

Murray International Trust

Initiation of coverage

Capital growth and above-average dividend yield

Murray International Trust (MYI) is a global fund offering the prospect of capital appreciation and an above-average dividend yield from a diversified portfolio primarily of equities, as well as bonds. Manager Bruce Stout also aims to protect capital during periods of stock market weakness. He is cautious on the growth outlook for developed economies, based on the debt overhang following the global financial crisis, and continues to favour higher-growth markets in Asia and Latin America. Stout follows a disciplined, long-term approach to investing and, while 2018 has proved to be a tough period for emerging markets, has outperformed the trust's composite benchmark in all but three years since he assumed the role of lead manager in 2004.

12 months ending	Share price (%)	NAV (%)	Composite benchmark* (%)	FTSE World UK (%)	FTSE World ex-UK (%)
31/08/14	5.7	9.5	12.2	9.8	13.6
31/08/15	(19.1)	(14.2)	0.0	(4.6)	2.9
31/08/16	38.0	36.2	22.0	13.1	27.6
31/08/17	22.0	19.8	17.4	13.6	19.9
31/08/18	(8.9)	(5.6)	8.9	3.9	12.1

Source: Thomson Datastream. Note: All % on a total return basis in pounds sterling.
*Composite benchmark is 40% FTSE World UK and 60% FTSE World ex-UK.

Investment strategy: Focus on quality and valuation

The manager is a member of Aberdeen Standard Investments' global equities team. He uses the firm's regional portfolios, managed by five on-the-ground teams, as a source of ideas to construct a global portfolio, which is diversified by geography and sector. Stout invests on a bottom-up basis in high-quality companies that are trading on reasonable valuations. His long-term investment approach means that many of the fund's positions have multi-year holding periods.

Market outlook: Increased equity market volatility

In recent years, equity investors have enjoyed above-average total returns due to a synchronised improvement in the global economy, and an abundance of liquidity, leading investors to gravitate towards shares at the expense of other lower-yielding asset classes. During 2017, there was a particularly low level of stock market volatility; however, so far in 2018, there has been an uptick, with investors becoming more sensitive to the risks to economic growth posed by US-led trade wars. In an environment of heightened macroeconomic risks and above-average equity valuations, investors may wish to consider a more defensive approach, with a degree of protection offered by higher-than-average income.

Valuation: Shares regularly trade close to NAV

MYI typically trades close to NAV; its current 1.8% share price discount to cumulative NAV compares with average premiums over the last one, three, five and 10 years of 1.8%, 0.2%, 2.2% and 3.4% respectively. The trust has a progressive dividend policy, aiming to grow the annual distribution above the level of UK inflation (supplementing income with reserves when required). Based on its current share price, MYI offers a 4.5% dividend yield.

Investment trusts

28 September 2018

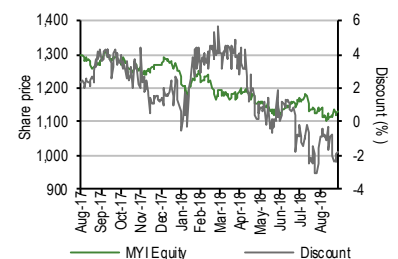
Price 1,128.0p
Market cap £1,445.5m
AUM £1,660.4m

NAV* 1,121.6p
Premium to NAV 0.6%
NAV** 1,148.4p
Discount to NAV 1.8%

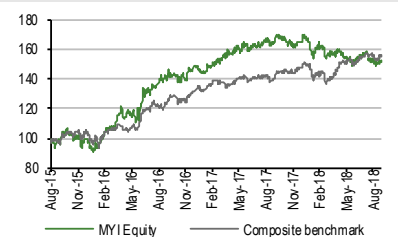
*Excluding income. **Including income. As at 26 September 2018.

Yield 4.5%
Ordinary shares in issue 128.1m
Code MYI
Primary exchange LSE
AIC sector Global Equity Income
Benchmark Composite benchmark

Share price/discount performance



Three-year performance vs index



52-week high/low 1,307.0p 1,104.0p
NAV** high/low 1,268.4p 1,116.9p

**Including income.

Gearing

Gross* 12.6%
Net* 11.8%

*As at 31 August 2018.

Analysts

Mel Jenner +44 (0)20 3077 5720
Sarah Godfrey +44 (0)20 3681 2519

investmenttrusts@edisongroup.com

[Edison profile page](#)

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

Exhibit 1: Trust at a glance

Investment objective and fund background

Murray International Trust aims to achieve a total return greater than its composite benchmark (40% FTSE World UK and 60% FTSE World ex-UK) by investing predominantly in equities worldwide. It also aims to maintain an above-average dividend yield.

Recent developments

- 16 August 2018: six-month report ending 30 June 2018. NAV TR -8.0% versus benchmark TR +2.2%. Share price TR -7.5%.
- 9 August 2018: announcement of second interim dividend of 11.5p per share (+4.5% year-on-year).
- 1 June 2018: announcement of a new £60m loan facility with The Royal Bank of Scotland.

Forthcoming

AGM	April 2019
Final results	March 2019
Year end	31 December
Dividend paid	Feb, May, Aug, Nov
Launch date	December 1907
Continuation vote	None

Capital structure

Ongoing charges	0.69% (at H118)
Net gearing	11.8%
Annual mgmt fee	Tiered (see page 11)
Performance fee	None
Trust life	Indefinite
Loan facilities	£185m

Fund details

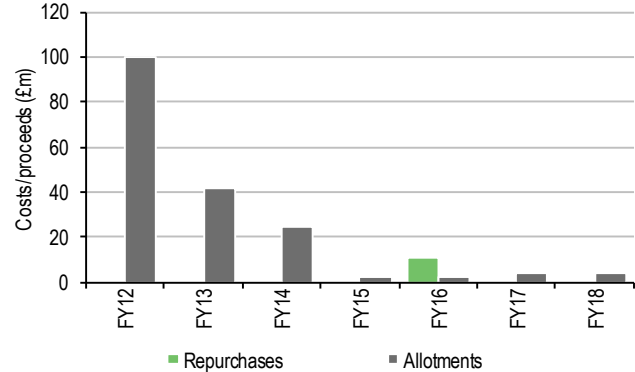
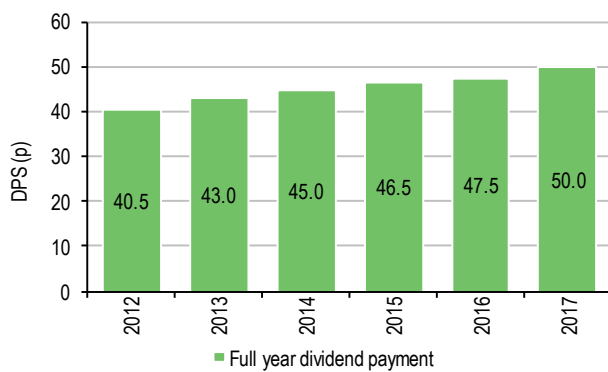
Group	Aberdeen Standard Investments
Manager	Bruce Stout
Address	7th Floor, 40 Princes Street, Edinburgh, EH2 2BY
Phone	0808 500 0040
Website	www.murray-intl.co.uk

Dividend policy and history (financial years)

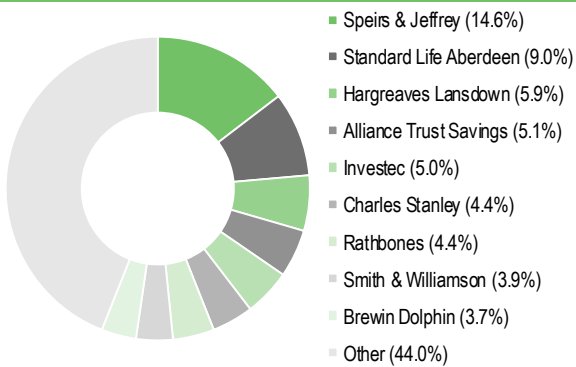
Dividends are paid quarterly in February, May, August and November.

Share buyback policy and history (financial years)

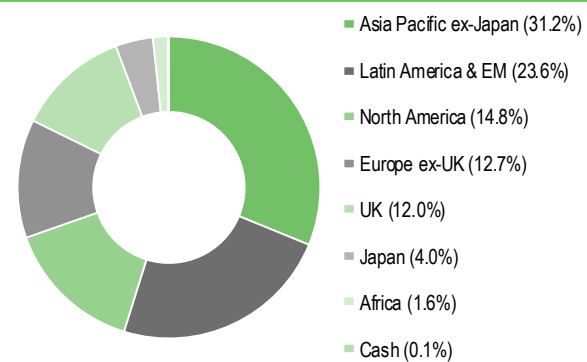
Subject to annual renewal, MYI has authority to repurchase up to 14.99% and allot shares up to 10% of issued share capital.



Shareholder base (as at 31 August 2018)



Portfolio exposure by geography (as at 31 August 2018)



Top 10 holdings (as at 31 August 2018)

Company	Country	Sector	Portfolio weight %	
			31 August 2018	31 August 2017*
Grupo Aeroportuario del Sureste (ASUR)	Mexico	Industrials	4.8	4.8
Taiwan Semiconductor	Taiwan	Technology	4.7	4.6
Quimica Y Minera	Chile	Basic materials	3.5	3.5
Taiwan Mobile	Taiwan	Telecommunications	3.3	3.1
British American Tobacco	UK	Consumer goods	3.2	4.0
Total	France	Oil & gas	2.9	2.2
Daito Trust Construction	Japan	Financials	2.8	3.1
CME	US	Financials	2.6	N/A
Philip Morris	US	Consumer goods	2.6	3.5
Verizon Communications	US	Telecommunications	2.5	N/A
Top 10 (% of holdings)			32.9	34.3

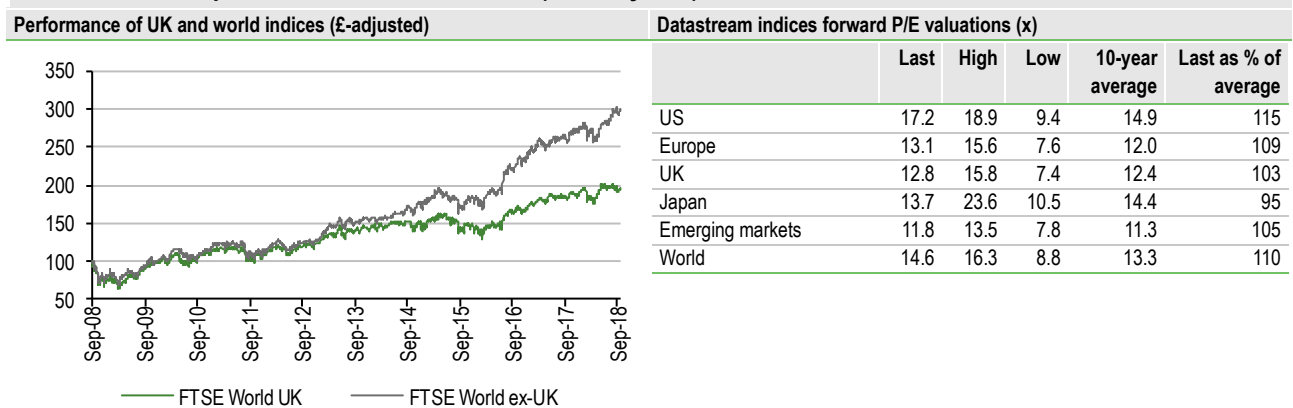
Source: Murray International Trust, Edison Investment Research, Bloomberg, Morningstar. Note: *N/A where not in end-August 2017 top 10.

Market outlook: Benefits of defensive positioning

Exhibit 2 (LHS) shows the performance of UK and global equities (in sterling terms) over the last 10 years; investors in overseas companies have fared considerably better than those holding shares in UK firms over the period, partly as a result of sterling weakness. Since early 2016, equity investors have enjoyed above-average total returns driven by synchronised global economic growth, coupled with a rerating of share prices because of high levels of available liquidity encouraging investors to seek higher returns than those available from lower-yielding asset classes such as developed market government bonds and cash.

Looking at forward P/E valuations (Exhibit 2, RHS), following a period of rerating, the US looks particularly expensive compared with the rest of the world, and is trading at a 15% premium to its 10-year average. However, most other regional stock markets are also trading on a higher earnings valuation multiple than their historical averages, which implies that further share price appreciation is more likely to be driven by corporate earnings growth than another rerating.

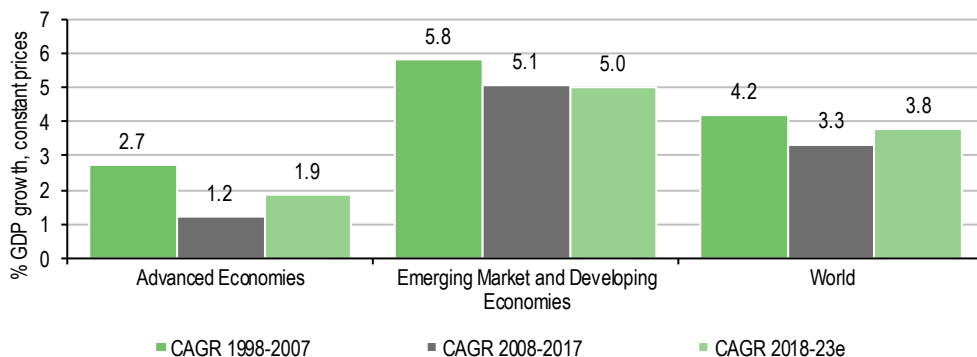
Exhibit 2: Market performance and valuations (last 10 years)



Source: Thomson Datastream, Edison Investment Research. Note: Valuation data as at 27 September 2018.

In terms of economic growth, we highlight the International Monetary Fund's forecasts for both advanced economies and emerging market and developing economies (Exhibit 3). Growth in the latter should continue to outpace economic expansion in developed markets due to factors such as a growing middle class, robust commodity prices and high levels of infrastructure spending.

Exhibit 3: Global economic growth forecasts



Source: International Monetary Fund World Economic Outlook, July 2018

Given the current macroeconomic environment, one may argue that the risks to global economic growth forecasts are to the downside. Issues that investors need to consider include the US's protectionist policies and the retaliatory measures from its partners, which will have a negative

effect on global trade. Another overriding issue within asset markets is the risk of a policy misstep as central banks gradually move to a more normalised monetary environment following their ultra-loose policies in response to the global financial crisis. The US is leading the charge, with the Federal Reserve Bank already raising its key Federal Funds interest rate eight times from 0.25% to 2.25%; in the UK, the Bank of England has raised rates twice to 0.75%; and the European Central Bank has announced it will taper its government bond purchases. The uncertain macroeconomic environment has already been reflected in equity markets so far this year, with increased volatility compared to the particularly benign levels in 2017. Given the backdrop of above-average valuations, risks to global growth and higher stock market volatility, investors may be better served focusing on high-quality, reasonably priced assets.

Fund profile: Long heritage of above-average income

MYI was launched in Glasgow by chartered accountants Brown, Fleming & Murray as The Scottish Western Investment Company in December 1907, a period when the city had a thriving industrial and shipbuilding-based economy. Throughout its long history, the trust has had a continuing theme of growing income. Originally, the portfolio was invested in fixed income securities and had a meaningful exposure to US entities, such as railroads and tramway companies. MYI's first direct investment in ordinary shares was in Union Pacific Railroad in 1910, although it was not until the early 1920s that equities made up a significant part of the portfolio. In 1959, The Scottish Western Investment Company merged with The Caledonian Trust Company, and was renamed Murray Western Investment Trust in 1979. In recognition of its global investment remit, the trust was renamed once more in 1984 as Murray International Trust; it is traded on the premium segment of the London Stock Exchange.

The trust is managed by Aberdeen Standard Investments (formerly Aberdeen and, before that, Murray Johnstone). The trust's lead manager (since June 2004) is Bruce Stout, who is a member of Aberdeen Standard Investments' global equity team and has worked for the company (and its predecessors) since 1987. Stout has held a number of roles within Aberdeen Standard Investments, including as an emerging markets fund manager, and has been directly involved with MYI since 1992. He aims to generate long-term capital growth (while preserving capital during periods of stock market weakness) and an above-average dividend yield from a globally diversified portfolio of equities and fixed income securities. From time to time, the trust may hold other equity-related securities such as depository receipts, preference shares or unlisted companies, and derivatives are permitted for efficient portfolio management.

MYI is benchmarked against a composite measure of 40% FTSE World UK and 60% FTSE World ex-UK indices. The high UK weighting is due to historical considerations, as in the past other regions did not have competitive dividend yields. When the manager assumed his current role in 2004, some 45% of MYI's portfolio was invested in the UK, compared with 12% today. There are no limits regarding geographic or sector exposure, but a maximum 15%, at the time of investment, is allowed in a single holding. Total gearing of up to 30% is permitted in normal market conditions; net gearing was 11.8% at end-August 2018.

The board uses a series of key performance indicators to measure MYI's success:

- performance – NAV total return, relative performance versus competitor trusts with similar investment mandates, and share price total return relative to the benchmark;
- discount/premium to NAV – the board aims to avoid large fluctuations in the discount/premium via share buybacks and the issue of new shares (or sale of treasury shares);
- dividend – increasing revenues over time to enable an above-average dividend yield; and
- gearing – to be kept within the board's guidelines (highlighted above).

The fund manager: Bruce Stout

The manager's view: Cautious on developed markets

Stout offers a historical perspective to the current investment backdrop. He says that until 2008, there were macroeconomic relationships that could be used as roadmaps for investment, such as the relationship between bond yields and earnings yields, which had worked for around 50 years. The manager says the historical norm in the UK was that investors could earn a real (above-inflation) return on their bank deposits of 200bp. However, in 2008 there was a systemic global financial collapse, which wiped out yields on 'risk-free' assets. He believes this has serious implications for future economic growth. To bring about the illusion of financial stability, central banks embarked on an experimental policy of quantitative easing (QE) by massively expanding their balance sheets assets, and the resulting levels of debt are unlikely to be repaid, says Stout. He says that, for example, UK government debt has swollen from £1.0tn to £1.8tn over the past decade, and as a result, we are living in unprecedented times. Stout believes that while QE introduced a modicum of stability, the huge debt burden will be borne by future generations. A decade down the road from the global financial crisis sovereign balance sheets are still not being reduced, apart from in the US, and the manager says that debt loads in the UK, Europe and Japan continue to grow at the government, corporate and household levels. Stout says that there is a misguided belief that monetary policy can be normalised, 'when no-one knows what normalised is any more'. He says that with abnormally low interest rates, there is no incentive for people to save, so how will economic investment be financed? As a result of the current backdrop he is very cautious on the prospects for developed market economies.

Regarding the UK, the manager notes the low level of economic growth, which is despite the largest financial stimulus ever. He is nervous about what will happen when there is a recession, as there are few fiscal or monetary tools left in the toolkit. The UK is a consumption-led economy and therefore cannot rely on exports for support. Within Europe, Stout comments that the banks have large debt burdens but cannot be allowed to fail, which is leading to 'zombie' institutions. He notes a general lack of growth outside of export-led Germany, which is dependent on a weak euro to sustain its competitive advantage. The manager is even more cautious on the economic prospects in Japan, commenting that it has 'the worst demographic profile on the planet', has the highest debt-to-GDP ratio of any nation that has not defaulted and suffers from endemic deflation. Stout says that within the US there is 'an illusion of growth' due to the impact of lower taxation, higher borrowing and debt-funded share repurchases. He notes that the current business cycle is the longest on record and the country is 'living beyond its means', as shown by the large spending required to fund its healthcare and social security programmes.

Given his cautious outlook on the economic prospects for developed economies, the manager believes it is important to focus on areas where there is real income growth and low credit penetration. He notes that emerging markets are no longer hostage to commodity prices, or reliant on a low-cost labour model and exports, but have real sustainable growth prospects helped by a growing workforce, higher levels of education and access to domestic capital for the first time. Stout says that the prevalence of younger demographic profiles in emerging economies is a critical driver of economic growth. He notes that household formation has a massive multiplier effect on consumption. There are many emerging market countries where housing is becoming affordable (unlike in the UK), including the state and rental sectors, meaning young people can afford to leave the family home, which provides a boost to economic growth. The manager notes that the Chinese consumer sector is now an important driver of global demand and in the next couple of years the Chinese economy will be the largest in the world. Stout says that the country experienced 15 years of export growth followed by 15 years of infrastructure spending, and while policy mistakes have been made, the economic progress is undeniable. He believes that if China has a competitive

advantage in providing a product or service, the country will take market share. The manager says that there is pent-up domestic demand, which is less constrained by a credit overhang, unlike in developed economies.

Stout highlights MYI's holding in Auckland International Airport as an example, given the company is a beneficiary of increasing demand from Chinese and other global tourists. It has long-term expansion plans, including building an additional runway, and adding more terminals, shops and hotels. Auckland International Airport's increased profits are being returned to shareholders via higher dividend payments; its stock currently offers an attractive c 4% dividend yield.

The manager emphasises the focus on risk-adjusted returns. He acknowledges that he invests in some high-risk markets, and there can be periods of correlated volatility. Emerging markets are experiencing one of these times as a result of Trump's protectionist policies. However, Stout says this is an abnormal period and will pass; he says that the US president will not be able to derail the economic growth opportunities in Asia Pacific and Latin America.

Asset allocation

Investment process: High quality and reasonable price

The manager follows Aberdeen Standard Investments' house style of investing on a bottom-up basis in high-quality companies that are trading at a reasonable price. The quality of a company is assessed in terms of its management team, the business focus, strength of its balance sheet and its corporate governance track record. Aberdeen Standard Investments stresses the importance of meeting a company's management team prior to making an investment. In terms of determining a firm's valuation, the investment team considers key financial ratios, peer comparisons and an assessment of a company's business prospects. Aberdeen Standard Investments employs a team-based approach to investing, and is unconstrained by index geographic and sector weightings. There is a key focus on risk management; Aberdeen Standard Investments' portfolios are regularly monitored by an independent performance and risk team.

Stout is a member of Aberdeen Standard Investments' 10-strong global equities team, which is based in Edinburgh. He draws on the resources of five regional teams – pan-Europe, Asia Pacific ex-Japan, North America, Japan and emerging markets – and is able to invest in any company that is held in any of these teams' regional portfolios. Every company held in a regional fund is visited at least twice a year, and findings are documented and shared across all of the investment teams. Stout's emphasis is on investing in defensive businesses where he has a high degree of confidence in a company's ability to deliver earnings and dividend growth. MYI's portfolio typically contains around 50 equity holdings, across the market-cap spectrum. This provides sufficient diversification by sector and geography, which acts as a risk control, but is a small enough number to ensure that the manager is able to understand all positions fully. Stout says that the investment process is straightforward and he is essentially 'buying good companies that are doing good things'. He maintains c 50 names on a watch list that may be considered for inclusion in MYI's portfolio in the future. The trust also has the flexibility to invest in fixed income securities. The process for identifying, selecting and monitoring sovereign and corporate bonds is the same as for equity investments, with the total exposure, as well as the geographic and sector allocations, a function of the relative value and future prospects of each position. The weight of each holding in the portfolio does not reflect Stout's level of conviction; he says that he has 'no favourites'. Instead, the position size reflects how well an investment has performed since purchase. Initial equity investments are generally between 1.0% and 1.5% (while fixed income positions are generally smaller). Once a holding reaches 5% of the portfolio it will be trimmed within 30 days to ensure there is not an undue level of company-specific risk. The manager is also required to sell a holding within 30 days if it is no longer included in Aberdeen Standard Investments' regional funds.

Current portfolio positioning

At end-August 2018, MYI's top 10 positions made up 32.9% of the portfolio, which was a modestly lower concentration than 34.3% a year before; eight positions were common to both periods. The fund contained 51 equity and 28 fixed income holdings, compared to 50 and 27 respectively at end-August 2017. The trust's breakdown by security type and geography is shown in Exhibit 4. There has been very little change in the structure of the portfolio over the last 12 months, reflecting the manager's buy-and-hold investment approach. More than 40% of the portfolio is made up of Asia Pacific ex-Japan and Latin American and emerging markets equities, although Stout stresses that MYI is a global, not an emerging market, investment trust.

Commenting on the relatively low UK equity exposure in the portfolio, the manager notes that many of the larger dividend-paying UK companies have payout ratios above 100%, and Stout believes that a c 4% dividend yield on the UK market compared to a 1.3% UK gilt yield is unsustainable. He says that many UK investors have never experienced a cycle of dividend reductions, and if there is a dividend cut outside of the volatile commodity sector, the effect could snowball. The lack of dividend growth and of solid growth opportunities available in the UK explains the low exposure in MYI's portfolio.

Within the bond holdings there is a mix of sovereign and corporate debt (mainly local currency, but also US dollar denominated), such as in Brazilian miner Vale and Mexican oil company Petróleos Mexicanos (Pemex). The manager explains that credit spreads have widened as a result of the US's protectionist policies and MYI's bond holdings are offering very good value. However, he considers that a c 15% fixed income exposure within the portfolio is sufficient given available opportunities in global equities.

Exhibit 4: Portfolio breakdown by security type and geography (% unless stated)			
	Portfolio end-August 2018	Portfolio end-August 2017	Change (pp)
Equities			
Asia Pacific ex-Japan	26.3	24.0	2.3
Latin America & emerging markets	15.3	18.0	(2.7)
North America	14.8	14.1	0.7
Europe ex-UK	12.1	9.5	2.6
UK	11.5	11.9	(0.4)
Japan	4.0	4.0	0.0
Africa	0.6	0.9	(0.3)
	84.6	82.4	2.2
Bonds			
Asia Pacific ex-Japan	4.9	4.8	0.1
Latin America & emerging markets	8.3	9.3	(1.0)
North America	0.0	0.0	0.0
Europe ex-UK	0.6	1.8	(1.2)
UK	0.5	0.5	0.0
Japan	0.0	0.0	0.0
Africa	1.0	1.1	(0.1)
Cash	0.1	0.1	0.0
	15.4	17.6	(2.2)
Total			
Asia Pacific ex-Japan	31.2	28.8	2.4
Latin America & emerging markets	23.6	27.3	(3.7)
North America	14.8	14.1	0.7
Europe ex-UK	12.7	11.3	1.4
UK	12.0	12.4	(0.4)
Japan	4.0	4.0	0.0
Africa	1.6	2.0	(0.4)
Cash	0.1	0.1	0.0
	100.0	100.0	

Source: Murray International Trust, Edison Investment Research

The manager gives a historical perspective to MYI's bond/equity exposure. He explains that in the run-up to the global financial crisis, UK gilt yields were c 5.5%, which compared to UK equity dividend yields of c 2.5%. As a result, he made a significant investment in both UK and US government bonds (all MYI's investments are made on the basis of relative value). Fixed income exposure was more than 25% of MYI's total portfolio, with 88% in equities (including gearing) at the end of 2007. Following the financial crisis in 2008, UK gilt yields fell to c 2.5% compared with a UK dividend yield of c 6.0%. As a result, the fund increased its exposure to equities to a 107% geared position by 2009, with c 8% in fixed income. The manager says that by summer of 2013 equities were looking expensive, but MYI's fixed income exposure remained modest at 7% due to low bond yields. However, in H214 and 2015, emerging market currencies sold off sharply. The policy response was to raise interest rates, but this choked off economic growth and emerging market currencies fell even further, leading to inflation and even higher interest rates. Stout considered this an opportunity, with the best value to be found in local-currency emerging market debt. As at end-August 2018, MYI's top 10 fixed income holdings included local currency sovereign debt in South Africa, Mexico, Indonesia and Uruguay, at coupons between c 5% and 7%.

Stout highlights some of the larger equity holdings in MYI's portfolio. He has held a position in Grupo Aeroportuario del Sureste (ASUR) for around 20 years. ASUR is an international airport group with operations in Mexico, the US and Colombia and has benefited from weakness in the Mexican peso, which leads to increased demand for tourist locations such as Cancun and Cozumel. ASUR has grown from one to four terminals and has been increasing its runway capacity, and adding new shops, which are generating royalties and rental income. It offers a dividend yield of c 2%, which the manager believes will increase as the company's capex wanes. This is an example of a firm providing a product or service that is in high demand and where the manager believes its competitive position will not be eroded as its business expands; Stout says ASUR holds a quasi-monopolistic position.

The manager has held a position in the world's largest dedicated independent semiconductor foundry, Taiwan Semiconductor Manufacturing Company (TSMC), for around 15 years. Historically, the company was not in a position to return a lot of cash to shareholders, due to the capital-intensive nature of its business. However, TSMC publicly stated that once it was generating higher levels of free cash flow it would be returned to shareholders. The company has followed through on its promises; the forecast TW\$9 dividend for 2019 would represent a five-year compound annual growth of c 25%, and the shares are yielding c 3%. Stout says that this dividend progression is very impressive, especially for a technology company, and means that TSMC is not wasting money on mergers and acquisitions or share repurchases.

Elsewhere in the top 10 holdings list, the manager has a position in another Taiwanese company, Taiwan Mobile. He considers it a less exciting company than TSMC; however, it offers a c 5.5% dividend yield and regularly increases its annual distribution at a low single-digit rate. Stout says that Taiwan Mobile provides ballast in the portfolio to the holding in TSMC, with the two combined positions providing a c 4% dividend yield with double-digit dividend growth.

Daito Trust Construction is another multi-year holding. The company is suffering from a shortage of available workers due to competition from other construction companies ahead of the Tokyo 2020 Olympic Games. Stout will continue to hold a position in Daito Trust as the firm has regularly delivered positive results, while the company also offers a c 4% dividend yield, which is unusually high for a Japanese company.

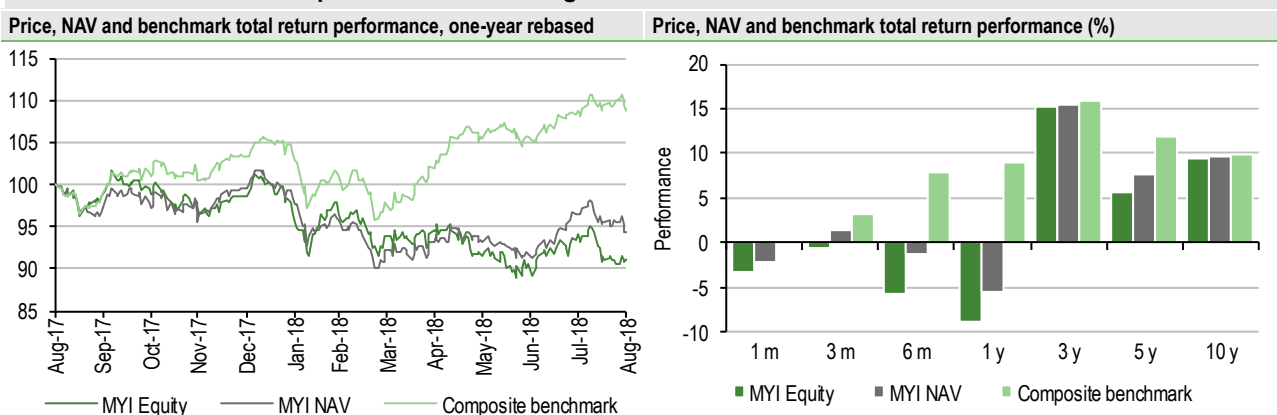
Performance: Regular outperformance over long term

Figures from Aberdeen Standard Investments highlight the manager's long-term record of outperformance versus the composite benchmark. Stout has generated above-benchmark returns

in every calendar year since he assumed the role of lead manager in 2004, with the exception of 2013, 2014 and 2015, which was a period of particular weakness in emerging markets.

In H118 (ending 30 June), MYI's NAV and share price total returns of -8.0% and -7.5% respectively trailed the benchmark +2.2% total return. The trust's meaningful exposures to Asia and emerging markets were the largest drags on performance. Although these regions have above-average growth potential, their stock markets sold off due to increased levels of investor risk aversion in response to the US's protectionist policies. There were also negative currency effects; during the period, for example, the Brazilian real fell by 11% and the Indian rupee declined by 6% compared with sterling. Other reasons for MYI's relative weakness in H118 were the continued strength of US and Chinese technology stocks, which are under-represented in the portfolio due to their low or zero yields, along with the trust's exposure to the consumer goods sector, which was a relative underperformer.

Exhibit 5: Investment trust performance to 31 August 2018



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

MYI has generated solid absolute NAV and share price total returns of c 15% over the last three years, which is broadly in line with the benchmark. The trust has underperformed the composite index over one and five years, and more modestly over 10 years (Exhibit 6). This is a reflection of its conservative approach to capital growth and preservation, coupled with a focus on above-average income, which has meant that MYI has been unable to generate the same level of above-average total returns – largely driven by a handful of giant technology stocks – enjoyed by global equity investors in recent years. However, it should be noted that over the long term, investors in MYI have enjoyed significantly higher returns than if they had invested in a portfolio containing just UK equities, as evidenced by the trust's outperformance of the FTSE World UK index over three, five and 10 years.

Exhibit 6: Share price and NAV total return performance, relative to indices (%)

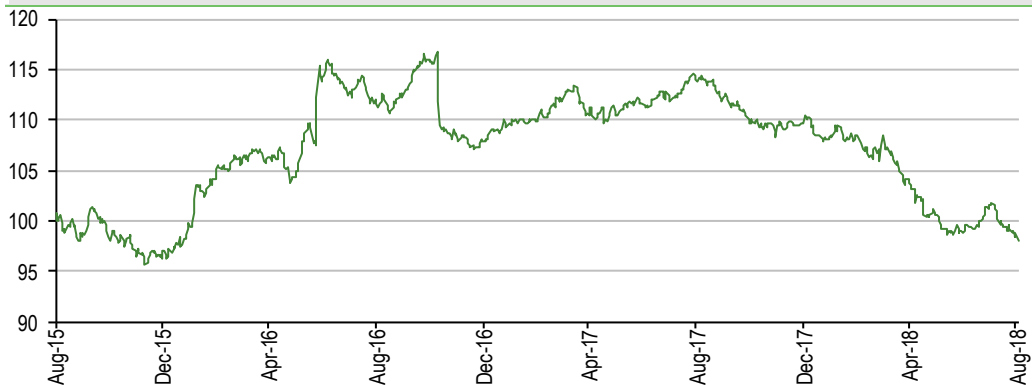
	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to composite benchmark*	(3.3)	(3.7)	(12.5)	(16.3)	(1.6)	(25.0)	(5.2)
NAV relative to composite benchmark*	(2.2)	(1.7)	(8.5)	(13.2)	(1.1)	(17.2)	(2.7)
Price relative to FTSE World UK	0.0	1.5	(10.4)	(12.3)	14.9	(6.3)	25.7
NAV relative to FTSE World UK	1.1	3.6	(6.3)	(9.1)	15.5	3.5	29.2
Price relative to FTSE World ex-UK	(5.4)	(7.0)	(13.8)	(18.7)	(10.5)	(34.6)	(18.2)
NAV relative to FTSE World ex-UK	(4.4)	(5.1)	(9.8)	(15.7)	(10.0)	(27.7)	(16.0)

Source: Thomson Datastream, Edison Investment Research. Note: Data to end-August 2018. Geometric calculation. *Composite benchmark is 40% FTSE World UK and 60% FTSE World ex-UK.

The trust's relative performance over the last three years is highlighted in Exhibit 7. There was a strong period of outperformance in mid-2016 following the result of the UK's European referendum, when sterling weakened meaningfully and there was widespread selling of risk assets. In contrast, there was a period of underperformance in November 2016, following the last US presidential election, as investors adopted a 'risk-on' mentality. These periods illustrate MYI's defensive

qualities, with its focus on both preserving and growing capital while delivering an attractive level of income to shareholders.

Exhibit 7: NAV total return performance relative to benchmark over three years



Source: Thomson Datastream, Edison Investment Research

Discount: Typically trades close to NAV

As shown in Exhibit 8, in normal market conditions MYI typically trades close to NAV. The spike in the discount to 11.9% on 27 June 2016 followed the result of the Brexit vote. The trust is trading at a 1.8% discount to cum-income NAV. This compares to a range over the last 12 months of a 5.7% premium to a 3.1% discount. Over the last one, three, five and 10 years, MYI has traded at average premiums of 1.8%, 0.2%, 2.2% and 3.4% respectively. The board employs active share issuance and buyback programmes in response to widening premiums or discounts. It has authority, renewed annually, to repurchase up to 14.99% and allot up to 10% of shares in issue to manage a discount or premium.

Exhibit 8: Share price premium/discount to NAV (including income) over three years (%)



Source: Thomson Datastream, Edison Investment Research

Capital structure and fees

MYI now has a more simplified capital structure. On 22 December 2017, the company redeemed its outstanding £150,000 of debenture stock at par plus a 1% premium and accrued interest up to 31 December 2017. This means the trust now has 128.1m ordinary shares in issue (with a further 0.4m held in treasury) and £185m in bank debt. On 1 June 2018, MYI announced a new five-year, £60m loan facility with the Royal Bank of Scotland (RBS) at an all-in rate of 2.325%, which was used to repay a maturing £60m loan with RBS. The trust's remaining £125m of debt is with the same lender and is made up as follows: £15m at 1.467% (due 16 May 2019); £50m at 2.4975% (due 13 May

2020); and £60m at 1.714% (due 31 May 2022). Financial covenants dictate that MYI's net assets must exceed £600m (currently c £1.5bn) and borrowings as a percentage of net assets may not exceed 40%; at end-August 2018, net gearing was 11.8%.

Historically, Aberdeen Standard Investments was paid an annual investment management fee of 0.5% of NAV, but with effect from 1 January 2016, there is a tiered fee structure, and there is no longer a performance fee. The management fee is based on the average net assets over the previous six quarters: 0.575% up to £1.2bn, 0.500% between £1.2bn and £1.4bn, and 0.425% above £1.4bn. No fee is charged on investments managed or advised by the Standard Life Aberdeen Group. The annual management fee is charged 30:70 to the revenue and capital accounts respectively. In FY17, MYI's ongoing charge was 0.64%, which was 4bp lower than 0.68% in FY16 (0.69% in H118).

Dividend policy and record

The board adopts a progressive dividend strategy, which means that in a year where there is a lower level of income received, distributions will be supplemented from reserves. Dividends are paid quarterly in February, May, August and November. In FY17, the total distribution was 50.0p per share, which was 5.3% higher year-on-year (versus a 3.6% rise in the UK retail price index); it was 1.04x covered by income. During the year, income was split as follows: 12.4% from UK equities; 58.6% from overseas equities; and 29.0% from overseas fixed income securities. At end-H118, revenue reserves were £72.3m, which is equivalent to c 1.1x the last annual dividend. Based on its current share price, MYI is offering a dividend yield of 4.5%.

MYI's revenue stream is highly dependent on the strength or weakness of sterling. The board has considered the risks and rewards of hedging the trust's currency exposure and has concluded that the risks of increased complexity and the high costs of hedging certain currencies would not be in the interests of shareholders.

Peer group comparison

Exhibit 9 shows the members of the AIC Global Equity Income sector – MYI is the largest trust by quite some margin. Its NAV total return is above average over three years, while trailing over the other periods shown. This is perhaps unsurprising given above-average equity returns in recent years, and the trust's aim to both preserve as well as grow capital. MYI is trading at a lower-than-average discount and it has the second-lowest ongoing charge. Its net gearing is broadly average. The trust offers the second-highest dividend yield in the peer group, where the average is skewed by Blue Planet's double-digit yield. If this fund is excluded, MYI's dividend yield is the highest in the group and 1pp above average.

Exhibit 9: AIC Global Equity Income sector as at 27 September 2018*

% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Discount (ex-par)	Ongoing charge	Perf. fee	Net gearing	Dividend yield (%)
Murray International	1,445.5	(2.1)	61.7	39.0	171.9	(0.3)	0.6	No	112	4.5
Blue Planet Investment Trust	18.8	(6.1)	19.4	21.8		(11.7)	3.6	No	152	12.6
Henderson International Income	293.9	7.9	61.4	75.2		0.6	0.9	No	104	3.1
Invesco Perp Select Global Equity Inc	67.4	8.2	56.4	76.3	197.6	(2.2)	0.8	Yes	106	3.2
JPMorgan Global Growth & Income	424.4	11.5	71.2	90.9	262.6	0.3	0.6	Yes	106	3.8
Scottish American	531.7	10.4	66.6	72.9	162.4	3.2	0.8	No	115	3.0
Securities Trust of Scotland	183.9	7.3	52.2	52.8	160.8	(5.4)	0.9	No	110	3.5
Average	423.7	5.3	55.6	61.3	191.0	(2.2)	1.2		115	4.8
MYI rank in sector (7 trusts)	1	6	3	6	3	4	6		3	2

Source: Morningstar, Edison Investment Research. Note: *Performance as at 26 September 2018. TR=total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

The board

There are six directors on the board of MYI, all of whom are non-executive and independent of the manager. The chairman is Kevin Carter; he was appointed to the board on 23 April 2009 and assumed his current role on 28 April 2011. He was previously managing director and head of EMEA Pension Advisory Group at JP Morgan Securities. Carter's other directorships include the Universities Superannuation Scheme; Lowland Investment Company; JP Morgan American Investment Trust; and Aspect Capital.

Following the retirement of James Best at the 26 April 2018 AGM, MYI's senior independent director is Peter Dunscombe, who was appointed to the board on 29 April 2011. He is on the investment committees of Reed Elsevier Pension Fund, the Nuffield Foundation and St James's Place, and is a director of HgCapital Trust and GCP Student Living.

Marcia Campbell (appointed on 27 April 2012) has a background in investment management, David Hardie (1 May 2014) has a legal background, and Alexandra Mackesy (1 May 2016) was formerly an Asian equity research analyst. The newest member of the board is Claire Binyon, who took up her appointment on 1 May 2018. She is a qualified chartered accountant with a background in corporate finance.

Edison is an investment research and advisory company, with offices in North America, Europe, the Middle East and AsiaPac. The heart of Edison is our world-renowned equity research platform and deep multi-sector expertise. At Edison Investment Research, our research is widely read by international investors, advisers and stakeholders. Edison Advisors leverages our core research platform to provide differentiated services including investor relations and strategic consulting. Edison is authorised and regulated by the Financial Conduct Authority ([Financial Conduct Authority](#)). Edison Investment Research (NZ) Limited (Edison NZ) is the New Zealand subsidiary of Edison. Edison NZ is registered on the New Zealand Financial Service Providers Register (FSP number 247505) and is registered to provide wholesale and/or generic financial advisory services only. Edison Investment Research Inc (Edison US) is the US subsidiary of Edison and is regulated by the Securities and Exchange Commission. Edison Investment Research Pty Limited (Edison Aus) [46085869] is the Australian subsidiary of Edison. Edison Germany is a branch entity of Edison Investment Research Limited [4794244]. [www.edisongroup.com](#)

DISCLAIMER

Copyright 2018 Edison Investment Research Limited. All rights reserved. This report has been commissioned by Murray International Trust and prepared and issued by Edison for publication globally. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable; however we do not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of Edison at the time of publication. The securities described in the Investment Research may not be eligible for sale in all jurisdictions or to certain categories of investors. This research is issued in Australia by Edison Investment Research Pty Ltd (Corporate Authorised Representative (1252501) of Myonlineadvisers Pty Ltd (AFSL: 427484)) and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. The Investment Research is distributed in the United States by Edison US to major US institutional investors only. Edison US is registered as an investment adviser with the Securities and Exchange Commission. Edison US relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. As such, Edison does not offer or provide personalised advice. We publish information about companies in which we believe our readers may be interested and this information reflects our sincere opinions. The information that we provide or that is derived from our website is not intended to be, and should not be construed in any manner whatsoever as, personalised advice. Also, our website and the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. Edison has a restrictive policy relating to personal dealing. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report. Edison or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (ie without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision. To the maximum extent permitted by law, Edison, its affiliates and contractors, and their respective directors, officers and employees will not be liable for any loss or damage arising as a result of reliance being placed on any of the information contained in this report and do not guarantee the returns on investments in the products discussed in this publication. FTSE International Limited ("FTSE") © FTSE 2018. "FTSE®" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under license. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.