

## SHINING A LIGHT ON..... SMITH AND WILLIAMSON (SWIM) UK EQUITY INCOME TRUST

### At a glance

There are over 400 UK Equity Growth and Income Funds; providing investors with access to many different investment styles. So choosing the right fund depends upon understanding their methods and aims.

Performance is part of the equation but equally the management team is crucial. We have met a number of talented Fund Managers, the likes of Standard Life Investments, Neptune, Schroders, Legal and General, Threadneedle and Liontrust (not all of these are in our portfolios).

We recently met the manager of the SWIM UK Equity Income Trust which is not a fund that has come across our radar and therefore wouldn't be one we would consider. However, speaking to the manager it quickly became clear that this is a fund to watch and for investors may be a good option for those seeking a well-managed UK Equity Income Fund.

The manager took over the fund in July 2013 and has rebalanced the portfolio to a stock pickers fund focusing on quality companies. The manager seeks out companies in the mid to large cap space and will hold around 40 to 50 stocks. The fund is also small which is often a good time for investors to invest. The manager is also well respected in the industry managing the Newton Higher Income Fund from 2004 to 2012.

In this review we will share some insights from the manager.

### Who are the team behind the fund?

The fund is managed by Tineke Frikkee, she joined Smith & Williamson in July 2013 primarily to head up this fund. Previously she had managed the award winning Newton Higher Income Fund for 8 years. She is incentivised to keep clients and grow the fund and therefore her view is long term. With a £25 million fund clearly she wants to grow it to a £500 million fund and she knows this will only come if the performance supports this.

My concern with a boutique like SWIM is size and I was surprised at the team which feeds into the fund. The co-manager is Mark Swain. Mark has worked for SWIM since 2005 and managed the fund briefly between the previous manager leaving and Tineke joining. In addition there is a wider team of 20 plus sector specialists. For a boutique this is an impressive and reflects the wider Smith and Williamson Group.

### Fund highlights?

The fund is small with around £25 million and it is clear that the manager is looking to grow this significantly.

If I were to use one word to describe a lot of what is done, it is agnostic. To explain:

1. Valuation is important she will buy when a stock is cheap or fair value and sell when it reaches its target price. The shortest holding period is 8 hours. She is agnostic on what she holds but quality and valuation are key

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2. There is conviction to her style of management but not on the holdings. Each holding is around 2 to 2.5% of the fund. Those with lower upside have around 2% holding and those with higher around 2.5%

What this gives an investor is a very clear idea of how she invests. She is not going to take outside risks and we talked about some of the changes in the portfolio to give an idea of how she approaches investments.

Some of the sales included Invensys which was recently bid for, Tineke felt this was a fair price and exceeded the target price and was therefore sold. Unilver and BAE had become expensive and therefore were sold. Fairpoint was a quality issue, this is a claims miss-selling company and it wasn't clear what direction they were heading in.

On the purchases, Jardine Lloyd Thompson has strong growth margins and has made some wise acquisitions. Hunting is a play on the US Shale gas industry. Another is Lloyds where although there is no dividend yet they expect one to be paid soon.

Greene King is another addition and is a play on disposal income and this improving in the coming months and Aberdeen Asset Management is taking opportunities in the volatility of the price.

Tineke explained that price is important, it can be a quality company but too expensive and she will not pay over the odds for something so she is prepared to wait, Aberdeen is an example of this. Equally she is prepared to hold for as long as it takes to reach the target price (unless other fundamentals go against the stock). If she can be rewarded quickly then she is happy and it does mean the fund has higher turnover than other funds in the sector.

She won't chase short term performance and quality will always be the main driver. At this stage it is difficult to judge the performance as she has only been at the helm for around 10 months however her past experience and the style make it an interesting fund.

Focus on the mid to large cap does open more opportunities and the fund delivers a strong yield.

We use the Standard Life UK Equity Unconstrained Income Fund and this feels very much like that fund. We believe that over time the manager has the potential to deliver performance above a lot of the well-known brands. However, time will tell if this does play out.

In conclusion a good small fund with a seasoned manager makes it one to watch and certainly may be appealing to investors seeking income and growth. A disciplined investment process built up over a number of years ensures investors know exactly what to expect from the fund.

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## Fund performance

Performance over the last five years is shown below, and year to date.

	2009	2010	2011	2012	2013	2014
SWIM UK Equity Income Trust	16.71%	17.47%	-8.58%	12.76%	28.80%	1.31%
iShares UK Dividend	32.63%	13.34%	-6.62%	17.46%	24.15%	3.07%

*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. The total return reflects performance without sales charges or the effects of taxation, but is adjusted to reflect all on-going fund expenses and assumes reinvestment of dividends and capital gains. If adjusted for sales charges and the effects of taxation, the performance quoted would be reduced. Returns are based on the US share class.*

## Conclusion

On paper this appears to be a great little fund however it is too early to judge performance. Since taking on the fund on 1 July 2013 the fund has returned 17.02% against the benchmark of 14.42% but this is a short period and it will be interesting to see the longer term performance data.

*The source of information in this note has been provided by SWIM and is correct as at April 2014. 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 rise.*