North American Income (NAIT)

NAIT's inflation-beating dividend growth is driven by US equities.

Update
08 August 2025

Overview

North American Income Trust (NAIT) is unique in its peer group, with an actively managed portfolio of c. 50 large-cap US equities designed to generate a growing dividend as well as capital appreciation. Whilst US equities are less well known in the UK for their equity income characteristics, there are many large companies that pay attractive and growing dividends, and, with a history of superior earnings growth in the US, dividend growth can often be higher too.

NAIT's current strategy began in 2012, since when annualised **Dividend** growth of 8% substantially outstrips both UK and US inflation. Dividends have increased every year under the strategy and are paid using a mixture of natural dividend income and options income, in an approximately 80/20 ratio, to achieve a current dividend yield of c. 3.5%. NAIT has over a year of revenue reserves.

NAIT is **Managed** by Fran Radano and Jeremiah Buckley. Fran initially managed NAIT from 2015 to May 2024 at Aberdeen AM. Following a review, the board moved the management contract to Janus Henderson in August 2024, where Jeremiah, who is responsible for a number of US equity dividend strategies, took on the role as NAIT's manager. Fran subsequently joined Janus Henderson in late 2024 and was appointed as co-manager. Whilst the core proposition remains, evolutions utilising the greater resources of Janus Henderson's US equities team have resulted in a wider spread of higher-yielding compounding stocks, contrasting with lower-yielding growth stocks, with the objectives of diversifying and improving dividend growth further.

NAIT is net **Geared** c. 7% using long-term, low-cost debt at interest rates below the portfolio yield. The board has made active use of share buybacks and the trust will have a continuation vote and conditional tender offer in 2027, which should underpin and help to narrow the current 9% discount.

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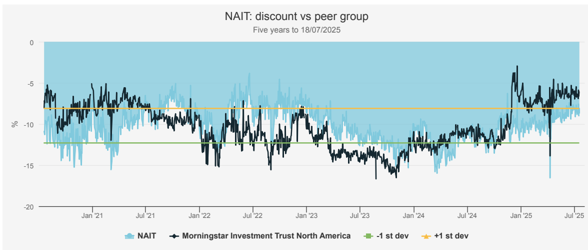
Key Information:

Price (p)	336.00
Discount/Premium(%)	-8.7
OCF (%)	0.77
Gearing (%)	7
Yield (%)	3.5
Ticker	NAIT
Market cap (£)	403,702,028



Kepler View

In an era of low inflation, it was easy for an equity income investor not to worry too much about low dividend growth rates, as the real game was all about higher yields compared to cash and government bonds. Not so much in 2025, when inflation lingers on and investors have rediscovered the importance of real returns. NAIT's dividend growth rate since 2012 has been comfortably ahead of UK and US inflation, and even in the much more testing times of the last five years, has kept pace with higher UK inflation.

Even an investor who is less concerned today by dividend income may find NAIT's natural affinity for companies that trade at lower valuations than the largest mega-cap US companies and offer long-term cash-generative business models a natural way to diversify their portfolio, and as we see in the **Performance section**, NAIT scores well in diversification terms even whilst delivering very solid total returns.

One big development this year is investors selling US equities, with Europe a notable beneficiary, but without taking anything away from Europe or anywhere else currently in favour, it seems to us that rumours of the US's decline as the preeminent equity market are overdone and once the short-term noise abates, that status will reassert itself. NAIT's discount, c. 9%, isn't wide by historical standards but is wider than the peer group and, in our view, undervalues both the growth prospects for the US market and NAIT's own outstanding dividend growth record.

BULL
Good long-term performance capped by above-inflation dividend growth
Strong diversification characteristics compared to the average US equity fund
Continuation vote and conditional tender underpin liquidity and discount

BEAR
Low exposure to highly valued, high-growth US companies
Gearing can amplify losses as well as gains
Investor sentiment toward US is currently mixed and volatile

Portfolio

North American Income Trust (NAIT) targets above-average dividend growth and long-term capital appreciation through a portfolio of 40-50 predominantly large-cap stocks. The team managing NAIT, led by Fran Radano and Jeremiah Buckley, primarily take a stock picking approach, although clearly with a growing dividend as one of the core objectives, this leads to companies with certain characteristics and results in a different mix of sectors to a more conventional growth-orientated US equity portfolio. In 2024, NAIT moved its management contract to Janus Henderson, and Fran, who has managed the trust since 2015, subsequently moved from previous manager Aberdeen Asset Management to Janus Henderson later in the year, where he joined the team managing NAIT. This move, with the support of 35 dedicated sector analysts and the wider resources of Janus Henderson's large US equities business, afforded the opportunity to refine and expand the investment approach, with a broader spread of stocks with different starting yields. In simple terms, the portfolio now has a mix of lower-yielding stocks with higher growth prospects balanced by more stable compounding stocks with higher starting yields. NAIT has an established track record of above-inflation **Dividend** growth, and this broader approach should help build on that record. Following the transition, the portfolio saw some reorganisation, and turnover was at the higher end of the expected range of 25%-50%, although at a fundamental level, NAIT's proposition is the same conservative income growth strategy.

The top-ten holdings are a good starting point to get a sense of how the NAIT portfolio compares to a more conventional US large-cap equity portfolio. There is a more balanced focus on the technology sector, with less exposure to the highly rated mega-cap names that dominate many portfolios and more concentration on consumer staples, energy, utilities, and real estate.

Top-Ten Holdings

	SECTOR	%
Philip Morris International	Consumer Staples	4.4
Chevron	Energy	3.7
Medtronic	Health Care	3.6
CVS Health	Health Care	3.4
Gaming and Leisure Properties	Real Estate	3.3
Enbridge	Energy	3.2
Morgan Stanley	Financials	3.0
Lamar Advertising	Real Estate	2.9
Xcel Energy	Utilities	2.8
PNC Financial Services Group	Financials	2.8
Total		**33.1**

Source: Janus Henderson, as of 30/04/2025

These are sectors that traditionally align with dividends, with mature cash-generative businesses typical in these sectors.

Financials is an important sector for NAIT and Fran notes that there are some positive developments, with the current White House's agenda of regulatory reform reversing some of the onerous requirements that came in following the financial crisis, or as Fran puts it, banks will be able to spend less on compliance and more on growth-orientated investments such as lending and improved technology. Notably, there has been an easing in capital requirements and, as an example, Fran highlights that Goldman Sachs recently raised its dividend 33%, partly as a result of lighter capital requirements. He also notes that the US banking market is extremely fragmented, with thousands of small banks compared to its Northern neighbour, Canada, which has just six major banks. So, there is a great deal of scope for consolidation and efficiency gains.

Top-ten holding PNC Financial Services is a good example of a stock that Fran and Jeremiah see providing long-term compounding returns. They describe the company as a 'super regional' bank, although its network covers most of the US. The strategy is to operate locally and be very close to customers, making for a very conservative loan book. PNC focuses on retail and corporate lending as well as asset management and has the scale to be efficient, with a market cap of c. $70bn and a dividend yield of just over 4%. American Express is another pick, with the team noting that consumers are increasingly focussed on 'experiences' rather than consumption of physical goods, and American Express is inextricably linked in many consumers' minds with providing all the financial services to support travel.

The table below summarises some of NAIT's key portfolio characteristics. This fits the mould of an equity income portfolio, with a low beta, higher yield and lower valuation, but the strategy is not sacrificing growth for yield, with higher forecast earnings growth and historical return on equity. These statistics fit the description of 'quality', and

Portfolio Characteristics

	PORTFOLIO	REFERENCE*
Beta (ex-ante)	0.97	1
P/E 1 yr forward	15.3x	16.1x
EPS growth 1 year forward	12.20%	9.60%
Dividend yield 1 year forward	3.30%	2.30%
Dividend growth 1 year forward	6.20%	7.80%
ROE trailing 1 yr	20.70%	16.60%

Source: Janus Henderson, as of 30/04/2025. *Reference is the Russell 1000 Value Index this is an important aspect of the strategy, with the team seeking to select companies with durable, defensible business models with good capital discipline.

Eaton Corp provides a good example of a company at the lower end of the yield spectrum with faster growth prospects. It has a yield of just over 1% but has increased its dividend for 15 years. The company provides power management systems for a wide range of industrial customers, with strong growth coming from the explosion of datacentres. Thus, whilst NAIT is unlikely to take an overweight position in NVIDIA, it can find ways to get exposure to growth trends driven by AI in a less volatile format.

The portfolio also includes a selection of REITs, which helps provide the balance of higher yields. Lamar Advertising has about 20% of the US market in advertising billboards and has a dividend yield of c. 5%, with growth being driven by the gradual transition to digital billboards, currently a low proportion of the overall estate, but which are more profitable. Gaming and Leisure Properties specialises in real estate in areas such as casinos, which are reliably profitable industries in the US. It has a yield of c. 6.5%.

The team selectively uses options, puts, and calls as part of the investment strategy, which generates some extra portfolio income. Their use is driven by investment decisions, rather than by income targets. Broadly speaking, one would expect lower-yielding, higher-growth stocks in the portfolio to be more volatile, and volatility can be helpful for an options strategy. So, for example, if the team is interested in buying a stock at a lower price than it currently trades at, it may choose to write (or in other words sell) a put option. The buyer of the put pays NAIT a premium, which is income, and should the stock fall to the strike price, then the buyer on the other side of the option will 'put' (or sell) the stock to NAIT at the strike price. If the stock never falls to the strike price, then NAIT simply keeps the option income (or premium). Options tend to be quite short-dated so there is limited scope for fundamental changes in the investment decision over the life of the option. Generally, investors can expect about 20% of income to come from options.

As noted above, the transition to Janus Henderson has resulted in the refined investment strategy spreading across a broader range of yields and growth prospects. With more research resources available, including 35 sector analysts, one exercise the team recently undertook was a deep dive into which companies might be directly or indirectly exposed to problems with trade tariffs and what the worst-case scenarios might be, which has helped inform various decisions to avoid certain stocks. Another area the team is cautious about is companies that benefit from federal spending, and for example, have reduced exposure to Booz Allen Hamilton, the management and technology consulting firm that derives most of its revenues from various departments of the US government.

Whilst Fran acknowledges that the topic of trade tariffs is a cause of uncertainty, there are several positives for the overall outlook. First, the employment rate remains high, and although this certainly needs close attention given the potential for AI to change the employment market, currently, consumer spending is positive as a reflection of overall confidence. Second, changes to tax and accounting mean that companies can capitalise R&D and investment much faster, and this could lead to different strands of growth. Third, he feels the Fed is being somewhat restrictive in holding rates up and that once tariff uncertainty reduces, there is scope for further rate cutting. He points to the weak dollar as potentially very positive for large US companies with international businesses, although on the flipside, this is a headwind for NAIT itself, which earns income in USD but pays dividends in GBP. Last, he notes that the current US administration is more M&A-friendly, and as noted above, the banking sector is highly fragmented and portfolio holdings such as PNC Financial could be beneficiaries of consolidation, removing weaker rivals.

Overall, whilst NAIT does have the specific objective of generating an income to support a progressive dividend policy, its composition may also suit investors with less need for income, simply because it provides exposure to a portfolio of key US large caps on much lower valuations than some of the mega-cap technology names, providing some welcome diversification.

Gearing

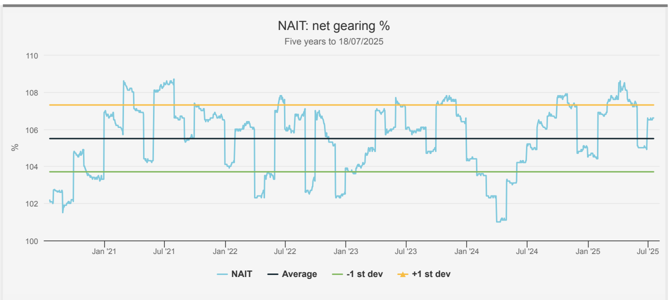
NAIT is currently net geared c. 7% and whilst there is a formal limit of 20%, the prevailing level is more representative of what investors can expect. The chart further below tracks gearing over the last five years, and whilst this suggests a more variable range, this is explained by the portfolio reorganisation in 2024 when NAIT transitioned to Janus Henderson and gearing was briefly neutralised whilst the portfolio was realigned.

Gearing comes from two long-term debt instruments issued in 2020, when borrowing costs were very low:

- US$25m 10 years Senior Loan Note at an annualised interest rate of 2.70% redeemable on 21/12/2030 and;
- US$25m 15 years Senior Loan Note at an annualised interest rate of 2.96% redeemable on 21/12/2035.

These loans have an interest rate lower than NAIT's portfolio yield, and so although the primary purpose of the gearing is to amplify capital returns, they also provide a small yield pickup.

Fig.1: Net Gearing



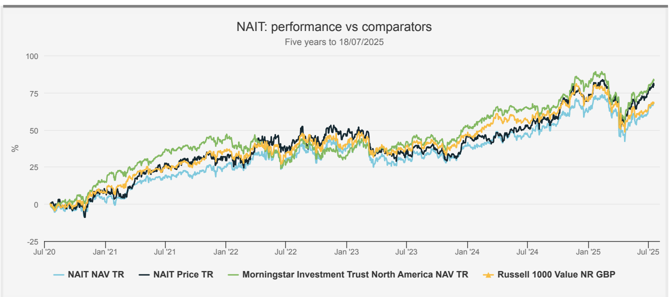
Source: Morningstar

Performance

Over the last five years, NAIT's NAV and share price total returns are 68% and 81% respectively, compared to the reference Russell 1000 Value index's total return of 68%. Discussed further in the **Discount section**, NAIT has a conditional tender offer in 2027 that would be triggered by underperformance of a different index, the S&P High Yield Dividend Aristocrats index, and over five years, the total return of this index is 55%. This conditional tender was introduced with a starting point of 01/10/2024, and over the short period since then, NAIT's NAV total return of 8% compares to a negative 1% total return from the index. We think this index, rather than the Russell 1000 Value, has relevance because it specifically focuses on high-dividend stocks and is popular as the basis for passive ETFs targeting equity income. Thus, it can effectively be considered NAIT's passive competitor.

As most readers will know very well by now, the last five years are notable for the extraordinary performance of a small group of growth stocks, and this is writ large in the performance of the corresponding Russell 1000 Growth index, with a total return of just over 100%. Clearly, this

Fig.2: Five-Year Performance



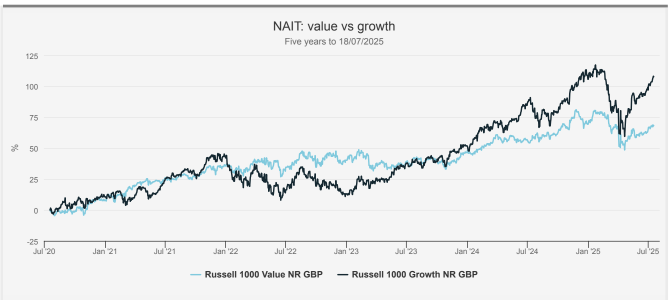
Source: Morningstar

Past performance is not a reliable indicator of future results.

is driven by stocks outside NAIT's reference index, but it does set the tone for how investors perceive US equities right now. As we will see further on, though, NAIT's diversification and downside risk protection characteristics in the last five years have been very appealing. And of course, a 68% total return is still a very strong absolute result.

In the next chart, we show the performance of the 'Value' and 'Growth' indices, the former being NAIT's reference index to illustrate the divergence point made above. This helps set the scene for our quantitative analysis further below, which compares NAIT's performance to its peer group, which, as a group, has a much greater exposure to the 'Growth' index.

Fig.3: Value Vs Growth



Source: Morningstar

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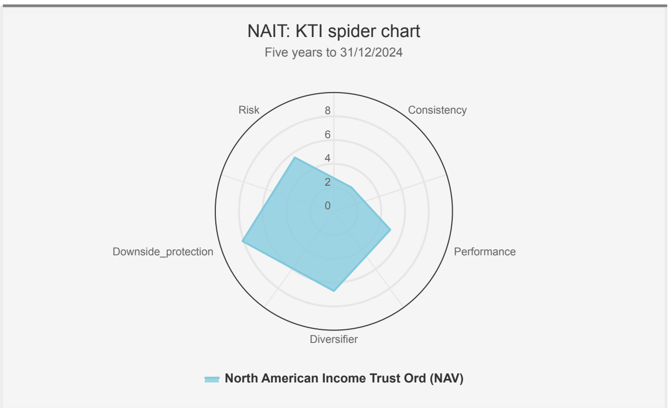
In our proprietary KTI spider chart below, we show how NAIT has performed versus an expanded peer group of all North America and North American Smaller Companies trusts over the past five years, to 31/12/2024, in some key categories. Each category is scored out of ten based on rolling 12-month returns over the last five years, and scores are normalised to the peer group. As such, this data reflects the performance characteristics investors would have experienced over the last five years.

NAIT scores above average in the diversifier and risk categories, and notably high in the downside protection category, which we think aligns well with the conservative investment approach that many income investors take. Taking the performance context discussed above, with growth stocks outperforming strongly over the last five years, NAIT's score in the performance category, which is precisely at the 'average' level, is good when one considers that the quant scoring involves a peer group of trusts predominantly targeting capital growth. Sometimes, a good diversification score can indicate a trust is going backwards when everyone else is going forward, but that's not the case here. The lower 'consistency' score perhaps hints that NAIT tends towards some more cyclical sectors.

Fig.4: KTI Spider Chart



Source: Kepler, Morningstar

Past performance is not a reliable indicator of future results.

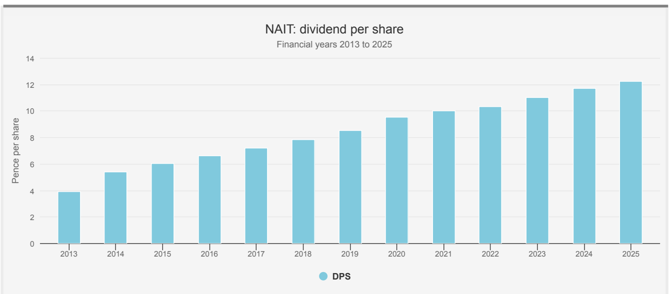
Dividend

NAIT currently yields c. 3.5% and pays quarterly dividends in equal instalments. To put this into context, the S&P 500 yields about 1.25%, and this traditionally low yield is probably the reason many investors don't consider the US as a source of dividend income. As noted in the **Portfolio section**, NAIT's income comes primarily from conventional dividends, with an options strategy providing another c. 20% on top. Revenue reserves currently amount to about 14 months' worth of dividend cover, and one of the board's objectives is to maintain reserves for a year or more.

Whilst US equities on average yield less than the UK, which is often the bedrock of equity income investors' portfolios, one of the key reasons to include it in an income portfolio is the potential for superior dividend growth, and NAIT's track record is a good case study for this. Since adopting the current strategy in 2012, dividend growth has compounded at 8%, compared to US and UK inflation of approximately 3%.

Over the more testing period of the last five years, NAIT's dividend has grown ahead of US and in line with UK inflation, compounding at just over 5%. Thus, NAIT has built a very good long-term record of increasing and protecting dividends in real terms across different inflationary environments.

Fig.5: Dividend Per Share



Source: Janus Henderson

Past performance is not a reliable indicator of future results.

Management

Fran Radano first managed NAIT from July 2015 to May 2025 whilst working at Aberdeen Asset Management. From 01/08/2024 NAIT's board moved the management contract to Janus Henderson, and Jeremiah Buckley was appointed as named manager, with the support of 35 sector analysts. Fran subsequently joined Janus Henderson and in November 2024 he re-joined the team managing NAIT. He is a portfolio manager at Janus Henderson Investors and prior to this, he was a senior portfolio manager at Aberdeen Asset Management from 2007, where he was lead manager for NAIT. Before that, he was a senior research analyst at Gartmore Global Investments from 1999. Earlier, Fran was a vice president, research analyst at Salomon Smith Barney Consulting Group for two years. He began his career as an associate trader at SEI in 1993. Fran received a bachelor's degree in economics with a minor in political science from Dickinson College and an MBA in finance from Villanova University. He holds the Chartered Financial Analyst designation and has 31 years of financial industry experience.

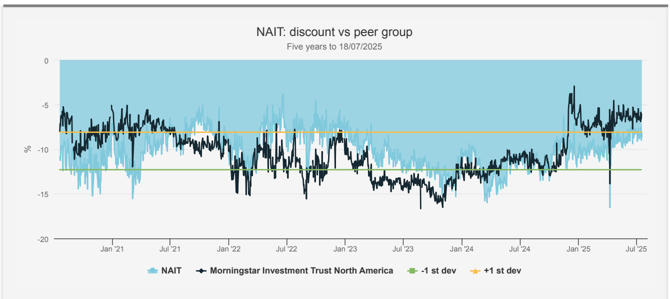
Jeremiah Buckley is a portfolio manager at Janus Henderson Investors, and he has managed NAIT since 01/08/2024, when the trust awarded the management contract to Janus Henderson. He joined Janus in 1998 as a research analyst covering the consumer, industrials, financials, media, software, and telecommunications sectors. He was Janus' consumer sector lead for ten years before transitioning to full-time portfolio management. Jeremiah earned his Bachelor of Arts degree in economics from Dartmouth College. Jeremiah holds the Chartered Financial Analyst designation and has 26 years of financial industry experience. Jeremiah currently manages several other funds with similar strategies, including the Balanced fund, US Growth & Income, US Dividend Income, and the US equity sleeve of Bankers (BNKR).

Fran and Jeremiah are supported by the wider resources of Janus Henderson, including 35 experienced sector analysts producing independent primary research covering NAIT's universe of stocks. The firm has c. $370bn of AuM, of which almost 60% is in equities and has over 370 investment professionals globally and a deep research and fund management capability in US equities, which is a core part of its business.

Discount

NAIT currently trades at a c. 9% discount, against an average of 10% for the last one and five years. Morningstar has recently removed Pershing Square Holdings (PSH) from its North America peer group index, although we understand this decision may be under review. In any case, PSH is an outsize influence given its market cap, £7.5bn, is more than the rest of the peer group put together, and it trades at over a 30% discount. Therefore, one can say that without it, the index gives a better sense of the average experience for an investor. The current peer group discount is 6%, against a 10% average over the last five years. The point that PSH was removed is visible in the chart below, when the black line suddenly jumps around the end of 2024, so any comparisons prior to then include it.

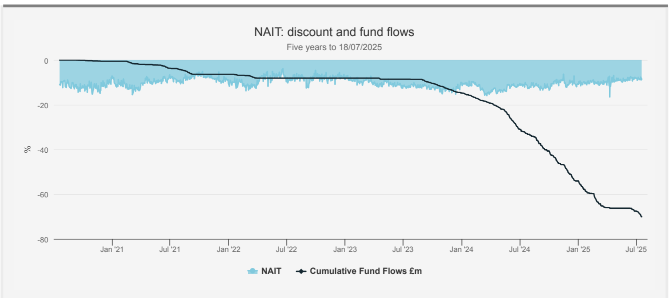
Fig.6: Discount Vs Peer Group



Source: Morningstar

The next chart tracks NAIT's discount against share buyback activity over the last five years. We show this in terms of 'fund flows', where buybacks are a flow out of the trust, and vice versa for any issuance. The black line shows this cumulatively in £m, denoted on the right-hand y-axis, with a descending slope left to right indicating buybacks. NAIT's board has been an active buyer of its own shares, particularly since the management transitioned to Janus Henderson, and one can see that the discount is narrowing over this period. As ever, cause and effect for buybacks and discounts is complicated, but certainly one can say that buybacks are coinciding with a gradual narrowing of the discount. About £40m was spent on buybacks in 2024 and a further £16m in the first half of 2025, significant sums in the context of NAIT's market cap of just over £400m.

Fig.7: Discount And Fund Flows



Source: Morningstar

NAIT also has a continuation vote every three years. The last continuation vote was passed at the AGM held in June 2024 with almost 90% support. As a further measure, in 2024, the board introduced a conditional tender offer. This covers the three-year period to 30/09/2027 and has the following conditions:

- Should NAIT's NAV total return underperform the total return of the S&P High Yield Dividend Aristocrats Index; or
- Over the six-month period to 30/09/2027, the average discount NAV is greater than 7%

If either condition is met, then a tender offer for 15% of shares at a 2% discount (less costs) will be implemented. The board specifically references that this is designed to give investors confidence that there is liquidity should they wish to sell, and that discount volatility is limited for ongoing shareholders.

In the **Performance section**, we discuss the use of the S&P Dividend Aristocrats index for this mechanism, rather than NAIT's reference index. Taken together with good overall performance and NAIT's strong dividend growth, there are good grounds to believe the current 10% discount could narrow over the coming years.

Charges

NAIT's most recent OCF is 0.77%. The AIC's North America peer group simple average, 1.11%, is distorted by Pershing Square's (PSH) OCF of over 2%, and taking this out, the average is 0.93%, making NAIT one of the lower cost strategies in the group.

Management fees are tiered, with 0.55% charged on the first £500m of net assets and 0.45% on net assets above £500m. With current net assets of c. £440m, the fee is currently all within the first tier.

NAIT's KID shows a reduction in yield (RIY) of 0%. Ahead of completing a review and issuing new guidelines, Interim guidance from the FCA allows investment trusts to take a variety of approaches to the RIY, including putting '0%' or 'n/a', and this means that it is not possible to make peer group comparisons.

ESG

NAIT does not pursue a sustainable investment strategy and is not labelled under either the FCA or the EU's categorisations for sustainable investment products.

The team takes an integrated approach to ESG, relying on the wider resources of Janus Henderson and its in-house responsible investment team, as well as third-party research to inform its own assessment.

NAIT scores 'below average' in Morningstar's ESG analysis. Whilst we think some of this can be attributed to stocks in the portfolio, such as the largest holding Philip Morris, the team make the point that they rely on ESG analysis to identify positive ESG changes that could be relevant to investment performance at an early stage, rather than looking at historically good ESG scores. For example, the team takes an active approach to engaging with companies on topics such as governance and remuneration.

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