SHINING A LIGHT ON……
BLACKROCK UK INCOME FUND

At a glance

The UK Equity Sector is highly competitive with the UK Income Sector even more so. One fund that is unlikely to have come up on people's radar screen is the BlackRock UK Income Fund. The fund was set up over 30 years ago but by their own admission has suffered from long term underperformance, nearly halving the assets it holds in the last ten years.

The previous lead manager was on long term sick leave and the fund was taken over by one of his co-managers. The new manager couldn't reverse the performance and in 2013 they took on the highly respected Mark Wharrier as lead manager.

Quietly Mark has been restructuring the fund with the aim to bring back retail investors. It is now two years since that process started and now they seem ready to talk about the fund. In this update we will highlight why investors might now consider this fund and what they may need to consider as part of that decision.

Who are the team behind the fund?

The lead manager is Mark Wharrier. He joined BlackRock in 2013 from NewSmith Asset Management where he was a founding member of the UK equity team. He has a good reputation of outperforming his peer group but tends to perform poorly in a falling market. He brings over 20 years' performance to the table.

His co-managers are Adam Avigdori who previously managed the fund) and David Goldman who joined the team in July 2015.

Fund highlights?

Foremost the aim of the fund is fourfold:

1. To deliver strong / consistent long term performance
2. To deliver long term dividend growth
3. To focus on conviction stock picking where the best ideas really count
4. Be flexible and therefore style agnostic to ensure that the fund performs over all market conditions

The aim is to deliver performance of 3 to 5% above the FTSE All Share through a concentrated portfolio of 35 to 40 stocks. Mark explained that the fund is made up from a mix of different themes:

1. Companies where cash flow drives dividends and returns – this includes the likes of BAT, L&G and Lloyds
2. Strong capital growth – this includes the likes of Hays
3. Turnarounds (out of love) – this includes the likes of Barclays and Carnival

Just touching on turnarounds these only make up 10% of the fund and tend to be out of love stocks who have the capital to recover.

Explaining about their approach Mark explained that companies and sectors go through periods of outperformance and underperformance. If you pick the FTSE 100 as a whole, then there are winners and losers and they can cancel each other out. So it's about choosing the right ones. As an example, Next and M&S had similar financial figures in 2012. However, M&S used their free cash flow to revamp stores which was expensive whereas Next opted for low capital investing in logistics, online shop and internationally.

Next proved that its model was stronger with strong cash flow growth. Mark feels that Lloyds is in a similar place to Next. It non-core components (HBOS and PPI) have held it back but it has gradually rebuilt its capital base and Mark believes going forward this could deliver strong returns for the fund.

We touched on volatility and he explained this can be good for the fund. One example was Domino Printing which had high barriers to entry and strong cash flow. They bought on the back of a profit warning when the shares were cheap and held until the company was purchased at a premium.

This fund does focus mainly on large cap but even within that Mark explained you need to be careful. He calls a group of shares the dirty dozen. These are the top 12 dividend payers in the FTSE 100. Only seven does he believe have the ability to continue to pay and grow dividends. Five he thinks will cut them.

The fund is about conviction it is a low number of holdings and as he explained this is because they don't want to carry any passengers. Four areas he currently likes are banks and financials, cyclical & structural tailwinds (for example, Cineworld), cash flow compounders (Sky) and self-help.

One thing I got from this update was a real passion to turn things around and certainly the figures over the last two years would suggest he has been able to do this. Unfortunately, the longer term figures still look weak and until that changes it is unlikely to attract attention. Investors similarly may be wary to invest in this fund until it has a longer term track record. My one concern would be that the manager who took over prior to Mark remains as part of the team, if Mark leaves then the performance could dip again and this is something monitor.

In conclusion clearly BlackRock have taken on a talented manager and short term he seems to be doing the right things. Two years in and the fund is delivering strong numbers and seems to be going in the right direction. I think it is different from other funds in the market but investors may feel uncomfortable until they have seen a longer term track record.

Fund performance

Performance from 2010 to 30 September 2015:

	2010	2011	2012	2013	2014	2015
BlackRock UK Income Fund	16.89%	-4.25%	10.99%	16.31%	8.31%	3.59%
SLI UK Equity Income Unc Fund	25.54%	-8.54%	25.41%	39.24%	8.21%	4.34%
iShares UK Dividend ETF	13.34%	-6.62%	17.46%	24.15%	6.54%	0.82%
Lyxor ETF FTSE All Share	15.40%	-4.61%	11.67%	20.16%	0.93%	-3.32%

1 year, 2 year, 3 year and 5 Year Performance:

	1 Year	2 Years	3 Years	5 Years
BlackRock UK Income Fund	7.50%	20.99%	34.37%	47.67%
SLI UK Equity Income Unc Fund	9.91%	21.89%	67.63%	100.40%
iShares UK Dividend ETF	6.41%	13.41%	39.86%	55.68%
Lyxor ETF FTSE All Share	-2.94%	2.88%	21.98%	35.14%

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 BlackRock 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. 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.