AJBell Investcentre

Fundamentals with Russ Mould

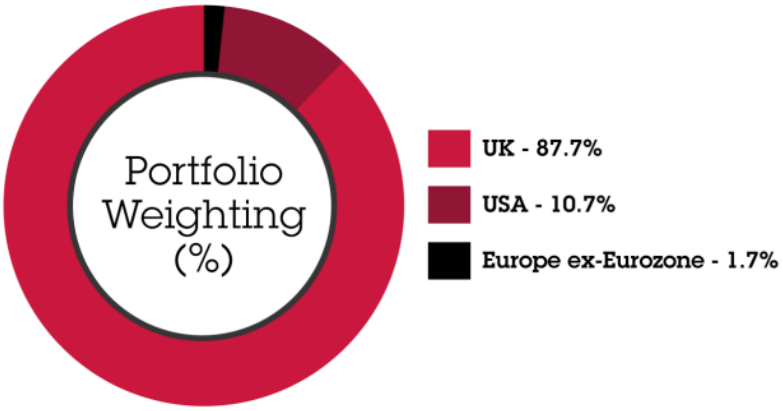
February 2017

Welcome to the latest edition of Fundamentals. This time around I'm going to look at one of the ten most popular funds on the AJ Bell Investcentre platform right now, namely Troy Trojan Income.

[MATT PLEASE INSERT CAPTION WHICH STATES] Troy Trojan Income O (Acc) ISIN - GB00B01B176 SEDOL – B01BP17]

The fund's mandate is to provide an above average income with the potential for capital growth in the medium term. The bulk of the assets are to be invested in UK and overseas equities and fixed-interest securities and the focus seems to be mainly UK-listed shares.

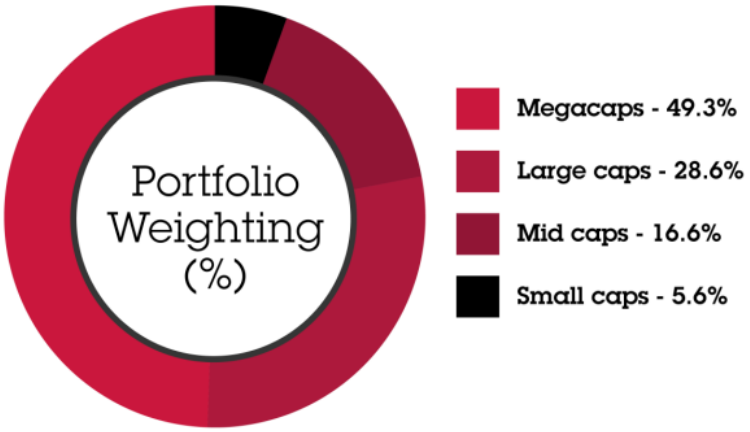
Some 90% of the £3.2 billion collective's assets are currently invested in equities with 6% in cash. By geography, just under 90% of the portfolio is found here in Britain, with 11% in the USA and nearly 2% in Europe.



Source: Morningstar, Troy factsheet

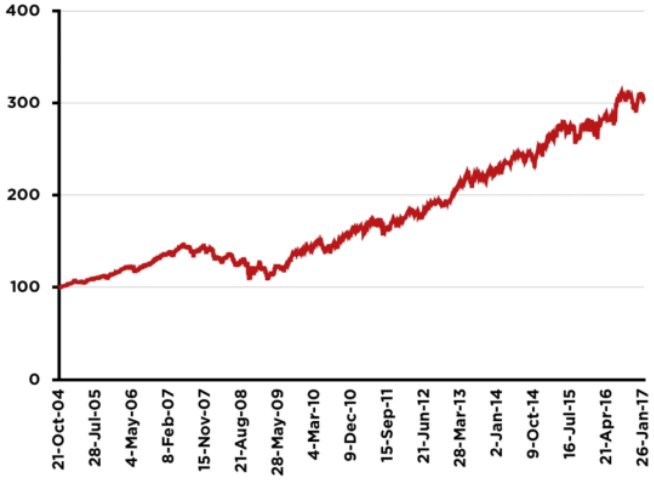
The fund offered a concentrated, high conviction portfolio of 42 holdings and the top ten cover just over a third of the total assets. The top five holdings are consumer staples giant Unilever, oil giant Shell, drug firm GlaxoSmithKline, tobacco specialist Imperial Brands and support services company Compass.

They are FTSE 100 stocks and that gives you a strong clue as to the nature of the portfolio – solid, no frills, a focus on quality and of course income. As we can see here just under half of the market cap is invested in megacaps, with just under 30% in large caps, 17% in mid-caps and less than 6% in riskier small caps:



Source: Morningstar, Troy factsheet

This next graphic shows the sector exposures. Consumer staples, financials and utilities top the list while technology is hardly present and basic materials has no weighting at all – something which will be hurting short-term performance, it should be said, as the top six performers in the FTSE 100 over the past year are all miners:



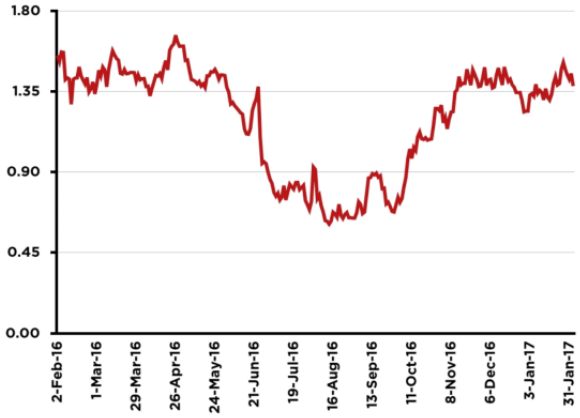
Source: Morningstar, Troy factsheet

The fund is eligible for SIPPs, ISAs and dealing accounts and currently comes with a yield of 3.8%. Dividends are paid semi-annually. The ongoing charge figure is 1.02% and for those who set store by such things the fund comes with a five-star ranking from Morningstar. As a final point, the fund comes with accumulation and income units.

So - those are the mechanics. The question to address next is why would advisers and clients be buying right now?

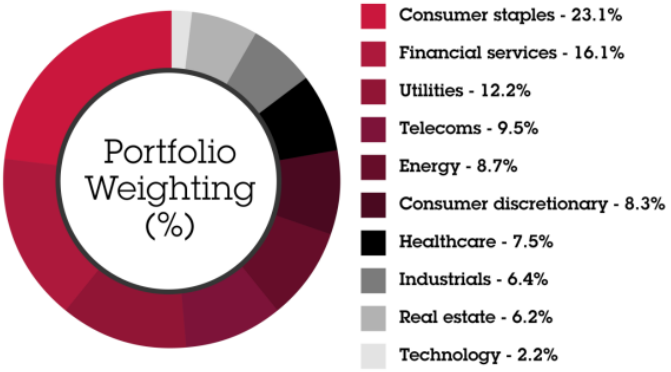
Well, I think there may be three possible reasons:

- The first is that 3.8% yield. Yes, the markets have got all excited about the Trump trade and the President's plans to revive growth but central banks are hardly galloping to raise interest rates – the Bank of England, Bank of Japan and US Federal Reserve all stood pat in late January and early February. In addition, bond yields are still low, even after their back-up since the summer. As I sit here the UK 10-year Gilt yield is still just 1.35%, lower than it was a year ago, as we can see here.



Source: Thomson Reuters Datastream

- Second, advisers and clients are not just looking for income, but reliable income and this is what the portfolio of Troy Trojan Income suggests it is designed to provide. Yes, it may have missed the mining rally of the past 12 months but a three-year beta of 0.77 and three-year Sharpe ratio of 1.19 shows that low volatility and medium-to-long term outperformance are the aims here. This final graphic shows performance since inception in 2004 and as you can see it's very steady, which may appeal to many patient clients.



Source: Thomson Reuters Datastream

- Third, there's no guarantee the Trump trade is going to go according to plan. The President's immigration policy is already meeting opposition in the courts – and the Supreme Court can block any executive order – while the Senate and House of Representatives could also put a spanner in the works if they so choose. Clients who don't want to take the risk of chasing near-term performance may like Troy Trojan Income's steadier approach and welcome the presence of names like Lloyds and BP in the top-ten holdings list as they offer both income and potential capital upside as they could be said to be value picks.

There are risks. The fund did dip during the peak of the financial crisis and, it is likely to underperform when animal spirits are running and cyclical names like miners are doing well. In addition, overall FTSE 100 dividend cover is thinner than ideal at barely 1.7 times for 2017, based on aggregate analysts' forecasts, when it really should be two times or more, so buyers will be relying on the skill and experience of fund manager Francis Brooke to pick the right names and dodge potential dividend cutters.

Thank you for watching and I look forward to seeing you next time.