

## **SHINING A LIGHT ON..... MURRAY INCOME TRUST**

### **At a glance**

There are over 400 UK Equity Growth and Income Funds; providing investors with access to many different investment styles. So choosing the right fund depends upon understanding their methods and aims.

Performance is part of the equation but equally the management team is crucial. We have met a number of talented Fund Managers, the likes of Standard Life Investments, Neptune, Schroders, Legal and General, Threadneedle and Liontrust (not all of these are in our portfolios).

We have recently met Charles Luke who is the Senior Investment Manager on the Murray Income Investment Trust. Over a five year plus period the trust has significantly outperformed the iShares UK Dividend ETF (which provides a good like for like comparison) but over the short term (i.e. less than five years) it has significantly underperformed.

For investors searching for the yield the trust is paying around 3.88% compared to the ETF which is paying around 4.30%. Turning to the holdings they are not dissimilar but there are differences in the top five holdings. This reflects the ETFs focus on the top 50 dividend payers and the trusts focus on companies offering growth and dividend income.

This provides a clue to the periods of outperformance and underperformance. During 2008 the highest dividend payers were the banks and it was these companies which suffered the biggest falls. As the market has recovered and now is moving to a more normalised environment we have seen the trust fall out of favour significantly underperforming in 2009, 2012 and 2014 to date.

This performance pattern is similar to other large cap focused income funds. The question for any investor is why someone would choose this fund over the ETF option or a multi cap income fund which may deliver better performance and similar income levels.

### **Who are the team behind the fund?**

Charles Luke has been with Aberdeen for nearly fifteen years. There is little information on how he matches with other managers and this reflects the team approach to Aberdeen and the trust. For investors they are not buying Luke but the trust and the process.

Far from being a negative this can be highly attractive for investors as there are dangers with star managers who can become a distraction especially if they decide to leave. By contrast unless the whole team left this provides long term investment stability.

### **What is the story behind the investment?**

Income funds traditionally avoid "growth stocks" in favour of those inclined to reward shareholders with regular dividend payments. For an investor seeking income from their investments these can be an attractive option.

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Most income funds invest in the FTSE 100 and are highly concentrated around a core of companies (which includes GlaxoSmithKline, AstraZeneca, BAT, BT and Imperial Tobacco). Effectively they track an index.

Some managers who adopt a multi cap strategy can significantly out-perform other income funds whilst still delivering a sustainable yield.

### **Fund highlights?**

The key areas where the fund appears to offer a point of difference are the use of overseas companies (18% of the fund is invested in overseas companies), dividend growth, buy and hold strategy and concentrated portfolio of around 45 stocks.

It was the holdings which really interested us as we were hoping that this would provide a clue as to why this trust might stand out. The team focus on defensive stocks which provide downside 'protection' (in 2011 the fund was up nearly 3%) but on the flip side the fund won't fully participate in any subsequent rally. To illustrate the fund significantly underperformed both in 2009 and 2012.

This helps us understand why over the last few years the trust has underperformed; it is not because the strategy is flawed but more that the style doesn't respond to a period of market correction. If 2014 reflects the end of this correction and a shift to normalisation then in theory this fund should be in a good place to respond to this. 2014 to date still shows the fund significantly behind the benchmark but it will be over next 3 to five years that we will see if the fund can live up to its potential.

For investors in the fund the types of holdings will be good quality companies with an attractive price. The focus is on large cap but the team can look to mid and small cap if this will add value to the trust. These companies also have the ability to grow their dividend and therefore the trust should be able to deliver a growing dividend over time. The current top five holdings are GlaxoSmithKline, Royal Dutch Shell, Astra Zeneca, BAT and Unilever.

The use of overseas companies is not unusual nor is a buy and hold strategy. The concentrated portfolio might be a point of difference but the market the trust targets means that portfolio will naturally be restricted. Effectively there is nothing here that makes it stand out from other large cap income funds like Invesco or the new Woodford Fund.

For investors there has to be a belief that the cycle is moving away from small and mid-cap stocks to large cap stocks, and if this is the case then in theory this fund should benefit. We have started to see a cooling down in the small and mid-cap market but we haven't seen a big resurgence in large cap stocks yet.

There is no crystal ball to the future and investors need to decide whether they believe the cycle will favour large cap defensive stocks and if so whether the trust has the ability to participate in this or whether other income funds would be better placed.

A point to consider across the income range is that many have significantly underperformed the ETF option over the last few years and they are delivering a lower yield. If yield is a key criteria for investors then the ETF may be a better option as the stocks will be similar.

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However on the flip side the ETF is focused purely on the highest dividend yield and as we saw in 2008 it was these stocks which lost the greatest value. The ETF was down nearly 50% and the trust around 25%. This downturn may reflect the longer term outperformance of the trust.

In summary the active management is likely to provide downside 'protection' if the markets fall because the team will discriminate against poor companies even if the dividend is high however in the current environment the trust has been unable to provide any significant outperformance.

The trust like others is likely to appeal to investors seeking income but also looking for an element of downside protection. For this they must be prepared during the 'up' markets to sacrifice some performance and income to get that 'protection'.

Whether this trust is the best of crop remains questionable; the strategy is not dissimilar to other income funds and therefore there is nothing that really makes this stand out. Investors would therefore need to compare against other income funds and their decision based on what else is available in the market.

## Fund performance

Performance over the previous five years is shown below (comparing to IP Income Fund, Rathbone Income Fund and iShares UK Dividend ETF).

	2009	2010	2011	2012	2013	2014	Yield
<b>Murray Income Trust</b>	23.35%	26.29%	2.95%	12.25%	23.20%	0.78%	3.88%
<b>Rathbone Income Fund</b>	24.18%	19.28%	0.33%	15.48%	24.45%	2.97%	3.60%
<b>IP Income Fund</b>	11.08%	10.78%	9.07%	8.14%	26.75%	4.86%	3.39%
<b>iShares UK Dividend</b>	32.63%	13.24%	-6.62%	17.46%	24.15%	2.91%	4.30%

*You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise. The total return reflects performance without sales charges or the effects of taxation, but is adjusted to reflect all on-going fund expenses and assumes reinvestment of dividends and capital gains. If adjusted for sales charges and the effects of taxation, the performance quoted would be reduced. Returns are based on the US share class.*

## Conclusion

The fund doesn't appear to offer any point of difference but it has demonstrated its ability to provide downside protection the trade-off is losing some of the upside growth. Investors may like the actively managed option and they need to decide whether the extra cost of investing in the trust equals the potential return and if not then an index tracker like iShares UK Dividend might be the better option.

*The source of information in this note has been provided by Aberdeen and is correct as at July 2014. These are notes from meeting the fund manager or representative and should not be seen as a recommendation to purchase any fund mentioned. Any reference to shares is not a recommendation to buy or sell. Should you wish to make a decision based on these notes we cannot take responsibility for this and you should carry out your own research before making a decision. You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well rise.*