EDISON

Murray Income Trust

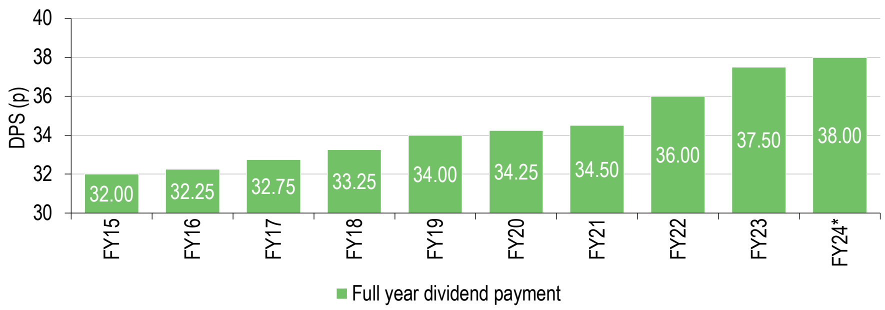
Delivering income and capital growth

Investment trusts
UK equity income

15 April 2024

Murray Income Trust (MUT) invests in high-quality, mainly UK-listed stocks. It has achieved both its dividend and capital growth objectives over the long term. The trust boasts 50 years of continually rising dividends. It paid a dividend of 37.5p per share in FY23 (ended 30 June 2023 (FY22: 36.0p)), and the board has indicated the dividend will rise to at least 38.0p in FY24. This represents a prospective yield of 4.5%. Late last year the company decided to take action to allow shareholders to access dividend income more quickly and more evenly throughout the year, by smoothing quarterly dividend payments. MUT has also delivered absolute gains and outperformance of the market and most of its peers over the longer term, returning an annual average of 6.1% in NAV terms over the 10 years ended 31 March 2024, versus an average market gain of 5.8% pa. The trust's managers view UK equities as very attractively priced at current levels and expect the portfolio's quality holdings to outperform as and when UK stocks return to favour with investors.

Maintaining a long-term record of growing dividends



Source: LSEG, Edison Investment Research. *The board has indicated that the FY24 dividend will total at least 38.0p per share.

The analyst's view

- Those seeking a regular, competitive and rising income will appreciate MUT's commitment to its policy of annually increasing dividends, delivered via quarterly dividend payments and representing a prospective yield of 4.5%.
- The trust's good long-term performance track record of outright gains and outperformance of the market and most of its AIC peers should also interest potential investors.
- MUT may appeal to investors seeking exposure to a diversified portfolio of high-quality, resilient, mainly UK stocks. The trust is diversified by sector and by income source: 80% of portfolio income is sourced from abroad, which provides significant protection from any deterioration in the UK's economic climate. A programme of option writing provides a further modest, uncorrelated supplement to portfolio revenues.
- MUT's discount is around double its long-term average, so now may be an opportune time to gain exposure to the regular income, capital growth and relative value offered by this trust.

Price ord	**843.0p**
Market cap	**£895.4m**
AUM	**£1,155.1m**
NAV*	939.8p
Discount to NAV	10.3%

*Including income. At 11 April 2024.

Yield		4.5%
Shares in issue		106.2m
Code Ord/A-share/ISIN		MUT/GB0006111123
Primary exchange		LSE
AIC sector		UK Equity Income
52-week high/low	883.0p	770.0p
NAV* high/low	952.4p	851.2p

*Including income.

Gearing

Net gearing at 28 March 2024	8.0%

Fund objective

Murray Income Trust (MUT) aims to provide a high and growing income combined with capital growth, through investment in a portfolio principally of UK equities. MUT focuses on 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 portfolio's absolute return. MUT measures its performance versus the broad UK stock market.

Bull points

- Experienced managers with a well-established track record of outperformance of the market and peers.
- 50 consecutive years of dividend growth and an attractive prospective yield, at a competitive fee.
- Scope for the discount to narrow as performance returns to form.

Bear points

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

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MUT: Meeting dividend and capital growth targets

Fifty years of dividend growth, and counting

MUT aims to provide investors with a high and growing dividend, combined with capital growth, through investment in a portfolio principally of UK equities. It has achieved both these objectives. Last year the company celebrated 50 years of rising dividend payments. The dividend for the financial year ended June 2023 (FY23) was 37.5p, a rise of 4.2% on the previous year (FY22: 36.0p). (See the chart above.)

Dividends are paid quarterly in December, March, June and September each year and the board has confirmed its intention to maintain annual dividend increases as 'a priority for the future'. As announced in November 2023, the company has decided to take action to allow shareholders to access dividend income more quickly and more evenly throughout the year. This decision will smooth quarterly dividend payments and reflects in part the manager's ongoing efforts to smooth portfolio income. The first three dividend payments for the year ended 30 June 2024 rise to 9.5p per share, compared to last year's first three interim dividends of 8.25p per share. The fourth interim dividend for the year will be lower than last year's 12.75p per share payment, but the board expects it will be 'not be less than 9.5p per share, giving an expected total for the year of a minimum of 38.0p per share', representing a rise of at least 1.3% on the FY23 dividend. Based on the current share price, this represents a prospective yield of 4.5%.

Long-term outperformance of the market and peers

MUT has also realised its objective to deliver capital growth. Over the 10 years ended 31 March 2024 the trust made an annual average return of 6.1% in NAV terms compared to the average annual benchmark return of 5.8%. On a share price basis, the trust returned an annual average of 5.3% over this period. MUT has also outperformed the average of its AIC UK Equity Income peers over both the short and the longer term, being ranked in the top three performers over 10 years (Exhibit 5). However, its quality bias has meant that more near-term performance has lagged the market slightly on an NAV basis, as value stocks have outperformed. Over the year to 31 March 2024, it returned 7.8%, versus a benchmark return of 8.4% (see the Performance section for details). The share price return over this period was 2.4%, widening the trust's discount to NAV (see discussion below).

Quality to outperform when UK equities return to favour

MUT's managers, Charles Luke and Iain Pyle, expect aggressive monetary tightening over the past 18 months to cause a slowdown in global economic growth in 2024, while abrdn analysts forecast zero GDP growth in the UK this year. They also expect further declines in inflation to allow the Bank of England to begin cutting rates from mid-year onwards.

However, this lacklustre economic outlook has not undermined the managers' optimism about the prospects of the UK market and MUT, over both the short and longer term. In the near term, they expect the trust's quality focus to protect returns through the forecast slowdown, as companies with pricing power, high margins and strong balance sheets are best placed to weather challenging economic conditions, while continuing to generate income.

Looking further ahead, Luke and Pyle argue that the UK market now looks 'very cheap' compared to its own history and relative to international markets. They point to the fact that apart from the global financial crisis of 2008/09, the UK market's P/E multiple of 10.8x is at a 30-year low. They attribute these low valuations to several factors including the sharp drop in UK equity holdings by UK pension funds over recent years, higher than expected UK inflation and interest rates, a lack of tech stocks in the UK market and the residual impact of Brexit, which is discouraging foreign investment.

Whatever the reasons for the current lack of interest in the UK market, MUT's managers believe that at some point investors will come to appreciate the value it offers. Potential triggers for this improvement in market sentiment could include interest rate cuts, an easing in political uncertainty following the UK general election due sometime this year or a pick-up in M&A activity, which would send a clear signal to the broader investment community that some major investors see value in the market.

MUT's managers nominate several additional factors they believe will eventually attract investors: the UK market's dividend yield (4.0% as at end December 2023) is appealing versus regional equity markets; and dividend and earnings are also expected to grow strongly this year, despite subdued economic growth. The team cites an investor survey showing consensus forecasts of 9.2% dividend growth and 10.1% earnings growth for 2024. In short, for Luke and Pyle, the case for investing in the UK market is compelling and will eventually tempt investors to return. They expect MUT's quality holdings to do better than others, as and when this tide turns.

Exposure to 'unstoppable long-term trends' another plus

Another factor supporting MUT's longer-term prospects is its exposure to several 'unstoppable long-term trends', which the managers expect to provide major tailwinds to earnings and dividend growth over the medium term. These trends include ageing populations, digital transformation, the transition to renewable energy and zero-carbon emissions and rising global wealth. (See our last note for details of the trust's portfolio holdings that provide exposure to these themes.)

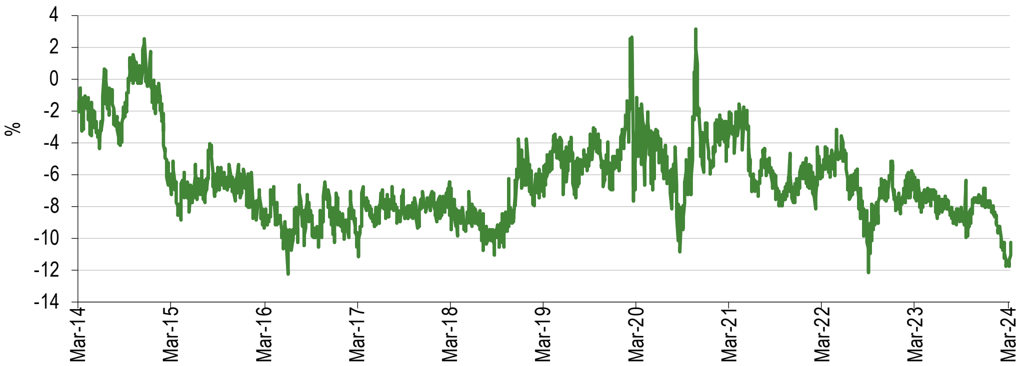
Unusually wide discount may be a good buying opportunity

MUT's share price discount to its NAV has averaged around 5% over the past 10 years, although it is currently more than double this level, and close to its widest reading over the period (Exhibit 1). However, MUT is not alone in seeing its discount widen. Discounts across the investment trust sector have widened in the past year or more, including in the UK equity income sector. There are several possible reasons for this. As discussed above, UK equities are currently out of favour with investors, while high interest rates mean that for the first time in many years, cash and bonds offer relatively attractive, low risk returns.

MUT's board has responded to this development by stepping up share buybacks to support the share price and reduce discount volatility. The trust repurchased 5.0m shares over FY23, amounting to 4.3% of shares in issue at the end of FY22 and it has repurchased a further 5.0m as at end March 2024, representing 4.5% of shares in issue.

These buybacks are accretive to the value of remaining shares, and should, over time, have a favourable impact on the discount. So too should any sustained improvement in MUT's performance, and any improvement in investor sentiment regarding UK equities. There are therefore several reasons to suggest that the trust's discount may, in time, move back towards its long-term average. So, for those who share the managers' confidence in the longer-term prospects of the UK market, and MUT's portfolio holdings, now might be a good time to invest.

Exhibit 1: Share price premium/discount to NAV (including income) over 10 years (%)



Source: LSEG, Edison Investment Research

Performance

Exhibit 2: Five-year discrete performance data

12 months ending	Share price (%)	NAV (%)	CBOE UK All Companies (%)	MSCI AC World (%)
31/03/20	(6.8)	(10.6)	(19.1)	(6.2)
31/03/21	27.0	25.3	26.6	39.6
31/03/22	7.8	11.4	13.2	12.9
31/03/23	0.4	1.4	3.8	(0.9)
31/03/24	2.4	7.8	8.4	21.2

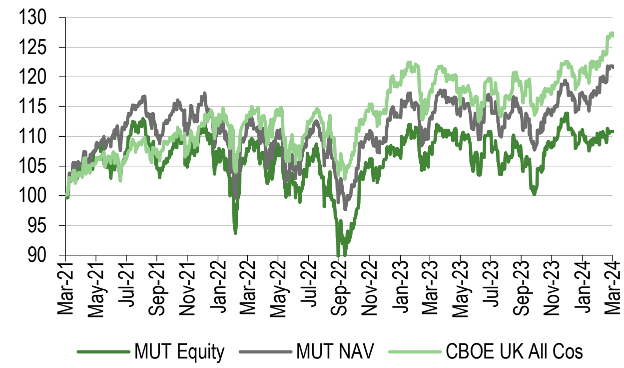
Source: LSEG. Note: All % on a total return basis in pounds sterling.

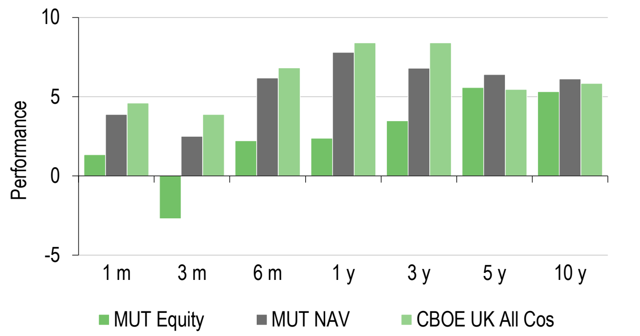
MUT returned 4.5% in NAV terms during the six months of its financial half year ending 31 December 2023, lagging the benchmark return of 5.2%, due to its quality bias, as value stocks continued to outperform over the period. Performance over this period was supported at the sector level by an overweight to consumer discretionary and an underweight to financials, while an overweight to industrials and an underweight to basic materials both detracted. At the stock level, positions in Sage, a UK-listed software applications business, TotalEnergies, a French oil and gas producer, and UK housebuilder Vistry added most. The strong performance of overseas markets in the latter half of 2023 meant the portfolio also benefited from its near 20% exposure to non-UK companies, including Accton Technology, a Taiwanese communications equipment supplier, Novo Nordisk, a Danish pharmaceutical firm, and VAT Group, a Swiss specialist industrial machinery producer. Each of these stocks rose by more than 20% in the six months ended December 2023. Positions in pest controller Rentokil Initial and drinks supplier Diageo were the main detractors from returns over this period, along with the decision not to hold either Shell or Rolls-Royce.

More recently, performance has benefited from MUT's position in asset manager Intermediate Capital, which specialises in private equity investments. This stock performed well after the company reported a rise in assets under management. Direct Line, a diversified insurer, also rose sharply on reports of a takeover bid from Belgian insurance company Ageas. The trust's holding in Close Brothers, a UK regional bank, detracted following an announcement that it would waive its dividend to conserve capital ahead of the findings of an FCA review of historical practices in the motor finance sector, due in September. The managers trimmed their exposure following this announcement.

Exhibit 3: Investment company performance to 31 March 2024

Price, NAV and index total return performance over three years, rebased	Price, NAV and index total return performance (%)

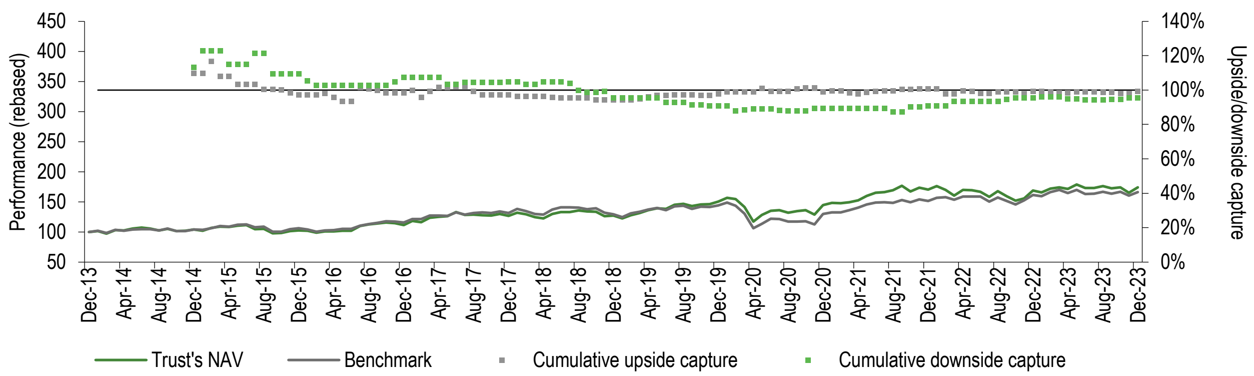




Source: LSEG, Edison Investment Research. Note: Three-, five- and 10-year performance figures annualised.

Over the past decade, MUT's cumulative upside capture was 99%, illustrating that the trust is likely to track the market very closely in months when the market rallies (Exhibit 4). The company's downside capture over this period was 96%, indicating that it outperforms in falling markets due to the relative resilience of its quality holdings. This quality approach proved especially helpful to relative performance during the market instability triggered by the onset of the pandemic in early 2020. MUT's downside capture declined modestly over the following two years, to just under 90%, reflecting its partial immunity to the market weakness experienced during this period.

Exhibit 4: Upside/downside capture over 10 years



Source: LSEG, Edison Investment Research. Note: Cumulative upside/downside capture calculated as the geometric average NAV total return (TR) of the fund during months with positive/negative reference index TRs, divided by the geometric average reference index TR during these months. A 100% upside/downside indicates that the fund's TR was in line with the reference index's during months with positive/negative returns. Data points for the initial 12 months have been omitted in the exhibit due to the limited number of observations used to calculate the cumulative upside/downside capture ratios.

Peer group comparison

MUT is a member of the AIC's UK Equity Income sector, which comprises 17 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 20% of its portfolio is invested in mid-cap stocks and c 20% is held in international stocks. The manager also seeks to supplement and diversify income sources with modest option writing.

MUT's merger with Perpetual Income & Growth (PLI) in November 2020 doubled its market capitalisation, making it the fifth largest fund in this sector (Exhibit 5). The trust's relative performance has improved in the past six months and it has now outperformed the average of its peers over all periods shown in Exhibit 5 and is ranked in the top three performers over 10 years. MUT's ongoing charge is the second lowest among peers following the merger, reflecting the benefits of its scale. Its discount is above the average, while its gearing is lower. MUT's dividend yield is also slightly below the average of its peers.

Exhibit 5: UK Equity Income peer group as at 26 March 2024*

% 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	887.1	11.5	21.4	36.9	78.8	0.5	No	(11.7)	108	4.5
abrdn Equity Income Trust	131.4	0.9	3.2	(4.5)	18.6	0.9	No	(8.8)	115	8.3
BlackRock Income and Growth	36.3	9.5	23.9	29.5	78.7	1.3	No	(15.4)	102	4.1
Chelverton UK Dividend Trust	30.6	(5.2)	(16.6)	2.1	37.3	2.4	No	(2.2)	169	8.9
City of London	2,012.1	11.7	28.9	30.4	74.5	0.4	No	(3.2)	107	5.0
Diverse Income Trust	267.6	3.8	(7.2)	21.8	60.6	1.1	No	(7.0)	100	4.8
Dunedin Income Growth	400.6	12.4	16.3	37.8	73.2	0.6	No	(12.6)	108	4.7
Edinburgh Investment	1,034.7	15.9	31.9	33.1	74.1	0.5	No	(11.5)	110	3.8
Finsbury Growth & Income	1,610.4	2.3	15.3	27.4	122.1	0.6	No	(7.7)	101	2.2
JPMorgan Claverhouse	391.7	13.1	17.3	27.7	68.1	0.7	No	(6.9)	107	5.1
Law Debenture Corporation	1,030.4	12.9	24.2	51.9	110.6	0.5	No	(4.7)	122	4.1
Lowland	321.5	11.4	16.0	21.4	42.4	0.6	No	(13.2)	113	5.3
Merchants Trust	781.7	4.2	21.9	41.6	74.3	0.6	No	(3.6)	114	5.2
Schroder Income Growth	184.1	10.5	21.9	31.3	76.3	0.8	No	(13.9)	114	5.2
Shires Income	91.0	8.5	14.4	27.6	72.3	1.0	No	(13.7)	123	6.5
Temple Bar	686.2	17.5	26.9	19.5	53.8	0.5	No	(9.9)	100	4.0
Troy Income & Growth	161.8	6.2	10.2	10.4	60.6	1.0	No	(3.4)	100	1.7
Simple average	**591.7**	**8.6**	**15.9**	**26.2**	**69.2**	**0.8**		**(8.7)**	**112**	**4.9**
MUT rank in sector	**5**	**7**	**8**	**4**	**3**	**=2**		**10**	**11**	**11**

Source: Morningstar, Edison Investment Research. Note: *Performance to 25 March 2024 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).

Asset allocation

Current portfolio positioning

The managers added two new names to the portfolio over the six months ended 31 December 2023:

- **Rotork** – a UK-listed company that designs, manufactures and markets industrial flow control and instrumentation solutions for the global oil and gas, industrial and utilities sectors. The company's electric valves are used to reduce methane emissions in the oil and gas sector and facilitate carbon capture, utilisation and storage (CCUS). Rotork should therefore see strong demand as companies strive to meet emissions targets. MUT's managers like the company's strong quality characteristics, and, in Luke's view, its growth potential is underappreciated by the market.
- **Mastercard** – a US-listed credit and debit card provider. Its earnings growth is being driven by the shift to electronic payments. Mastercard's value-added services business, which includes cybersecurity and consumer spending analytics, provides further avenues for expansion. The company possesses good quality characteristics, including a strong competitive position and high barriers to entry, thanks to its vast distribution network, and offers exposure to a market sector unavailable in the UK market. MUT's managers see potential for strong long-term dividend growth, supported by a share buyback programme.

Over this period, the managers sold three names. Croda, a specialist chemicals producer, was sold following profit warnings and an increase in operational leverage. They closed positions in Marshalls, a building materials company, on concerns about the trading environment, and in Drax, a producer of renewable energy, due to increased uncertainty about the company's long-term business model. In February 2024, Luke sold Standard Chartered bank, to invest in its competitor, HSBC, which offers a more attractive dividend yield and better quality characteristics.

The managers have also adjusted several other positions over the past six months or so, including boosting the holding in National Grid, the UK's energy and gas distributor, which was funded by a reduction in the position in SSE, a utilities supplier. They cut the portfolio's position in BHP, a metals and mining company, and invested the proceeds in its competitor Anglo American. Luke and Pyle continued to trim Vistry in anticipation of a cut in dividend payments, as the company has indicated a preference for share buybacks. The proceeds of this sale went to Berkely Group, a high-quality housebuilder with a strong balance sheet. Shares in Rentokil Initial and Games Workshop, a producer of miniature figures and games, declined following disappointing trading statements, but the managers remain positive on the long-term prospects for both companies, so they took the opportunity to add to positions in both. They also took profits on VAT Group after strong gains.

MUT has scope to invest up to 20% of gross assets in overseas listed companies. This provides the managers with flexibility to access industries not available within the UK market, to diversify income and risk and to invest in 'better quality proxies of UK listed companies'. As a result, MUT owns some of the world's leading companies, with great long-term growth prospects in their respective industries (Exhibit 6). These holdings have been performing strongly, so the managers have increased exposure. The acquisition of Mastercard takes the number of overseas holdings to 14, which together now comprise c 19% of the portfolio, up from historical levels of around 15%.

Exhibit 6: MUT's overseas holdings as at 31 December 2023

Company	Country	Sector	% of portfolio end Dec 2023
TotalEnergies	France	Oil & gas producers	3.8
OCBC	Singapore	Financials	2.3
Microsoft	US	Software & computer services	1.8
Nordea	Finland	Financials	1.8
Novo-Nordisk	Denmark	Pharmaceuticals & biotechnology	1.3
Nestlé	Switzerland	Food producers	1.2
Kone	Finland	Industrial engineering	1.2
L'Oréal	France	Cosmetics and skin care	1.2
VAT Group	Switzerland	Industrial engineering	1.1
Accton Technology	Taiwan	Telecommunications equipment	1.0
LVMH	France	Luxury goods	1.0
Telenor	Norway	Industrial engineering	1.0
Roche	Switzerland	Pharmaceuticals	0.9
Mastercard	US	Financial and credit services	0.8
Total non-UK exposure			**20.4**

Source: MUT, Edison Investment Research

As can be seen from Exhibit 7, the overall structure of the portfolio has not changed dramatically as a result of these portfolio changes. The most significant increases in sectoral exposure over the past year are in consumer discretionary and industrials, while there have been declines in holdings in real estate, consumer staples and basic metals.

Exhibit 7: Portfolio sector exposure* versus benchmark (% unless stated)

	Portfolio end-Feb 2024	Portfolio end-Feb 2023	Change (pp)	Index weight	Active weight vs index (pp)	Trust weight/index weight (x)
Financials	18.2	16.9	1.3	23.3	(5.1)	0.8
Industrials	16.7	13.7	3.0	10.7	6.0	1.6
Healthcare	12.7	13.8	(1.1)	11.8	0.9	1.1
Consumer discretionary	12.4	8.0	4.4	11.8	0.6	1.0
Consumer staples	12.3	14.5	(2.3)	14.7	(2.4)	0.8
Energy	8.1	6.5	1.5	12.0	(3.9)	0.7
Basic materials	6.3	8.3	(2.0)	7.4	(1.1)	0.9
Utilities	5.4	6.6	(1.2)	3.5	1.9	1.5
Technology	4.6	5.8	(1.2)	1.2	3.4	3.8
Telecommunications	1.9	1.6	0.4	1.2	0.7	1.6
Real estate	1.4	4.3	(2.8)	2.4	(1.0)	0.6
	100.0	**100.0**		**100.0**		

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

Exhibit 8: Top 10 holdings (as at 29 February 2024)

Company	Country	Industry	Portfolio weight %	
			29 February 2024	28 February 2023*
RELX	UK	Media	6.0	5.1
Unilever	UK	Consumer goods	4.9	4.9
AstraZeneca	UK	Healthcare	4.8	5.5
Diageo	UK	Consumer goods	4.6	4.7
BP	UK	Oil & gas producers	3.6	3.3
Sage Group	UK	Software Applications	3.4	N/A
TotalEnergies	France	Oil & gas producers	3.4	3.3
London Stock Exchange	UK	Financial Exchanges	3.3	N/A
Experian	UK	Consultancy services	3.0	N/A
Intermediate Capital	UK	Asset management	3.0	N/A
Top 10 (% of portfolio)			**40.2**	**39.2**

Source: MUT, Edison Investment Research, Bloomberg, Morningstar. Note: *N/A where not in end-February 2023 top 10.

Option writing provides income diversification

MUT has conducted an option writing programme for over a decade, to diversify and modestly supplement portfolio income. Income from these transactions also gives the managers scope to invest in companies with lower starting yields, but attractive dividend and capital growth prospects. Income from option-writing totalled £1.7m in the first six months of FY24, representing 9.8% of total income over the period. Current call positions include calls on Experian, Microsoft, RELX and Sage.

The board

Exhibit 9: MUT's board of directors

	Date of appointment	Remuneration from 1 July 2023	Shareholdings at 30 June 2023
Peter Tait (chair)	November 2017	£43,125	7,000
Alan Giles (senior independent director)	November 2020	£31,625	5,000
Stephanie Eastment (chair, audit committee)	August 2018	£35,950	4,500
Nandita Sahgal Tully	November 2021	£28,750	560
Angus Franklin	January 2024	£28,750	N/A

Source: Murray Income Trust.

Following the retirement of Neil Rogan as chair and the resignation of Merryn Somerset Webb at the conclusion of the AGM in November 2023, Angus Franklin was appointed to the Board from 1 January 2024. MUT's board now comprises five independent non-executive directors. It is chaired by Peter Tait. Alan Giles has assumed the position of senior independent director.

For details on MUT's fund profile, investment policy and fees and charges, see our November 2022 note.

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