

Maggie (Magdalena Maria) Laubser (1886 - 1973), detail from "Poplars", nd (1922- 1924), oil on cardboard, Sanlam Art Collection.

Income Study



/INTRODUCTION

Mid-year review July 2016

Global markets have suffered a very volatile year so far, as at the end of 2015 poor economic news from China undermined commodity markets and raised fears about the sustainability of growth around the world. The UK stock market is heavily exposed to larger companies, known as large-caps, and has been hit hard by the market volatility. Despite all of this, the UK economy has continued to perform strongly, though expectations for the rest of 2016 are under review due to slower global growth and, more importantly, the impact of the Brexit vote which is still unknown over the medium to long term.

Yield concentration in UK equity income – are there enough dividend payers beyond large-cap stocks?

The FTSE All-Share Index has a relatively high concentration of dividend sources. The largest ten payers (in absolute terms) represent around 30% of the FTSE All-Share in terms of market

capitalisation, but pay 40-45% of all UK market dividends. This dividend concentration is nothing new and this 'top ten' has been stable since 2009. However, what has changed is that there are a larger number of equity income funds above £2bn in size, and they appear to have relatively more exposure to some or all of these names.

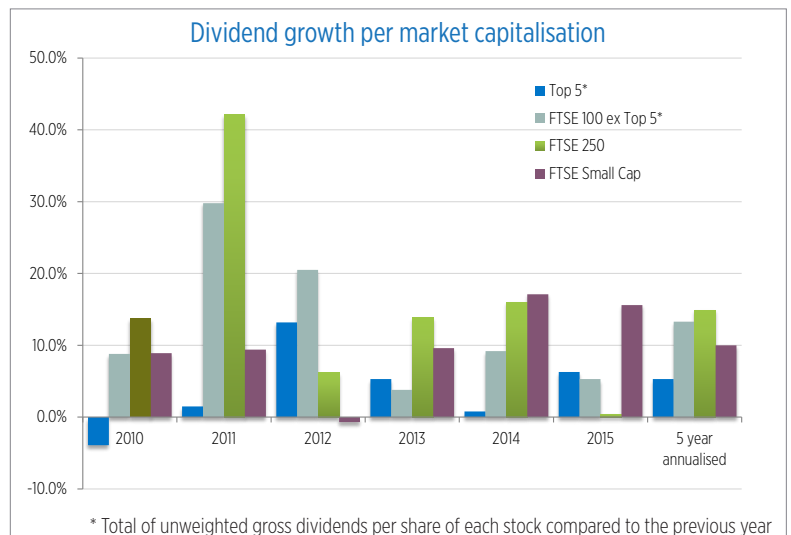
What has also changed is that the risk of dividend cuts is rising. For seven of the top ten UK dividend payers the market estimates 2016's free cash flow cover of dividend to be below that of 2015; some 43% of 2016 dividends are expected to come from these ten stocks. This makes diversification across company dividend sources increasingly important. Furthermore, this year's dividend growth for the FTSE All-Share Index could be flat or negative.

How size split has evolved over time

At the start of 2016, one of the big questions for the year was whether or not the US Federal Reserve would continue to raise interest rates. In late December 2015, the Fed raised rates by a quarter of a percentage point, signalling the economy was moving ahead. Yet a collapse in oil prices, concerns about China and other global economies, and declines in the stock market have led to speculation about what, if anything, the Fed will do moving forward. As a result, there is a lot of uncertainty and that can breed risk.

One way income investors can cushion themselves from a blow is to spread the risk and a way to do that is with an equity income fund. Investors selecting a diversified vehicle that includes a mix of different dividend paying stocks, across a broad array of industries and market capitalisation, will be better able to ride out the storm than those investing in a single dividend-paying stock or a fund focused in only one area.

Since the beginning of the year, dividend cover has been at extremely low levels and larger-cap stocks have been affected. Several large-cap/mega-cap



constituents of the FTSE 100 Index have been under pressure, including energy companies, given the volatility displayed in the oil price over the past few months. Although there have been consistent dividend payments from these companies as they have been generating cash, returns to shareholders have clearly changed, driven by slower growth in China and changes in supply and demand dynamics. The sustainability of their dividend payments is far from certain. On the other hand, the medium and small-cap stocks of medium and smaller sized companies have been generating good cash levels, with a better dividend cover, and

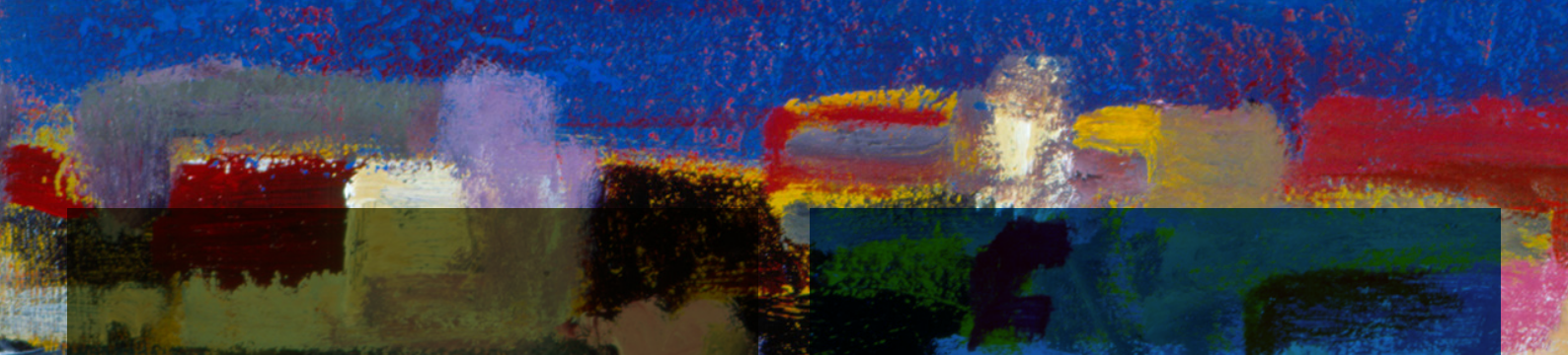
represent a far more diversified sector exposure than the primary FTSE 100 Index dividend-paying companies. This is likely to continue because large-cap companies are dominated by resources (cutting dividends) and oil companies (not raising their dividends), compared with mid-caps.

The damage Brexit could inflict on small and mid-cap companies is a risk while, conversely, depreciation in the British currency can actually help large-caps exporters. While the Fed, oil price changes and China headwinds appear to have stabilised somewhat, the main source of uncertainty lies around Brexit and

a potential contagion effect to Europe, possibly even globally. All in all, we think that it is important to step away from sector or sub-sector specific analysis, and instead view stocks on their own merits. Pockets of dividends exist in the market but they vary company by company. Whether it is the large-caps' commodity exposure or the mid and small-caps' vulnerability to a significant downturn in domestic fortunes, the volatility of the global economic environment will ensure there are few areas in the market where equity income investors can maintain total confidence and be certain of the income generation with the

potential for capital appreciation. The challenges to dividend-paying companies certainly vary by capitalisation, but what is clear is that there are challenges for all companies.

However satisfied White List investors may feel with the performance of their investments over the longer term, they are aware that equity investments fluctuate and are susceptible to political and economic uncertainty. Our Income Study analysis highlights those funds that have been most successful in meeting investors' need for income, combined with growth potential, and it continues to be a popular aid to fund selection.



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For the current 2016/17 tax year, all investors can subscribe up to £15,240 in a stocks and shares ISA.

Investing in the
White List

Investing in the **White List Portfolio ISA** is the simplest way to invest in the White List funds. This portfolio, which is actively managed by SPW, holds a selection of the best UK equity income funds which have featured in the White List. Once you have filled in the application form there is no more paperwork to complete. We collect all the dividends for you and can pay them to your bank account.

However, many of our clients prefer to use the Income Study to assist in the selection of their own funds. If you would like details of any of our preferred funds, please get in touch.

Remember, on certain funds we are able to offer substantial purchase discounts to the terms normally available to private individuals.

So, if you want to make a new investment, take out an ISA or switch from an underperforming fund, dealing through SPW is simple and inexpensive: call us on **01225 460010**.

We offer a personal service and do not have a call centre.

White List: specials

There have been multiple changes in the White List for June 2016 with eight of the funds exiting the list and two new entrants asserting their prowess.

The **Troy Trojan Income Fund** run by Francis Brooke continues to perform strongly, and having previously re-entered the top half of the White List, it has now knocked Fraser Mackersie and Simon Moon's **Unicorn UK Income Fund** off the top position.

Performance continues to be strong for Brooke's fund which finds itself ranked second in the eligible universe over a one-year period; it is only one of ten funds in the study that produced a positive return for the month of June, which saw concerns about

Brexit prove detrimental to UK equity markets.

The highest climber (though not highest new entry) moving into the White List is Colin Morton's **Franklin UK Equity Income Fund**. Despite drifting in the Grey List in the last few studies, the fund has had very strong performance versus peers in the most recent period and low volatility over the last five years. Similarly, the **Fidelity MoneyBuilder Dividend Fund** has had low volatility over the last five years and retains its place in the White List with Michael Clark continuing to produce solid returns.

The **Royal London UK Equity Income** and **Threadneedle UK**

Equity Income Fund both improved their positioning in the study. The Royal London fund moved from the bottom half of the White List to a stronger position in the top half. After producing strong returns so far in 2016, the latter fund, run by Richard Colwell, has now re-entered the list after a six-month exile period, ranking second in the White List. This fund now ranks above the other Threadneedle funds, the **Threadneedle UK Equity Alpha Income Fund** and the **Threadneedle UK Monthly Income Fund**, both also in the White List.

There have been multiple exits from the sector in the last half year due to their failure to meet the IA UK Equity Income Sector's required

income levels. During 2016 Hugh Yarrow's **Evenlode Income Fund** and Carl Stick's **Rathbone Income Fund** exited the study for this reason. In contrast, two of the highest income providers in the White List are the **Fidelity Enhanced Income Fund** and a new entrant, **Marlborough Multi Cap Income Fund**, run by Siddarth Chand Lall which focuses on under-researched small and medium-sized companies. As well as providing high income, Chand Lall's fund has had an impressive long-term track record in spite of the short-term Brexit-related poor performance. This fund was the highest new entrant into the White List.

Herman van Nazareth (1936 -), Landscape with Blue Sky, n.d., oil on board, Sanlam Art Collection

Grey List

The **Unicorn UK Income Fund** has had a tough half year ranking fourth quartile on a one-year and year-to-date basis versus peers and, consequently, has fallen 26 places from the top of the White List to the middle of the Grey List. Its disappointingly large decline can be explained by its domestically focussed small to mid-cap bias which has underperformed the larger-cap company-focussed funds in the first half of this year. In spite of this, it is worth noting that the fund has had good long-term performance which has been evident by its prolonged position near the top of the White List for the last two years.

Equally, Thomas Moore's **SLI UK Equity Income Unconstrained Fund** has also experienced one of the more dramatic falls in our rankings, moving from the White List to the bottom half of the Grey List. The fund has consistently experienced the highest volatility in the study, given its unconstrained nature, with performance having been very strong in the last few years but particularly weak recently (specifically in June after the UK referendum).

Despite ranking first for the highest 12 month yield in the study, the **Schroder Income Maximiser Fund** has struggled in terms of performance over the short and long term. However, whilst

performance has been poor, a slight improvement has meant that the fund has moved up the study and subsequently no longer lies in the Black List.

On a more encouraging note, Ben Whitmore's **Jupiter Income Trust** has moved up the rankings from the Black List into the top quarter of the Grey List. The fund, which aims to hold out-of-favour companies, has performed very strongly in the last twelve-month period.

Black List

There has not been a wide divergence in the Black List in comparison to the last study and the majority of the funds, except two, remain.

The **Santander Enhanced Income Portfolio** has unfortunately dropped back into the Black List for this study, after previously being part of the Grey List. Whilst the fund ranks very promisingly for yield, its performance history has been somewhat disappointing, particularly over the longer term. Laggards that have found themselves near the bottom of the Black List include the **Scottish Widows UK Equity Income Fund**, which yet again comes in at last place, the **HSBC Income Fund** and a new entry to the study, the **Man GLG UK Income Fund**.

THE WHITE LIST

Top fourteen funds by overall merit

Fund	Net dividend yield 30/06/16	Net income 5 years to 30/06/16	Total return capital growth and net income reinvested					Volatility
		(Based on £100 investment)	01/07/15 to 30/06/16	01/07/14 to 30/06/15	01/07/13 to 30/06/14	01/07/12 to 30/06/13	01/07/11 to 30/06/12	01/07/11 to 30/06/16
	%	£	%	%	%	%	%	
Troy Trojan Income	3.7	18.8	9.1	8.9	13.1	15.4	7.9	2.5
Threadneedle UK Eq Inc	3.9	20.0	2.5	4.8	18.0	23.5	1.4	3.0
Marlborough Multi Cap Income	5.1	21.5	-10.3	12.9	25.5	30.3	1.7	3.1
Royal London UK Equity Income	4.1	19.4	2.4	6.5	20.1	27.8	1.6	3.3
Fidelity MoneyBuilder Dividend	4.4	20.0	5.1	3.9	13.8	19.2	7.3	2.6
Threadneedle UK Eq Alpha Inc	4.4	20.8	0.2	5.0	17.8	27.9	1.7	3.2
Franklin UK Equity Income	4.2	18.2	6.0	5.4	14.8	19.3	2.4	3.0
Threadneedle UK Monthly Inc	4.3	18.5	0.4	7.4	15.8	19.2	1.7	2.9
FP Miton Income Inc	4.6	19.3	1.4	10.3	12.1	14.9	2.4	2.8
RBS Equity Income	4.3	19.2	0.9	6.8	12.2	22.2	2.1	3.0
Ardevora UK Income	5.2	18.5	2.9	10.1	15.5	33.5	-2.5	3.7
Smith & Williamson UK Equity Inc	4.3	19.4	-0.7	9.5	14.9	21.5	-5.5	2.9
Newton UK Income	3.6	20.2	12.1	4.0	10.9	15.2	1.9	2.9
Fidelity Enhanced Income	7.4	27.5	2.3	2.7	11.2	14.0	6.0	2.4
White List Average	4.5	20.1	2.4	7.0	15.4	21.7	2.1	3.0

(See explanatory notes and important information below).

Notes:

- Funds are ranked using seven different criteria based on performance, volatility and the income distributed, with the most recent period of performance receiving a greater weighting.
- All funds are in the IMA UK Equity Income sector.
- Performance data is provided by Morningstar on a bid-to-bid basis with net income reinvested. Volatility is based on five-year performance data. Income is calculated based on £100 invested five years ago.
- Yields sourced from Morningstar, FT and fund providers and represent the estimated annual pay out.
- Funds with a value of less than £20m are excluded.

IMPORTANT INFORMATION

All performance figures used in this document are provided by Morningstar and are quoted on a bid price to bid price basis (mid to mid for OEICs) ie ignoring initial charges, with net income (dividends) reinvested. *Past performance is not a reliable indicator of future results.*

The value of unit trusts/OEICs, and the income from them, can go down as well as up. You may not get back all that you originally invested, particularly in the case of early withdrawal.

Investors may be subject to an initial charge. Any tax reliefs referred to are those currently available. Their value depends on the individual circumstances of the investor. Levels and bases of, and reliefs from, taxation may change. The value of investments may also rise and fall purely as a result of exchange rate changes.

In accordance with Financial Conduct Authority rule requirements, we have published a policy which sets out how we manage conflicts of interest. This policy is available on request from our Head of

Compliance, or may be viewed on the Conditions section of our website: www.whitelist.co.uk. This newsletter is based on information that we believe to be reliable, but is not guaranteed as to accuracy and completeness by Sanlam Private Investments (UK) Ltd.

Recommendations for individual funds are necessarily made without taking into account readers' specific circumstances and requirements and do not constitute investment advice under the Financial Services and Markets Act. Accordingly, readers may wish to seek proper professional advice before acting on any information contained in this newsletter.

Remember, the Income Study is not personal advice based on your circumstances or a recommendation. If you are unsure about the suitability of an investment for your circumstances please contact an FCA authorised financial adviser.

THE GREY LIST		Net dividend yield 30/06/16	Net income 5 years to 30/06/16	Total return capital growth and net income reinvested					Volatility
Fund		(Based on £100 investment)	01/07/15 to 30/06/16	01/07/14 to 30/06/15	01/07/13 to 30/06/14	01/07/12 to 30/06/13	01/07/11 to 30/06/12	01/07/11 to 30/06/16	
	%	£	%	%	%	%	%		
Aviva Investors UK Equity Income	4.1	18.2	0.4	6.9	11.8	21.8	1.4	2.9	
Artemis Income Inc	3.9	18.7	-0.7	5.8	11.6	21.3	2.5	2.9	
Premier Monthly Income	4.7	22.2	-4.7	8.3	14.7	26.4	-3.1	3.1	
MI Chelverton UK Equity Income	5.3	25.4	-12.3	10.7	22.5	39.8	-2.0	3.5	
Jupiter Income Trust	3.7	18.7	5.5	3.2	14.0	16.2	0.8	3.0	
F&C Responsible UK Income	4.1	18.0	-2.9	10.9	12.1	20.7	0.8	2.8	
Premier Income	4.5	20.6	-4.7	8.9	15.0	24.8	-3.9	3.2	
Santander Equity Income	4.9	19.2	-2.6	11.4	13.9	15.0	0.7	3.1	
Old Mutual UK Equity Income	4.8	20.1	-6.8	10.9	13.2	28.3	-0.3	3.8	
Rathbone Blue Chip Income And Gr	3.9	17.3	2.0	4.6	13.2	22.3	-0.7	3.0	
Schroder UK Alpha Income	4.7	19.0	-4.6	7.2	12.7	27.6	4.7	3.4	
Unicorn UK Income	4.7	19.2	-10.1	7.3	20.0	38.5	-4.6	3.2	
Kames UK Equity Income	4.1	18.3	2.9	7.6	10.5	18.6	0.0	3.2	
NFU Mutual UK Equity Income	4.3	17.4	3.0	2.6	12.5	17.3	0.7	2.8	
AXA Framlington Monthly Income	4.9	19.2	-3.3	4.2	27.0	15.7	-3.6	2.6	
JOHCM UK Equity Income	5.1	20.0	-9.9	6.9	16.2	30.2	-1.6	3.6	
SLI UK Equity Income Uncons	4.1	18.4	-11.8	13.1	20.6	36.9	-10.1	4.1	
CF Canlife UK Equity Income	4.7	17.1	0.5	9.4	9.3	18.2	-2.0	3.1	
Lazard Multicap UK Income	4.4	17.8	-3.5	6.4	15.6	21.4	-1.3	3.3	
L&G UK Equity Income	4.1	18.0	-2.4	4.8	11.4	19.8	1.6	3.2	
Schroder Income Maximiser	7.5	30.0	-5.7	5.6	11.2	28.1	-3.6	3.4	
Liontrust Macro Equity Income	6.2	17.9	-7.4	7.5	16.2	19.4	-2.0	3.2	
Grey List Average	4.7	19.6	-3.6	7.5	14.8	24.0	-1.2	3.2	

THE BLACK LIST		Net dividend yield 30/06/16	Net income 5 years to 30/06/16	Total return capital growth and net income reinvested					Volatility
Fund		(Based on £100 investment)	01/07/15 to 30/06/16	01/07/14 to 30/06/15	01/07/13 to 30/06/14	01/07/12 to 30/06/13	01/07/11 to 30/06/12	01/07/11 to 30/06/16	
	%	£	%	%	%	%	%		
Allianz UK Equity Income	4.8	19.3	-8.1	3.6	12.4	25.8	-1.8	3.0	
River & Mercantile UK Equity Income	4.1	18.1	-5.5	6.4	14.8	28.0	-4.8	3.4	
Santander Enhanced Income	6.6	22.1	-2.5	4.9	12.5	12.3	-5.1	3.1	
BlackRock UK Income	4.4	16.1	-1.4	11.3	12.6	11.6	-3.0	3.2	
Aberdeen UK Equity Income	4.1	17.8	-1.3	-2.1	10.7	19.4	1.0	3.2	
AXA Framlington Blue Chip Eq Inc	3.6	17.0	-3.6	5.9	14.1	19.5	-1.6	3.4	
JPM UK Higher Income	4.5	16.9	-2.3	5.3	12.5	18.6	-1.7	3.2	
F&C UK Equity Income	3.9	17.6	2.2	1.9	8.0	15.9	-3.6	3.1	
SLI UK Equity High Income	4.8	17.0	-11.0	10.9	14.0	22.8	-5.2	4.1	
Neptune Income	4.9	17.6	-1.1	6.7	5.7	12.5	-0.6	3.3	
M&G Dividend	4.6	17.1	-2.3	7.8	9.2	14.7	-0.3	3.6	
Man GLG UK Income	5.0	15.0	-7.1	10.2	16.9	18.9	-7.5	3.9	
HSBC Income	4.4	17.1	-2.3	2.7	9.0	17.7	-1.5	3.1	
Scottish Widows UK Equity Income	4.5	15.4	-3.2	2.4	10.4	19.0	-8.8	3.6	
Black List Average	4.6	17.4	-3.5	5.6	11.6	18.3	-3.2	3.4	

Past performance is not a reliable indicator of future results.

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