SHINING A LIGHT ON……
SLI UK EQUITY INCOME UNCONSTRAINED FUND

Update….

This continues to be a well-managed fund with good performance (although past performance is no guarantee of future performance). Due to its unconstrained approach it is different from other UK income funds in that the manager holds only those companies which he has the strongest conviction in. As an example of the top ten 'usual suspects' held by most of the UK income funds he holds just three. The main focus for the fund is the FTSE 250, rather than the FTSE 100.

In this update we discussed some of the holdings and Thomas' view of the market.

Thomas started by explaining that the UK continues on the upward curve of recovery with a number of positive indicators. These include household consumption, real wage increases and importantly a pick-up in full time employment (previously it was just part-time).

However, his concerns centres on the FTSE 100 where he feels earnings growth is very mixed. Some companies are delivering negative earnings growth but positive dividend growth. As an example financials makes up 26% of the index but has 16% earnings growth whereas oil and gas are 12% of the index delivering -41% earnings growth.

Taking this further with BP and Glaxo the convergence of earnings and dividends growth is a real concern, and one he feels at some point will lead them to cut dividends. He went onto to explain that the FTSE 100 dividend cover has fallen dramatically and this is a worry. Since 2011 this has fallen from 3 times to 1.6. Whereas with the FTSE 250 it has risen from 1.7 to 2.3. Furthermore the top ten dividend payers are in the FTSE100 and account for 50% of all dividends in the UK. He believes the level of dividends some of these are paying are not sustainable and will be cut.

Many confuse his fund with risk because of the unconstrained tag but Thomas argues that by avoiding these companies he is not only managing risk but also protecting capital. He sees the real risk is in those funds investing in the FTSE100. He also added that the volatility of his fund is on par to the FTSE All Share Index and since taking on the fund he has outperformed in both rising and falling markets 72% of the time.

Turning to holdings unsurprisingly he is underweight oil and gas and banks but favours support services and media. The types of companies he likes include L&G, BT, Aviva, Vodafone, Reed and Staffline.

In summary very little has changed since we last reviewed the fund. This fund could act as a standalone UK Income Fund or a blend with a large cap focused fund. It is well managed and continues to deliver positive numbers. Unconstrained doesn't mean risk it just means he can look across the market spectrum to find those companies which he believes can deliver the best returns for investors.

Fund performance

Performance over the last five years is shown below:

	2010	2011	2012	2013	2014	2015*
SLI UK Equity Income Unconstrained Fund	24.00%	-9.45%	24.16%	37.83%	7.13%	8.66%
iShares UK Dividend ETF	13.24%	-6.62%	17.46%	24.15%	6.54%	4.06%

1 January to 31 August 2015

	1 year	3 Years	5 Years
SLI UK Equity Income Unconstrained Fund	12.28%	82.90%	126.86%
iShares UK Dividend ETF	6.17%	46.32%	68.33%

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.

The source of information in this note has been provided by SLI and is correct as at September 2015. 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.