

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

AT A GLANCE

Investment Objective	
<p>The investment objective of Neptune Income Fund is to generate a rising level of income. There is also potential for capital growth, from an actively managed portfolio invested predominantly in UK securities and UK fixed interest stocks, with some overseas exposure. The Fund aims to achieve top quartile performance, in terms of total return, against the appropriate peer group. Other eligible asset classes may include collective investment schemes, other transferable securities, cash or near cash, deposits and money market instruments. It is anticipated that derivatives instruments and forward transactions may be used by the ACD for efficient portfolio management.</p>	

Inception Date	31/12/2002
Fund Factsheet Link	http://www.morningstar.co.uk/uk/funds/snaps/hot/snapshot.aspx?id=FOGBR04GTH

Management	
Manager Name	Start Date
Robin Geffen	31 December 2002

Investment Style Details	
Equity Style	
Market Capitalisation	% of Equity
Giant	50.70%
Large	27.35%
Medium	21.95%
Small	0.00%
Micro	0.00%

Top 10 Holdings		
Total number of holdings	33	
Assets in Top 10 Holdings	32.16%	
Name	Sector	% of Assets
TP ICap PLC	Financial Services	3.45%
CME Group Inc	Financial Services	3.33%
Microsoft Corp	Technology	3.20%
Johnson Matthey PLC	Basic Materials	3.20%
BAE Systems PLC	Industrials	3.20%
Royal Dutch Shell	Energy	3.18%
Sage Group (The) PLC	Technology	3.17%
HSBC Holdings PLC	Financial Services	3.16%
Unilever PLC	Consumer Defensive	3.14%
Glencore PLC	Industrials	3.12%

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Volatility Measurements	
3-Yr Std Dev (volatility)	10.29%
3-Yr Mean Return (average)	9.38%

FUND PERFORMANCE

Performance from 1 January 2012 to 30 September 2017:

	2012	2013	2014	2015	2016	2017
Neptune Income Fund	11.76%	18.23%	2.18%	6.45%	14.21%	6.04%
iShares UK Dividend	17.46%	24.15%	0.95%	2.17%	7.89%	3.13%

Performance over 12 months, 3 years, 5 years and since launch:

	1 year	3 years	5 years	Since launch
Neptune Income Fund	12.69%	31.65%	56.35%	312.67%
iShares UK Dividend	4.14%	18.56%	55.83%	-

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....

This fund wouldn't necessarily have come onto our radar. Like many large cap UK Income Funds over five years it has done no more than track the index. However, since 2014 the fund has gradually started to outperform; doubling the return against the index. This is important for the fund as this is their flagship offering, and run by the founder of Neptune. Interestingly the fund has outperformed the CF Woodford Equity Income Fund since its launch, and over the same period significantly outperformed the Invesco UK Equity Income Fund which Woodford previously managed.

The question is really why would you choose this fund over Woodford or any other larger cap UK Income Fund. Robin Geffen explained that he follows a simple strategy of 'three baskets', made up from steady-eddies, hidden fruits and tactical plays. There is no individual conviction but Robin picks 33 stocks and equally weights each with an average holding of 3%.

Robin is focused on protecting investors against dividend risk. As he explained, 22% of UK Income Funds rely on one company to provide 10% of the yield for the fund; 43% rely on BP and Shell to provide 10% of the yield, and 26% rely on the top 10 to deliver 50% of the yield.

In an age of companies like Astra Zeneca and Provident Financial announcing profit warnings, this means more companies will cut dividends and many of these comprise a large proportion of UK Income Funds. Robin does focus on large caps but the fund is diversified both geographically and by dividend.

15.6% of revenue from companies in the fund comes from the UK, 19.6% Europe, 31.7% North America and 33.1% the Rest of the World. In terms of the dividend 20.4% of the yield comes from the top ten showing a great spread of risk.

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Robin is also concerned that investors tend to pick two or three income funds to avoid stock overlap, when in fact the holdings are similar and consequently investors are increasing concentration risk. This fund has around 7% overlap with the Woodford Equity Income, so it could work alongside another income fund as a blend.

There are areas of the markets where Robin has concerns and one of those is housebuilders. He believes they are income traps and with interest rate rises we could well see the housing market crash. But income funds don't need to have exposure to this part of the market. There are plenty of good companies like Compass, UBM, BAT, HSBC and Microsoft which don't carry the same levels of risk.

In summary, the UK Income Fund market is crowded and most are investing in the same companies and carrying the same risks. In terms of long term performance this fund has not achieved anything spectacular but certainly in the last three years it has delivered strong returns, and been able to outperform some of the big names like Woodford and Invesco. For those looking for an Income Fund this could be an option to consider at either as standalone fund or a blend. Finally, as a comparison the yield is 4.96%, Woodford has a yield of 3.43% and iShares ETF 4.90%.

The source of information in this note has been provided by Neptune and is correct as at September 2017. 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.