



Results analysis: BlackRock American Income

BRAI proposes an enhanced dividend and new systematic management process...

Update
24 March 2025

- BlackRock American Income (BRAI) has released its financial results for the year ending 31/10/2024. The trust delivered a NAV total return (TR) of 16%, which compares to 23.2% for the Russell 1000 Value Index benchmark. In addition, it has announced a series of proposals covering a new investment process, an enhanced dividend, a tender offer and other discount controls.
- Stock selection was positive in the industrials and communication sectors, contributing to NAV performance. BRAI's underweight position in the basic materials sector, coupled with good stock selection, also supported returns.
- In contrast, overweight allocation and stock selection in the healthcare sector weighed negatively on performance. Stock selection was also negative in the consumer staples and energy sectors.
- BRAI delivered a share price TR of 13.8% over the same period, lagging the trust's NAV TR, which is arguably a reflection of the lack of appetite last year for value-oriented US equity strategies.
- Following a review, BRAI's board is proposing to amend the investment approach in order to address the trust's long-term underperformance of the benchmark Russell 1000 Value Index. Under the proposals, the investment trust will adopt a Systematic Active Equity investment process, an approach that emphasises big data, artificial intelligence, and human expertise. BRAI will continue to use the Russell 1000 Value Index as its benchmark.
- In addition, BRAI's dividend policy will be amended. The trust will pay quarterly dividends equivalent to 1.5% of NAV at the relevant quarter end, in effect being 6% of NAV annually. BRAI's current NAV is £225m and this would suggest annual dividends in the region of 13.5p, compared to the most recent year's total of 8.0p, which was equivalent to a yield of c. 4.2% to the share price. This calculation is clearly designed to give a sense of the increase rather than act as a forecast.
- Management fees will reduce from 0.70% of net assets per annum to 0.35%, tiered to 0.30% on net assets greater than £350m. This change in management fees is expected to lower the OCF from 1.06% to 0.70% - 0.80%.

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- The board is also working with BlackRock to introduce gearing into the strategy, in order to make best use of the investment trust structure, although no specific details as to the scope of these are given in the announcement. BRAI was ungeared as of 31/01/2025 and historically has not employed gearing.
- The Board will also implement a tender offer for up to 20% of shares at a discount of 2% less costs to the NAV. Further, there will be a three-yearly conditional tender offer for up to 100% of shares should BRAI's annualised NAV total return underperform the Russell 1000 Value Index by more than 50 basis points over each three-year period. The board may, at its discretion, implement an additional tender offer should the net assets of the trust be less than £125m.
- These proposals are also contingent on the passing of BRAI's three-yearly continuation vote, with the next one scheduled at the forthcoming AGM. The expected timetable



for these proposals is for votes to be received no later than 12.15pm on 14/04/2025. The AGM and the general meeting to approve the proposals will be on 16/04/2025 and the results of the tender will be announced on 22/04/2025. Shareholders will receive a circular setting out these proposals and the timetable shortly.

- **Alice Ryder, chair, said “The board has sought to offer shareholders active investment management at a lower cost and to identify a differentiated investment strategy that shareholders will find appealing and which better enables the company to achieve greater scale.”**

Kepler View

In our view, the proposals represent a positive evolution, maintaining the focus on value investing and delivering an attractive income while adopting a new stock selection process in order to chase better returns for shareholders. Further, the portfolio will most likely be 100% invested in the US, bringing greater focus and making the trust a better fit in investors' portfolios.

The Systematic Active Equity investment process leverages the strengths of big data, computing power, and a large investment team, with the aim of delivering consistent outperformance, managed risk, and controlled cost. The portfolio will hold 150 to 250 stocks to improve diversification while avoiding significant sector or stock-specific bets. The purpose is to provide exposure close to the benchmark, with the aim of outperforming by 1%-2% per year, which could lead to strong relative returns over the long term. We understand that the portfolios run by BlackRock to a similar approach, under the Systematic Active Large Cap Value strategy, have historically performed ahead of the Russell 1000 Value Index on average.

BlackRock American Income's (BRAI) value style is rare for US-focussed equity strategies and gives investors a different angle on US equities with exposure to often-ignored parts of the market. Readers will know that mega-cap growth equities in the US are currently trading at very high valuations and dominate many portfolios. We believe BRAI could work well as a counterbalance to a growth-oriented strategy, or even as a standalone option for valuation-sensitive investors. In addition, BRAI's proposed enhanced dividend policy gives investors an equity income option on a market which is, traditionally, quite low yielding. This may appeal to equity income investors who wish to diversify from traditional sources of income.

In summary, the board's proposals make use of the tools that are available to an investment trust, namely an

enhanced dividend that uses a combination of revenue and capital, gearing to amplify returns and periodic liquidity events that provide a backstop should the discount persist, or the trust underperform. They also address issues such as the portfolio's geographic exposure, bringing the focus firmly on to the US, which we believe is the reason that most investors own the trust, and provide for an exit option for investors that choose this route. Thus, in our view, this is a comprehensive set of proposals. Given the US equity market's concentration risk noted above, the continuation of a value-orientated strategy with these revisions will provide investors with a useful alternative way to play the US market.

These proposals are subject to the trust passing its continuation vote at the AGM and approval of the new strategy at the GM, both of which will be held on 16/04/2025. We encourage all shareholders to vote their shares and have their say in the future of the company.

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