Murray International Trust

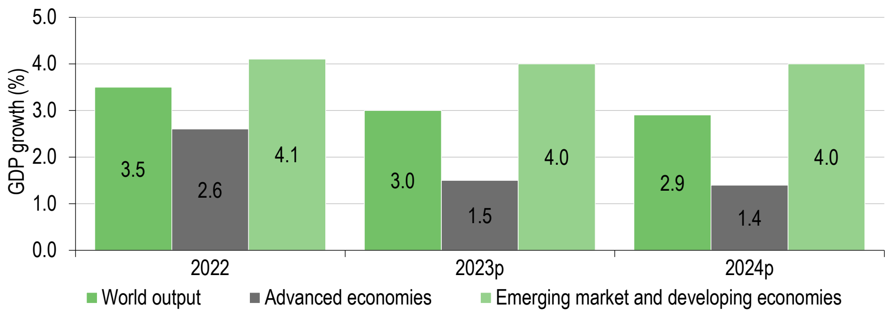
Attractive offering of income and capital growth

Investment trusts
Global equities/debt

18 January 2024

Murray International Trust's (MYI's) three managers, Bruce Stout, Martin Connaghan and Samantha Fitzpatrick, have worked closely together since 2001, so it will be business as usual when Stout retires at the end of June. The trust has amassed considerable revenue reserves (equivalent to around one year's annual dividend) so was able to continue its progressive dividend policy during COVID; MYI returned to a covered dividend in FY22. Despite high inflation preventing real (above inflation) dividend growth in recent years, the trust now has an 18-year record of consecutive annual dividend growth and offers an attractive 4.6% dividend yield, which compares favourably with its peers in the AIC Global Equity Income sector, most of which, unlike MYI, can pay dividends out of capital.

Notably higher growth outlook in emerging markets vs advanced economies



Source: International Monetary Fund, World Economic Outlook, October 2023 update. Note: p is projection.

Why consider MYI?

MYI offers the prospects of an attractive dividend yield along with both income and capital growth. Also, in a period of heightened investor risk aversion, the trust's shares are trading at a wider discount to NAV than its historical averages, offering scope for a higher valuation in a less uncertain economic environment.

As MYI's income has improved post COVID, it is likely that FY23 will mark 19 years of consecutive annual dividend increases, bringing the trust within touching distance of the 20-year record required to be considered as one of the few AIC dividend heroes (currently 20 funds have made the grade).

MYI's fund is widely diversified both by geography and by sector; this low-risk approach should help to protect capital during periods of stock market weakness. The managers are unconstrained by the global reference index's weightings, evidenced in particular by the trust's c 30% exposure to emerging markets, which is considerably higher than that of its peers.

Portfolio turnover is relatively low as Stout, Connaghan and Fitzpatrick invest with a long-term perspective, seeking 'good businesses at good prices'. Decision-making is a collaborative, measured process, and all three managers must agree on a transaction before it goes ahead. Recent new positions include alcoholic beverage companies Diageo and Pernod Ricard, where share price weakness provided attractive entry points.

NOT INTENDED FOR PERSONS IN THE EEA

Price		**244.0p**
Market cap		**£1,514m**
Total assets		**£1,734m**

NAV*		262.9p
Discount to NAV		7.2%
*Including income. At 16 January 2024.		
Yield		4.6%
Ordinary shares in issue		620.3m
Code/ISIN		MYI/GB00BQZCCB79
Primary exchange		LSE
AIC sector		Global Equity Income
Financial year end		31 December
52-week high/low	273.6p	219.0p
NAV* high/low	275.8p	248.7p
*Including income		
Net gearing*		7.3%
*At 12 January 2024.		

Fund objective

Murray International Trust aims to achieve an above-average dividend yield with long-term growth in dividends and capital ahead of inflation, by investing principally in global equities. Its reference is an all-world index (total return).

Bull points

- Unconstrained approach – ability to source interesting opportunities anywhere in the world, investing in both equities and fixed income securities.
- Progressive dividend policy and attractive yield.
- Well-resourced investment team, which includes ESG specialists.

Bear points

- Large exposure to emerging markets, which can be more volatile than developed regions.
- Performance has lagged the reference index over the longer term.
- UK inflation continues to outpace MYI's dividend growth rate.

Analyst

Mel Jenner +44 (0)20 3077 5700

investmenttrusts@edisongroup.com

Edison profile page

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

MYI: Unconstrained income & capital growth approach

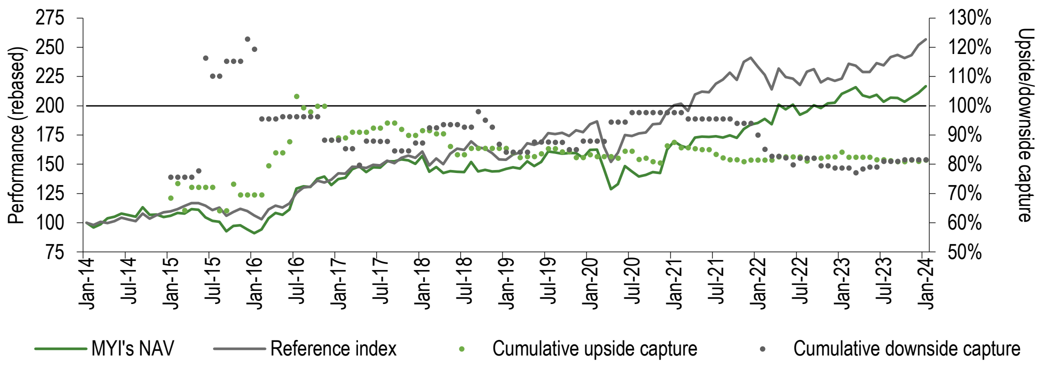
MYI is broadly diversified by geography and sector, with around 25% in each of North America, Europe ex-UK and Asia Pacific ex-Japan. An important differentiating feature versus its peers is its c 30% exposure to emerging markets, which reflects the managers' views that these regions have higher growth potential and are more attractively valued than developed markets.

While real dividend growth has been difficult in the last two years because of elevated inflation, MYI has offered an attractive 4–5% dividend yield over many years. This has been achieved by investing in high-quality businesses with strong cash flow generation.

MYI's upside/downside analysis

Exhibit 1 shows MYI's cumulative upside and downside capture over the last decade. The fund's defensive nature is highlighted by its less than 100% capture rates. Interestingly, both the upside and downside figures are 82%, suggesting that MYI is likely to underperform by around 20% in rising markets but outperform by around 20% in periods of market weakness. These results chime with studies that MYI has presented in the past showing that an important feature of the trust is capital preservation. They also demonstrate the managers' focus on delivering an above-average dividend yield with real growth in both income and capital, rather than a single focus on capital appreciation.

Exhibit 1: MYI's upside/downside capture over the last decade



Source: Refinitiv, 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.

MYI's top 10 holdings

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

Company	Country	Sector	Portfolio weight, %	
			30 Nov 2023	30 Nov 2022*
Broadcom	US	Technology	4.6	3.0
BE Semiconductor Industries	Netherlands	Technology	4.0	N/A
Grupo Aeroportuario del Sureste (ASUR)	Mexico	Industrials	3.9	4.6
Taiwan Semiconductor Manufacturing Co (TSMC)	Taiwan	Technology	3.8	3.2
TotalEnergies	France	Energy	3.1	2.8
CME Group	US	Financials	3.0	2.4
Philip Morris International	US	Consumer staples	3.0	3.2
AbbVie	US	Healthcare	3.0	3.3
Oversea-Chinese Banking	Singapore	Financials	2.6	2.5
Samsung Electronics	South Korea	Technology	2.5	N/A
Top 10 (% of portfolio)			**33.5**	**30.3**

Source: MYI, Edison Investment Research. Note: *N/A where not in end-November 2022 top 10.

At the end of November 2023, MYI's top 10 positions made up 33.5% of the portfolio, which was a higher concentration compared with 30.3% 12 months earlier; eight positions were common to both periods. The trust's top 10 contains companies with high dividend yields such as Oversea-Chinese Banking (6.3%) and Philip Morris International (5.5%) and those with lower yields but dividend growth potential such as Broadcom (1.9%) and CME Group (2.2%).

Current portfolio positioning

MYI's security and geographic breakdown is shown in Exhibit 3. At the end of November 2023, the trust held 64 positions; over the prior 12 months there was a reduction in both the equity (50 vs 53) and fixed income (14 vs 18) holdings. The trust is required to hold a range of 45 to 150 positions. Over the 12 months to the end of November 2023 the largest changes in portfolio weightings were a higher allocation to Europe ex-UK (+5.2pp), largely offset by lower weightings in the UK (-2.4pp), Asia Pacific ex-Japan (-1.3pp) and Latin America & emerging markets (-1.2pp).

Exhibit 3: Portfolio breakdown by security type and geography (% unless stated)

	Portfolio end-November 2023	Portfolio end-November 2022	Change (pp)
Equities			
Europe ex-UK	27.9	22.5	5.4
North America	26.7	26.2	0.5
Asia Pacific ex-Japan	24.1	25.4	(1.3)
Latin America & emerging markets	11.6	12.7	(1.1)
UK	3.1	5.6	(2.5)
Africa & Middle East	0.0	0.7	(0.7)
	93.4	**93.1**	**0.3**
Bonds/cash			
Asia Pacific ex-Japan	2.6	2.6	0.0
Latin America & emerging markets	2.5	2.6	(0.1)
Africa & Middle East	0.8	0.9	(0.1)
UK	0.4	0.3	0.1
Europe ex-UK	0.2	0.4	(0.2)
Cash	0.1	0.1	0.0
	6.6	**6.9**	**(0.3)**
Total			
Europe ex-UK	28.1	22.9	5.2
Asia Pacific ex-Japan	26.7	28.0	(1.3)
North America	26.7	26.2	0.5
Latin America & emerging markets	14.1	15.3	(1.2)
UK	3.5	5.9	(2.4)
Africa & Middle East	0.8	1.6	(0.8)
Cash	0.1	0.1	0.0
	100.0	**100.0**	

Source: MYI, Edison Investment Research. Note: Numbers subject to rounding.

Portfolio activity

Fitzpatrick explains that MYI's portfolio turnover is relatively low given the managers invest with a long-term view. Activity was particularly quiet in H123 but picked up in the second half of the year. Two telecom stocks exited the portfolio, South African MTN Group and Taiwan Mobile, whose dividend growth is stalling due to high capex; both were low-conviction holdings. The Kimberly-Clark de México position was also sold as its stock had performed very well, resulting in a valuation that was no longer attractive.

MYI has a relatively new position in Hong Kong Exchanges and Clearing (HKEX), which is one of the largest exchanges in the world and the fastest growing in Asia. Fitzpatrick explains that expansion of its Hong Kong Connect business is driving cash flows into and out of China and should have a long growth runway. HKEX has increased its dividend – it was considered a high-quality, but expensive company; however, weakness in Chinese stocks provided an attractive entry point. As a quasi-monopoly, HKEX generates high margins, but due to the importance of its business, the manager does not expect government interference.

There is a new holding in Walmart de México y Centroamérica (Walmex), which is a dominant general retailer, with a c 50% share. The company has different store formats and around 50% of revenue is generated from discount retailing. Walmex's margins came under pressure from higher inflation as not all cost increases were passed onto the consumer, to protect customer loyalty. Fitzpatrick notes that costs are now coming down and Walmex has an attractive valuation, no debt and a rising dividend.

More recently, two alcoholic beverage businesses, UK-based Diageo and France-based Pernod Ricard, were added to the fund following share price weakness, while the residual position in Vodafone was sold.

Perspectives from one of MYI's managers

Connaghan comments that 20+ years is a long time in financial markets, during which investors have experienced major events including the early 2000s technology bubble collapse, the 2007/08 global financial crisis and the COVID pandemic. He says that throughout the turmoil, MYI's managers have remained focused on the trust's objective of delivering an above-average dividend yield with long-term, above inflation growth in dividends and capital.

Back in 2003, reports Connaghan, MYI's portfolio looked very different with more than 40% of the fund invested in the UK and around 20% in fixed income securities, with modest exposure in higher-growth areas including technology and emerging markets. The high UK weighting reflected the lack of dividend opportunities elsewhere, while the consensus view was that dividend-paying companies lacked future growth opportunities; in the US, there was a preference for share repurchases to boost earnings per share, rather than paying out excess cash via dividends.

However, over the last two decades, the range of available income opportunities has increased significantly. Large-cap technology businesses and emerging market companies, for example, have started to make distributions, meaning investors do not have to choose between reliable dividend streams or capital growth. Increased sector and geographic diversification of global funds has lowered their risk profiles. Japan is an interesting example of changing attitudes, as corporate governance reforms in the country regarding more effective capital allocation include returning excess cash to shareholders via dividends. Companies growing their distributions can now be considered a sign of strength, unlike in the past.

Connaghan stresses the importance of remaining flexible. He cites the mining sector, which given the cyclical nature of its business is unlikely to deliver a steady earnings/dividend stream. However, there are times when these companies can make significant distributions. The manager highlights the broader range of opportunities available to income investors compared with those focusing on growth. This has led to the dominance of the US market, which now makes up 60–70% of global indices, and in 2023 the US stock market performance was dominated by a handful of large-cap technology companies. Connaghan opines that the era of ultra-low interest rates has passed, not just due to higher inflation, but also because of the high level of debt that global governments have accrued that needs to be worked down. As a result, the manager believes that bonds will return to being priced off market forces rather than prices being distorted by government policy and central bank intervention.

In conclusion, Connaghan comments that the global income investment landscape has changed. Before 2008, around 60% of equity annual returns came from reinvested income and thereafter, 60% came from capital growth. He suggests that the environment could change with investors placing a higher value on tangible, near-term dividend returns, rather than less reliable, longer-term prospects for capital growth. Also, he believes that as there will be less monetary support, diversification will become increasingly important. In such a scenario, he suggests that investors will pay more attention to high-quality, cash generative businesses around the world, and with its focus on a high and growing dividend as well as capital growth, MYI is well-positioned to provide attractive total returns for shareholders.

Performance: Affected by different geographic weights

Prior to JPMorgan Global Growth & Income's (JGGI's) combinations with Scottish Investment Trust and JPMorgan Elect, MYI had the greatest market cap in the AIC Global Equity Income sector. In Exhibit 4, we show the largest six funds (the other fund in the sector is tiny), all of which have different investment objectives. MYI's NAV total return is below average over all periods shown, ranking fifth, third, fifth and sixth over the last one, three, five and 10 years respectively. The trust's valuation is below average in a group where just one fund is trading at a premium, it has a competitive ongoing charge, ranking second, and MYI's net gearing is the second highest in the selected peer group. The trust currently has the second-highest dividend yield, 110bp above the mean, and is notable because the trust only pays dividends out of income, whereas the majority of its peers can make distributions out of capital.

Exhibit 4: Selected peer group at 16 January 2024*

% 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 (%)
Murray International	1,513.5	1.7	25.2	44.1	112.2	(7.2)	0.5	No	108	4.6
Henderson International Income	309.6	(0.7)	17.6	41.3	117.9	(12.4)	0.7	No	100	4.7
Invesco Select Global Equity Income	68.0	13.6	46.1	78.7	172.2	(9.6)	0.8	No	100	2.7
JPMorgan Global Growth & Income	2,113.1	13.1	40.0	101.0	227.3	1.6	0.2	No	100	3.7
Scottish American	921.9	7.2	22.7	70.0	178.3	(3.2)	0.6	No	109	2.7
STS Global Income & Growth Trust	196.0	2.3	20.8	54.4	117.8	(2.9)	0.9	No	107	2.9
Average	**853.7**	**6.2**	**28.7**	**64.9**	**154.3**	**(5.6)**	**0.6**		**104**	**3.5**
MYI rank in sector (6 funds)	**2**	**5**	**3**	**5**	**6**	**4**	**2**		**2**	**2**

Source: Morningstar, Edison Investment Research. Note: *Performance at 15 January 2024 based on ex-par NAV. TR, total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

An analysis of Morningstar data shows that there are two funds classified as large-cap growth (JGGI and Scottish American, SAIN); two funds as large-cap blended (Invesco Select Global Equity Income, IVPG, and STS Global Income & Growth Trust, STS); and two funds as large-cap value funds (MYI and Henderson International Income, HINT). MYI's NAV total returns are ahead of HINT's over the last one, three and five years but modestly behind over the last decade. Morningstar breaks down funds by their exposure to cyclical sectors (those that are highly sensitive to a business cycle's peaks and troughs), defensive sectors (anticyclical) and sensitive sectors (those that have moderate correlation to the business cycle). At around 50%, MYI has the highest sensitive exposure, with lower-than-average weightings in cyclical and defensive stocks.

Versus its peers, MYI has a notable c 30% emerging markets exposure and is the only fund with a meaningful (above 10%) weighting in Latin America. The trust has the lowest US weighting at around 25% compared with the c 35% to 70% range of its peers. This is likely to have detracted from MYI's performance given the US market's relatively strong returns in recent years. The trust also has the largest Asian weighting.

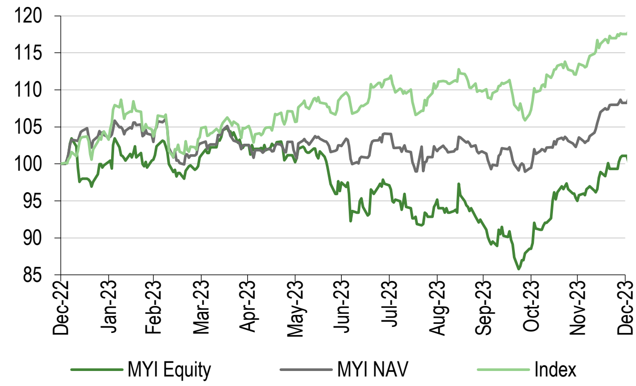
Exhibit 5: Five-year discrete performance data

12 months ending	Share price (%)	NAV (%)	Index* (%)	CBOE UK All Companies (%)	MSCI World ex-UK (%)	MSCI AC World (%)
31/12/19	16.5	12.3	21.6	19.1	23.1	22.4
31/12/20	(5.3)	0.7	6.7	(9.8)	14.2	13.2
31/12/21	7.2	14.3	22.2	18.3	22.2	20.1
31/12/22	20.7	10.6	(7.7)	0.3	(7.7)	(7.6)
31/12/23	1.1	8.3	17.5	7.9	17.5	15.9

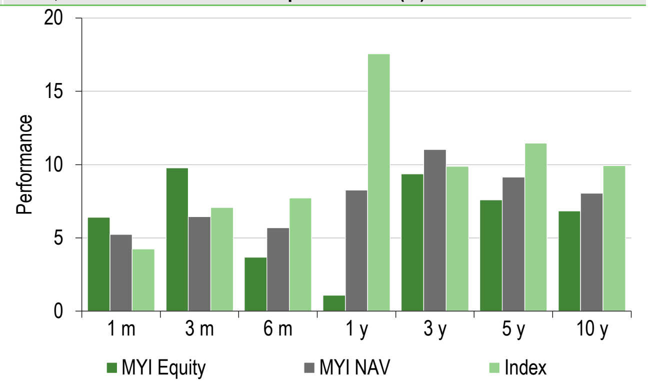
Source: Refinitiv. Note: All % on a total return basis in pounds sterling. *Index is 40% UK and 60% World ex-UK until 27 April 2020 and a broad global index thereafter.

Exhibit 6: Investment trust performance to 31 December 2023

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.

Over the last year, MYI's relative performance will have been negatively affected by its below-reference index weighting to US stocks, in particular large-cap technology stocks, which performed particularly strongly buoyed by investors' enthusiasm about growth in artificial intelligence. Despite this, MYI's NAV has outpaced the reference index over the last three years. It is also ahead of the broad UK market over the last one, three, five and 10 years, albeit modestly over the last 12 months. This illustrates the potential benefits for UK investors in seeking opportunities outside of the domestic market.

Exhibit 7: 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 index	2.1	2.5	(3.8)	(14.0)	(1.4)	(16.2)	(24.8)
NAV relative to index	0.9	(0.6)	(1.9)	(7.9)	3.2	(10.0)	(15.9)
Price relative to CBOE UK All Companies	1.8	6.3	(1.4)	(6.3)	2.2	5.0	15.6
NAV relative to CBOE UK All Companies	0.7	3.1	0.5	0.4	7.0	12.7	29.4
Price relative to MSCI World ex-UK	2.1	2.5	(3.8)	(14.0)	(1.4)	(22.6)	(38.6)
NAV relative to MSCI World ex-UK	0.9	(0.6)	(1.9)	(7.9)	3.2	(16.9)	(31.3)
Price relative to MSCI AC World	2.2	3.2	(3.3)	(12.8)	1.7	(19.1)	(33.9)
NAV relative to MSCI AC World	1.1	0.0	(1.4)	(6.6)	6.5	(13.1)	(26.0)

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

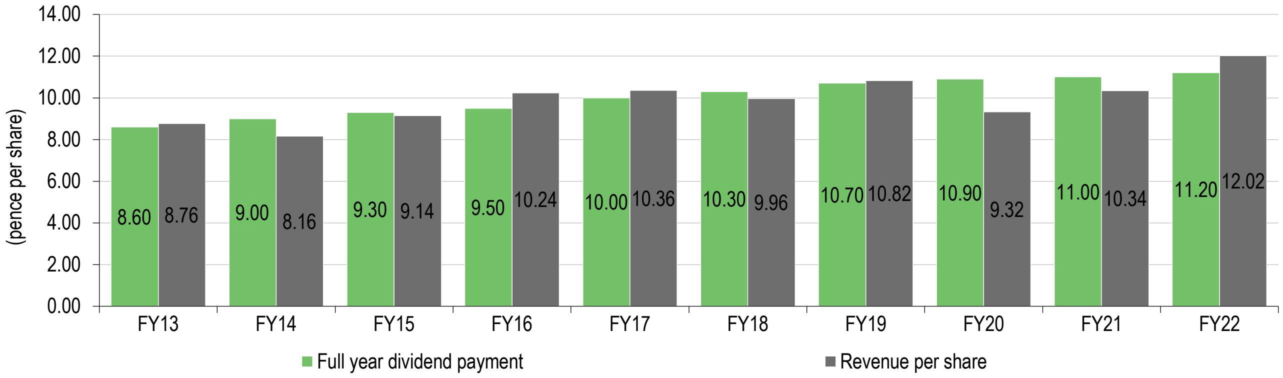
Dividends: Back to a covered dividend

MYI has increased its annual dividend for 18 consecutive years (likely to be 19 following the release of its FY23 results), meaning it is well on its way to be included in the prestigious AIC list of dividend heroes. There are currently 20 funds that are included, having grown their annual dividends for at least 20 consecutive years.

Following a two-year period during COVID, when revenue reserves were used to supplement income to ensure that MYI's progressive dividend policy was maintained, the FY22 dividend was fully covered. So far in respect of FY23, the board has announced three interim dividends of 2.40p per share, which are in line with the first three payments in FY22 (taking into account the April 2023 5:1 share split). This follows a traditional pattern where the first three quarterly dividends are unchanged, but the fourth quarterly payment is higher year-on-year.

The board has stated that MYI's FY23 annual dividend will be at least the same level as the total FY22 payment. At the end of H123, the trust had c £70.5m in revenue reserves, which is equivalent to c 1.0x the last annual dividend payment.

Exhibit 8: MYI's dividend and revenue history since FY13



Source: MYI, Edison Investment Research. Note: Adjusted for 5:1 share split on 24 April 2023.

London | New York | Frankfurt
20 Red Lion Street
London, WC1R 4PS
United Kingdom