Initiation | Investment companies

26 October 2018

The North American Income Trust

Reasons to be cheerful

Investors in the US may be preoccupied by a possible trade war with China and rising interest rates but the manager of North American Income Trust (NAIT) is relatively upbeat. He points out that the US economy is outpacing peers; markets have corrected and are some way off their peaks; investors' narrow focus on growth stocks has abated somewhat; and, crucially for a trust that has an income mandate, dividends are set for a positive step change (see page 3).

NAIT's long-term total returns remain well ahead of value-based indices and the trust's direct competitor. However, NAIT's focus on quality, dividend paying stocks has seen it lag the wider US market, where performance over the last couple of years has been driven mainly by low/zero yielding technology stocks. With the market looking more volatile, NAIT's manager will be seeking opportunities to add to stocks that meet his quality criteria, at attractive valuations.

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 S&P 500 US equities.

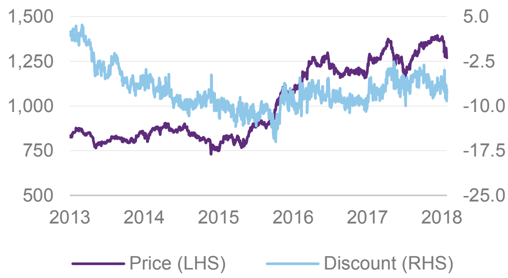
Year ended	Share price total return (%)	NAV total return (%)	MSCI USA value TR (%)	MSCI United States TR. (%)	S&P 500 total return (%)
30/09/14	5.1	13.4	18.0	18.5	18.9
30/09/15	(7.0)	(1.5)	1.2	5.8	5.7
30/09/16	48.8	44.2	35.5	33.4	33.7
30/09/17	15.1	15.1	11.5	14.0	14.1
30/09/18	17.0	13.5	11.9	20.6	20.6

Source: Morningstar, Marten & Co

Sector	North America
Ticker	NAIT LN
Base currency	GBP
Price	1270p
NAV	1369.3p
Premium/(discount)	(7.3%)
Yield	3.1%

Share price and discount

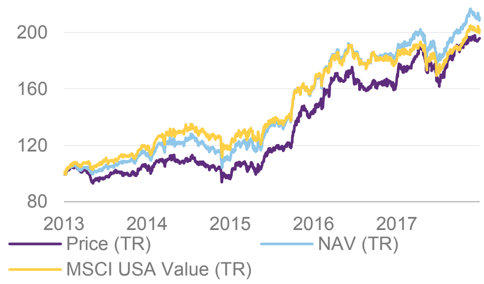
Time period 30/09/2013 to 24/10/2018



Source: Morningstar, Marten & Co

Performance over five years

Time period 30/09/2013 to 30/09/2018



Source: Morningstar, Marten & Co

Domicile	Scotland
Inception date	20 November 1902
Manager	Fran Radano
Market cap (GBPm)	361m
Shares outstanding	28.4m
Daily vol. (1-yr. avg.)	27,342 shares
Net gearing	4%

Contents

A bumper year for dividend growth

Fran Radano, NAIT's manager, can point to several reasons why investors in NAIT should be optimistic

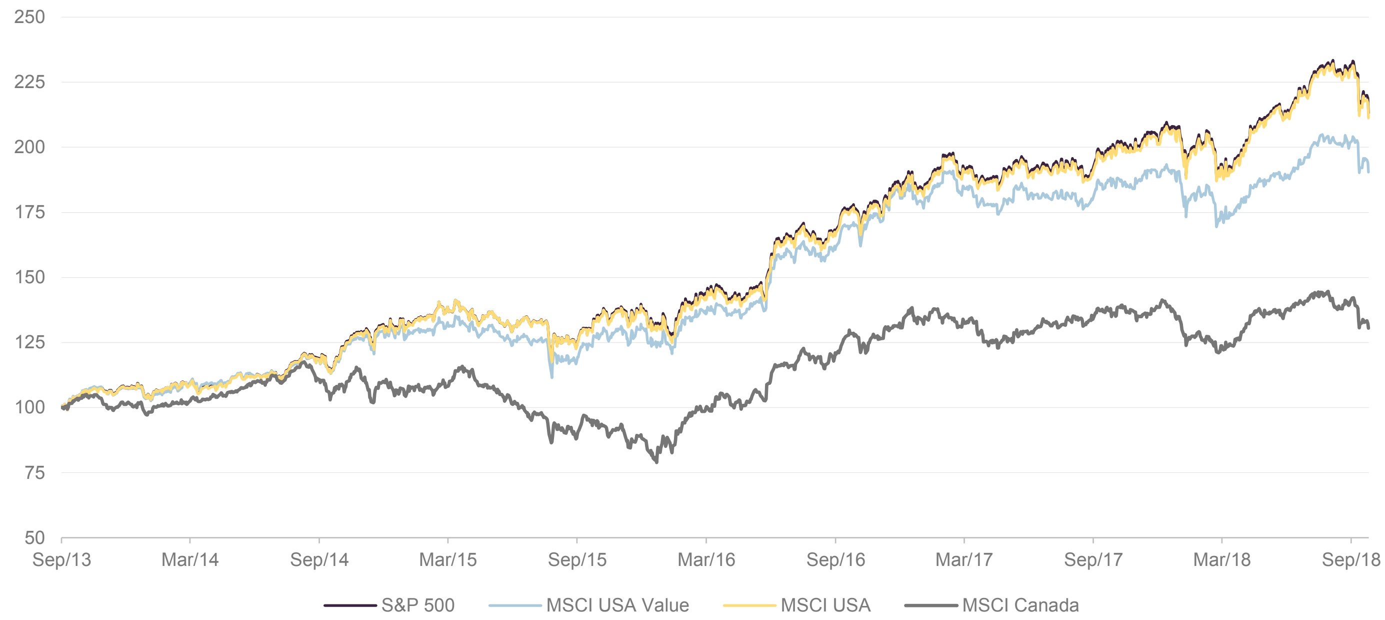
The all-pervading gloom that seems to weigh on UK-based investors is not much in evidence when you talk to Fran Radano, NAIT's Philadelphia-based manager. He highlights:

- strong global growth and US GDP growth well ahead of its G7 peers (this year and next, according to IMF forecasts);
- above-trend earnings for US companies, aided by President Trump's 2017 tax reform package and less stringent regulations;
- strong cash flows feeding through into increased distributions and leading to a step change in dividends;
- signs that companies are also using the tax windfall to invest in their businesses (hopefully translating into improved productivity);
- improving consumer confidence and small business optimism;
- and valuations closer to the middle of their long-term range than at the top end.

The recent setback in markets has been focused largely on the technology and other high growth sectors where NAIT's portfolio is underrepresented

Until recently, the US market has been on an upward trajectory as Figure 1 shows. The correction in share prices that has been a feature of the past couple of weeks has been focused largely on the technology and other high growth sectors where NAIT's portfolio is underrepresented. The Canadian market had been held back by weak commodity prices; however, that situation changed this year as the oil price rose. A resolution of the NAFTA (now USMCA) renegotiation has removed one element of uncertainty that was weighing on the Canadian market.

Figure 1: North American indices 1 October 2013 to 24 October 2018, rebased to 100



Source: Morningstar, Marten & Co

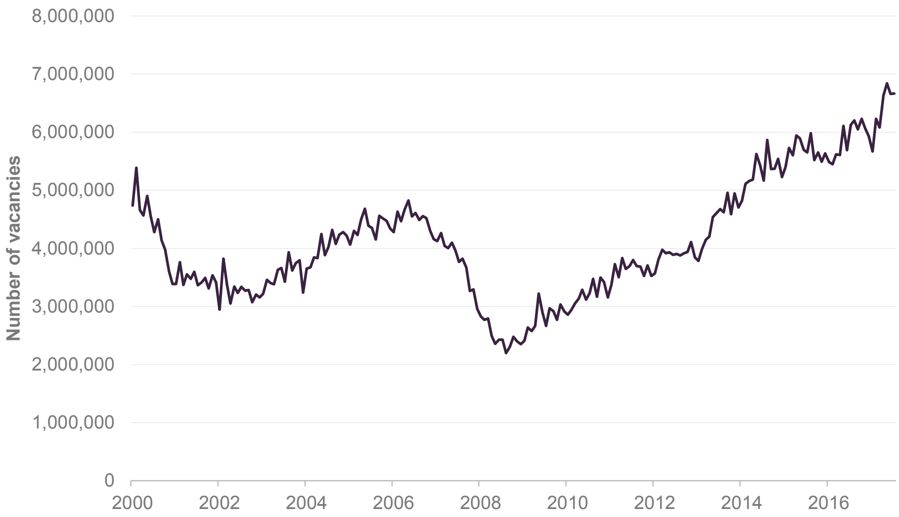
Dividend growth within the market and the portfolio has been particularly strong recently and may be stronger still this year

Companies have been increasing their pay-out ratios since the global financial crisis (GFC) as these looked better than stock buy backs. Dividend growth within the market and the portfolio has been particularly strong recently (over the 12 months to the end of July 2018, 90% of NAIT's equity holdings increased their dividend, and average income rose by 11%). Banks have benefitted from a relaxation of rules around the amount of capital they must keep as reserves and from widening interest rate margins as US rates rise. The tax changes introduced at the end of last year have also stimulated both dividend hikes and share buy backs. Fran thinks that the jump in dividends this year will be a one-off and dividend growth for the market as a whole will then return to trend. The corporation tax cut has 'levelled the playing field' versus other developed countries and, in Fran's view, removes any incentive for tax-driven M&A activity.

The manager thinks the Fed may pause after the next rate rise

Ahead of the recent turbulence, the next quarter point interest rate rise was more or less priced in by markets. The manager thinks it is likely the next rate rise will still happen and believes that the Fed should then pause to ascertain the effects of the increases before raising rates again. Assuming there are few warning signs emerging, he thinks further rate rises are likely. Inflation remains muted; however, Fran thinks wages should be rising given the low unemployment levels. He points out that the JOLTS index (job openings and labour turnover survey, published by the Bureau of Labor Statistics) is at an all-time high as people take up better job offers. Figure 2 shows the OECD's estimate of unfilled job vacancies in the US (on a monthly basis and seasonally adjusted); this may indicate a lack of spare capacity in the US economy.

Figure 2: Seasonally adjusted vacancies



Source: OECD, Main Economic Indicators - complete database, Main Economic Indicators (database), http://dx.doi.org/10.1787/data-00052-en at 16 October 2018.

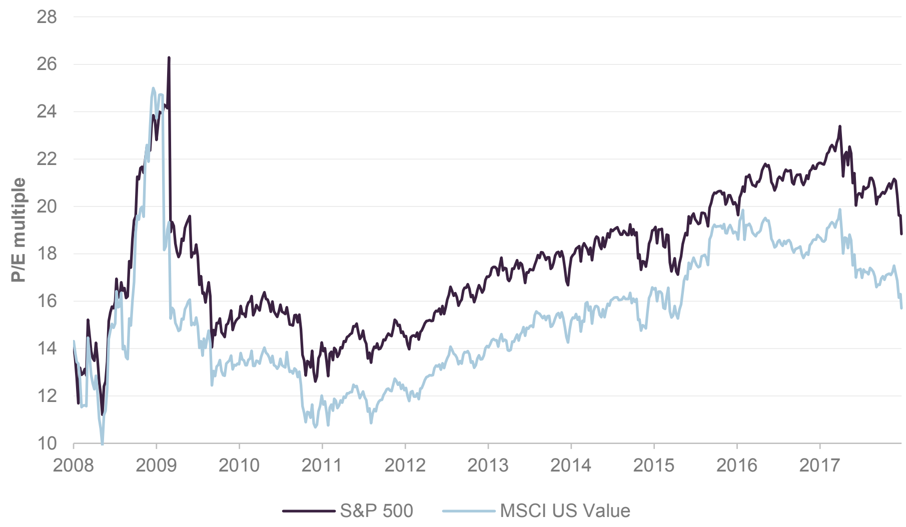
The trade war could go either way

One factor that has been weighing on world stock markets has been the escalating trade war between the US and China. Fran believes that the eventual outcome is hard to predict. However, he thinks there is a chance that we could wake up and find an agreement has been reached. President Trump's hope may be that the tit-for-tat tariffs lead to a repatriation of manufacturing by US corporates. This could happen but there may also be a knock-on effect on total trade. The falling Chinese currency is undermining the effects of the tariffs in any case.

Earnings growth has outpaced share price rises, leaving stocks at multiples well below peaks

The US market's rise has been accompanied by earnings growth. Figure 3 shows the development of p/e multiples on the S&P 500 and MSCI USA Value Index over the past decade. Current p/e ratios are well below post GFC peaks (the p/e ratios for the S&P 500 and MSCI USA Value indices were 18.8x and 15.7x at 24 October 2018, versus an average of 17.7x and 15.3x since 31 October 2008 and peaks of 23.4x and 19.9x in the past 12 months).

Figure 3: P/E ratios for S&P 500 and MSCI US Value indices



Source: Bloomberg, Marten & Co

When comparing the valuation of the US market versus peers, bear in mind its higher technology exposure

The manager points out that the technology sector skews market valuations. This accounts, in part, for the disparity between the p/e ratios of the two indices. US indices have high exposure to technology, around 21% of the S&P 500 at the end of September 2018 (even after the reclassification of Google and Facebook into a new communication services sector), relative to 11.6% for the MSCI all Countries World ex US Index. This makes the US market look more expensive than many of its peers.

The period of economic expansion since the GFC has been one of the longest in living memory. Investors may look at indicators, such as the flattening of the yield curve, and faltering housing and automotive demand as signs that this is coming to an end. Nevertheless, as Fran notes, the recovery has been shallower too. The tax changes introduced at the end of 2017 have encouraged a flood of liquidity into the US, to the benefit of the dollar. The anniversary of these tax changes is looming and the knock-on effects will start to diminish. Whatever the trajectory of the economy from here, Fran will continue to take advantage of market volatility to add to the trust's holdings of quality companies at attractive valuations. He says that NAIT's focus on quality should prove relatively beneficial in periods of market weakness.

Fund profile

You can access the trust's website at:

www.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 40-45 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 benchmarks itself against the Russell 1000 Value Index but we have used MSCI USA Value, MSCI USA and S&P 500 indices as comparators for the purposes of this report.

The board has appointed Aberdeen Fund Managers Limited to act as NAIT's alternative investment fund manager. The portfolio is managed on a day-to-day basis by Aberdeen Asset Managers Inc. (AAMI) and the lead manager is Fran Radano (Fran or the manager). Fran is a senior investment manager within the AAMI team, which is led by Ralph Bassett, who is a named co-manager of NAIT.

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

NAIT's history goes back to 1902 but the trust has only been in its current form since 2012. Before then its portfolio tracked the S&P 500 Index. Fran has been working on the trust since 2012 and took over as lead manager in 2015. The equities team is based in Philadelphia and Boston. More information on the manager and AAMI is available on page 13.

Investment process

Increased individual sector research responsibilities but emphasis on building consensus retained

The merger between Aberdeen Asset Management and Standard Life required that the investment teams of the two businesses be amalgamated. This process was completed in April 2018 and the new combined team is sharing research duties. In the wake of the merger, there is an increased emphasis on individual team members having responsibility for researching a specific sector. Buy and sell ideas are presented to the team and the 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.

Fall in bond exposure reflects lack of yield

NAIT's portfolio comprises approximately 40 equity positions, drawn largely but not exclusively from the constituents of the S&P 500 Index. It also has about 10 fixed income positions, which help increase the diversification of NAIT's portfolio as well as providing a useful source of income. The split of the portfolio was 85% equities and 15% bonds when the fund was repositioned in 2012. The bond weighting has fallen as yields have declined. The fixed income portion of the fund is managed by the Boston office. 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.

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 management has not met the AAMI team. 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 approach is a long-term one and portfolio constituents change relatively rarely 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%

While 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 is not a barbell one, instead it has 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. At 31 July 2018, the manager said that, since the inauguration of the strategy in 2012, investments had grown their dividends by 10% per annum compound and 93% of investments had increased their dividend.

Position sizes determined by conviction not benchmark weights

Position sizes are determined by conviction and the manager places no emphasis on the weightings of stock 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 4% and tends to trim positions when they exceed this level.

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, utilities and REITs. This is because the manager is looking for stocks with decent earnings and dividend growth potential. He is also avoiding companies that distribute capital.

Option writing augments income

The portfolio's income is augmented by option writing activity. In recent times, Fran has been running with a ratio of about 50% calls to 50% puts. 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 greatest opportunity to earn income comes from the stocks with the highest perceived 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. The manager stresses that he does not write options with the primary goal to generate income per se. 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. The manager does not write in-the-money options as a means to convert capital into income.

Investment restrictions

Certain restrictions have been imposed on the manager by the board:

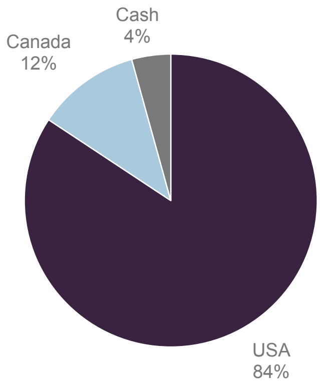
- No single investment will exceed 10% of gross assets at the time of investment
- The portfolio will have at least 35 holdings
- Exposure to derivative instruments is limited to 20% of net assets at the time of the relevant acquisition, trade or borrowing
- NAIT will not acquire unlisted or unquoted securities (with the exception of securities which are about to be listed or traded on a stock exchange). However, it may continue to hold securities that cease to be listed or quoted, if appropriate.

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. While permitted to do so, NAIT does not generally hedge its exposure to foreign currency.

Asset allocation

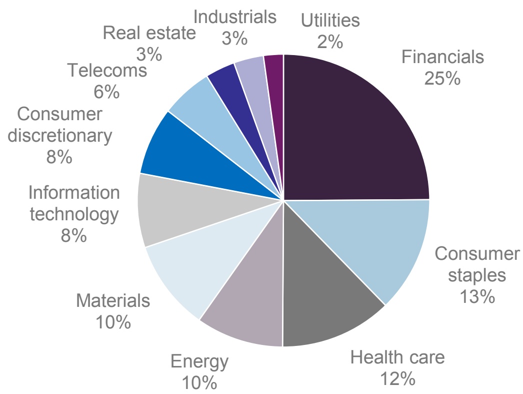
There were 50 holdings in the portfolio at the end of September 2018; 40 equity investments and 10 fixed income investments. The split of the portfolio by value at that time was 97.6% in equities to 2.4% in fixed income. The average rating of the bond portfolio is BB and, at the end of July 2018, the yields on the bonds ranged between 5.1% and 8.8% and the portfolio had an average duration of 4.5 years.

Figure 4: Geographic asset allocation at 30 September 2018



Source: AAML

Figure 5: Industry sector allocation at 30 September 2018



Source: AAML

Elevated turnover in Q1 reflected market volatility

Portfolio turnover in the first quarter of 2018 was higher than its usual low level due to market volatility (and the manager may also be taking advantage of the current state of markets to add to stocks he likes).

Increased financials exposure

The exposure to the financial sector has been increasing as its earnings prospects improve in the wake of rate rises and less stringent capital requirements. However, the manager has been reducing the holding in Glacier Bancorp, as the stock has seen good price appreciation and he thinks it is now looking expensive (over 18x earnings). The proceeds have been reinvested in Umpqua Holdings, a Midwest bank.

NAIT does not have a holding in any of the four largest US banks. The manager is deliberately avoiding banks with significant investment bank earnings and foreign currency exposure. The banks that he favours are closer to the end customer and have relatively straightforward business models. (Nevertheless, he believes that Citibank is starting to look attractive, how attractive will depend on its valuation.) Other bank holdings include Provident Financial (no relation to and a quite different company to the UK stock with the same name) and Regions Financial. Provident Financial is a regional bank based in New Jersey. Regions Financial is headquartered in Birmingham, Alabama and has branches across the south-eastern and midwestern states. It was bailed out with a TARP loan after the GFC but Fran says it has been on an improving trend since then (the loan was repaid in 2012).

ConocoPhillips and Paychex have been sold on valuation grounds. Fran felt that ConocoPhillips' yield was too low to justify retaining it within the portfolio given its low dividend growth prospects. Paychex had been rerated by the market. It was achieving higher product penetration with its customers (selling ancillary products to its core payroll management tool) and was also a beneficiary of rising employment within the US economy. Rising interest rates provide a further boost, as it holds substantial cash balances. Fran felt that investors were ascribing a peak multiple to Paychex on peak earnings.

Top 10 holdings

Since NAIT's year end on 31 January 2018, there have been some minor changes to its top 10 holdings. CME (the derivatives exchange), Microsoft and Molson Coors Brewing dropped out of this list, replaced by Johnson & Johnson, Regions Financial and Royal Bank of Canada.

Figure 6: Top 10 holdings at 30 September 2018

	30/09/18 (%)	31/01/18 (%)	Change (%)	Sector
Chevron	4.3	3.7	0.6	Oil, gas and consumable fuels
Cisco Systems	4.3	3.5	0.8	Communications equipment
Johnson & Johnson	3.9	1.8	2.1	Pharmaceuticals
Pfizer	3.9	4.0	(0.1)	Pharmaceuticals
BB&T	3.9	4.2	(0.3)	Banks
Procter & Gamble	3.7	3.3	0.4	Household products
Philip Morris	3.6	3.4	0.2	Tobacco
Royal Bank of Canada	3.4	1.9	1.5	Banks
Regions Financial	3.2	2.7	0.5	Banks
DowDuPont	3.1	3.4	(0.3)	Chemicals
Total	**37.3**			

Source: AAML

Performance

Figure 7: NAIT NAV total return relative to MSCI USA Value and peer group average to end September 2018

Source: Morningstar, Marten & Co

Figures 7 and 8 provide clear evidence of NAIT's outperformance of the MSCI USA Value Index over the long-term. A narrowing of the discount over the past three years (see page 11 for more detail) has allowed NAIT's share price returns to shine. The long-term outperformance of growth sectors such as technology is evident in the disparity of returns between the MSCI USA Value Index and the S&P 500/MSCI USA indices.

Figure 8: Cumulative total return performance over periods ending 30 September 2018

	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (%)	5 years (%)
NAIT share price	0.0	3.6	18.1	17.0	100.3	95.9
NAIT NAV	(0.8)	5.3	15.0	13.5	88.3	110.4
MSCI USA Value	0.0	7.3	15.2	11.9	68.9	101.8
MSCI USA	0.1	8.7	19.4	20.6	83.4	129.8
S&P 500	0.2	8.9	19.5	20.6	84.1	131.3
Peer group average	(0.4)	8.9	22.2	19.5	83.7	95.9

Source: Morningstar, Marten & Co

You can access up-to-date information on NAIT and its peer group at **QuotedData**

We have also compared NAIT's performance to that of its AIC North American sector peer group, the constituents of which are listed in Figures 9 and 10. We acknowledge that this is not a perfect comparison, given that it includes two trusts focused largely on Canadian stocks and only one other trust, BlackRock North American Income, with a similar remit to NAIT.

Figure 9: North America sector at 24 October 2018

Heading	Market cap £m	Discount (%)	Yield (%)	Ongoing charge (%)
NAIT	361.1	(7.3)	3.1	0.98
Baillie Gifford US Growth	253.4	5.3	Nil	n/a
BlackRock North American Income	115.0	(1.8)	4.8	1.08
Canadian & General Investments	276.3	(29.2)	3.4	1.54
JPMorgan American	959.4	(3.2)	1.3	0.55
Middlefield Canadian Income	100.7	(13.7)	5.4	1.24

Source: Morningstar, Marten & Co

While it offers a lower dividend yield, on a total return basis NAIT has outperformed the BlackRock fund over most time periods and remains the larger, more liquid trust.

Figure 10: North America sector cumulative NAV total return performance for periods ending 30 September 2018

	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (%)	5 years (%)
NAIT	-0.8	5.3	15.0	13.5	88.3	110.4
Baillie Gifford US Growth	-1.1	8.9	32.5	n/a	n/a	n/a
BlackRock North American Income	-0.5	6.8	16.1	12.8	73.7	101.9
Canadian & General Investments	-0.1	7.1	22.3	23.1	94.3	83.7
JPMorgan American	0.0	12.3	23.4	24.0	92.0	141.6
Middlefield Canadian Income	-0.2	8.5	16.2	9.5	61.5	45.3

Source: Morningstar, Marten & Co

Dividend

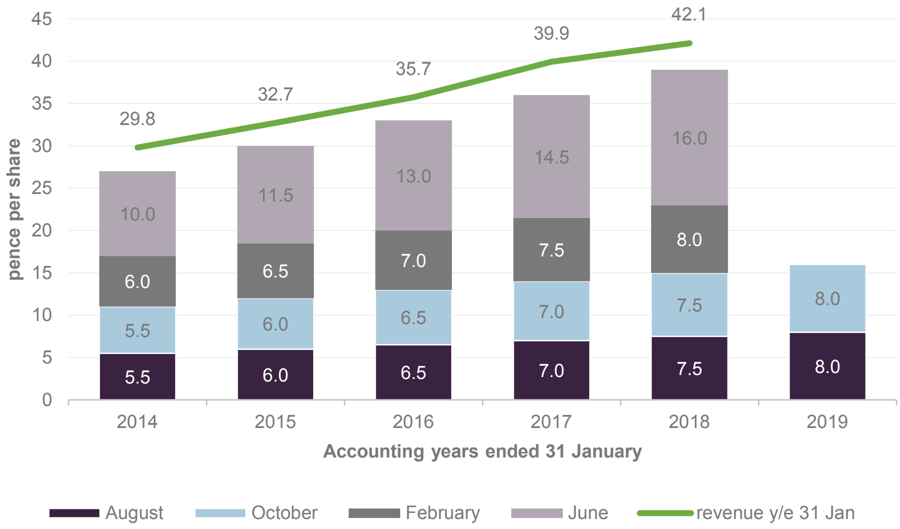
9.9% per annum compound dividend growth over five years

NAIT grew its dividend by 9.9% per annum compound over the five years to 31 January 2018. Its interim dividends for the current accounting year are 6.7% higher than the previous year. As Figure 11 shows, NAIT's dividends have been covered by earnings, allowing it to build up substantial revenue reserves. At the end of January 2018, NAIT had revenue reserves of £13.8m, equivalent to 24.6p per share.

FY 19 may be a bumper year for NAIT's income account

The manager does not expect that option income would represent more than about 20% of total income in a typical accounting year. NAIT's revenue from writing options was around 15% of total income in FY18 and will be higher (possibly 25%) this year – at the half-year mark (31 July), NAIT had already earned £2.5m in option income against £2.4m for the full year to the end of January 2018. This reflects, in part, a timing issue around the mark-to-market of the option portfolio at the end of NAIT's accounting year. Given that the manager has indicated that companies in the portfolio are delivering a positive step change in their dividend payments, FY 19 may be a bumper year for NAIT's income account.

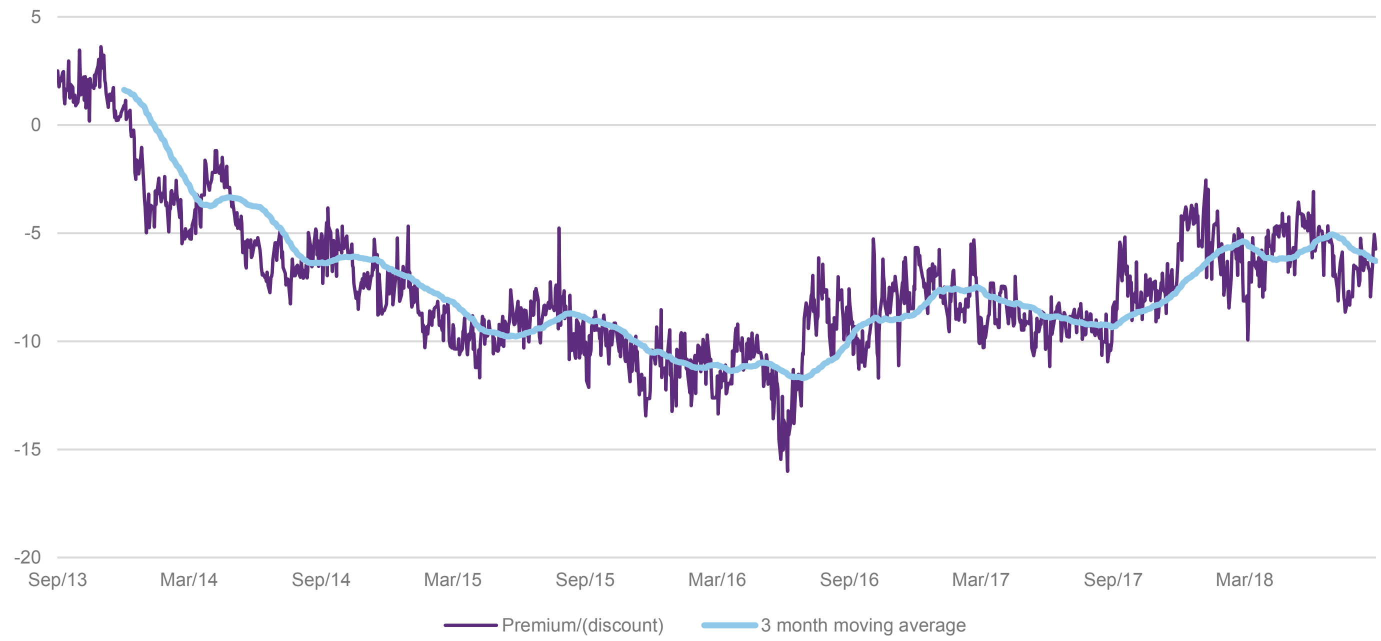
Figure 11: NAIT dividend history



Source: Marten & Co

Premium/(discount)

Figure 12: NAIT premium/(discount) over five years ended 30 September 2018



Source: Morningstar, Marten & Co

While NAIT's discount looks anomalously wide relative to BlackRock North American Income (see page 10), it has been on a narrowing trend over the past couple of years.

At 24 October 2018, NAIT's discount was 7.3%. Over the past 12 months it had traded within a range of a 9.9% discount to a 2.5% discount and an average discount of 6.2%.

The board says that it continues to work with the manager in both promoting NAIT's benefits to a wider audience and through the use of selective share buybacks, providing liquidity and importantly, attempting to limit share price volatility. During the financial year ended 31 January 2018, 214,500 shares were repurchased at a cost of £2.6m. No shares have been bought back in the current financial year.

While, to date, all shares repurchased have been cancelled, repurchased shares may be held in treasury for reissue at a later date. There are no shares held in treasury currently. Shares would only be reissued from treasury at a premium to asset value.

Fees and costs

NAIT has appointed Aberdeen Fund Managers Limited, a wholly owned subsidiary of Standard Life Aberdeen Plc, as its AIFM. This management agreement may be terminated by either party on three months' notice.

Fee cut earlier this year

With effect from 1 February 2018, 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 Fund Managers Limited are provided for an index-linked annual payment that amounted to £108,000 in FY 2018. NAIT also makes a contribution to the marketing cost for the trust (£213,000 in FY 2018).

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 2018 were £60,000 and £48,000 respectively.

NAIT's ongoing charges ratio for the year ended 31 January 2018 was 0.98%. At the interim stage (31 July 2018) the board said that the ongoing charges ratio was on track to be 0.96% for the year ended 31 January 2019.

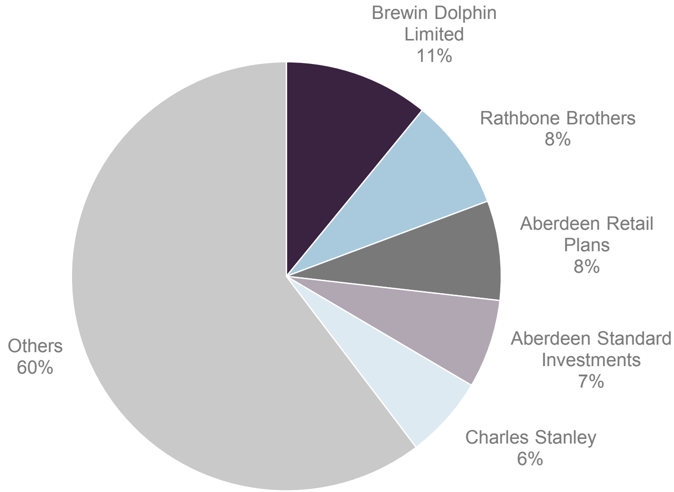
Capital structure and life

NAIT has 28,430,504 ordinary shares in issue and no other classes of share capital. Its year end is 31 January and its AGMs are usually held in June. 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 last such vote was at the AGM in 2018 and was carried with 99.98% of votes being cast for continuation.

NAIT may borrow up to an amount equal to 20% of its net assets. It has a $75m three-year unsecured multi-currency revolving credit loan facility with Scotiabank (Ireland) Designated Activity Company. $50m of this was drawn down at the end of July 2018 at an interest rate of 0.975% over Libor.

Major shareholders

Figure 13: Major shareholders



Source: NAIT annual report updated to reflect a declaration made 10 July 2018 on behalf of "Standard Life Aberdeen Plc affiliated investment management entities with delegated voting rights on behalf of multiple managed portfolios"

Manager

AAMI's Philadelphia-based investment team has 13 members. Head of the team is Ralph Bassett who joined AAMI in 2006 from Navigant Consulting. He graduated with a BS in Finance, from Villanova University. He is a CFA charterholder.

Ralph's deputy is Douglas Burtnick. He joined AAMI in 2007 following the acquisition of Nationwide Financial Services. Previously, Doug worked at Brown Brothers Harriman and Barra Inc., in portfolio and risk management roles. Doug graduated with a BS from Cornell University and is a CFA charterholder.

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

In addition to the Philadelphia team, AAMI now has a team based in Boston that came as a result of the Aberdeen Asset Management/Standard Life merger. The teams were merged in April and are sharing research duties.

Board

The board consists of five non-executive directors, all of whom are independent of the manager and do not sit together on other boards. Some shareholders voted against the re-election of the chairman at the last AGM; the board is engaging with these shareholders. One concern raised was that the board had not been refreshed in some time. The board has acted to address this concern, as Figure 14 shows.

Figure 14: The board

Director	Position	Appointed	Length of service (years)	Annual fee (GBP)	Shareholding at 24 October 2018
James Ferguson	Chairman	12 March 2002	16.6	29,000	15,770
Karyn Lamont	Chairman of the Audit Committee	18 September 2018	0.1	21,000	Nil
Charles Park	Director	13 June 2017	1.3	21,000	Nil
Dame Susan Rice	Director	17 March 2015	3.6	21,000	135
Susannah Nicklin	Director	18 September 2018	0.1	21,000	Nil

Source: Marten & Co

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

Karyn Lamont 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 a number of 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 and a non-executive director at the Scottish Building Society.

Charles Park has over 25 years of investment management experience. He is a co-founder of Findlay Park Investment Management, a US boutique asset management company which 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. Prior to co-founding Findlay Park, Charles was an investment manager at Hill Samuel Asset Management and an analyst at Framlington Investment Management. He is a director of Polar Capital Technology Trust.

Dame Susan Rice is a chartered banker and currently chairman of Scottish Water, Business Stream, President of the Scottish Council of Development and Industry, chairman of The Scottish Fiscal Commission and Scotland's 2020 Climate Group and a non-executive director of J Sainsbury, C Hoare & Co, Big Society Capital and the Banking Standards Board. Her previous roles include managing director of Lloyds Banking Group Scotland, chairman and chief executive of Lloyds TSB Scotland, a director of the Bank of England and a non-executive director of SSE plc. Originally from the United States, her early career was at Yale and Colgate universities and then at NatWest Bancorp.

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. Susannah is the senior independent director of Pantheon

International and a non-executive director of Amati AIM VCT, City of London Investment Group and Baronsmead Venture Trust. She is a CFA charterholder.

MARTEN & CO

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IMPORTANT INFORMATION