Can you find a cash oasis? These investment trusts could INCREASE dividends this year and next using their reserves...

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PUBLISHED: 21:57, 4 April 2020 | UPDATED: 08:59, 6 April 2020

Opportunities for people to extract a worthwhile income from their savings and investments are decreasing – by the day. Difficult times, no two ways about it, for this country's army of savers and investors, though of course nothing like as stressful as it is for those on the NHS frontline. Banks and building societies are now beginning to feed the two latest cuts to Bank Base Rate through to interest rates on savings accounts, making even worse what was already a savings sow's ear.

Dried up: Opportunities for people to extract a worthwhile income from their savings and investments are decreasing – by the day. Of course, savers have the assurance that the monetary value of their cash is protected, but annual interest of 0.1 per cent (if you're lucky) won't help pay many bills. And to make matters worse, inflation of 1.7 per cent will nibble away at the 'real' value of savings as ferociously as a hungry rabbit in a cabbage patch.

For many, income from shares and investment funds has been a financial saviour since low interest rates became the norm in the wake of the brutal 2008 financial crisis. But even that income bolthole is now seriously threatened as UK companies – and companies further afield – respond to the economic fallout from coronavirus by battening down the financial hatches.

For many, not all, stock market-listed companies, that means preserving cash by halting dividend payments to loyal shareholders. So far this year, some 150 companies listed on the London Stock Exchange have suspended or ditched dividends – even when they had previously informed shareholders that payments were coming their way.

In the past few days, property giant Hammerson (FTSE250 listed) and advertising group WPP (a constituent of the FTSE100) have been among those to scrap dividends. And the banks, of course yet again facing criticism for profiteering at the expense of business customers, have collectively bowed to pressure from regulators and suspended dividend payments worth £7.5billion.

On the surface, the right move, but a painful blow for income investors, given the banks – including Barclays, HSBC, Lloyds and Royal Bank of Scotland – last year paid out £1 of every £8 of dividends on the UK stock market. So, for dividend-chasing investors, the opportunity to secure a worthwhile income is narrowing – and will continue to do so – although some companies will prove more resilient than others.

The likes of National Grid and maybe other utility providers (the Vodafones of this world) – income-friendly stocks held by fund manager Simon Edelsten of investment house Artemis. Yet there still remains an oasis of income opportunity for investors who are comfortable investing in stock market-listed investment trusts. It arises from the fact that many of the country's leading income-orientated trusts have sufficient income buffers (reserves) in place to withstand a hostile dividend environment.

By drawing upon these reserves, they have the income wherewithal to keep on increasing their dividends to investors – certainly this year and in some cases next year as well. Analysts at Investec have just completed some intriguing number-crunching on the 17 investment trusts whose objective is to deliver a mix of capital and income return from the UK stock market. They are collectively known as 'UK equity income' trusts although you wouldn't necessarily know it from some of their names: City of London, Law Debenture, Lowland and Merchants. What Alan Brierley and Ben Newell have done is look at the income resilience of these trusts against a backdrop of reduced dividends across UK plc.

THESE TRUSTS COULD *INCREASE* DIVIS THIS YEAR AND NEXT USING RESERVES – EVEN IF UK PAYOUTS FALL 30%

Trust	Stock Exchange identification number	Months of reserve income	Ability to pay 3% divi increase		Dividend	
			This year	Next year	yield (%)	payment
Law Debenture	3142921	15.4	Yes	Yes	5.8	Half-yearly
JPMorgan Claverhouse	0342218	14.3	Yes	Yes	5.9	Quarterly
Schroder Income Growth	0791586	12.1	Yes	Yes	5.9	Quarterly
Edinburgh	0305233	11.6	Yes	Yes	6.6	Quarterly
BMO Capital & Income	0346328	11.5	Yes	Yes	5.0	Quarterly
Dunedin Income Growth	0340609	11.1	Yes	Yes	5.4	Quarterly
Aberdeen Standard Equity Income	0603959	10.5	Yes	Yes	8.2	Quarterly
Finsbury Growth & Income	0781606	9.9	Yes	Yes	2.3	Half-yearly
Murray Income	0611112	9.8	Yes	No	4.9	Quarterly
Invesco Income Growth	0358572	8.9	Yes	No	5.3	Quarterly
Temple Bar	0882532	8.7	Yes	No	7.0	Quarterly
Diverse Income	B65TLW2	8.0	Yes	No	5.5	Quarterly
Lowland	0536806	7.7	Yes	No	6.6	Quarterly
City of London	0199049	6.9	Yes	No	5.9	Quarterly
Perpetual Income & Growth	0679842	6.8	Yes	No	7.5	Quarterly
Merchants	0580007	6.0	Yes	No	7.2	Quarterly
Troy Income & Growth	0370866	5.6	Yes	No	4.0	Quarterly

SOURCE: LONDON STOCK EXCHANGE, INVESTEC, HARGREAVES LANSDOWN

Assuming a 30 per cent cut in UK dividends this year and another 30 per cent reduction next year, the analysts have identified which UK equity income trusts could withstand such an assault on their income while STILL increasing their own dividend payments to shareholders by three per cent this year – and three per cent next year. The results are shown in the table. As it highlights, the good news is that all 17 have sufficient income power to increase their dividends this year by three per cent. Eight then have enough income reserves tucked away to push up their dividends again next year by another three per cent although it would run down their reserves to 'threadbare' levels. Nine trusts, Investec concludes, would have no choice but to trim dividend payments to investors.

The income that the eight bulletproof UK equity income trusts are providing investors with is in most cases around the six per cent per annum mark – and usually payable quarterly. As a result of possessing deep pockets of income reserves, Investec talks about these UK equity income investment trusts having a 'critical advantage' over other income funds that are not stock market-listed – unit trusts and open-ended investment companies. **It's a view shared by David Malpas, a founding partner of wealth manager Vermeer Partners. He says it is well 'worth looking' at such cash-rich investment trusts if you are an investor in search of income.** Of course, there are no guarantees when it comes to investments.

Share prices could fall further in the months ahead and the erosion of UK plc dividends could be more devastating than the 30 per cent cuts this year and next modelled into Investec's analysis. The only comfort I can give is that of the 14 UK equity income trusts that were around in the 2008 financial crisis, 11 managed to increase their dividends while the global economy went into meltdown – with two keeping them unchanged. Reassuring, with the caveat (naturally) that past performance is no guarantee of future results.