

## *“An investment in knowledge always pays the best interest”*

### Fund Manager Meeting Notes – Threadneedle UK Equity Income



We use two UK income funds, the Schroder Income Maximiser Fund and SLI UK Equity Income Unconstrained Fund. We recently provided a review of the SLI Fund, and we like this fund because it fishes in an area where other income funds avoid. We also like the manager, the size of the fund and the performance of the fund.

The managers of the Schroder Income Fund which feeds into the Maximiser Fund are again managers we like and we feel this works well alongside the SLI Fund.

With the changes at Invesco we continue to look and view what is in the market. Last year we met Richard Colwell who is co-manager on Threadneedle UK Equity Income Strategies. We like Threadneedle particularly in Europe, US and EM Debt. They have an excellent Head of UK Equities, Simon Brazier, who we like and has delivered stellar performance in the funds he manages.

When we met Richard and Simon last year, we liked the UK Fund managed by Simon but felt the fund managed by Richard was too defensive and more akin to the Invesco Income Fund. The performance is strong and this meeting was really a chance to see if we had got it wrong.

#### **Overview of the fund**

The meeting came a day after the meeting with the SLI Income Manager, Thomas Moore, and immediately we saw two very different managers and the gap between the two funds in terms of management style.

If investors are looking for a yield producing income fund similar to Invesco then I am sure this fund fits the bill. The strategy is managing over £4 billion and has more of a bias towards the FTSE 100. One of the things the SLI Fund does is avoid the proxy bond holdings whereas this fund will hold proxy bond holdings like Imperial Tobacco, Unilever, AstraZeneca, Glaxo, Centrica and Shell. The fund does try to add value through holding other stocks like L&G, M&S etc but the feeling we got from the meeting was that yield is the key and these stocks are driving growth where the proxy bond holdings are effectively delivering flat returns.

Some of what Richard says concurs with our thinking so he has concerns about a housing bubble and how this is driving a false economic boom. This we believe in and are worried about.

He feels the recovery is restricted purely to one sector which is housing and that this bubble is creating a false distortion. He also believes that interest rates will rise as early as half way through 2014 although he accepts that they will remain low for a long period of time.

We want to hear differing views and certainly the arguments around interest rates is interesting but not a view we share. We have listened to many managers and economists and we think they will remain at their current level certainly until 2015 which is what has already been hinted at by the Bank of England because any increase will damage an already fragile recovery. We also think when QE ends because we don't know what will happen it could be that the Bank of England signals that interest rates won't rise till say 2017. And thirdly inflation is good for the government, it inflates away the debt!

His views are certainly interesting but we feel that there is a very defensive style to his investment management which reflects his view of the UK.

Although he hunts out opportunities the driver for the fund is yield and therefore the nature of the fund means he has to focus more on bond proxy holdings. With the SLI Fund Thomas has always said the fund looks for growth and yield and therefore the make-up is very different.

His general view is that stocks are fair price and we feel that if you fish where he fishes they will be. With SLI we have a manager fishing in a wider and deeper pond but not taking any additional undue risk.

To some extent this is what people liked about Neil Woodford, he was like marmite. Personally he was not for me, but if you like that style then Richard is perfect for that. The performance is strong and cannot be disputed. However, if you want something that isn't purely focused on yield then the SLI Fund fits that well. For us on our portfolios the SLI Fund is a better fit, if we were looking for a pure yield gatherer then the Threadneedle Fund would work well.

## **Conclusion**

Often we write positive reviews and seem to add every fund to the watch list. There are as many funds we don't add and sometimes don't write up the reviews. In this case the manager has interesting views, has strong performance but we just don't feel the fund fits with the portfolio make up we have. Outside of the portfolios and for those looking for a Woodford replacement this might be perfect.

*The source of information in this note has been provided by Threadneedle and is correct as at November 2013. These are notes from meeting the fund manager or representative and should not be seen as a recommendation to purchase any fund mentioned. Any reference to shares is not a recommendation to buy or sell. Should you wish to make a decision based on these notes we cannot take responsibility for this and you should carry out your own research before making a decision. You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise.*