

## SHINING A LIGHT ON..... QAM DOWNING MONTHLY INCOME FUND

### At a glance

The UK Equity Sector is highly competitive with the UK Equity Income Sector even more so. We have recently reviewed the BlackRock Income Fund. The conclusion with this fund was to focus on the recent change of management and the performance since that change.

In a similar vein, we have been introduced to the new co-manager of the QAM Downing Monthly Income Fund. The fund may appeal to investors due to its concentrated portfolio (currently 34 stocks), focus on higher income and a multi cap approach.

We have run performance figures since launch in 2010 and the fund has outperformed the index. Although over 1, 3 and 5 years it has tracked the index.

The fund therefore maybe one to watch for the future. In this update we will provide some background to the managers and the fund.

### Who are the team behind the fund?

The fund was launched in 2010 by Querns Asset Managers and managed by Stephen Whittaker. Stephen previously worked for Perpetual and New Star. He is a well-respected manager. Querns was a small 3-person partnership and wanted to bring in additional risk controls and mid-cap experience. They set up a JV with Downing in June 2015, and James Lynch became co-manager on the fund. James doesn't have any direct experience of managing money and therefore the blend of experience with youth seems to work well.

### Fund highlights?

We started by talking about the JV and James explained that Stephen had been running the fund for 5 years but had been looking to enhance what he was doing using the infrastructure of Downing. There are similarities between the two with both managers operating a stock picking philosophy. I asked about who makes the final decision on investments and James explained it is a shared process with input from the investment committee. All decisions are made as a group with initial holdings being no more than 2.5% of the portfolio.

No-one stock dominates the portfolio with the top ten fairly evenly split with about an average of a 4% split. I asked whether there was a risk that Querns could walk away and James said this was unlikely because all parties are trying to do the same thing and the team at Querns are now integrated into the Downing structure.

Turning to the strategy itself the fund is small at £14.5 million but they are actively looking to grow this into a £100 million plus fund moving forward.

The key point of difference is that the fund is seeking a premium yield to the market. Currently the fund is paying 4.5% and the sector is between 3.5% and 4%. I asked whether in seeking that higher yield they were adding extra risk. James explained that they are operating in an under researched area where they have expertise (i.e. mid to small cap).

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So for example, McColl's is a cash generative independent retailer who have made the transition from papers to convenience foods to meet the needs of the modern day customer. This would be seen as micro-cap and out of the reach of many larger income funds. This is the type of business they are looking to hold.

Another holding is the Connect Group (which is the old Smiths News business) and what he likes about the business is a niche delivery business focusing on specialist items like pianos and is highly cash generative.

He explained that he prefers to focus on boring companies who can drive cash and have clear visibility on earnings. Stephen will focus a bit more on turnarounds; BP would be a good example of a holding where they can see catalysts for change which will make a difference moving forward.

I asked how long they look to hold stocks and James explained he would be happy to hold forever but the reality is that if a stock looks fully valued then he will sell.

In summary for those looking for a slightly different income fund with a high yield this might appeal. However, the performance over the last five years hasn't been that different to the benchmark with similar income. It may therefore be better to wait to see how the two managers work together and whether the performance improves over time.

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## Fund performance

Performance since launch (28 June 2010) to 30 November 2015:

	2010	2011	2012	2013	2014	2015
<b>QAM Downing Monthly Income Fund</b>	13.52%	-4.11%	19.46%	30.91%	2.23%	2.63%
<b>BlackRock UK Income Fund</b>	17.20%	-4.76%	10.20%	15.43%	7.49%	10.77%
<b>SLI UK Equity Income Unc Fund</b>	24.99%	-9.45%	24.16%	37.83%	7.13%	10.23%
<b>iShares UK Dividend ETF</b>	13.73%	-6.62%	17.46%	24.15%	6.54%	4.37%
<b>Lyxor ETF FTSE All Share</b>	19.70%	-4.61%	11.67%	20.16%	0.93%	1.80%

1 year, 3 years, 5 years and since launch performance:

	1 Year	3 Years	5 Years	Since launch
<b>QAM Downing Monthly Income Fund</b>	2.94%	39.96%	63.37%	78.58%
<b>BlackRock UK Income Fund</b>	9.96%	36.09%	53.53%	69.05%
<b>SLI UK Equity Income Unc Fund</b>	11.31%	66.77%	97.96%	128.70%
<b>iShares UK Dividend ETF</b>	3.69%	41.14%	61.79%	72.21%
<b>Lyxor ETF FTSE All Share</b>	0.14%	24.76%	41.91%	57.40%

*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 QAM Downing 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.*