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INTERNATIONAL

The North American Income Trust

Investment companies | Annual overview | 11 March 2021

Well-positioned as rotation gathers pace

North American Income Trust (NAIT) stands apart amongst the AIC North America sector funds in combining an income focus with at least 90% of its assets invested in the US. NAIT's manager, Fran Radano, notes that this should work in its favour, as there is arguably a good chance that the rotation back into sectors providing value, like financials, will continue over the rest of 2021.

Fran says a strong rebound in dividend growth is likely, with most portfolio holdings appearing likely to meet or exceed pre-pandemic EPS over 2021. We note that corporate earnings in the US over the fourth quarter of 2020 were much better than many expected.

Above-average income and long-term growth

NAIT's objective is to invest for above-average dividend income and long-term capital growth, mainly from a concentrated portfolio of dividend paying S&P 500 US equities.

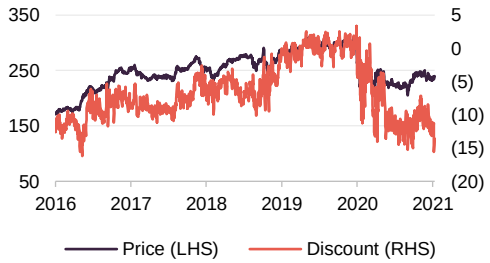
12 months ended	Share price total return (%)	NAV total return (%)	MSCI USA Value TR (%)	MSCI United States TR (%)	S&P 500 total return (%)
28/02/2017	50.6	47.4	41.4	39.5	39.1
28/02/2018	4.8	1.5	(2.2)	5.1	5.1
28/02/2019	16.2	8.9	6.9	8.0	7.8
28/02/2020	(4.9)	(1.3)	3.3	12.1	12.0
28/02/2021	(7.8)	1.3	7.3	21.9	19.3

Source: Morningstar, Marten & Co

Sector	North America
Ticker	NAIT LN
Base currency	GBP
Price	240.0p
NAV	280.7p
Premium/(discount)	(14.5%)
Yield	4.0%

Share price and discount

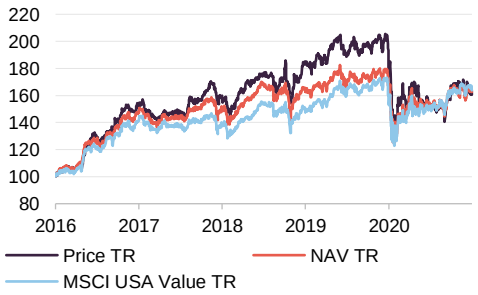
Time period 29/02/2016 to 09/03/2021



Source: Morningstar, Marten & Co

Performance over five years

Time period 29/02/2016 to 28/02/2021



Source: Morningstar, Marten & Co

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Contents

Domicile	Scotland
Inception date	20 November 1902
Managers	Fran Radano and Ralph Bassett
Market cap	342.3m
Shares outstanding	142.6m
Daily vol. (1-yr. avg.)	257.7k shares
Net gearing	7.0%

Click here for our most recent update note

Click here for an updated NAIT factsheet

Click here for NAIT's peer group analysis

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Fund profile

You can access the trust's website at:

northamericanincome.co.uk

NAIT's objective is to provide investors with above-average dividend income and long-term capital growth through active management of a portfolio consisting predominantly of S&P 500 US equities. NAIT may also invest in Canadian stocks and US mid-and small-cap companies as a way of accessing diversified sources of income. Up to 20% of NAIT's gross assets may be invested in fixed-income investments, which may include non-investment-grade debt.

The company maintains a diversified portfolio of investments, typically comprising around 40 equity holdings and around eight to 10 fixed interest investments (which tend to be much smaller positions) but without restricting the company from holding a more or less concentrated portfolio from time to time.

NAIT uses the Russell 1000 Value index as its reference index but we have used the MSCI USA Value and S&P 500 indices as comparators for the purposes of this report.

NAIT has had an income mandate since 2012 and the manager has been involved with the management of the trust since then

The board has appointed Aberdeen Standard Fund Managers Limited to act as NAIT's AIFM. The portfolio is managed on a day-to-day basis by Aberdeen Asset Management Inc, and the lead manager is Fran Radano. The equities team is based in Philadelphia and Boston. Fran is a senior investment manager within the US-based team, which is led by Ralph Bassett, who is also a named co-manager of NAIT.

NAIT's history goes back to 1902, but the trust has only been in its current form since 2012. Fran has been working on the trust since then and took over as lead manager in 2015.

Value may have passed its trough

The US economy is forecast to grow by a low-to-mid single-digit figure in 2021

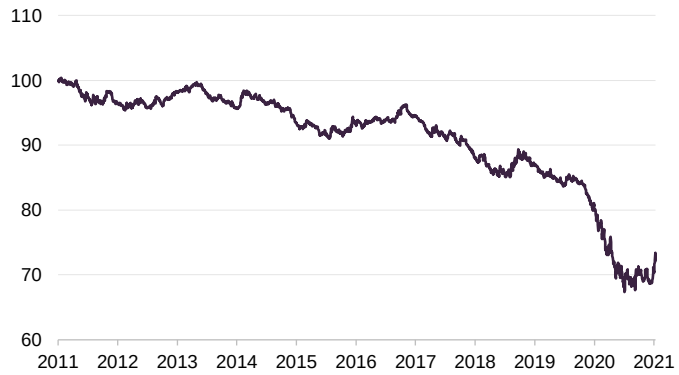
NAIT's manager believes the US economy is likely to grow in the low-to-mid-single-digit range over 2021, with wildcards in the form of government policy changes and the management of the Coronavirus, as the US attempts to speed-up the rollout of vaccines.

There is a possibility that pent-up consumer spending will provide a strong lift to the economy as we move deeper into the year. The fact that the credit performance of US corporates appears to have held up far more robustly than most anticipated has allowed the banking sector, which was already in much better shape going into the pandemic than it was going into the global financial crisis, to release billions of dollars' worth of loan reserves since the turn of the year.

The increase in long-dated US treasury yields (see Figure 2) may reflect a shift in focus to the potentially inflationary impact of stimulus spending, in particular. As well as directly benefitting NAIT's banking sector holdings (financials were 19% of the portfolio, as at 31 January 2021), this may have been reflective of greater confidence in the trajectory of a post-pandemic recovery. Vaccine announcements, which began in earnest during November 2020, were an important early catalyst for rotation back into several of the value-focused sectors that NAIT allocates to.

However, the renaissance of value investing has a long way to go just to get back to the relative position at the start of 2020, as Figure 1 illustrates, while also laying bare just how significantly value has underperformed over the past decade.

Figure 1: MSCI USA Value Index / MSCI USA Index – ratio re-based from 28 February 2011



Source: Morningstar, Marten & Co

Figure 2: US 10-year Treasury yield (%)

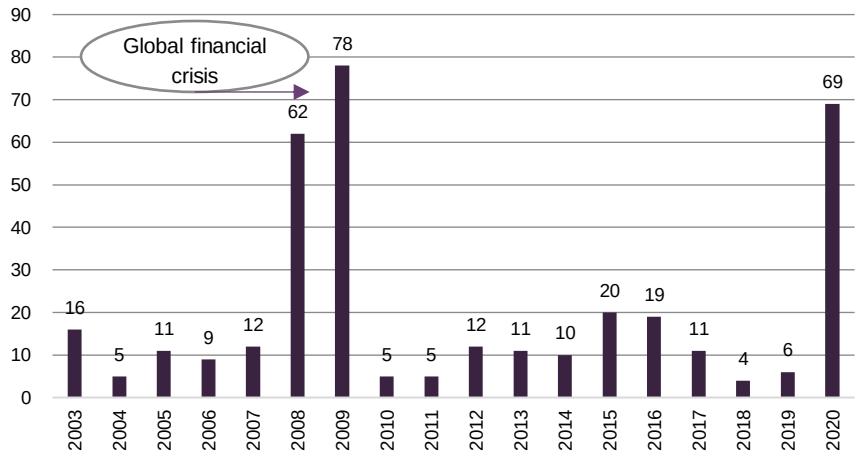
Source: Bloomberg, Marten & Co

Corporate earnings much better than expected

> NAIT's manager believes a significant increase in dividend growth may take place over 2021

The pandemic did trigger dividend cuts in the US, but not to the same extent as in the UK, where the impact on distributions was more pronounced. Fran says that only two of NAIT's holdings reduced their dividend payments over the pandemic. Whilst many companies did suspend share buybacks, which form a significant part of capital distributions in the US, many of the portfolio companies, as well as those on the watch list, maintained the same level of dividend from 2019. Fran believes a strong uptick in dividend growth could be on the cards over 2021, as pre-pandemic earnings are potentially met or exceeded. Over January 2021, a number of NAIT's holdings, including Comcast, CMS Energy, and Blackstone Group, raised their dividends. Blackstone Group, which pays a variable dividend, ended 2020 by very nearly matching the 2019 figure of $1.92 per share.

Figure 3: Number of S&P 500 companies that cut or suspended dividends



Source: Aberdeen Asset Managers Inc, Strategas

Fran says that the recent news-flow on corporate earnings has been encouraging, with fourth-quarter 2020 earnings performing much better than expected. The manager sees many companies potentially returning to the level of the 2019 earnings. Figure 4 illustrates the historical contribution of dividends to total returns on the S&P 500.

Figure 4: Historic dividend contribution to S&P 500 total returns

	Price change (%)	Dividend contribution (%)	Total return (%)	Dividends as a % of TR	Average payout ratio (%)
1980s	227	143	370	39	49
1990s	316	116	432	27	48
2000s	(24)	15	(9)	n/m	35
2010s	190	67	257	26	35
2020s	16	2	18	12	37

Source: Aberdeen Asset Managers Inc, Strategas

Investment process

Increased individual sector research responsibilities but emphasis on building consensus retained

Buy and sell ideas are presented to the team and each analyst's goal is to build consensus around their investment theses. Individual portfolio managers have responsibility for the content of their portfolios, but all investment decisions are peer-reviewed and any stance that differs from the consensus view must be justified. An ESG analyst is embedded within the team and ESG factors are incorporated into the research process.

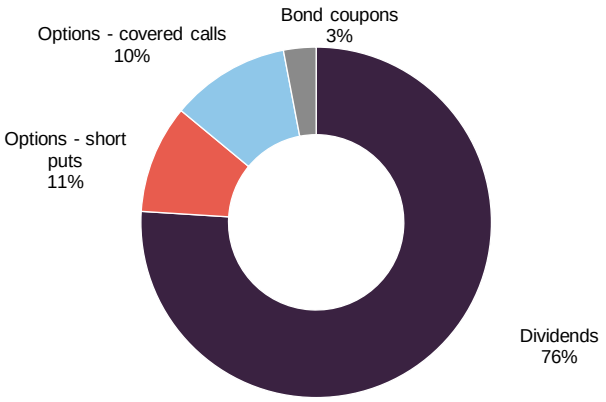
The contribution of fixed income to portfolio income has declined over recent years

NAIT's portfolio comprises 39 equity positions, as at 31 January 2021, drawn largely but not exclusively from the constituents of the S&P 500 Index. It also has seven fixed income positions, which help to increase the diversification of NAIT's portfolio as well as providing a useful source of income. Since 2015 the bond weighting has been below 5%, as higher prices and lower yields have made them less compelling. The bond portfolio now accounts for less than 1% of the fund.

The dividend overlay is NAIT's only positive factor bet. The portfolio holds some quality bias and there are some negative factor overlays, such as momentum. The negative momentum overlay can be explained by the need to trim positions when prices go up on occasion, as yields decrease.

Over recent years, the revenue split of the portfolio has been around 80% from equities and close to 20% (with the balance attributable to fixed income positions) from the income derived from writing options contracts (discussed in the following section) as a by-product of the manager's buying and selling decisions. Over 2021, Fran expects the equity/option income split to return to 80:20, from 75:25 over 2020. The higher proportion of option income last year was the result of much greater volatility in financial markets, which tends to positively correlate with the level of option income generated.

Figure 5: NAIT revenue contribution, financial year to 31 January 2020



Source: Aberdeen Asset Managers Inc.

The fixed income portion of the fund is managed by the Boston office. As at December 2020, the average credit rating on the bond portfolio was BB-, with an average yield to maturity of 4.0% and an average duration of 3.4 years.

Portfolio candidates selected on quality and then valuation criteria. Meeting management is key

The equities are selected on a 'best ideas' basis. Candidates for the portfolio must satisfy both quality and valuation criteria. Aspects of quality include the strength of a company's business model, where it compares with its competitors, and the quality and experience of its management. Meeting management and visiting companies is a core part of the investment process, and the manager will not invest in a stock if the team has not met with management. The manager believes that the emphasis on quality should help NAIT avoid 'value traps'. He looks for stocks that are on an improving trend in terms of revenues and profits but does not invest in 'recovery' situations. The portfolio is usually close to fully invested, but the manager

has the option to increase the exposure to cash (or other liquid securities) if he believes it is warranted.

The approach is a long-term one and portfolio constituents have historically changed relatively rarely (portfolio turnover was higher in 2020 due to the pandemic and some of the opportunities it brought), but the manager top-slices and tops up positions in response to short-term valuation shifts.

Most stocks in the portfolio yield between 2% and 4%

Whilst there is no outright prohibition on buying stocks for NAIT's portfolio that do not pay a dividend, the manager has never done so. NAIT's portfolio follows a bell curve distribution, with a concentration of stocks yielding between 2% and 4%. Predictability of income is a key consideration when selecting stocks, but the overall emphasis is on choosing stocks that look attractive on a total return basis, not just on yield alone. Their ability to generate dividend growth is an important factor.

Position sizes determined by conviction, not benchmark weights

Position sizes are determined by conviction, and the manager places no emphasis on the weightings of stocks within the benchmark when building the portfolio. New positions typically enter the portfolio with a 1%–1.5% weighting. Fran chooses to operate with a soft cap on position sizes of 5% and tends to trim positions when they exceed this level. Furthermore, he seeks to limit the number of positions that exceed the 5% level to a small number.

A range of metrics is used to analyse the portfolio to ensure that, wherever practical, there is no excessive bias towards or against any sector, geography or theme. Given the lack of income available, the portfolio has a natural underweight exposure to the technology sector (and, in recent years, this has weighed on the fund's performance relative to the US market as a whole). At the same time, the portfolio does not have much exposure to some sectors that might typically be seen as the preserve of income fund managers such as telecoms and utilities. This is because the manager is looking for stocks with decent earnings and dividend growth potential.

Option writing augments income

Writing puts to buy and calls to sell positions is a useful way of deriving income from an investment decision that would have been made anyway

The portfolio's income is augmented by option writing activity. Writing puts to buy and calls to sell positions is a useful way of deriving income from an investment decision that would have been made anyway. Specifically, options are only utilised once a buy or sell decision have been reached. If the manager believes the option market provides the best risk-reward in executing this decision, then put or call options may be sold. The options mix has been equally spread between puts and calls over recent years.

The greatest opportunity to earn income comes from the stocks with the highest implied volatility. At any time, NAIT may have between zero and nine open positions; there is no requirement to write options if the manager believes it would not be a profitable activity. Option writing is a tool to buy and sell positions where extra income can be generated while being able to buy something a little cheaper or sell something a bit higher than current prices. Fran stresses that he does not write options with the primary goal to generate income per se. He does not write in-the-money options as a means to convert capital into income. We note that at the end of January 2021, there were two open option positions.

Investment restrictions

Certain restrictions have been imposed on the manager, as part of the investment policy:

- No single investment will exceed 10% of gross assets at the time of investment.
- The portfolio will have at least 35 holdings.
- Exposure to derivative instruments is limited to 20% of net assets at the time of the relevant acquisition, trade or borrowing.
- NAIT will not acquire unlisted or unquoted securities (it is permitted to hold securities that are about to be listed or traded on a stock exchange, but Fran says that in reality, he has no intention of utilising this permission). NAIT is also permitted to continue to hold securities that cease to be listed or quoted, if appropriate. However, once again, Fran says that is not something he envisages the trust doing.

There are no restrictions relating to the size of the companies that NAIT can hold (as measured by market capitalisation) and no limits to sector or country exposures. Although permitted to do so, NAIT does not generally hedge its exposure to foreign currency.

Asset allocation

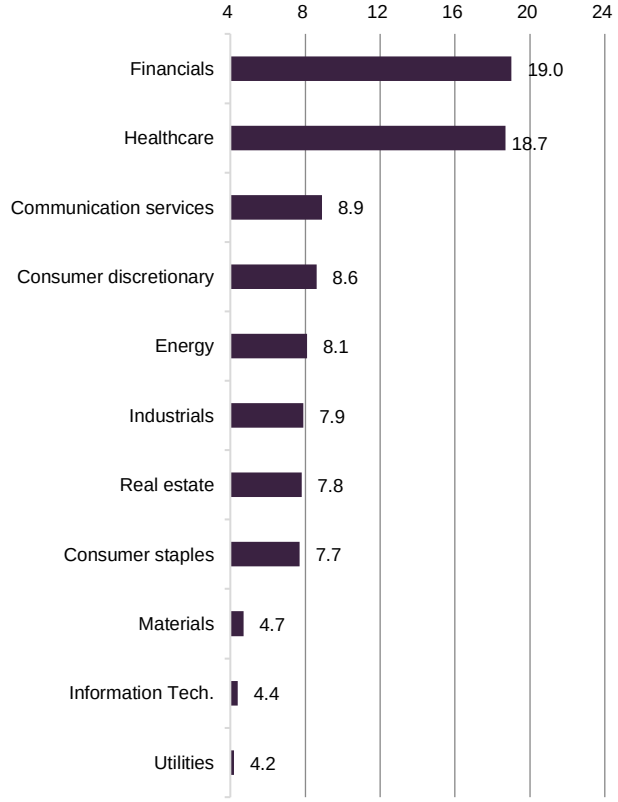
Exposure to the US has grown from 81% to 89.8% since our last note

As at 31 January 2021, NAIT's portfolio consisted of 39 equity and 7 fixed-income investments, with an active share of 87.8%. The North American mandate means the manager can allocate to Canada too – this represents 8.1% of the portfolio (the US is 89.8%, with the balance held in cash). These figures are all in line with when we last published. Compared to when we last published in June 2020, using figures for the month-ending April 2020, the US allocation has increased.

The largest changes in sector composition were in real estate, utilities, communication services, financials, and materials

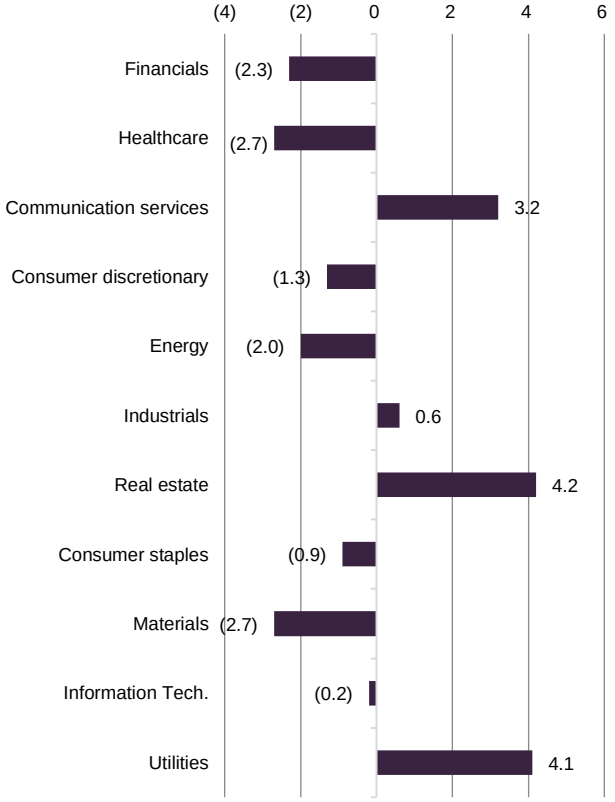
Comparing the most recent sectoral makeup with the position as at 30 April 2020, the main differences are the change in exposures to real estate (up 4.2%), utilities (up 4.1%) and communication services (up 3.2%). Healthcare and financials are down by 2.7% and 2.3%, respectively. The increase in utilities exposure was mainly on account of the addition of CMS Energy (discussed in the next section). Greater allocation to communication services was largely brought about by the additions of Cogent Communications and Comcast, and in real estate, Fran added Digital Realty Trust to the portfolio.

Figure 6: NAIT geographic exposure, as at 31 January 2021



Source: Aberdeen Asset Managers Inc.

Figure 7: Change in industry sector allocation relative to 30 April 2020



Source: Aberdeen Asset Managers Inc, Marten & Co

At 4.4%, NAIT's allocation to technology is lower than the 10% Russell 1000 Value Index benchmark weighting. Fran is of the view that there is a lack of suitable quality companies in the universe to justify a higher allocation to technology.

Top 10 holdings

Many of the stocks in the list of the top 10 holdings have been discussed in earlier notes (see page 21 for a list of these).

Figure 8: Top 10 holdings, as at 31 January 2021

	Subsector	% of gross assets 31/01/21	% of gross assets 30/04/20	% change
AbbVie	Biotechnology	5.4	5.7	(0.3)
Bristol-Myers Squibb	Pharmaceuticals	4.3	4.9	(0.6)
Philip Morris	Tobacco	4.2	5.1	(0.9)
Citigroup	Banks	4.1	4.5	(0.4)
CMS Energy	Utilities	4.0	-	-
Verizon Communications	Telecommunications	3.9	5.3	(1.4)
JPMorgan Chase & Co	Banks	3.6	-	-
Medtronic	Medical devices	3.5	2.0	+1.5
TC Energy	Oil, gas & consumable fuels	3.4	3.7	(0.3)
Gilead Sciences	Biotechnology	3.2	4.8	(1.6)
Total of top 10		39.6	45.8	(6.2)

Source: Aberdeen Asset Managers Inc.

> The biotech holding, AbbVie, had a busy 2020, notably buying Allergan for $63bn

The biotech company, AbbVie (profiled in our most recent update note), remains NAIT's largest holding. The shares were yielding around 7% at the time of the initial investment and appeared to benefit from positive sentiment towards healthcare and biotech companies through most of 2020. AbbVie was acquisitive over 2020 too, most notably buying Allergan, a company probably best known for making Botox, for $63bn.

Figure 9: JPMorgan Chase & Co

Source: Bloomberg

Though the overall allocation to financials is down, banks carry a greater presence in the top 10 this time around, with JPMorgan Chase & Co. (JPMorgan) joining Citigroup in the top 10. Banks have been at the forefront of the 'economic reopening trade' that kicked into gear following the vaccine developments of November 2020. This seemed to be pave the way for a rotation back into several sectors that had previously been considered to be particularly vulnerable to a potential systemic collapse in spending and credit performance across households and industry. It appears that much better loan performance to date is paving the way for several large banking institutions across the US, with commercial and retail lending exposure, to release billions of dollars' worth of loan reserves. As at 9 March 2021, shares in Citigroup and JPMorgan are up by 14.1% and 18.3% over the year-to-date.

Figure 10: Top 10 holdings – valuations and returns – as at 10 March 2021 unless stated

	Market cap (£bn)	Dividend yield (%)	1-year dividend growth (%)*	Operating margins (%)*	Total return YTD (%)**	Trailing P/E ratio	Trailing P/B ratio
AbbVie	135.7	4.5	10.3	39.0	(0.7)	39.3	14.4
Bristol-Myers Squibb	97.7	3.0	9.5	22.6	(3.9)	-	3.6
Philip Morris	97.6	5.4	2.6	35.3	3.5	16.9	-
Citigroup	106.7	2.9	6.3	23.1	14.1	15.0	0.8
CMS Energy	11.8	2.9	6.5	18.1	(8.1)	21.4	3.0
Verizon Communications	167.4	4.4	2.1	23.0	(4.8)	13.1	3.4
JPMorgan Chase & Co.	333.5	2.4	5.9	38.5	18.3	17.1	1.9
Medtronic	113.6	2.0	7.5	16.6	(1.7)	55.0	3.1
TC Energy	32.3	5.7	8.0	43.7	9.7	12.1	2.1
Gilead Sciences	58.2	4.2	7.9	19.1	8.6	643.3	4.4

Source: Morningstar, Aberdeen Asset Managers Inc. *figures as at 31 December 2020. **total returns in local currency

Figure 11: CMS Energy

Source: Bloomberg

Other new entrants to the top 10 since our most recent note are CMS Energy and Medtronic. CMS Energy's main focus is utility operations in Michigan. The position was initiated in November 2020 with the manager identifying a valuation-based opportunity for a fundamentally sound utility company.

Medical devices-focused Medtronic's is well established in an attractive industry. It operates in four segments: cardiac and vascular, minimally invasive technologies, restorative therapies, and diabetes.

Stocks that have slipped out of the top 10 are Lockheed Martin, PNC Financial Services, and Chevron. The latter two were sold outright while with respect to defence-focused Lockheed Martin, Fran has regularly added to and trimmed the position. Most recently, it has been halved. At close to 2%, Lockheed Martin is still an important part of the portfolio, with Fran noting that it is currently trading at 12.9x current earnings, with its balance sheet in robust health. Looking forward to defence spending under President Biden, Fran believes that the next budget is likely to be flat for defence.

The manager used some of the proceeds from the trimming of the Lockheed Martin position to initiate a position in L3Harris Technologies, another major defence contractor. Fran notes that compared to Lockheed Martin, L3Harris Technologies offers a little bit more growth room.

> 12 stocks were sold since last April, including PNC Financial Services and Chevron

In total, 12 stocks were sold outright over the period from 30 April 2020 to 31 January 2021. Exiting 12 stocks represented significantly more portfolio turnover than NAIT typically carries out. This was due to the pandemic, which also presented an opportunity to introduce quality companies like JPMorgan, Home Depot, and Procter & Gamble to the portfolio, following the spring sell-off. Fran notes that these were examples of companies that typically trade relatively expensively, which reduced their appeal as a result of the lower yield that accompanied their pre-pandemic valuations.

In addition to PNC Financial Services and Chevron, Dow Inc, International Paper, Maxim Integrated Products Inc, Meredith, Molson Coors Beverage Company, Nucor Corp, Schlumberger, Tiffany & Co, Umpqua Corp, and United Parcel Service were sold.

12 additions to the portfolio since our last note

In addition to JPMorgan Chase & Co, CMS Energy, L3Harris Technologies, FMC Corp, Honeywell, and Digital Realty Trust, Fran added the following companies to the portfolio over the nine months since 30 April 2020 (the portfolio figures used in our most recent update note): Air Products & Chemicals Inc, Cogent Communications, ConocoPhillips, Phillips 66, and Procter & Gamble Co.

NAIT introduced the chemical manufacturing company, FMC Corp, to the portfolio over January 2021. The company offers solutions to the agricultural producers with a product portfolio in crop protection, plant health, and pest and field management FMC Corp is established internationally, including a strong presence in Asia, where nearly 40% of its workforce is based.

Reflecting on the addition of Honeywell, Fran notes that while it has exposure to aerospace, as one of its four key operating segments, it was encouraging to see that the company did not mind sacrificing some earnings impact, last year, for long-term strategic investing. The company's shares have rebounded well past the pre-pandemic lows over recent months.

Figure 12: FMC Corp.

Source: Bloomberg

Figure 13: Honeywell

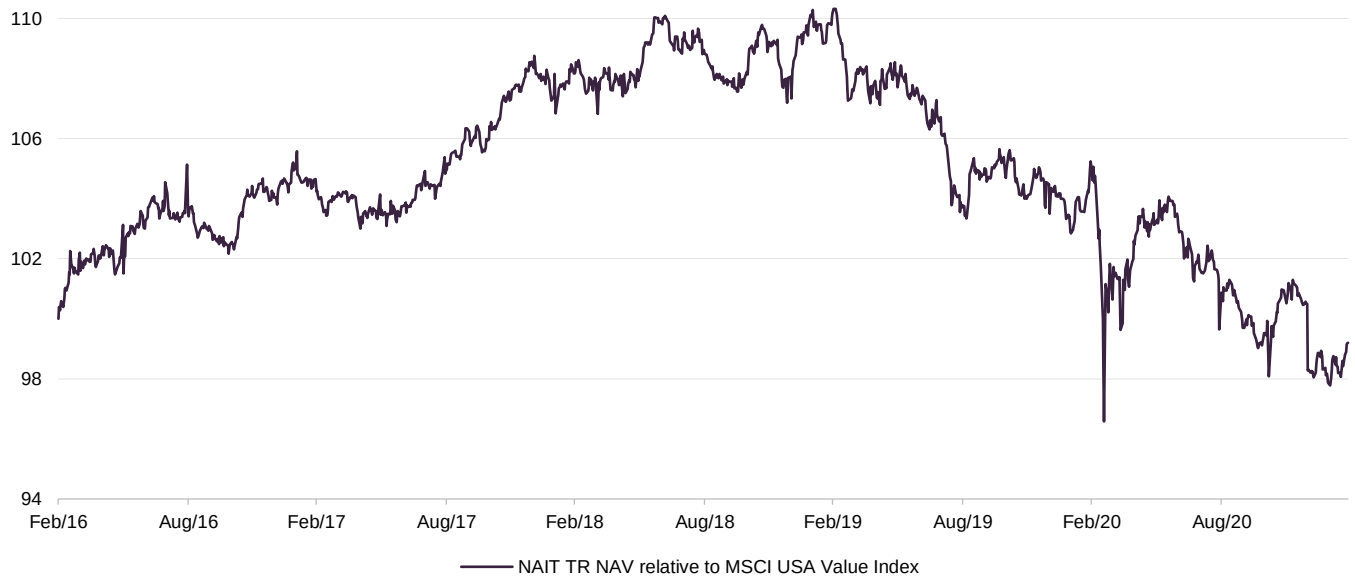
Source: Bloomberg

Up to date information on NAIT is available on the QuotedData website

Performance

Over the five-year period shown in Figure 14 below, NAIT outperformed the MSCI USA Value Index from March 2016 to February 2019. Over its financial year to January 2020, NAIT's underperformance of its benchmark was mainly the result of stock selection in the materials, communication services and consumer discretionary sectors. This was discussed in our more recent update note (see the previous publications section).

Figure 14: NAIT NAV total return relative to MSCI USA Value and peer group average to 28 February 2021



Source: Morningstar, Marten & Co

Figure 15: Cumulative total return performance over periods ending 28 February 2021

	1-month (%)	3-months (%)	6-months (%)	1-year (%)	3-years (%)	5-years (%)
NAIT price	0.2	(0.7)	5.2	(7.8)	1.9	60.8
NAIT NAV	4.2	0.4	8.3	1.3	8.9	62.8
MSCI USA Value Index	2.7	1.7	10.0	7.3	18.6	64.0
S&P 500 Index	0.9	0.8	4.9	19.3	44.0	110.6
Peer group average NAV*	5.2	6.5	16.9	31.6	24.6	77.1

Source: Morningstar, Marten & Co. Note: peer group defined as the AIC North America sector.

The S&P 500 Index's strength over the last five years (illustrated in Figure 15) reflects the strength of growth stocks, which has worked against income-focused

strategies such as NAIT's, with core sectors such as financials having been out of favour with investors for several years.

However, for the first time in a while, value may have some momentum behind it, with both NAIT's NAV and the MSCI USA Value Index having outperformed the S&P 500 Index over the past six months.

Peer group

Amongst the AIC's North America sector, arguably only BlackRock North American Income follows a similar strategy to NAIT

NAIT sits within the AIC North America sector, which is used as its peer group. We caution, however, that it is not an ideal comparison, on the basis that out of the six funds, only BlackRock North American Income (BRNA) arguably follows a similar strategy to NAIT. Baillie Gifford US Growth (USA), JPMorgan American, and Gabelli Value Plus+ are growth-focused and Middlefield Canadian Income allocates predominantly to Canada. The presence of the growth-focused funds (USA in particular) within the peer group classification skewed NAIT's relative performance over 2020, as illustrated by Figure 16.

BRNA has been outperforming NAIT on a total return basis over the past year. A significantly higher allocation to technology (11.9% compared to NAIT's 4.4%, as at 31 January 2021) has worked in BRNA's favour. It can be argued that a strategy such as NAIT's may be better assessed over longer-term horizons, as this provides an opportunity for the portfolio holdings to compound and for perceived mispricing to correct, which may not be captured during shorter periods.

Figure 16: AIC North America subsector comparison table, as at 10 March 2021

	Market cap	Discount	Yield	Ongoing charge	NAV cumulative total return performance over periods ending 28 February 2021			
	(GBPm)	(%)	(%)	(%)	6 months (%)	1 year (%)	3 years (%)	5 years (%)
NAIT	342	(14.5)	4.0	0.91	8.3	1.3	8.9	62.8
Baillie Gifford US Growth*	941	4.5	-	0.75	31.6	120.8	-	-
BlackRock North Amer. Inc.	144	(4.0)	4.7	1.06	11.2	10.6	22.7	74.5
Gabelli Value Plus+	158	(4.6)	-	1.24	27.8	24.3	23.1	65.9
JPMorgan American	1,167	(5.7)	1.1	0.18	10.4	29.3	52.3	125.6
Middlefield Canadian Income	98	(17.5)	5.6	1.27	11.9	3.6	16.0	56.9
Peer group average	475	(5.4)	3.8	0.90	16.9	31.6	24.6	77.1
Peer group median	250	(6.3)	4.7	0.99	11.6	17.5	22.7	65.9

Source: Morningstar, Marten & Co. Note: performance figures are 28 February 2021. *Baillie Gifford US Growth launched in 2018

NAIT's shares currently carry a lower yield than BRNA's, though its ongoing charges are lower and the difference between the two funds' premium/(discount) is significantly wider than in our previous note.

NAIT significantly greater exposure to the US compared to BRNA could arguably be a competitive advantage if the pace of recovery in the US is brisker

We also note that BRNA's mandate allows it to invest outside of North America – as at 31 January 2021, the US accounted for 73.7% of its portfolio while Europe contributed 19.5%. Were the pace of recovery to be brisker in the US compared to many of the Western European countries that BRNA invests in, ultimately leading to quicker returns to and increases in capital distributions by companies, this may work in NAIT's favour, particularly if the trend that has seen the market rotate back into sectors such as financials is sustained.

Dividend – consistent growth supported by revenue reserve build-up

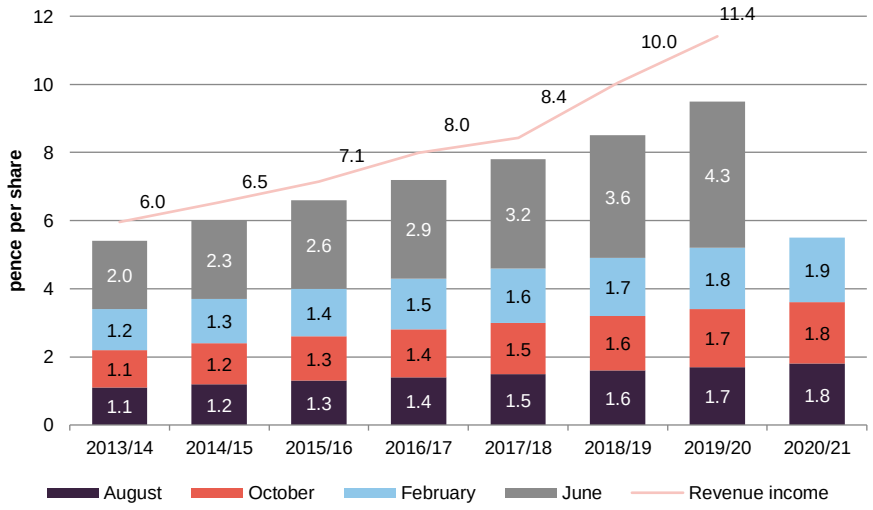
9.6% per annum compound dividend growth over the last five financial years

NAIT pays dividends quarterly, with the first interim dividend paid out in August. The second, third and fourth interim distributions are paid in October, February, and June. Between the year-ending periods to 31 January 2015 and 31 January 2020, NAIT grew its total dividend from 6p to 9.5p – equivalent to a compound annual growth rate of 9.6%.

NAIT's quarterly dividend has been raised each year in Q3

Although not a formal aspect of NAIT's dividend policy, the total annual dividend has increased every year since NAIT adopted its income mandate in 2012. As illustrated in Figure 17 below, the quarterly dividend rate paid for the first quarter has tended to be been maintained for the second interim in October. The third interim, paid in February, tends to see a modest increase. This is followed by a larger 'balloon payment' for the fourth quarter in June.

Figure 17: NAIT dividend and revenue earnings history for years ended 31 January



Source: North American Income Trust, Marten & Co. *Note: adjusted for the five-for-one stock split, which took effect from 10 June 2019 – for details on this please refer to our last annual overview note by clicking here

Dividend growth over several years has been consistently covered by the portfolio's revenue income

As Figure 17 illustrates, NAIT has a track record of growing its annual dividend and this has been supported by the build-out of its revenue reserves, with dividends having been consistently covered by earnings. As at 31 January 2020, NAIT had revenue reserves totalling £11.9m, equivalent to 8.3p (after payment of the third and fourth interim dividends), covering close to 90% of the dividend.

Given the expected growth in the portfolio's income over the year to 31 January 2021, dividend coverage could increase to nearly 100% of trailing 12-month payments.

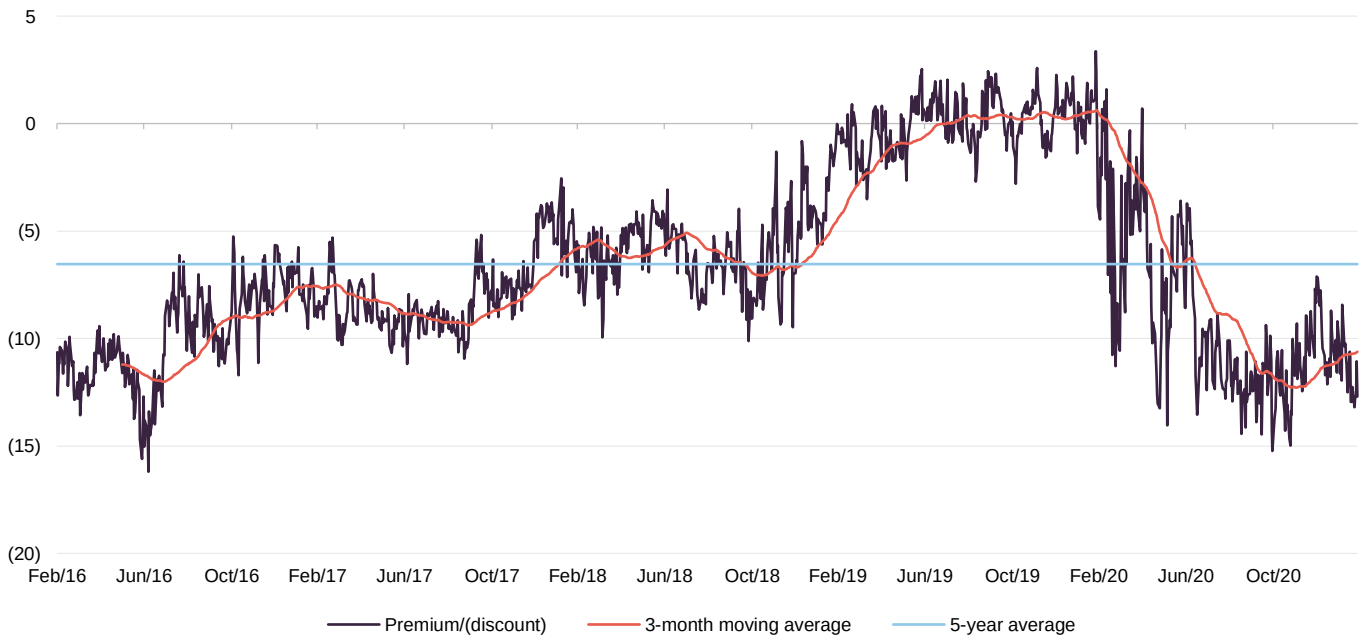
Premium/(discount)

Over the year to the end of February 2021, NAIT's share price has moved within a range of a 15.2% discount to a premium of 1.6% and has traded at an average discount of 9.4%.

NAIT's discount is currently wider than it was over the summer of 2020

As at 8 March 2021, NAIT's shares were trading at a 14.5% discount to NAV. Having initially narrowed from November 2020 to the end of the year, in the aftermath of the vaccine-led bounce in value-focused sectors, NAIT's discount has widened since the turn of the year back towards the pre-November 2020 level, with increases in the NAV not matched by the share price. This is arguably at odds with the direction financial markets have taken, when the rally in banking shares, signalling from the bond market (see page 3), and rotation back into many of the value sectors NAIT focuses on is factored in. Corporate earnings over the fourth quarter of 2020 were much better than expected.

Figure 18: NAIT's discount over the five years to 28 February 2021



Source: Morningstar, Marten & Co

NAIT's discount control mechanism allows it to buy back up to 14.99% and issue up to 10% of its issued share capital. NAIT has recently resumed share repurchases

NAIT is authorised to repurchase up to 14.99% and issue up to 10% of its issued share capital, which gives the board a mechanism with which it can influence the premium/discount. This authority was renewed at the most recently-held AGM in June 2020. The board uses this discount control mechanism as a tool to reduce volatility in the premium or discount to underlying NAV, whilst also making a small positive contribution to the NAV. With 2021 having brought greater visibility, as vaccination programmes continue apace NAIT has resumed share repurchases as a means to control its discount.

Fees and costs

Tiered management fee

NAIT's management fee is calculated at 0.75% of net assets up to £350m, 0.6% between £350m and £500m and 0.5% over £500m. For accounting purposes, the management fees are charged 70% against the capital account and 30% against the income account, as is the interest cost associated with NAIT's gearing (see below).

Secretarial and administration services provided by Aberdeen Standard Fund Managers Limited are provided for an index-linked annual payment that amounted to £115k in FY 2020 (2019: £112k). NAIT also makes a contribution to the marketing cost for the trust that amounted to £208k in FY 2020 (2019: £211k).

NAIT has appointed Computershare Investor Services Plc as its registrar and BNP Paribas Securities Services as its depositary. The fees for these services in FY 2020 were £53k and £51k respectively (2019: £60k and £50k).

NAIT's ongoing charges ratio for the interim period to 30 July 2020 was 0.94% (FY 2020: 0.91%).

Capital structure and life

A five-for one share split was undertaken in 2019

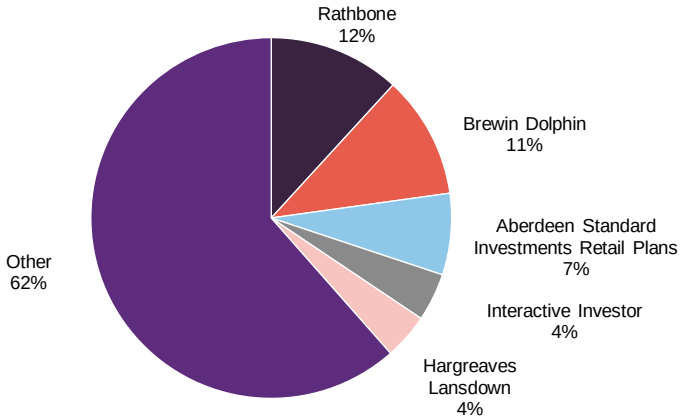
NAIT has a simple capital structure with one class of ordinary share in issue. As at 9 March 2021, NAIT had 142,568,082 ordinary shares in issue with no shares held in treasury. A five-for-one share split was agreed in June 2019 – for details on this, please refer to our last annual overview note by clicking here.

In November 2020, NAIT announced a new long-term financing arrangement to replace the existing RCF

It was announced in November 2020 that NAIT's board had accepted an offer to issue a $25m 10-year senior unsecured loan note at an annualised interest rate of 2.70% and a $25m 15-year senior unsecured loan note at an annualised interest rate of 2.96%. The blended rate for the first 10 years of the loan notes would be 2.83%. The proceeds of the loan note would be used to repay and cancel in full the $75m revolving credit facility (RCF), which at the time of the announcement was $40m drawn.

Major shareholders

Figure 19: NAIT's major shareholders, as at 31 January 2021



Source: Aberdeen Asset Managers Inc.

Financial calendar

NAIT's financial year-end is 31 January. Its annual results are usually published in April (interims in September) and its AGMs are usually held in June of each year. As discussed on page 13, NAIT pays quarterly dividends in August, October, February and June.

Three-yearly continuation votes

NAIT's next continuation vote is due at the 2021 AGM

NAIT does not have a fixed life, but every three years, shareholders are offered the chance to vote on the continuation of the company. The next vote will be held at the forthcoming AGM, which is due to held in June 2021. The last such vote was at the AGM in 2018 and was carried with 99.98% of votes being cast for continuation.

Management

The investment team has 18 members (nine in Philadelphia and nine in Boston). Ralph Bassett, head of North American equities, joined the manager in 2006 from Navigant Consulting. He graduated with a BS in Finance from Villanova University. Ralph is a CFA® charterholder.

Fran joined the manager in 2007 following the acquisition of Nationwide Financial Services. Previously, he worked at Salomon Smith Barney and SEI Investments. He graduated with a BA in Economics from Dickinson College and an MBA in Finance from Villanova University. Fran is also a CFA® charterholder.

Board

NAIT's board consists of five non-executive directors

The board consists of five non-executive directors, all of whom are considered to be independent of the manager and do not sit together on other boards. All directors stand for re-election annually. With the exception of the chairman, the board has been completely refreshed since 2015, as illustrated in Figure 20. Chair James Ferguson has a significant personal investment in the trust, which should give shareholders comfort of his alignment with their interests.

At the company's AGM on 4 June 2019, shareholders approved an increase in the aggregate limit placed on the directors' fees from £150k to £175k. This limit was applied to the most recent accounting year to 31 January 2020.

Figure 20: NAIT's board

Director	Position	Appointed	Length of service (years)	Annual fee (GBP)	Shareholding
James Ferguson	Chairman	12/03/02	19.0	31,000	78,850
Karyn Lamont	Chair of the audit committee	18/09/18	2.5	25,000	
Dame Susan Rice	Senior independent director	17/03/15	6.0	22,500	675
Susannah Nicklin	Director	18/09/18	2.5	22,500	2,345
Charles Park	Director	13/06/17	3.7	22,500	11,000

Source: North American income Trust, Marten & Co. Note: annual fee and shareholding figures as at 31 January 2021

James Ferguson (chair)

James was a former chairman and director of Stewart Ivory and a former deputy chairman of the AIC. He is the chairman of The Scottish Oriental Smaller Companies Investment Trust, Value and Income Trust and Northern 3 VCT and a director of The Independent Investment Trust.

Karyn Lamont (chair of the audit committee)

Karyn is a chartered accountant. She was previously an audit partner at PwC, specialising in the UK financial services sector. Karyn has provided audit and other services to a range of clients, including several investment trusts, a broad range of management companies and outsourced service providers. Her specialist knowledge includes financial reporting, audit and controls, risk management, regulatory compliance and governance. She is the audit committee chairman of The Scottish Investment Trust, Scottish Building Society, iomart Group and Scottish American Investment Company.

Dame Susan Rice (senior independent director)

Susan is a chartered banker with extensive experience as a non-executive director, as well as in financial services, retail, utilities, leadership and sustainability. Her previous roles include managing director of Lloyds Banking Group Scotland, chairman and chief executive of Lloyds TSB Scotland, President of the Scottish Council of Development and Industry and a member of the Scottish First Minister's Council of Economic Advisors. She has also held a range of non-executive directorships, including at the Bank of England and SSE. She is currently chairman of the Banking Standards Board, The Scottish Fiscal Commission, Scottish Water and Business Stream and senior independent director of J Sainsbury. Originally from the United States, her early career was at Yale and Colgate universities and then at NatWest Bancorp.

Charles Park (director)

Charles has over 25 years of investment management experience. He is a co-founder of Findlay Park Investment Management, a US boutique asset management company that was established in 1997. He was deputy chief investment officer with joint responsibility for managing Findlay Park American Fund until his retirement from the firm in 2016. Before co-founding Findlay Park, Charles was an investment manager at Hill Samuel Asset Management and an analyst at Framlington Investment Management. He is a non-executive director of Polar Capital Technology Trust, Evenlode Investment Management, Findlay Park Investment Management and Spring Park Investments and a member of Salters' Management Company Limited.

Susannah Nicklin (director)

Susannah Nicklin is an investment and financial services professional with over 20 years of international experience in executive roles at Goldman Sachs and Alliance Bernstein in the US, Australia and the UK. She has also worked in the social impact private equity sector with Bridges Ventures, the Global Impact Investing Network and Impact Ventures UK. She is the chairman of Schroder BSC Social Impact Trust, senior independent director of Pantheon International and a non-executive director of Amati AIM VCT, Baronsmead Venture Trust and Ecofin Global Utilities and Infrastructure Trust. She is a CFA® charterholder.

Previous publications

QuotedData has published four notes on NAIT. You can read these by clicking the links in the table below or by visiting our website.

Figure 21: QuotedData's previously published notes on NAIT

Title	Note type	Date
Reasons to be cheerful	Initiation	26 October 2018
Time to grow?	Update	22 May 2019
Macro driven market is creating opportunities	Annual overview	28 November 2019
Purest access to US equity income	Update	12 June 2020

Source: Marten & Co

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