SHINING A LIGHT ON THE……
Royal London UK Equity Income Fund

AT A GLANCE

Investment Objective
The investment objective and policy of the Fund is to achieve a combination of income and some capital growth by investing mainly in UK higher yielding and other equities, as well as convertible stocks. The Fund may hold transferable securities, (including Exchange Traded Funds which are closed ended funds, but not those which are collective investment schemes), government and public securities, deposits and cash (for the purposes of EPM and redemption of units). It may also hold derivatives for the purposes of EPM only.

Inception Date	11 April 1984
Fund Factsheet Link	http://www.morningstar.co.uk/uk/funds/snapshot/snapshot.aspx?id=F0GBR04NRX

Management	
Manager Name	**Start Date**
Martin Cholwill	1st March 2005

Investment Style Details	
Equity Style	
Market Capitalisation	**% of Equity**
Giant	29.06%
Large	13.82%
Medium	35.90%
Small	18.32%
Micro	2.90%

Top 10 Holdings		
Total number of holdings	52	
Assets in Top 10 Holdings	34.68%	
Name	**Sector**	**% of Assets**
Royal Dutch Shell PLC B	Energy	5.43%
GlaxoSmithKline PLC	Healthcare	4.42%
AstraZeneca PLC	Healthcare	4.34%
HSBC Holdings PLC	Financial Services	4.33%
BP PLC	Energy	4.31%
British American Tobacco PLC	Consumer Defensive	2.66%
Rio Tinto PLC	Basic Materials	2.47%
Hargreaves Lansdown PLC	Financial Services	2.27%
Close Brothers Group PLC	Financial Services	2.25%
Aviva PLC	Financial Services	2.21%

Volatility Measurements	
3-Yr Std Dev (volatility)	9.70%
3-Yr Mean Return (average)	7.26%

FUND PERFORMANCE

Performance from 1st January 2013 to 31st May 2019:

	2013	2014	2015	2016	2017	2018	2019
Royal London UK Equity Income Fund	34.61%	6.73%	5.27%	10.29%	12.09%	-10.25%	9.02%
FTSE All Share Index	20.81%	1.18%	0.98%	16.75%	13.10%	-9.47%	8.97%

Performance over 12 months, 3 years, 5 years and since fund manager tenure:

	1 year	3 years	5 years	Since fund manager tenure
Royal London UK Equity Income Fund	-3.98%	21.75%	30.78%	230.19%
FTSE All Share Index	-3.17%	28.45%	29.33%	162.71%

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.

UPDATE….

The struggle with UK Equity Income Funds is whether they actually offer value to investors. This fund is no different to many in the sector. This is one of the best performing funds and yet over five years it has struggled to outperform the FTSE All Share Index. Investors use these funds for a combination of reasons; which can include income, or a defensive strategy. The argument behind the defensive element is that those companies paying dividends tend to be better managed companies.

It is worth highlighting that with the negative press around Woodford this fund is a plain vanilla fund. It doesn't have high yield, non-yielding or unquoted stocks. The manager believes he is a contrarian investor with a focus on the bottom end of the FTSE 100 and the FTSE 250. The fund however does appear to hold similar names to other UK Income Funds so a potential investor may want to challenge this statement.

The manager explained that what they are looking for are those companies with strong cash flow and how that is used within the fund. They haven't held Vodafone and Royal Mail who have recently cut dividends. With Vodafone the yield was 9.4% and as a business they generate significant cash, but the capital expenditure is high especially investing in infrastructure and 5g.

Where the fund has done well this year is with investments in Dairy Crest (which recently became subject to a take-over bid), Dunelm, Marshalls and Hargreaves Lansdown (they are currently selling down the holding). They have been adding to Imperial Tobacco and Land Securities.

In terms of negatives this includes Saga which suffered from a down grade in earnings expectations. They still believe this to be a strong brand name and continue to hold. De la Rue print bank notes and issued a profit warning. Again, they still hold this due to the intellectual property and technology within the business.

They are not looking to make macro bets and have a mix of domestic and international companies; their interest lies in the individual companies. The aim is to deliver consistent incremental gains over the long-term vs the benchmark and peer group.

In summary, this is one of the better UK Income Funds, but it very much depends on what the investor is looking for. As a defensive strategy the FTSE All Share has outperformed over the last five years. As an income strategy this might be a fund to investigate further.

The source of information in this note has been provided by Royal London and is correct as at June 2019. 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. We would also recommend that you receive advice before following up on any decision.