AJBell Investcentre

Fundamentals with Russ Mould

April 2017

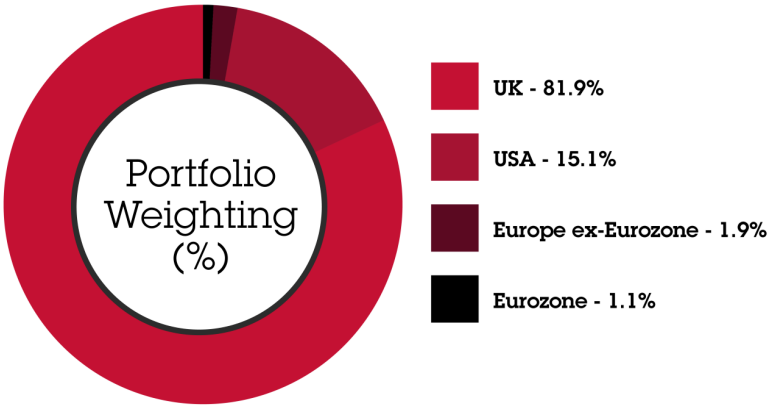
Welcome to the latest edition of Fundamentals. This time around I'm going to look at a UK-focused actively managed collective, namely Evenlode Income.

The fund's mandate is to provide long-term total returns for advisers and clients with an emphasis on income. It seeks to deliver this by building a concentrated portfolio of predominantly UK stocks, although there can be some overseas picks too.

The lead managers are Ben Peters and Hugh Yarrow, the latter having set up Evenlode back in 2009.

They tend to focus on stocks capable of delivering sustainable growth with limited need for additional capital investment. Such scalable business models can mean there is plenty of cash left over once bills are paid and that cash flow can ultimately be turned into dividends for the funds managed on behalf of advisers and clients.

According to the latest fact sheet, 82% of the assets are held within the UK, with 15% in the USA and the rest in Europe, as we can see here.

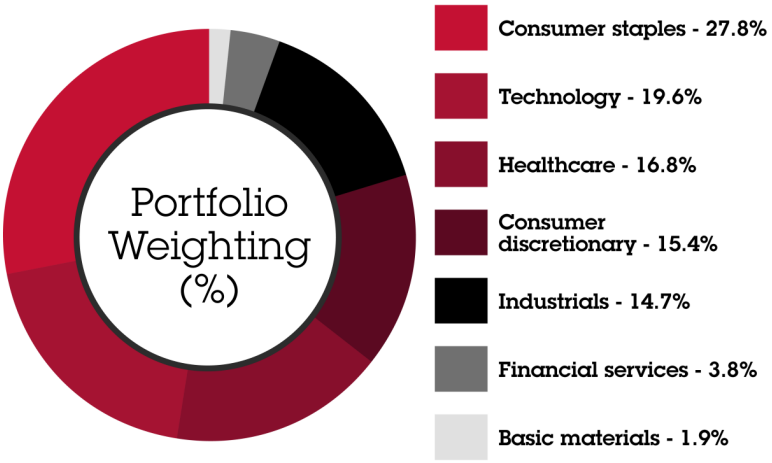


Source: Morningstar, Evenlode factsheet

The biggest holding in the £1.3 billion fund is consumer goods giant Unilever, which is particularly topical, as the FTSE 100 firm has just announced a new six-point plan designed to boost returns for shareholders following the fright it received in the form of a tentative bid approach from American company Kraft-Heinz.

After that, the biggest positions are global drinks play Diageo, pharmaceutical firm GlaxoSmithKline, American software behemoth Microsoft and then FTSE accounting software specialist Sage. The other big US holdings in the top 10 list are health and hygiene play Johnson & Johnson and personal care firm Procter & Gamble.

The net result is a tight-knit portfolio of just 39 holdings where the largest sector exposures are consumer staples, technology and healthcare. Interestingly real estate, telecoms, utilities and energy – all sources of income for many a fund manager – have no presence at all in Evenlode Income, as we can see here:



Source: Morningstar, Evenlode factsheet

Large caps currently represent just over 60% of the assets, mid caps just over a quarter and small and micro caps the rest.

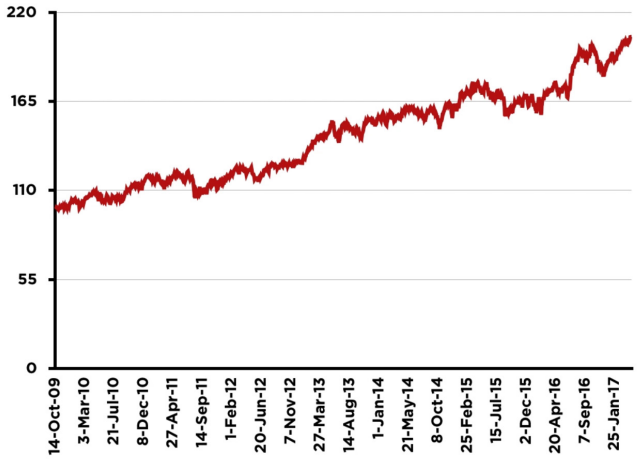
The overall result of Peters and Yarrow's approach is a fund with a Sharpe Ratio of 1.3 and a beta of just 0.86 over the last three years.

The fund is eligible for SIPPs, ISAs and General Investment Accounts and currently comes with a yield of 3.2%. Dividends are paid quarterly. The ongoing charge figure is 0.95% and for those who set store by such things the fund comes with a five-star ranking from Morningstar.

So - those are the mechanics. The question to address next is why would advisers and clients consider this collective for portfolio inclusion today?

Well, I think there may be two possible reasons:

- The first is that 3.3% yield, which still handily outstrips anything available on cash, any UK Government bond (even out to 50 years), any US Government bond and any 10-year bond from a Eurozone nation except those issued by Portugal and Greece.
- The second is the portfolio's make-up. Stable and able consumer defensives fell out of fashion in the second half of 2016, as the UK referendum and US Presidential election results prompted a dash for the reflation trade amid hopes for accelerating economic growth and inflation. Trump's failure to push through healthcare reform, the risk of delays to tax reform and the absence of big infrastructure plans from the Budget blueprint all question the reflation theme, as does a slight ebbing in UK and US inflation figures for February. Any further such doubts could stoke fresh interest in the more dependable earnings streams on offer from portfolios such as this one.
- The third is historic performance. While we must all accept this is no guarantee for the future, Evenlode Income has built a good track record since inception in 2009, with fairly limited volatility, as evidenced by that low three-year beta and this final chart here. This may appeal to any advisers and clients who are feeling a little nervous about short-term market conditions or are seeking a long-term holding to help form the bedrock of a portfolio's income element.



Source: Morningstar, Evenlode factsheet

This is not to say Evenlode Income may suit every adviser and client's overall strategy, target returns, time horizon and appetite for risk. There are certainly income funds out there which come with a higher yield and passively run income funds may well come with lower costs. In addition, the focus on the UK may not appeal to everyone, given the doubts which persist in the minds of some about Brexit and now the snap election called by Prime Minister May for 8 June.

This fund hasn't been tested by a bear market yet and there are always risks, whether they relate to the broader UK market or more specifically to the managers and their process. As a result advisers and clients should do their research before deciding whether to put any capital to work or not.

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

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