

INSPIRING DIVIDEND HEROES



For investors in search of income, heroes don't necessarily wear capes. Sara Wilson reviews the dividend paying track record of investment trusts and outlines some of the reasons for their potential to pay out consistently and reliably over the years.

One particular theme always stands out whenever we review the best selling investments on the Alliance Trust Savings platform – what seems like an insatiable hunger for income.

Our top selling shares are almost invariably companies with a reliable and recent track record for paying dividends.

An impressive record

The investment trust sector has a well-documented and impressive record when it comes to growing dividends year after year.

Whilst we need to be clear that past performance is not a guide to future performance, there are now 20 investment trusts that have increased their dividends for at least 20 consecutive years, including, remarkably, four – City of London, Bankers, Alliance Trust and Caledonia – that have done so for more than 50 years in a row, according to the latest dividend heroes index from the Association of Investment Companies (AIC)¹.

The next generation of heroes

The AIC also revealed its 'next generation' of dividend heroes, comprising more than 20 investment trusts that have raised their dividends for at least 10 years but less than 20 consecutive years.

Dividends drive growth too

The compounding effect of dividends can make them a big driver of investment growth too. Again, past performance is not a guide to future performance, but the most recent Barclays Equity Gilt Study found that if you had invested £100 in the UK stock market at the end of 1945 but not reinvested the dividends, you'd now have £244 to show for it, after inflation. And with the dividends reinvested, the original capital would now be worth £5,573³.

This carries extra weight in an era of low growth and low interest rates, making the continued success of investment trusts in growing their dividends year after year so significant.

Investment trust super powers

So why exactly can investment trusts be so reliable when it comes to growing dividends? Some of the reasons may be familiar, but with many trusts offering such consistency at a time when income is in scarce supply elsewhere, it's worth reminding ourselves of the chief factors.

Investment trusts have several inherent, structural advantages that maximises their ability to maintain dividends.



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Sara joined Alliance Trust Savings in March 2013 as Head of Platform Proposition, taking on responsibility for the products and investment choice available on the platform. Previously, she worked for Standard Life as International Proposition Manager. Before moving to Scotland, Sara worked for Xansa, a technology outsourcing company. She received a BA Honours in International Business from the University of Teesside and a Post Graduate Diploma in Marketing at Napier University, Edinburgh.

Top 10 AIC Dividend Heroes for 2019¹

Company	AIC sector	Dividend increase*	Yield (%)**
City of London	UK Equity Income	52	4.53
Bankers	Global	52	2.33
Alliance Trust	Global	52	1.83
Caledonia	Flexible Investment	51	1.95
BMO Global Smaller Companies	Global	48	1.15
F&C Investment Trust	Global	48	1.63
Brunner	Global	47	2.44
JPMorgan Claverhouse	UK Equity Income	46	3.92
Murray Income	UK Equity Income	45	4.38
Witan	Global	44	2.50

Top 10 AIC Next Generation Dividend Heroes²

Company	AIC sector	Dividend increase*	Yield (%)**
Perpetual Income & Growth	UK Equity Income	19	4.58
Aberdeen Standard Equity Income	UK Equity Income	18	4.88
Athelney	UK Smaller Companies	16	3.96
TR European Growth	European Smaller Companies	16	2.53
BlackRock Smaller Companies	UK Smaller Companies	15	2.11
BlackRock Throgmorton Trust	UK Smaller Companies	15	2.04
Establishment Investment Trust	Flexible Investment	15	2.91
Henderson EuroTrust	Europe	15	2.94
Henderson Smaller Companies	UK Smaller Companies	15	2.62
Aberdeen New Dawn	Asia Pacific Excluding Japan	14	1.86

* Number of consecutive years dividend increased. ** Dividend yield at 28/02/19 (%).

One of those is dividend smoothing, a mechanism that allows investment trusts to set aside up to 15% of their income in reserve each year so that they can maintain payouts to investors during more turbulent periods.

This means that even with several big corporates either cutting their dividends in recent months or warning of potential future cuts – such as Saga⁴ and Centrica⁵ – investors can still rely on investment trusts using this mechanism being able to continue producing a regular and potentially growing income.

Trusts also have the ability to gear (borrow), another feature that sets them apart from open-ended investment vehicles. Gearing allows managers of investment trusts to enhance both capital and income returns in order to cover dividend payments, although gearing can lead to amplified losses too. UK-domiciled investment trusts are also allowed to pay income out of their capital reserves, following a rule change in 2012, although few are doing this.

Looking to the future

The different trusts have their own strategies for growing dividends. City of London Investment

Trust, for example, cites the portfolio diversification that enables it to benefit from different stages of the economic cycle. Many trusts are increasing their exposure to income-producing companies around the world, benefiting from a growing dividend culture in Asia in particular⁶.

The trusts highlighted by the AIC as being dividend heroes are all available on the Alliance Trust Savings platform. Investment returns can go down as well as up, of course, and as with all investments you could get back less than you pay in to an investment trust. But with a track record of being able to provide consistency of income in an uncertain world, it comes as little surprise to me that investment trusts remain a popular choice. ■

1. The AIC – Investment company dividend heroes – 12/03/19.
2. The AIC – Next generation of dividend heroes – 18/03/19.
3. Moneyweek – Stocks beat cash and bonds over the long term – 19/04/19.
4. Morningstar – Saga Plunges on Dividend Cut and Profit Warning – 04/04/19.
5. Proactive Investor – While UK dividends hit record £19.7bn in first quarter, some FTSE 100 companies could be headed for cuts 19/04/19.
6. Funds Europe – Dividend culture spreads internationally – 16/07/18.

Important information: This general information is provided to support you in making your own investment decisions. It is not a recommendation to buy or sell. Please be aware that the value of investments can fall as well as rise so you could get back less than you invest. Past performance is not a guide to future performance.

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