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# FTSE 100's income investing potential is underestimated. This trust is well placed to capitalise

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## Even dividend hunters may be tempted to move money to Wall Street but they would be missing out on UK's high yields and chance for recovery

*Read Questor's rules of investment before you follow our tips: telegraph.co.uk/go/questorrules*

The FTSE 100 index has risen by just 15pc over the past decade. By contrast, Wall Street's S&P 500 index has produced a 176pc capital gain. This vast difference in performance appears to be convincing a growing number of income investors to ditch London-listed companies in favour of US, or even global, opportunities.

While this is understandable, since many investors subscribe to the adage that "the trend is your friend", this column takes the opposite view. Years of underperformance mean that FTSE 100 stocks trade at bargain basement prices and offer attractive dividend yields. Meanwhile, their global focus reduces overall risk.

Furthermore, it is worth remembering that a more comprehensive version of the adage is "the trend is your friend – until it ends". Once investors realise that American shares are not immune from a wide range of geopolitical and economic risks, they are increasingly likely to question the lofty valuations these stocks currently attract.

In tandem, economic growth in Britain is likely to revert to its long-term average as inflation and interest rates fall. This could prompt a drastic rethink among investors regarding stock market valuations and lead to relative outperformance from London-listed companies in future. This process, of course, has yet to begin. The Schroder Income Growth investment trust, for example, invests in a wide range of British shares and currently trades at a 10pc discount to net asset value. This compares with an average discount of just 2pc over the past five years, which suggests that it offers excellent value for money.

**Schroder Income Growth**

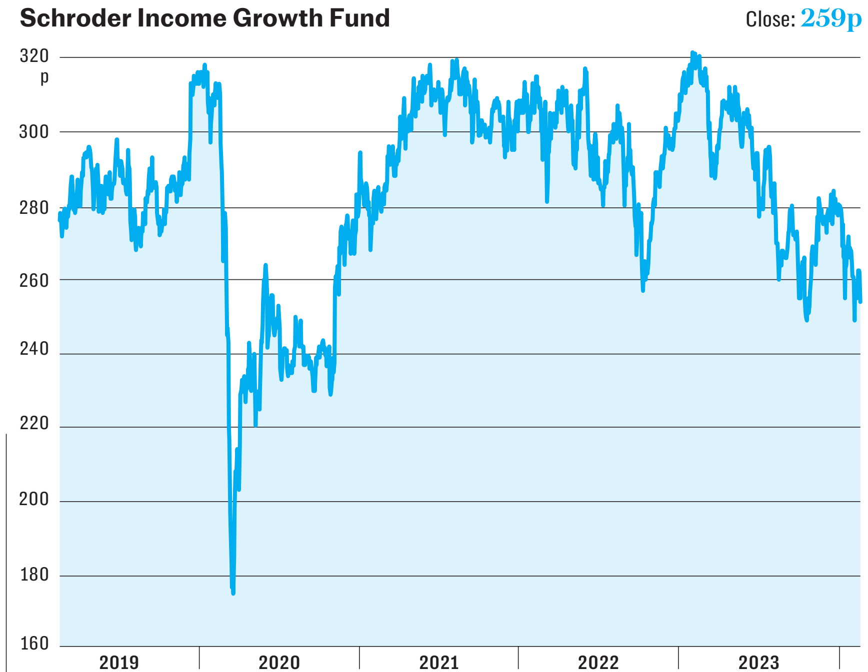
**HOLD**

Focus on London-listed stocks means it offers generous income and the prospect of capital growth as dirt-cheap valuations normalise

The trust's share price has fallen by 2pc since it was added to our Income Portfolio in 2016. While this is undoubtedly disappointing, its annualised capital growth of 6.8pc in the past five years means it has nevertheless outperformed its benchmark, the FTSE All-Share index, by 0.2 percentage points a year.

More importantly, it has generated a 34pc income return since our notional purchase and produced inflation-beating dividend growth over the past decade. While inflation averaged 2.9pc a year between 2013 and 2023, the company's dividends have grown at an annualised rate of 3.5pc over the same period. And with 28 years of uninterrupted dividend growth, the trust offers stability for investors who seek a dependable income.

While the FTSE All-Share index's yield of 3.8pc is vastly superior to the S&P 500's 1.4pc income return, the trust's dividend yield of 5.3pc offers even greater appeal. Its major holdings, which include FTSE 100 stalwarts previously tipped here such as AstraZeneca, Shell and Legal & General, provide a high degree of geographical diversification. When combined with their size, scale and financial strength, they should offer a dependable income return over the long run.




**Key numbers**

- ◆ Market value: £180m
- ◆ Year of listing: 1995
- ◆ Discount: 10pc
- ◆ Avg discount over past year: 4pc
- ◆ Yield (Aug 2023): 5.3pc
- ◆ Most recent year's dividend: 13.8p
- ◆ Gearing: 13pc
- ◆ Annual charge (Aug 2023): 0.77pc

In the short run, the trust's share price could prove volatile. It has relatively high gearing of 13pc and holds just 44 stocks in what is a fairly concentrated portfolio. Its 10 largest positions account for 46pc of assets, which means movements in their share prices could have a material effect on the trust's overall performance.

In addition, the near-term prospects for the world economy remain uncertain. While investors are imploring central banks to cut interest rates, inflation is somewhat sticky and various economic data are proving to be more robust than expected. This means that the return of lower rates could be somewhat protracted, although it seems highly likely to happen over the coming years. In any case, elevated short-term share price volatility does not equate to a greater risk of permanent capital loss. Nor does it necessarily result in a less stable dividend, as the consistency of the trust's divis over the past 28 years shows.

> 'With 28 years of dividend growth, the trust offers stability for investors who seek a dependable income'

So the Schroder Income Growth trust remains a worthwhile holding in our Income Portfolio. Its focus on London-listed stocks means it offers a generous yield and the prospect of capital growth as dirt-cheap valuations ultimately normalise, while the international focus of its holdings reduces risk and confers a degree of stability. Given its large discount, high gearing and solid performance record, it offers attractive total return potential in the long run. Hold.

**Update: Regional Reit**

This property trust's shares have slumped, partly over concerns of a further dividend cut, but yesterday it announced an unchanged payment of 1.2p for the fourth quarter of 2023. Hold.