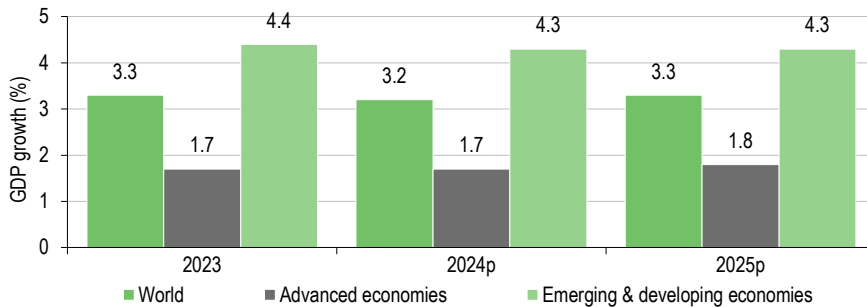


Murray International Trust

Three become two – low-risk strategy maintained

Murray International Trust's (MYI's) managers Martin Connaghan and Samantha Fitzpatrick (the previous third manager Bruce Stout retired at the end of June 2024) are mindful that although markets were strong in H124, there are reasons to be cautious. The US dominates global indices and market leadership has been narrow, led by mega-cap technology companies that are viewed as beneficiaries of the growth in AI. Any earnings shortfalls in these companies could lead to broader-based share price weakness. Central banks are having to deal with the delicate balance of controlling inflation and supporting growth, while major geopolitical tensions and conflicts and the US presidential election are also significant factors that could weigh on investor sentiment. MYI's focus on high-quality, dividend-paying stocks with a portfolio that is diversified by sector and geography could be well placed to navigate near-term volatility.

Sustained above-average growth prospects in emerging economies



Source: International Monetary Fund, World Economic Outlook, July 2024 update. Note: p is projection.

Why consider MYI?

Whatever the market environment, Connaghan and Fitzpatrick aim to generate income and capital growth above the rate of UK inflation, and to have a covered dividend. However, in years when income is lower, the board can draw on MYI's meaningful revenue reserves to enable the trust to build on its 19-year record of higher dividend payments. The managers have a low-risk approach, essentially seeking 'good businesses at good prices' that should help to protect investors' capital during periods of market volatility.

While real dividend growth has been tricky over the last two years, it has been achieved in 15 out of the last 20 years, with MYI's dividend compounding at an annual rate of 7%. The trust's annualised NAV total returns were greater than inflation in 14 out of the last 20 years, compounding at an annual rate of 10%.

An important feature of the trust is low portfolio turnover (7% in FY23), with some of the positions having been in the fund for more than 20 years. MYI's current 8.1% discount to cum-income NAV is wider than the three-, five- and 10-year historical averages of 5.1%, 3.4% and 1.1% respectively. This may provide a favourable entry point for investors looking forward to a less uncertain economic backdrop where investors are less risk averse.

Investment trusts
Global equities/debt

29 August 2024

Price 251.5p
Market cap £1,543m
Total assets £1,755m

NAV* 273.6p
Discount to NAV 8.1%

*Including income. At 27 August 2024.

Yield 4.7%
Ordinary shares in issue 613.4m
Code/ISIN MYI/GB00BQZCCB79
Primary exchange LSE
AIC sector Global Equity Income
Financial year end 31 December
52-week high/low 261.0p 219.0p
NAV* high/low 282.8p 248.7p

*Including income

Net gearing* 4.6%

*At 23 August 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 performance is referenced against an all-world (total return) index.

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.

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MYI: A well-established income & capital growth fund

MYI's portfolio is broadly diversified by geography and sector and has a notable c 30% allocation to emerging markets, which have above-average growth potential that is not fully reflected in company valuations. The managers employ an unconstrained stock selection strategy and so performance is likely to differ from that of MYI's reference index.

Highlights from MYI's H124 results

- Retirement of Bruce Stout on 30 June 2024; he had been MYI's manager since 2004. However, the current managers had worked closely with Stout for more than 20 years, so the investment approach will remain the same.
- NAV and share price total returns of +5.5% and +0.5% respectively, compared with the reference index's +12.2% total return (for more details see the Performance section below). A wider discount is not unusual in the investment trust sector during a period of elevated investor risk aversion.
- In H124, income declined by 3.7% to £46.0m due to sterling strength and a lower level of gearing. Announcement of a second interim dividend of 2.5p per share (versus 2.4p year-on-year). MYI has a 19-year record of higher dividend payments, just one year shy of entering the AIC's list of dividend heroes. At the end of H124, the trust had £72.9m in revenue reserves, which is equivalent to more than the last annual dividend payment.
- During H124, c 7.4m shares were repurchased (c 1.2% of the share base) at a cost of c £18.1m and an average discount of 9.9%.
- In May 2024, MYI's £30m five-year fixed rate loan was repaid. Proposed terms for an alternate loan facility were not deemed appropriate, so the trust now has £110m in two secured loan notes due in 2031 in 2037; the weighted cost of capital is 2.56%. Gearing has declined by £90m since May 2023.
- The ongoing charges ratio in H124 was 0.52%, which was 1bp lower than 0.53% in FY23.

MYI's top 10 holdings

At the end of July 2024, MYI's top 10 positions made up 34.8% of the portfolio, which was a higher concentration compared with 32.8% 12 months earlier. The top 10 is a mix of higher-yielding stocks and companies with lower yields but growing dividends.

Exhibit 1: Top 10 holdings (at 31 July 2024)				
Company	Country	Sector	Portfolio weight, %	
			31 July 2024	31 July 2023*
Broadcom	US	Technology	4.7	4.7
Taiwan Semiconductor Manufacturing Co (TSMC)	Taiwan	Technology	4.2	3.6
Grupo Aeroportuario del Sureste (ASUR)	Mexico	Industrials	3.9	4.5
AbbVie	US	Healthcare	3.7	3.0
Philip Morris International	US	Consumer staples	3.5	3.1
BE Semiconductor Industries	Netherlands	Technology	3.1	3.3
Unilever	UK	Consumer staples	3.1	2.7
TotalEnergies	France	Energy	3.0	2.7
Oversea-Chinese Banking	Singapore	Financials	2.9	2.6
Hon Hai Precision Industry	Taiwan	Technology	2.7	N/A
Top 10 (% of portfolio)			34.8	32.8

Source: MYI, Edison Investment Research. Note: *N/A where not in end-July 2023 top 10.

The trust generally receives the largest part of its income in the first half of the year as several European companies pay a single annual dividend. In H124, 28 of MYI's holdings declared dividends with just two reductions and 26 increases. Top 10 company BE Semiconductor Industries reduced its dividend by 25% and China Vanke cancelled its dividend (this position was sold).

Notable dividend increases came from TSMC (+30%), Atlas Copco (+22%), GlobalWafers (+19%), Epiroc (+12%; this position was sold) and Siemens (+11%).

Current portfolio positioning

As shown in Exhibit 2, the structure of MYI's portfolio changed very little in the 12 months to the end of July 2024, with the largest differences being a 2.9bp lower weighting in Latin America and a 2.7pp higher allocation to North America. The number of equity holdings declined by four to 46, and there was one less fixed income investment. A total of 59 positions is at the lower end of the required 45 to 150 names.

Exhibit 2: Portfolio breakdown by security type and geography (% unless stated)			
	Portfolio end-July 2024	Portfolio end-July 2023	Change (pp)
Equities			
North America	29.0	26.3	2.7
Europe ex-UK	25.9	25.4	0.5
Asia Pacific ex-Japan	24.4	24.7	(0.3)
Latin America	9.6	12.5	(2.9)
UK	4.5	3.4	1.1
Africa & Middle East	0.0	0.7	(0.7)
	93.4	93.0	0.4
Bonds/cash			
Latin America	2.5	2.5	0.0
Asia Pacific ex-Japan	2.4	2.6	(0.2)
Africa & Middle East	0.8	0.8	0.0
UK	0.4	0.3	0.1
Europe ex-UK	0.1	0.2	(0.1)
Cash	0.5	0.5	0.0
	6.7	6.9	(0.2)
Total			
North America	29.0	26.3	2.7
Europe ex-UK	26.0	25.6	0.4
Asia Pacific ex-Japan	26.8	27.3	(0.5)
Latin America	12.1	15.0	(2.9)
UK	4.9	3.7	1.2
Africa & Middle East	0.8	1.5	(0.7)
Cash	0.5	0.5	0.0
	100.0	100.0	

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

Portfolio activity

Some of the sales in H124 were to fund the May 2023 debt repayment. Four holdings exited the portfolio. Epiroc was a 2018 spin-out from Atlas Copco and had performed well. For Roche, the managers had higher conviction in other healthcare names. China Vanke's investment thesis did not play out and the dividend cut was a red flag. TC Energy was sold, with the proceeds added to Enbridge, which is a similar energy infrastructure company deemed to have lower balance sheet and execution risk.

There was just one addition to MYI's portfolio in H124. Mercedes-Benz Group, which has less than a 20% exposure to China and a flexible electric vehicle strategy, is seeking to increase profitability by selling a greater percentage of higher-priced vehicles; higher margins should allow greater returns to shareholders via dividends and share repurchases. The company offers an attractive c 9% dividend yield, which the managers consider is well supported.

The managers' perspectives on the macroeconomic backdrop

While the managers employ a bottom-up stock selection approach, they do take the macroeconomic environment into account. Connaghan and Fitzpatrick report that cracks are appearing in the US labour market, with slowing non-farm payrolls and rising unemployment. As

economic activity moderates, there is increased concern about a slowdown. However, the managers consider a soft landing is more likely than a recession.

In Europe, economic activity has recovered and inflation has moderated, but there are variations by country. For example, Germany is experiencing an economic contraction. Purchasing manager indices – both manufacturing and services – are volatile and global geopolitical tensions have the potential to swiftly change the inflation outlook.

There is likely to be further stock market noise in the run-up to the US presidential election, with the outcome decided by voting in key swing states. The managers note that during the last Trump presidency, the markets did well in the first 18 months as corporate taxes were reduced but then performed less well as attention turned to talk of tariffs and the associated risks of slowing economic growth and higher inflation.

China is experiencing economic headwinds led by the property sector and Connaghan and Fitzpatrick think that further policy easing is likely. They comment that Asian economies have decoupled from China and emerging markets have some sticky inflation, which has led to a pause in interest rate cuts. The managers believe that investors are currently not interested in emerging markets, overlooking companies with favourable fundamentals, and instead focusing on what unfolds in the US and China.

Performance: Behind the reference index in H124

Exhibit 3 shows the six largest funds in the AIC Global Equity Income sector, all of which follow different mandates. MYI's NAV total returns are above average over the last three years, ranking third, while lagging over the other periods shown. The trust has the fourth lowest valuation, a competitive ongoing charge and the second highest level of gearing. MYI offers the highest dividend yield in the selected peer group, which is currently 0.7pp above the selected peer group average. The trust's dividends are paid solely out of income, unlike most its peers, which can make distributions out of capital.

Exhibit 3: Selected peer group at 28 August 2024*

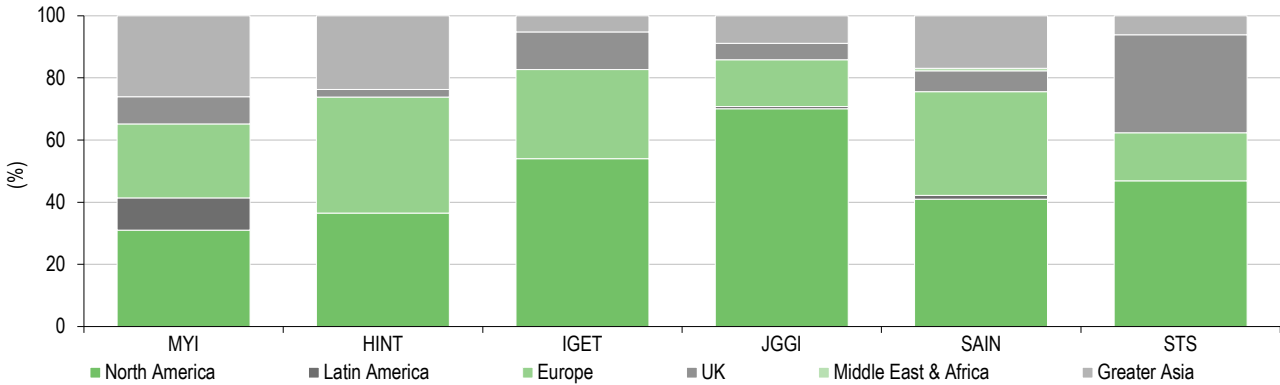
% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Discount (cum-fair)	Ongoing charge	Perf. fee	Net gearing	Dividend yield (%)
Murray International	1,542.6	12.5	28.7	48.5	104.4	(8.4)	0.5	No	107	4.6
Henderson International Income	320.4	9.6	14.7	39.3	126.8	(12.3)	0.7	No	103	4.5
Invesco Global Equity Income	180.2	20.9	42.7	87.2	193.8	(11.2)	0.8	No	100	4.4
JPMorgan Global Growth & Income	2,757.1	25.2	39.6	106.8	264.5	0.6	0.2	No	100	4.1
Scottish American	911.2	10.8	14.7	56.9	179.9	(7.8)	0.6	No	109	2.8
STS Global Income & Growth	292.1	7.0	14.9	36.2	119.1	(1.8)	1.0	No	105	3.1
Average	1,000.6	14.3	25.9	62.5	164.7	(6.8)	0.6		104	3.9
MYI rank in sector (6 funds)	2	3	3	4	6	4	2		2	1

Source: Morningstar, Edison Investment Research. Note: *Performance at 27 August 2024 based on ex-par NAV. TR = total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

MYI is the only fund classified as a large-cap value fund by Morningstar. Its peers are either large-cap growth funds (Invesco Global Equity Income, IGEI, JPMorgan Global Growth & Income, JGGI, and Scottish American, SAIN) or large-cap blended funds (Henderson International Income, HINT and STS Global Income & Growth Trust, STS).

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). MYI has the joint-highest sensitive exposure (c 49%, which is c 6% above average), an average defensive exposure (c 29%) and the lowest cyclical exposure (c 22%, which is c 6% below average).

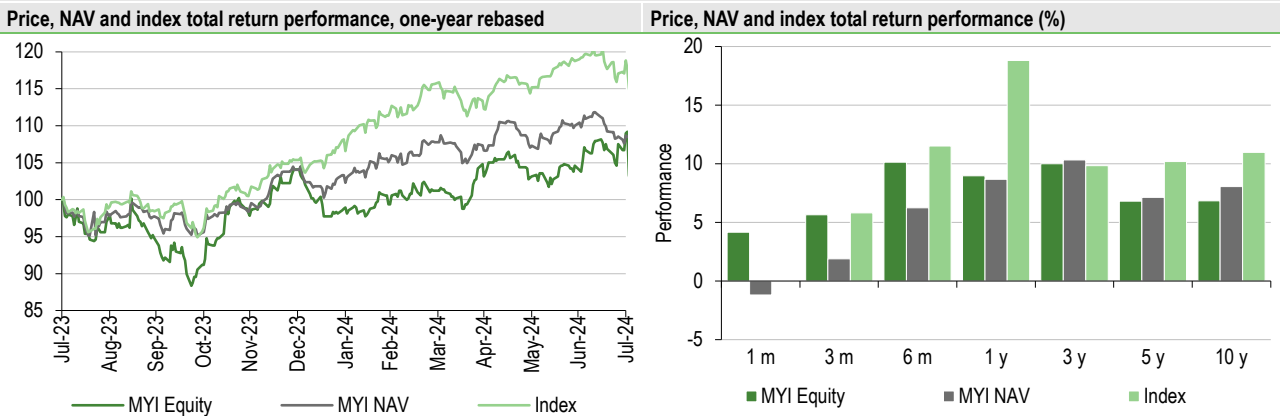
Exhibit 4: Geographic breakdowns of the selected peer group



Source: Morningstar, Edison Investment Research. Note: Using latest available Morningstar data.

MYI has the lowest North American exposure of the selected peer group, which is likely to have been detrimental to the trust's performance. It does not hold any of the 'Magnificent Seven' stocks, which have been very important contributors to the US market's outperformance as they do not fit the trust's investment brief. However, MYI's technology holdings have performed well and, according to the managers, are not solely dependent on the growth in AI. Unsurprisingly, given its above-average exposure to emerging markets, MYI has the largest Asian exposure and is the only fund with a meaningful allocation to Latin America.

Exhibit 5: Investment trust performance to 31 July 2024



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

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 index	4.1	(0.2)	(1.2)	(8.3)	0.4	(14.5)	(31.7)
NAV relative to index	(1.2)	(3.7)	(4.7)	(8.5)	1.3	(13.2)	(23.5)
Price relative to CBOE UK All Companies	1.0	1.2	(1.9)	(4.0)	4.8	5.2	5.6
NAV relative to CBOE UK All Companies	(4.2)	(2.4)	(5.3)	(4.3)	5.8	6.8	18.4
Price relative to MSCI World ex-UK	4.1	(0.2)	(1.2)	(8.3)	0.4	(19.2)	(43.8)
NAV relative to MSCI World ex-UK	(1.2)	(3.7)	(4.7)	(8.5)	1.3	(18.0)	(37.1)
Price relative to MSCI AC World	4.1	0.1	(1.5)	(7.4)	2.5	(15.7)	(39.4)
NAV relative to MSCI AC World	(1.2)	(3.4)	(4.9)	(7.7)	3.4	(14.4)	(32.1)

Source: LSEG Data & Analytics, Edison Investment Research. Note: Data to end-July 2024. Geometric calculation.

As noted earlier in the report, in H124, MYI's performance lagged that of the reference index (NAV +5.5%, share price +0.5% and index +12.2%, all total returns). In terms of geography, the best regional performance was in Asia (+13.2%), while the worst was Latin America (-14.5%). By sector, the standout performer was technology (+40.0%), including positions in Broadcom, Hon Hai and TSMC. Commodity price weakness outside of gold, silver and copper led to materials being the

worst performing sector (-22.9%), including positions in BHP, Sociedad Química y Minera de Chile and Vale.

Exhibit 7: Five-year discrete performance data

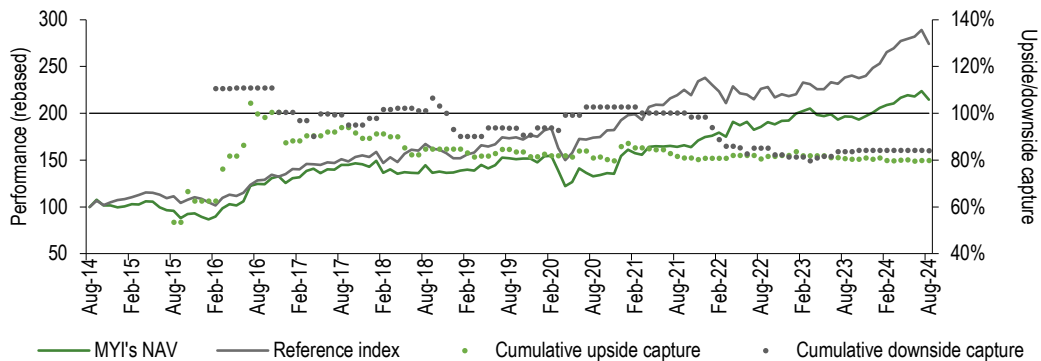
12 months ending	Share price (%)	NAV (%)	Index* (%)	CBOE UK All Companies (%)	MSCI World ex-UK (%)	MSCI AC World (%)
31/07/20	(16.6)	(15.5)	(4.3)	(17.8)	1.3	0.5
31/07/21	25.3	24.3	28.1	26.6	28.1	26.3
31/07/22	15.7	12.5	3.3	5.5	3.3	2.7
31/07/23	5.5	9.8	8.0	6.0	8.0	7.3
31/07/24	9.0	8.7	18.8	13.5	18.8	17.8

Source: LSEG Data & Analytics. 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.

MYI's upside/downside analysis

MYI's cumulative upside and downside capture over the last decade is shown in Exhibit 8. The fund's defensive nature is highlighted by its less than 100% capture rates, with an upside of 80% and a downside of 84%, suggesting that MYI is likely to underperform by around 20% in rising markets but outperform by around 16% in periods of market weakness. These data reinforce the trust's strategy, which aims to preserve capital in weak markets and to deliver a broader return for shareholders based on both income and capital, rather than just capital appreciation.

Exhibit 8: MYI's upside/downside capture over the last decade



Source: LSEG Data & Analytics, 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.

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