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

At a glance

We recently reviewed this fund. Our view at the time was that this was well-managed with a strong team who have been quietly repositioning the fund since they took it over two years ago. In a sector awash with funds we felt this was sufficiently different for potential investors to consider.

The update was with the lead manager, Mark Wharrier. Mark started the update by explaining the types of companies he looks for; those with free cash-flow, growth and turnarounds. It is a high conviction portfolio with 35 to 45 stocks.

We touched on performance year to date which has disappointed and Mark explained that although the focus is on finding great companies macro issues can hurt in the short term. In particular markets have been hit by all sorts of things including China, Europe, Emerging Markets, Currencies, Oil Prices, BREXIT, Interest Rates to name just a few!

He added that despite the rapid correction in the market there remains many challenges. Overcapacity in Chinese Steel Production, overcapacity generally in manufacturing, rapid technology changes (Facebook, Amazon, Netflix, Google), low and volatile interest rates etc. And with this there seems many stocks that are driven not necessarily by fundamentals. So for example, Anglo American was down 73.5% in 2015 and up over 120% in 2016!

Whereas good companies like Intertex can deliver consistent performance. For example, in 2015 it was up 21.3% and up 18.8% in 2016. It is the focus on companies like Intertex that is important to Mark and his team.

Despite all the volatility in the market Mark added that we are in a dull economic environment rather than a recession. In this environment it is harder to find growth and therefore the focus is on those companies that have the ability to do that. The volatility has opened up opportunities with purchases in the likes of Shire and Land Securities, additions to ARM, Sky and Lloyds and on the flip side he has reduced holdings in BP due to weak fundamentals.

Currently they have a list of companies they are following with price targets and the hope is that the volatility will open up more opportunities. An example is Land Securities which has seen a 35% drop in share value and a 40% discount to asset values with a low level of debt. Much of the downgrade in the price has been driven by fears of a Europe exit and the shares have come to a point where they are too cheap and represent an opportunity.

Some of the other holdings include:

Advantaged Cash Flow Compounders (strong market positions with pricing power, management focused on cash flow etc) – includes the likes of BY, IHG and Sky

Cyclical and industrial tailwinds (focus on selective area of growth, consolidating industries driving returns etc) – includes the likes of Cineworld, ARM and DS Smith

Banks and Financials (underlying businesses stronger than share prices imply, scope for rising returns and dividends etc) – includes the likes of Lloyds Bank, Admiral and Provident Financial

LWM Consultants Ltd

Self Help and Restructuring (thesis not reliant on buoyant economy, improving and consolidating markets etc) – includes the likes of Barclays and Carnival

In summary we believe this is a well-managed fund which has demonstrated strong performance since the change of management. The performance has slipped due to concerns around BREXIT impacting some of the more domestic focused companies but this has opened up opportunities which the fund in the long should benefit from. Mark added this is all about individual companies and those that demonstrate the ability to grow dividends rather than cutting them.

Certainly for investors looking for an income fund, or a fund for long term growth where the income can be re-invested this is perhaps one to consider.

Fund performance

Performance from 2011 to 19 May 2016:

	2011	2012	2013	2014	2015	2016
BlackRock UK Income Fund	-4.76%	10.20%	15.43%	7.49%	9.47%	-3.55%
iShares UK Dividend ETF	-6.62%	17.46%	24.15%	6.54%	0.95%	-3.07%
Lyxor ETF FTSE All Share	-4.61%	11.67%	20.16%	0.93%	1.08%	-1.96%

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

	1 Year	2 Years	3 Years	5 Years
BlackRock UK Income Fund	-4.61%	11.29%	18.53%	34.37%
iShares UK Dividend ETF	-13.44%	0.84%	8.14%	38.81%
Lyxor ETF FTSE All Share	-9.06%	-2.05%	3.49%	25.74%

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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