Results in focus: Invesco Income Growth

Invesco Income Growth (IVI) avoided some of its benchmark's losses and shareholders benefited from a closing discount...

Invesco Income Growth Trust (IVI) released its final results for the year ended 31 March 2020 this morning, reporting a fall in its NAV over the period of 17.3%. In share price terms the trust was down 13.6% over the period, insulating investors from some of the downside suffered by the NAV and the FTSE All-Share, which lost 18.5%, against a backdrop of very difficult markets for equity investors.

Shareholders in the trust were protected from the impact of cancelled dividends among many of the trusts' holdings in the final stages of Q1 2020, as the board moved to use the trust's extensive revenue reserve to support its dividend. Declaring a fourth interim dividend of [4.2p] which takes the total dividend up to 11.75p, ahead of its annualised inflation target, this marks the 23rd consecutive year of dividend increases, and maintains its status as an AIC 'dividend hero'.

The portfolio started 2020 on a cautious footing, having delivered an encouraging performance in the latter stages of 2019, as fund manager Ciaran Mallon (pictured) prepared the portfolio for the impact of Britain leaving the E.U, a stance which initially provided some resilience as the impact of the COVID-19 crisis became clear.

The strongest performing sector in the portfolio over the period was utilities, which rebounded strongly after the possibility of nationalisation under a Corbyn-led government receded, and the 'essential' nature of the products they provide gives some support to their continued performance at a time when other discretionary products and services face a wintry outlook.

Elsewhere in the portfolio strong stock selection contributed to returns, with two major holdings – credit company Experian, the largest holding in the portfolio, and data analytics specialist RELX – both performing strongly.

In contrast the trust's exposure to leisure giant Whitbread – which owns Premier Inn – took a hit as the entire hotel chain was forced to close, putting its staff on furlough and full pay, and for obvious reasons Young's & Co's Brewery saw similar devastation as the country's social life effectively ground to a halt.

The trust's underweight toward oil, which has slumped first on the back of a trade war and then on the back of a collapse in demand, was a positive for the portfolio.

Kepler View

Shareholders in IVI have benefited from the narrowing discount even as the trust's underlying NAV has fallen, and the board's decision to use revenue reserves to support the trust's dividend is of obvious merit to those who rely on this trust for a yield.

IVI is seen by its manager as a core UK equity income product, and fits this profile well. A track record of 22 years of dividend increases is a notable achievement, and the decision to continue to build revenue reserves in recent years is now bearing clear fruit for shareholders.

The manager's preference for running a 'safety first' equity portfolio will likely, at times, see IVI lag in particular circumstances, such as a sharp economic upswing. It seems likely that as markets see substantial stimulus measures in the coming months in the wake of the crisis, this could prove a headwind to relative returns if this boosts more cyclical areas of the market.

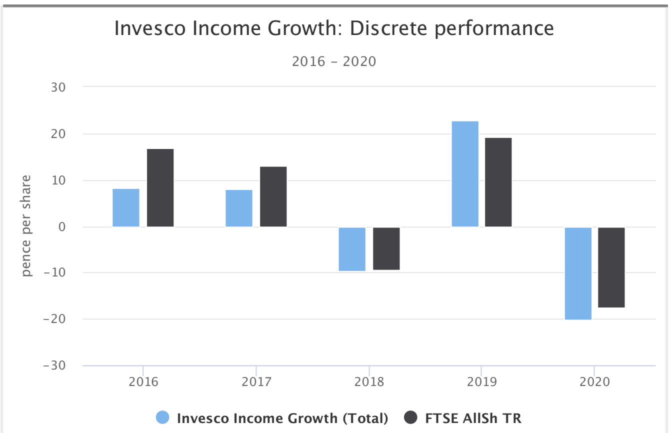
However, IVI is not about maximising upside or about business-cycle adjustments to the investment profile. Instead, it focuses on long-term compounding of both income and capital returns from high-quality businesses. On this basis, short-term fluctuations in relative performance are of less concern than consistent growth in the dividend. Furthermore, having historically displayed superior NAV resilience in market corrections, this could complement a more 'punchy' UK equity strategy.

The persistence of the discount remains of concern but we note that the trust faces a continuation vote this year which, if passed, will see the introduction of a regular continuation vote every two years subsequently. This should mean that shareholders in the trust are able to vote in favour of its dissolution should the discount remain a chronic issue which, in itself, could put some positive pressure beneath the share price.

We would note, too, that should there be a shift in sentiment toward UK equities – which have been significantly unloved since the EU referendum in 2016 – this could be a positive for IVI which, like other trusts in the Invesco stable, has a keen focus on the valuation of the companies in which it invests.

The UK and Europe have faced legion pressures in respect of Brexit and in the wake of COVID. With American support more unpredictable than ever and relations with China on an increasingly fraught footing, our view is that the appetite for compromise between Brussels and London is surely as great as it has ever been which would likely be taken positively by the UK market.

Fig.1: Discrete Performance



Source: Morningstar (YTD figs to 1 July 2020)

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