Results analysis: Edinburgh Investment Trust

Stock selection has driven EDIN's excess returns versus the FTSE All-Share...

Update
29 May 2024

- **Edinburgh Investment Trust (EDIN) has published its full year results for the 12 months ending 31/03/2024. During this period, portfolio managers James de Uphaugh and Chris Field retired and Imran Sattar and Emily Barnard assumed the roles of lead and deputy managers, respectively, as of 06/02/2024.**

- **Over the period, the trust saw NAV total returns of 13.4% and a share price total return of 8.9%, outperforming the FTSE All-Share Index total return of 8.4%. Performance continues to be driven by stock selection, with a diversified set of stocks contributing to the portfolio's excess returns over the period.**

- **Notably, three key positions - Marks & Spencer, BAE Systems and Centrica – stood out. These are all examples of businesses purchased when out of favour and which have since enjoyed significant share price appreciation as their operating models have improved.**

- **The board has recommended a final dividend of 6.9p per share, which, if approved in the July AGM, would bring the total dividend to 27.2p, representing a 3.8% increase from the previous year's total dividend of 26.2p.**

- **While the dividend for the year has increased, the revenue generated by the portfolio has fallen by 7.9%, largely due to a reduction in special dividend payments, particularly from the banking sector. With the expected total dividend of 27.2p, the dividend is uncovered by 3.3p per share, although the revenue reserves remain healthy, covering 1.17 times the 2024 dividend.**

- **A new fee scale has been introduced, taking effect from 01/04/2024. Based on the trust's market capitalisation at the year end, this change will reduce the pro-forma management fee by c. 11%.**

- **Chair Elisabeth Stheeman commented, "Enthusiasm for the underlying holdings of the Company is supported by strong operational performance and attractive valuations." She also noted that: "These valuation anomalies are being exploited by the companies themselves, through share buybacks, and also from time to time by takeovers by third parties."**

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Kepler View

These are good results for **Edinburgh Investment Trust (EDIN)**, with NAV total returns outperforming the FTSE All-Share Index by 5 percentage points and a total dividend increase to 27.2p, from 26.2p the year prior, representing a yield of 3.7%, at the time of writing.

Imran and Emily stepped into their lead and deputy portfolio manager roles in February this year. Both worked closely with their predecessors for over four years and remain committed to delivering strong total returns to shareholders. They continue to emphasise a balanced approach, seeking companies offering both growing dividends and capital growth potential, preferring not to prioritise one over the other or get stuck chasing a higher yield. In our view, their focus on balancing stocks offering above-average earnings potential as well as some latent recovery has underpinned EDIN's total return approach over time, so we are encouraged to see this focus continue. While the focus remains the same, the new managers have got to work and reorganised around 16% of the portfolio in the first three months of the calendar year. They anticipate a similar level of degree of change over the rest of 2024.

As EDIN's chair notes, many UK equities continue to stand at a valuation discount to their international peers. This has resulted in a wider pool of opportunities for the managers to exploit, particularly in mid-caps. One of the differentiators of EDIN's strategy is greater exposure, compared to some peers and the index, to mid-cap companies, which can be a hunting ground for less well-known opportunities offering greater capital and dividend growth potential compared to their larger counterparts. Amid current valuations, the managers initiated a new position in Rotork, an electronic and electrical equipment manufacturer, given its exposure to attractive long-term growth drivers such as oil and gas upstream electrification, and industrial process automation. Additionally, they also made a several purchases in larger companies on valuation grounds, including Rentokil and Autotrader. These changes were funded selling positions in companies likes WPP, an advertising firm, and Standard Chartered Bank.

In terms of wider changes, there has been a cut to the management fee. Effective as of 01/04/2024, there will be a charge of 0.45% per annum on the first £500m of market capitalisation, 0.40% on the next £500m and 0.35% on the remainder. Based on EDIN's market cap at the year-end, the restructuring is expected to reduce the pro-forma management fee by approximately 11%, compared to the old management fee structure.

Despite positive performance, the share price discount to NAV widened to 11.5% over the period, from 7.5%, reflecting a general widening of discounts in the sector. In response to this, the board repurchased 13.9m shares, equivalent to 8.5% in circulation during the year. Since then, to 28/05/2024, a further 0.5% shares have been bought back.

In our opinion, EDIN continues to offer investors exposure to quality companies, spanning diverse sectors, and which have strong earnings growth potential which should feed into rising dividends. Furthermore, we believe that it's well-positioned to be a core holding for investors seeking a balance between capital growth, current income and income growth. If the strong run of performance persists and dividends continue to grow year-on-year, then we see potential for the discount to narrow, providing an additional boost to shareholder returns.

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