



The ants and the grasshoppers

We take a closer look at revenue reserves across equity income trusts.

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Aesop's fable - *The ant and the grasshopper* - tells the story of two insects with very different approaches to the summer months. The ant spends its time diligently, collecting and storing food to survive the coming winter, while the grasshopper enjoys the sunshine, singing and dancing without a care, even ridiculing the ant's hard work. However, when winter arrives, the grasshopper finds itself unprepared, cold, and hungry. It asks the ant for help, only to be reminded that it had plenty of time to prepare but chose not to. The fable teaches the importance of hard work and planning ahead to face future challenges.

There is arguably a parallel to be drawn with investment trusts' revenue reserves, a feature unique to their structure. Unlike their open-ended counterparts, investment trusts are not required to distribute all the income earned from their underlying holdings. Instead, they can retain up to 15% of their annual income, which accumulates as revenue reserves. These reserves can be seen as a stored supply, enabling a trust to maintain or even grow its dividend in times of need, such as when income from the underlying holdings falls short. For example, some investment trusts were able to continue paying dividends during the lockdown period in 2020 even though many of their portfolio companies cut dividends, thanks to their revenue reserves.

In this article, we examine the state of revenue reserves in the AIC Global Equity Income and UK Equity Income sectors. We also discuss broader trends related to revenue reserves across both sectors, including the investment trusts with low or no reserves in the AIC Global Equity Income sector, and the impact of the pandemic and the growing use of share buybacks by UK-listed companies on the reserves of trusts in the AIC UK Equity Income sector.

The international pantry

Murray International (MYI) is arguably the ant of the AIC Global Equity Income, as its revenue reserves were sufficient to cover approximately one year's worth of dividends at the end of its last completed financial year (31/12/2024), the largest buffer among its sector peers. It also currently offers the highest yield in the AIC Global Equity Income sector, at 4.2%, reflecting its 'traditional' equity income strategy profile, with managers Martin Connaghan and Samantha Fitzpatrick aiming to provide investors with an attractive and growing income, alongside capital growth.

That said, in the early 2020s, MYI's revenue reserves fell below one year, as the trust had to draw on them to support

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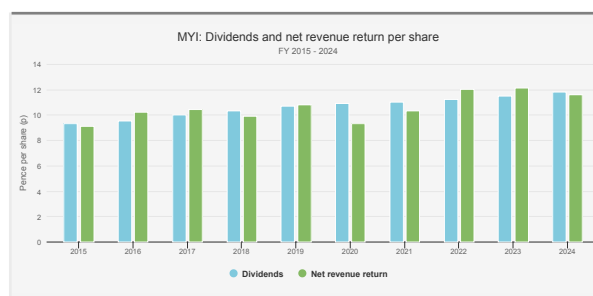


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dividend distributions in 2020 and 2021 after many companies cut their payouts during the pandemic. However, MYI's dividends were fully covered in the 2022 and 2023 financial years, helping to rebuild reserves. In 2024, reserves were again used to support a year-on-year increase, enabling MYI to extend its record of annual dividend growth to 20 consecutive years and to become part of the AIC's dividend heroes.

Fig.1: DPS & EPS



Source: Aberdeen

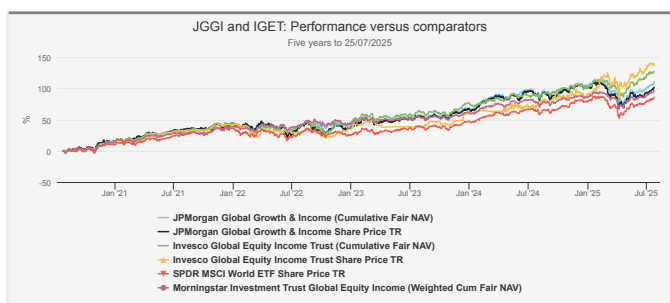
However, some constituents of the AIC Global Equity Income sector stand in sharp contrast to MYI, having very low, or even no, revenue reserves. This



is not because they behave like grasshoppers, but rather reflects a different approach to income generation, with these investment trusts manufacturing dividends from a combination of capital reserves and income produced by their underlying holdings. This strategy allows them the flexibility to invest in companies that pay little or no dividends but offer stronger potential for capital growth, giving these trusts a distinct profile compared to more 'traditional' equity income strategies, which typically focus on mature businesses with more limited growth prospects.

Prime examples include the sector's largest constituent by market capitalisation, **JPMorgan Global Growth & Income (JGGI)**, whose revenue reserves have been exhausted since 2019, and **Invesco Global Equity Income (IGET)**, which reported almost no revenue reserves at the end of its last financial year. That said, both investment trusts have delivered strong returns over the past five years, outperforming global equity indices on a NAV and share price total return basis, as the chart below shows. In addition, they offer dividend yields in line with or above the sector's arithmetic average of c. 3.6% (adjusting for one outlier), while both trusts also maintain substantial capital reserves, which could be used to support dividends in years when NAV declines.

Fig.2: Five-Year Performance



Source: Morningstar

Past performance is not a reliable indicator of future results.

In contrast to JGGI and IGET, **Scottish American (SAINTS)** pays a natural dividend, with a focus on delivering real income growth. As such, SAINTS invests in companies that may not offer high dividend yields but have the potential to grow their payouts above inflation over time. As a result, SAINTS's dividend yield of 2.9% is the lowest in its peer group, but the trust has been successful in delivering consistent increases, with its payout growing at a compound annual growth rate (CAGR) of around 3.6% between its financial years 2014 and 2024, outpacing UK inflation. In addition, SAINTS boasts the longest track record of annual dividend growth within the AIC Global Equity Income sector, having increased its dividend for 51 consecutive years, and is therefore part of the AIC dividend heroes.

However, revenue reserves were utilised to support dividend growth in the trust's 2023 and 2024 financial

years, causing these reserves to decline, and we note that revenue reserves have been used on several occasions over the past ten financial years. As at the end of the trust's last completed financial year (31/12/2024), revenue reserves covered c. 0.65 years' worth of dividends. While this should leave scope for further dividend increases, it is worth remembering that this capacity is not infinite.

STS Global Income & Growth (STS) also follows a dividend growth strategy, focusing on quality companies, based on the belief that they provide more consistent total returns than higher-yielding stocks, which are often associated with lower-quality businesses. Following the appointment of Troy as the trust's investment manager in 2024, the dividend was rebased to a lower level. As a result, while revenue reserves at the end of STS's last financial year (31/03/2025) were moderate — covering 0.52 years' worth of dividends — this rebasing has supported the rebuilding of reserves over the past five years, as the table below shows.

Revenue Reserves

FINANCIAL YEAR	REVENUE RESERVES	YEARS COVERED BY REVENUE RESERVES
2020	£2,321,000	0.35
2021	£2,930,000	0.5
2022	£3,058,000	0.52
2023	£3,297,000	0.56
2024	£2,698,000	0.41
2025	£5,324,000	0.52

Source: Troy Asset Management, Kepler calculations

The British larder

Several constituents of the AIC UK Equity Income sector have strong revenue reserves. A notable example is **Finsbury Growth & Income (FGT)**, which has grown its reserves every year since 2010, and currently has about 1.6 years' worth of reserves. In fact, FGT has increased its dividend every year since 2010, with the exception of 2020, when it maintained the previous year's payout. However, FGT is something of an outlier in the sector, with manager Nick Train focusing on quality-growth companies that typically offer lower dividend yields. As a result, FGT's current yield of 2.1% is well below the 3.5% yield of the FTSE All-Share Index and the sector's weighted average of 3.9%, with many peers offering meaningfully higher yields as well as solid revenue reserves.

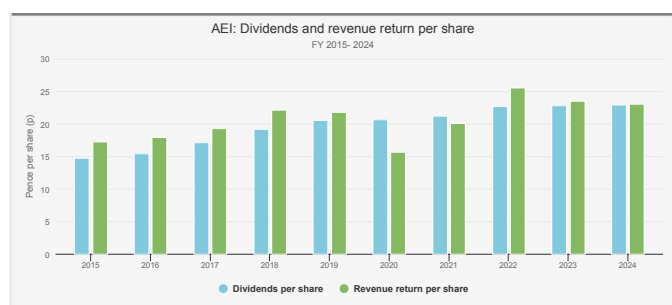
For example, **BlackRock Income & Growth (BRIG)** offers a yield of 3.6%, supported by revenue reserves of 1.4 years. BRIG also has access to a special distributable reserve that can be used for different purposes, including supporting the trust's dividend if needed. Managers Adam Avigdori



and David Goldman focus on high-quality, cash-generative businesses with durable competitive advantages, blending both growth and value styles to maintain flexibility as market conditions evolve.

Aberdeen Equity Income (AEI) also had a healthy level of revenue reserves at the end of its last financial year (30/09/2024), covering c. 0.9 years' worth of dividends. In addition, the trust offers a dividend yield of c. 6.2%, significantly above both the UK equity market yield and the AIC UK Equity Income sector's weighted average. This higher yield is achieved through a portfolio that combines resilient businesses with mid-to-high single-digit dividend growth, overlooked or misunderstood companies offering unusually high income, and firms undergoing operational transformation or recovery that the market has yet to fully recognise. AEI is also an AIC dividend hero, having increased its dividend for 24 consecutive years, and we believe its revenue reserves provide a degree of support to extend this track record.

Fig.3: DPS & EPS



Source: Aberdeen

However, it is also worth noting that many constituents have bought back shares, notably over the past three years, **as discussed in a previous article**, which mechanically increases the dividend cover from revenue reserves. For example, an investment trust having £10m of revenue reserves and 100m shares in issue repurchases 50m of its own shares, and if we assume the dividend per share stays the same, then dividend cover from reserves will double, because there are half the number of shares now in issue receiving the same dividend, so the cost in £ is half, but the reserve is still £10m. The opposite is true with share issuances, which reduce the dividend cover from reserves.

This has notably been the case for **City of London (CTY)**, which has increased its share capital by three-quarters over the past decade. As such, CTY's revenue reserves covered 0.82 years' worth of dividends at the end of the trust's 2015 financial year, 0.58 years in 2020, and 0.46 years at the end of its last financial year. That said, in extremis, the board could draw on its capital reserves of £346.3m to support future dividend increases and extend its 59-year track record of consecutive dividend growth.

Another challenge UK equity income strategies have faced, particularly since 2024, is that many UK-listed businesses have prioritised share buybacks over dividend distributions, which has contributed to a decline in income distributions. As a result, some investment trusts in the sector have adapted their strategies to meet this challenge. For example, **JPMorgan Claverhouse (JCH)** has focused its approach on three income pillars: high-yielding companies, dividend compounders capable of growing earnings with low volatility, and high dividend growth companies. This repositioning has led to a more diversified portfolio across a broader range of sectors and market capitalisations, with JCH now overweight in small and mid caps relative to the FTSE All-Share Index. This segment of the market currently offers several advantages over large caps, including premium yields, superior long-term growth potential, and attractive valuations. Therefore, this repositioning could help JCH extend its 52-year track record of annual dividend increases and strengthen its revenue reserves, which stood at £11.9m—or 21.45p per share—as of 19/03/2025, enough to cover approximately 0.60 years' worth of dividends.

In addition, it is worth noting that some constituents of the sector make use of instruments beyond ordinary shares, which may offer a degree of insulation from the impact of share buybacks on earnings. For example, **Shires Income (SHRS)** can allocate up to 20% of its portfolio to preference shares, which typically offer higher yields than ordinary shares and have priority in dividend distributions. SHRS also invests in fixed income instruments and selected overseas equities, helping to diversify its sources of income. This approach supports a relatively high yield of 5.1%, well above both the FTSE All-Share Index and the sector's weighted average. As of 31/03/2025, SHRS's revenue reserves were sufficient to cover 70% of the dividend paid in the previous financial year, which may offer some support for future distributions. Notably, the trust has rebuilt its reserves since the 2021 financial year, with revenue reserves of £7.5m now standing above their pre-pandemic level.

Revenue Reserves

FINANCIAL YEAR	REVENUE RESERVES	DIVIDEND COVER (BY EARNINGS)
2020	£6,770,000	0.98
2021	£6,517,000	0.93
2022	£6,705,000	1.03
2023	£7,040,000	1.04
2024	£7,388,000	1.02
2025	£7,538,000	1

Source: Aberdeen

That said, while share repurchases have impacted the income distributed by UK companies, they can also be interpreted as a sign of confidence, with businesses taking advantage of low valuations in the UK equity market to return surplus capital to shareholders. As such, this trend may diminish once (and if) UK equities rerate, with companies then potentially reverting to dividend payments.

Conclusion

One thing to remember about revenue reserves, expressed in years, is that they are rarely used to pay an entire year's dividend, and so when a trust has, say, 0.5 years' worth of dividend, that is in all likelihood going to provide a 'top-up' buffer for many years. In most circumstances, boards will choose to use reserves when current year dividend cover is just short of the mark. If a long-term shortfall develops, then a board may need to take more strategic decisions about the sustainability of the dividend. So, we often see that once a trust has achieved about a year of reserves, that is considered enough for all normal purposes.

As discussed in [a previous article](#), revenue reserves could be seen as merely an accounting construct, as they are not ring-fenced in practice and form part of a trust's overall NAV. As such, using other techniques to pay dividends can be a great way to lend some extra diversification and potentially growth to an income portfolio. For instance, JGGI and IGET have both delivered stronger total returns over the past five years than their peers in the AIC Global Equity Income sector paying natural dividends. However, strong revenue reserves do send an important signal to the shareholders of an investment trust, namely that they can expect a progressive dividend policy in all but the most extreme circumstances. As we have seen during the pandemic or amid the shift toward share buybacks among UK companies, the importance of that should not be underestimated.



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