

SHINING A LIGHT ON..... KAMES PROPERTY INCOME FUND

INTRO

In this update we aim to take a slightly different approach. The Kames Property Income Fund is a new fund, launched in 2014. It is mainly a bricks and mortar fund rather than one that invests in property companies. It is therefore difficult to compare to our usual index. Since launch it has returned 15.03% vs the Index at 17.82%.

Over 12 months' volatility is 1.52% vs 16.71% on the Index. It is very early days but this may appeal to those investors seeking property exposure but with limited volatility. However, in 2008 some property funds delayed payments and this has made investors nervous.

In this update we spoke to the manager, Alex Walker, and asked some questions to get an understanding of what they are looking to achieve.

WHAT IS THE PRIMARY AIM OF THE FUND?

Alex started by explaining at the USP that the fund is income. The fund aims to deliver an income of 5.5% p.a. by targeting good secondary commercial properties.

I asked whether this brings risk and Alex explained that inevitable to get the higher income there is a slight increase in risk. However, the skill of the team, he feels is, to identify those tenants with good covenants and as he explained some of those include government tenants.

He also explained that initially the fund was targeting 6% but they reduced it because they didn't want to be chasing income at any cost.

THE FUND IS SPLIT 80% PHYSICAL PROPERTY AND 20% REITS / CASH. I ASKED ALEX WHY NOT HAVE A PURE PHYSICAL PROPERTY FUND?

Alex explained that given the choice it would be 100% physical property but 2007 – 2009 brought to the fore the question of liquidity. For institutional investors they expect to hold and invest for longer periods of time so liquidity becomes less of an issue.

However, for retail investors they want a daily traded fund. The FCA also when approving funds want to see that liquidity has been factored into the fund. The split is there for no other reason than to provide a buffer in time when flows are negative and therefore they are not forced into a position of selling properties.

On the REITS they are holding the largest companies like British Land and Land Securities. They will buy on dips and liquidate the holdings if needed.

I asked whether the 20% was an FCA number. Alex explained that the figure was put together by them based on modelling outflows during 2007 and 2009 and ensuring that should the same event occur they have enough liquid assets to cover these.

I asked whether having this 'tail' or 'drag' would damage performance and Alex explained that this will always be a problem but other funds have the same challenge.

RISING INTEREST RATES ON ONE HAND IS GOOD NEWS BECAUSE IT DISPLAYS CONFIDENCE IN THE ECONOMY BUT ON THE OTHER HAND IT IS BAD NEWS FOR HOLDERS OF COMMERCIAL PROPERTY WHO ARE HIGHLY GEARED. I ASKED ALEX FOR HIS VIEW OF A RISING INTEREST RATE ENVIRONMENT AND WHAT IMPACT THIS MIGHT HAVE ON THE FUND?

Alex explained that rising interest rates is never good news for property but the rises will be gradual and they will reflect a continually improving economy. Therefore, property demand remains good and rents continue to be attractive.

However, there are pockets where this is not such good news. For example, low yielding investments in central London, supermarkets etc. These are much more susceptible to rate rises especially where gearing (lending) is involved.

The nature of the fund means that it is avoiding these areas of the market which provides it with a greater degree of protection.

I ASKED ALEX WHETHER PROPERTY GROWTH IS SLOWING AND WHETHER THE ONLY WAY TO GENERATE RETURNS IS THROUGH THE YIELD (INCOME)?

Alex explained that 2014 and 2015 have been good years but he thinks this will slow from 2016 onwards. He also explained that it is just a shift to more normalised property returns which tend to be a mix of income and some capital growth.

THE FUND FOCUSES ON THE UK MARKET AND I ASKED WHETHER THIS CARRIED GREATER RISK WITH REGARDS TO DIVERSIFICATION GLOBALLY?

Alex explained that the global market requires a different skill set, and their skill is in the UK market. He also feels that if this is seen as a long term investment this can be a good diversifier alongside equities, and fixed interest investments.

I ENDED THE INTERVIEW BY ASKING ALEX TO 'SELL' HIS FUND?

Alex started by explained that the USP is the income and that not many funds are offering this. Secondly the types of properties are in the region of £4 to £20 million whereas other managers focus on the £25 million plus market so the competition is less.

Within the group they run a number of strategies and have built up a strong network of contacts as well as having a strong team internally.

CONCLUSION

The performance of the fund has been strong and the income element has to be a draw for those seeking income. The concerns over 2007 to 2009 have been addressed but there is a price to pay. The question for investors is whether a global REIT is a better option or perhaps a blend might work. However, this is a fund to consider for those seeking exposure to UK property and income.

LWM Consultants Ltd

Fund performance

Performance since launch (28 March 2014) to 31 October 2015.

	2014	2015	Since Launch
Kames Property Income Fund	6.04%	8.48%	15.03%
iShares Developed Markets Property Yield ETF	20.71%	-2.39%	17.82%

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 Kames and is correct as at October 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.