticals & biotechnology	1.3
VAT Group	Switzerland	Industrial engineering	1.3
Mowi	Norway	Food producers	0.7

Source: MUT, Edison Investment Research

The managers continued to supplement portfolio income via the modest use of option writing, which is used to top-slice or top up existing positions. The portfolio presently has about a dozen such positions of between one month and three months' duration, including calls on Aveva and storage company Big Yellow Group.

Following the announcement in July 2020 of MUT's combination with PLI, Luke assumed management responsibility for PLI's assets. Between this announcement and completion of the transaction on 17 November 2020, PLI's portfolio was aligned with MUT's, with only 10 stocks from PLI's original portfolio being retained. Approximately 80% of the realigned PLI portfolio was transferred in specie to MUT and the remaining assets were liquidated and converted to cash prior to the combination of the two portfolios, to meet the costs and cash entitlement of PLI shareholders who opted for the cash exit.

Performance: Outperformance persists

Exhibit 6: Five-year discrete performance data

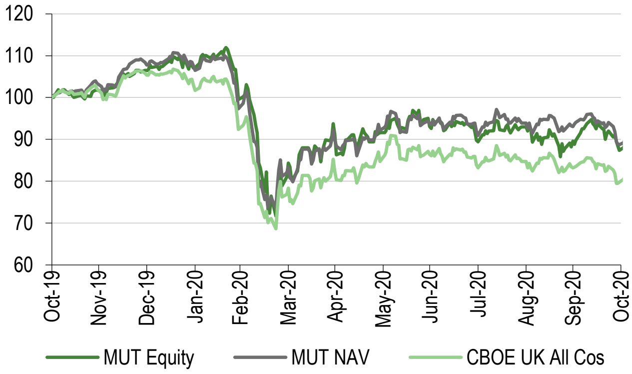
12 months ending	Share price (%)	NAV (%)	CBOE UK All Companies (%)	MSCI UK High Dividend Yield (%)	MSCI AC World (%)
31/10/16	9.6	13.5	12.8	12.4	29.8
31/10/17	14.8	12.3	13.6	18.5	13.9
31/10/18	(3.1)	(2.5)	(1.6)	(3.1)	3.9
31/10/19	22.2	15.2	6.9	3.6	11.8
31/10/20	(12.6)	(11.3)	(20.2)	(21.7)	5.5

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

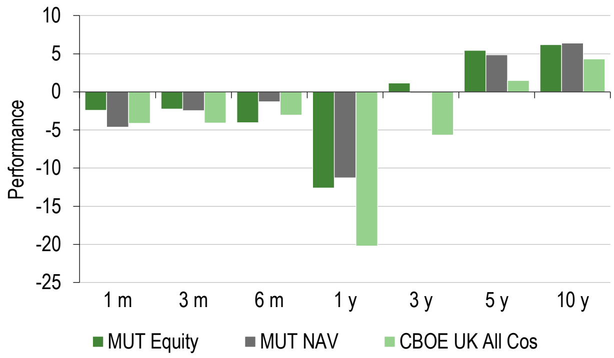
MUT's performance remains consistently strong in relative terms, outperforming the UK market both during recent months and over the longer term. In the three months ended October 2020, the trust returned -2.3% on a share price basis and -2.4% in NAV terms, compared to a decline of 4.1% in the broad UK market, as represented by the CBOE UK All Companies index. In the year to end-October, it returned -12.6% and -11.3% in share price and NAV terms respectively, compared to a market decline of 20.2%. The trust also outperformed the market over three, five and 10 years. In addition, MUT's annualised absolute returns have been positive over three, five and 10 years on a share price basis and over five and 10 years on a NAV basis (Exhibit 7, right hand chart). As well as outperforming the UK market over all periods shown, except on a share price basis over six months, the trust has also outperformed the MSCI UK High Dividend Yield Index, which could be viewed as a closer proxy than the broad UK market for the investment universe of a UK equity income fund. Exhibit 8 shows this outperformance. However, unsurprisingly, MUT has underperformed the MSCI AC World index, which is dominated by expensive and fashionable US mega-cap growth stocks and Chinese internet names.

Exhibit 7: Investment trust performance to 31 October 2020

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



Price, NAV and index total return performance (%)



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

Exhibit 8: Share price and NAV total return performance, relative to indices (%)

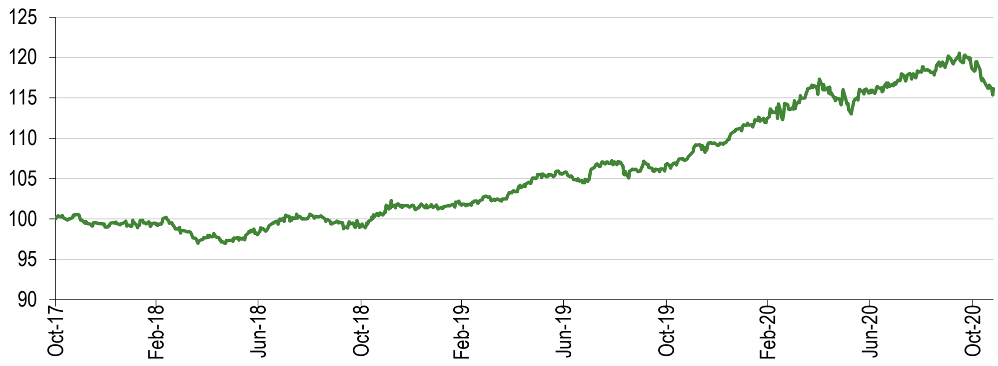
	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to CBOE UK All Cos	1.8	1.9	(1.0)	9.6	23.4	21.1	19.6
NAV relative to CBOE UK All Cos	(0.5)	1.7	1.8	11.2	18.7	17.9	21.8
Price relative to MSCI UK High Div Yld	2.9	0.6	3.9	11.6	31.7	24.4	16.6
NAV relative to MSCI UK High Div Yld	0.5	0.4	6.8	13.3	26.7	21.2	18.8
Price relative to MSCI AC World	0.0	(4.0)	(13.6)	(17.1)	(15.5)	(28.1)	(34.6)
NAV relative to MSCI AC World	(2.3)	(4.2)	(11.1)	(15.9)	(18.7)	(30.0)	(33.4)

Source: Refinitiv, Edison Investment Research. Note: Data to end-October 2020. Geometric calculation.

The main contributor to MUT's outperformance is stock selection. As discussed above, the managers' relentless focus on quality has helped avoid the worst of this year's dividend shocks. Over the year ended 30 June 2020, the most significant contributors to performance were underweights to Royal Dutch Shell and HSBC and more modest overweights to Microsoft, Roche, Assura and VAT Group. More recently, positions in Mondi, a manufacturer of paper and packaging products, Close Brothers, a specialist financial services provider, and engineering services company Weir Group, have assisted performance. The positive performance impact of these holdings was partially offset by the adverse effect of underweights to HSBC, Reckitt Benckiser, AstraZeneca and British American Tobacco, and overweights to National Express (sold in October), Aveva, Total and Euromoney Institutional Investor. Financial holding Ashmore also detracted, as did National Grid.

While stock selection has contributed most to recent performance, asset allocation also made a meaningful addition to returns, especially via underweights to banks and oil & gas – a sector hit by low oil prices and increasing ESG concerns – and overweights to technology and healthcare. In fact, sector positioning enhanced returns in most areas. Option trading added further to total performance over the financial year ended June 2020, accounting for c 10% of income, up from 7% in the previous year. In FY20, gearing reduced portfolio returns by 0.6%.

Exhibit 9: NAV total return performance relative to CBOE UK All Cos index over three years

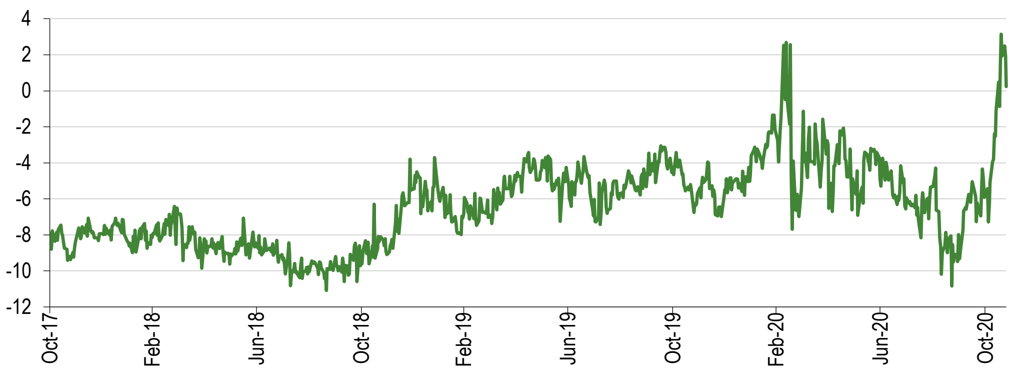


Source: Refinitiv, Edison Investment Research

Discount: Recent re-rating sees move to a premium

MUT's discount to NAV has been on a narrowing trend since Q418 (Exhibit 10). This trend was interrupted by the onset of the pandemic, which saw the discount widen, then settle in a range around 6% until late July, when news of the pending combination with PLI saw it widen again to around 10%. In contrast, PLI's discount narrowed on the news, suggesting an element of merger arbitrage. However, the conclusion of the transaction in mid-November sparked a rapid tightening of the discount and a move back to premium. As at 24 November, MUT was trading at a premium to cum-income NAV of 0.2%. This compares with average discounts of 4.8%, 6.4%, 7.2% and 4.1% over the past one, three, five and 10 years.

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



Source: Refinitiv, Edison Investment Research

Capital structure and fees

MUT is structured as a conventional investment trust, with one share class. Following the combination with PLI on 17 November, MUT has 117.0m shares in issue. After the AGM on 27 November, the board is expected to have authority to repurchase up to 8.46% of shares to manage a discount or allot up to 5.64% to manage a premium. However, there have been no repurchases since end-October 2018 (Exhibit 1), as the shares have benefited from the strong NAV performance.

Prior to the combination with PLI, MUT's managers had access to gearing of up to £60m (c 12% of net assets) via £40m of 10-year loan notes (maturing in November 2027 with a coupon of 2.51%)

and a £20m multi-currency borrowing facility with Scotiabank. As part of the combination with PLI, the long-term borrowings of both trusts were combined, to give MUT combined structural borrowings of £100m, comprising MUT's £40m and an additional £60m from PLI, which is due in 2029. The blended cost of long-term borrowing is now 3.63%. Together with MUT's rolling short-term bank facility, the trust's managers now have access to £120m of borrowings. As at 23 November 2020, net gearing stood at 8.3%.

The trust pays Aberdeen Standard Fund Managers a tiered annual management fee based on net assets: 0.55% up to £350m, 0.45% from £350m to £450m and 0.25% above £450m. Based on net assets of £534.5m, the blended management fee for FY20 was 0.48%. Fees are charged 70% to capital and 30% to revenue, and there is no performance fee. Ongoing charges (comprising management fees and administrative charges) for FY20 were 0.64%, marginally lower than the previous year and below the average fee of 0.80% for the AIC UK Equity Income peer group. Following the combination with PLI, the trust has a projected blended management fee of 0.38%, which compares very favourably to the pre-combination blended fee rates of 0.48% for MUT and 0.55% for PLI. Fee reductions of this magnitude would normally take trust boards many years to realise.

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. This schedule was approved by shareholders at the AGM held in November 2019, for FY20 and beyond. It replaces the previous policy, which paid three interim dividends in January, March and June, and a final dividend following shareholder approval at the November AGM. The new policy thus ensures that investors will be paid dividends earlier and at more regular intervals. FY20's dividend of 34.25p was 0.7% higher than FY19's dividend of 34.0p. This makes FY20 the 47th consecutive year of dividend increases. Based on the current share price and the last four dividends, MUT has a yield of 4.1%.

As discussed above, MUT's portfolio income has declined this year due to the impact of COVID-19 on companies' capacity to make dividend payments. However, the trust has built up its revenue reserves over many years to give it the ability to smooth dividend payments to its shareholders in circumstances such as those it now faces. Of MUT's FY20 dividend of 34.25p, 30.50p was paid out of the year's revenue income, supplemented by 3.75p from revenue reserves. This reduced revenue reserves from 27.8p to 24.1p per share (70.3% of the full year dividend). Revenue reserves have subsequently been diluted by the new share issuance arising from the recent merger with PLI, and now represent 12.5p. As revenue reserves may not be transferred in a merger, PLI's reserve was distributed to its shareholders as a 13p special dividend in October.

In October 2020, the board declared three interim dividends for the financial year ended 30 June 2021. A first interim dividend of 12.55p will be paid on 17 December 2020 to shareholders on the register at 30 October (before completion of the merger), a second, of 3.95p on 18 March 2021 and a third, of 8.25p, on 17 June 2021. The aggregate of these dividends is 24.75p, the same as that paid for the first three interim dividends in respect of FY20, but the timing has been adjusted to ensure equitable treatment of existing MUT and former PLI shareholders.

MUT's chairman, Neil Rogan, has recently reiterated the board's commitment to maintaining MUT's long record of annual growth in dividends, drawing further on revenue reserves if necessary. He believes current revenue reserves are sufficient to meet this objective. However, to provide an additional degree of flexibility to the board in its efforts to maintain and increase dividend payments in a variety of circumstances, the trust may use its capital reserves to this end, if needed. Such payments are now common in the investment trust sector.

Peer group comparison

MUT is a member of the AIC's UK Equity Income sector, which has 22 members. Its recent merger with PLI, which doubles its market capitalisation, now makes it the third largest fund in this sector. Although most of the trusts in this peer group have sustained losses over the past year, MUT's NAV total return fell by only 1.8%, much less than the average loss of 7.2%. Its consistently strong relative performance has ensured that its returns rank fourth over one year, third over three and five years, and tenth over 10 years, with solid absolute gains over three, five and 10 years. Its ongoing charge of 0.64% is already below the average for the sector and the management fee component of the overall charge is projected to decline following the merger with PLI. Like all its peers, MUT does not pay a performance fee. Its 0.2% premium to NAV compares to an average discount of 4.2% across the sector, while its gearing, at 8.3%, is somewhat lower than the average for the sector. MUT's dividend yield of 4.1% is below the average, mainly due to the recent strong performance of the share price.

Exhibit 11: UK Equity Income peer group as at 25 November 2020*

% 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	Discount (cum-fair)	Net gearing	Dividend yield
Murray Income Trust	983.2	(1.8)	12.6	44.1	109.3	0.6	No	0.2	108	4.1
Aberdeen Standard Equity Inc Trust	145.5	(13.6)	(19.4)	(6.4)	66.9	0.9	No	(9.9)	112	6.8
BlackRock Income and Growth	41.6	(4.2)	1.3	19.1	82.7	1.1	No	(1.5)	102	3.9
BMO Capital & Income	306.7	(7.5)	2.1	35.7	102.3	0.6	No	(1.6)	106	4.1
BMO UK High Income Units	109.6	(4.2)	(0.6)	25.3	88.4	1.0	No	(10.0)	108	4.6
Chelverton UK Dividend Trust	31.7	(14.6)	(27.6)	(6.5)	161.4	2.1	No	(2.8)	169	6.6
City of London	1,502.6	(10.1)	(3.1)	16.9	102.8	0.4	No	3.5	110	5.3
Diverse Income Trust	334.1	8.5	7.3	27.0		1.1	No	(4.8)	100	3.9
Dunedin Income Growth	419.3	4.7	17.2	48.7	110.0	0.6	No	(2.8)	109	4.5
Edinburgh Investment	919.5	(8.8)	(11.1)	1.4	112.9	0.6	No	(7.7)	110	4.5
Finsbury Growth & Income	1,876.3	(2.5)	17.1	62.2	240.6	0.7	No	0.5	101	2.0
Invesco Income Growth	141.2	(10.3)	(3.3)	12.8	103.6	0.7	No	(13.8)	106	4.9
JPMorgan Claverhouse	358.0	(10.3)	(4.7)	22.2	95.1	0.7	No	(1.6)	117	4.7
JPMorgan Elect Managed Income	71.6	(6.7)	(5.8)	12.2	81.7	0.9	No	(1.9)	107	5.1
Law Debenture Corporation	729.5	0.4	6.8	39.0	132.7	0.3	No	(1.0)	122	4.2
Lowland	310.0	(10.1)	(14.8)	8.5	112.9	0.6	No	(3.8)	112	5.2
Merchants Trust	519.3	(8.4)	2.0	26.9	94.9	0.6	No	1.9	117	6.3
Schroder Income Growth	187.5	(5.5)	0.3	24.9	109.6	0.9	No	(0.6)	110	4.6
Shires Income	71.9	(2.8)	2.7	39.1	126.6	1.0	No	(6.8)	123	5.7
Temple Bar	644.0	(23.0)	(14.4)	9.6	81.8	0.5	No	(4.0)	100	4.0
Troy Income & Growth	250.0	(8.8)	3.9	21.6	109.5	0.9	No	(0.5)	100	3.9
Value And Income	85.9	(18.7)	(16.5)	(0.8)	60.4	1.4	No	(22.9)	141	6.4
Sector average (22 funds)	**456.3**	**(7.2)**	**(2.2)**	**22.0**	**108.9**	**0.8**		**(4.2)**	**113**	**4.8**
Trust rank in sector	**3**	**4**	**3**	**3**	**10**	**14**		**4**	**14**	**16**

Source: Morningstar, Edison Investment Research. Note: *Performance to 24 November 2020 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).

The board

MUT's board usually comprises six independent, non-executive directors. It is chaired by Neil Rogan, who joined the board in 2013 and became chairman in 2017. Jean Park and Donald Cameron, MSP, both joined in 2012 and both will retire at the 2021 AGM. Peter Tait was appointed in November 2017, Stephanie Eastment in August 2018 and Merryn Somerset Webb in August 2019. However, following the recent combination of PLI with MUT, PLI's chairman, Richard Laing, and two other PLI board members, Georgina Field and Alan Giles, have been invited to join MUT's board to ensure continuity of oversight for PLI shareholders. This increase in the size of MUT's board will be temporary, as Richard Laing will join Jean Park and Donald Cameron in retiring at the 2021 AGM, returning the number of board members to its usual six. This arrangement has eliminated the need to find replacements for Park and Cameron and thus saves on associated recruiting costs. Between them, MUT's board members have professional experience in accountancy, business and investment management, law, insurance, marketing and financial journalism.

Frankfurt +49 (0)69 78 8076 960	London +44 (0)20 3077 5700	New York +1 646 653 7026	Sydney +61 (0)2 8249 8342
Schumannstrasse 34b	280 High Holborn	1185 Avenue of the Americas	Level 4, Office 1205
60325 Frankfurt	London, WC1V 7EE	3rd Floor, New York, NY 10036	95 Pitt Street, Sydney
Germany	United Kingdom	United States of America	NSW 2000, Australia