

**SHINING A LIGHT ON THE.....
BlackRock Income Fund**

AT A GLANCE

Investment Objective	
The fund seeks to provide an above average and growing income without sacrificing the benefits of long-term capital growth by investing primarily in the shares of companies incorporated or listed in the UK. The Fund may also invest in collective investment schemes.	

Inception Date	16/03/1984
Fund Factsheet Link	http://www.morningstar.co.uk/uk/funds/snaps/hot/snapshot.aspx?id=FOGBR04RTV

Management	
Manager Name	Start Date
Adam Avigdori	16 November 2009
David Goldman	1 July 2015

Investment Style Details	
Equity Style	
Market Capitalisation	% of Equity
Giant	47.76%
Large	11.35%
Medium	33.72%
Small	6.65%
Micro	0.59%

Top 10 Holdings		
Total number of holdings	44	
Assets in Top 10 Holdings	39.33	
Name	Sector	% of Assets
British American Tobacco PLC	Consumer Defensive	6.10%
Lloyds Bank Group PLC	Financial Services	4.67%
Unilever PLC	Consumer Defensive	4.54%
Royal Dutch Shell PLC	Energy	4.41%
RELX PLC	Consumer Cyclical	3.45%
Glaxo SmithKline PLC	Healthcare	3.27%
Ferguson PLC	Industrials	3.10%
John Laing Group PLC	Industrials	3.03%
BT Group PLC	Communication Services	3.02%
Rentokil Initial PLC	Industrials	2.87%

Volatility Measurements	
3-Yr Std Dev (volatility)	9.85%
3-Yr Mean Return (average)	9.63%

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FUND PERFORMANCE

Performance from 1 January 2012 to 30 September 2017:

	2012	2013	2014	2015	2016	2017
BlackRock Income Fund	10.20%	15.43%	7.49%	9.47%	8.14%	6.37%
iShares UK Dividend	17.46%	24.15%	6.54%	0.95%	7.89%	3.13%

Performance over 12 months, 3 years, 5 years and 10 years

	1 year	3 years	5 years	10 years
BlackRock Income Fund	9.82%	30.54%	60.57%	95.85%
iShares UK Dividend	4.14%	18.56%	55.83%	27.32%

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 BlackRock Income Fund went through a period of underperformance which saw Mark Wharrier join the team in 2013, and David Goldman in 2015. Under the stewardship of these two new co-managers the performance improved. One of the major changes to the process was to develop a fund which focused on absolute returns by blending both capital growth and income.

In June this year Mark Wharrier left the team, leaving Adam Avigdori and David Goldman. Our greatest concern was whether the changes implemented by Mark could carry through. In this update we spoke to David to try and understand what, if anything, has changed since Mark left.

There is no doubt that Mark leaving is a blow to the team. David pointed out however, that this has always been about their highest convictions and a collaborative effort between the team with input from the wider UK team; which hasn't changed. My main concern would be if David left, which could ring alarm bells for investors. The other point that David made was that the principles from 2013, about identifying cash-generative businesses, focusing on absolute returns and blending capital growth and income remain.

In this update we talked about the UK economy and stock selection, which are two crucial elements to understanding the management of the fund.

The managers won't chase ideas if they don't fit into the philosophy of the fund, and this has meant at times they have been behind the curve. This is important in understanding the style of management. In 2014 and 2015 it was what they did and didn't hold which helped performance. Coming into 2016 they were overweight commodities which in turn delivered spectacular returns and this hurt the fund. Brexit had the same affect as they reduced holdings in financials, particularly the life assurance sector, which has since rallied.

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Ultimately the focus on cash generative businesses will mean that at times they will not participate in market rallies. They also want to avoid businesses which have the potential to “blow up”. Having said that, they did hold Provident Financial for a while, and they reduced it after Brexit, and again with the first profit warning. They still held a small amount when the shares collapsed; but have now sold out completely because there are too many unknowns for the business, and this no longer falls into the type of stock that they would look to hold.

BT is another example where they couldn't have predicted the Italian scandal, but they continue to hold believing in its long-term future. BAT is its largest holding, and although it has been hit by the recent report from the regulators it continues to grow market share. It is also a leader in new generation products which look to be equally profitable. In the short term the re-rating has hurt the fund but long term they believe the opportunities remain.

Banks have also benefited from the re-rating in HSBC, although Lloyds has had no correction in share price. We discussed Lloyds and he explained that for a stock giving an 8% dividend even without any growth on capital, it is still returning high single digit returns which is good for the fund, and this is a highly cash generative business.

Another holding they have is Next which has rebounded strongly; they feel this is a misunderstood business which although is seeing a slowing high street, continues to deliver strong cash returns. In addition, the online space is growing for them and they are branching into selling third party products.

They are clearly nervous about the outlook for the UK; especially following Brexit and the election. Investors are selling down UK shares and opting for Europe ex-UK. They think rates will rise but it could be at a slower pace than we think, and they expect to see stimulus working alongside this. There are empty shops on the high street and often this is an early warning signal, but this also reflects a change in the way people shop (e-commerce), and the focus on spending on experiences and activities.

If inflation starts to push up wages then this could put pressure on companies, and this is when confidence starts to drop. There is a real risk of recession in the UK and this is something they are monitoring closely, but at the moment the job data doesn't indicate an imminent problem.

Having said all of that, the fund is focused on cash generative businesses with pricing power and the key is whether that cash flow is sustainable in the long term. Other companies they like include Unilever, Ferguson and Rentokil.

In summary, normally we would be concerned if a manager left, however we believe that even with the remaining two the fund should continue in the same vein. Over 12 months and 3 years it has outperformed the index. The managers have remained focused on their philosophy which at times has meant they have missed out on big rallies, but equally it has enabled them to avoid some of the big falling stocks. One concern I would flag is if David left, as I think the fund shows that it needs co-managers to deliver the returns it has.

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