

SHINING A LIGHT ON..... BLACKROCK UK INCOME FUND

Update....

Back in November 2015 we first reviewed this fund. In January we met with the manager, Mark Wharrier, to get a real feeling as to how he approaches the investments held in the fund. Mark took over the management of the fund in September 2013. The fund had suffered from poor performance and negative investor sentiment. Since taking on the fund he has slowly restructured the fund and been able to deliver solid performance.

It is a highly focused portfolio of between 35 and 45 stocks across small to large cap companies. Mark explained that in choosing companies he is looking for those where there is a dislocation of the share price to the market. As he added it is about thinking what the company might look like in five years. So for example, he doesn't currently hold supermarkets like Tesco's, Sainsbury's and Morrison's because he cannot get a view of where they will be moving forward.

It is a conviction portfolio and Mark argues that fishing at the bottom half of the FTSE 250 is often a good place to be and often under researched. The number of holdings is currently around 38 and reflecting on his long term view he finds around half a dozen good ideas a year.

One area he likes is banks and we spent time talking about three holdings HSBC, Lloyds and Barclays. Starting with HSBC he explained this is a behemoth of a bank which is going through a process of restructuring. The view is that this will release value slowly and as a long term investment this offers a positive outlook for investors. Lloyds has been through a crisis, it is UK focused and is seen as a special situation within the banking world. The reality is that much is happening behind the scenes and it is returning to being a plain vanilla bank. Mark believes the dividend yield will increase fairly quickly.

Barclays is trickier with the investment side but it is by far the cheapest of the banks with a lot of restructuring happening. But there are parts of the business missed by the market including its credit card business and African side.

We asked Mark what things excite him and he explained it is those businesses we haven't seen yet. As an example he owns Domino Printing which he had been following for some time before purchasing on a profit warning. His research showed value in the long term product suite and the overreaction by the markets enabled him to buy in at a good price.

Another holding is BAT and although there is a shrinking pool of clients there are really no new entrants to the market and they have massive pricing power making this an attractive share.

In summary it is about looking for good companies which show the signs that they can grow. There are a mix of themes and sectors and as Mark adds it is not just about picking any income stock it is about finding those that can deliver over the long term. Certainly for investors looking for a new breed of income manager this is one fund to consider as part of the mix. One point to consider is that only in 2015 did he start to show his performance and investors may wish to wait to see if this continues.

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Fund performance

Performance since Mark took over the management of the fund on 1 September 2013 to 31 December 2015.

	2013	2014	2015
BlackRock UK Income Fund	8.05%	7.49%	9.47%
iShares UK Dividend ETF	7.18%	6.54%	0.95%

Performance over 1, 3 and 5 years is shown below:

	1 year	3 years	5 years
BlackRock UK Income Fund	9.47%	35.83%	46.46%
iShares UK Dividend ETF	0.95%	33.52%	42.56%

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.

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