Heritage

Quarterly Newsletter & Investment Review

Issue 77 Quarterly news & investment review from Heritage Quarter 1 2017

In this issue

Heritage Capital Management Limited

Heritage Capital Management Ltd is an independent, specialist investment management company based in London and regulated by the Financial Conduct Authority, providing a wide range of investment services to individuals, trusts, companies and pension funds.

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A good start to the year

Since our last report the rally in global stock markets has continued into the new year with a number of major indices making new record highs in the first quarter of 2017 as investors continue to shrug off the uncertainties relating to Brexit, the Trump presidency and upcoming European elections.

We are pleased to report that the Heritage funds have made a good start to the year with our largest fund, the Managed Portfolio Fund gaining 3.5%. Further details of our Funds including the current asset allocation and a commentary on performance can be found as usual on page 3 and we now also include information on our new fund, the SVS Heritage Balanced Portfolio Fund on page 4.

Tax efficient investment

Whilst our main focus at Heritage continues to be on providing good investment returns without taking too much risk we recognise that most clients are also interested in making sure that their investments are structured as tax efficiently as possible.

Our offshore Guernsey fund remains an excellent vehicle for tax planning purposes with its ability to roll up and reinvest the gross returns whilst allowing individual investors both within the UK and internationally to defer and then choose the eventual timing of the crystallisation of any gains. However, it is important to also be alive to other opportunities to enhance tax efficiency and there have recently been some significant changes in this area.

Firstly, the ISA (Individual Savings Account) allowance will be rising to £20,000 per annum from 6th April 2017. This large increase means that even the very wealthy who had perhaps previously seen ISAs as being of marginal interest can now build a significant tax free fund which is accessible without restriction. With the recent successful launch of the SVS Heritage Balanced Portfolio Fund we can now offer clients the ability to hold their Heritage investment funds within an ISA wrapper and we are already seeing this becoming an area of increasing interest for our clients.

Another area that has seen huge change in recent years is pensions. Under the old rules you were either a member of your employer's "final salary" pension scheme and/or you had your own personal pension fund that then had to be used to purchase an annuity. Fortunately annuities are no longer compulsory and personal pension funds can now be used to drawdown an income for life and the capital can be left (often inheritance tax free) to your family. For many wealthy individuals this is now a significant advantage over final salary schemes and with transfer values currently at historically high levels due to low bond yields, many are now doing the previously unthinkable and transferring the value of their final scheme to a SIPP. With all sorts of other complex rule changes surrounding contribution limits and Life Time Allowances it has never been more appropriate to review your pension arrangements to understand if they remain appropriate and we would be very happy to help guide you through the process.

In fact if you are at all concerned about ensuring that your investments generally are structured as tax efficiently as possible please do get in touch.

Heritage Capital Management Limited

Review for the quarter ended 31st March 2017

Market Commentary and Outlook

The positive investor sentiment that drove markets higher in the latter part of last year has so far continued into 2017 with nearly all the major indices making positive returns in the first quarter of 2017.

A huge amount of time and effort is spent analysing and attempting to predict the impact of political events on investment markets – and even more so in the past year as first Brexit and then the Trump presidency have dominated the headlines. However rather than joining in the debate over the detailed implications we would prefer to just offer some more general observations.

Although both Brexit and Trump were shock events that had not been properly priced in, had you been smarter than the consensus in your analysis to correctly predict these events your opportunity to profit would have been very limited as initial plunges were quickly reversed. In fact one high profile fund manager who was in the small minority to correctly predict last year's political events ended 2016 with a huge loss as he thought that the implications would be negative and shorted the market in what turned out to be a good year for shares.

Therefore, whilst our market commentaries do try to offer a perspective on what is currently happening around the world and its impact on markets, as investment managers we believe that our time is best spent continually analysing and understanding individual companies to find those that we are confident will be profitably providing goods and services to their customers for years to come.

United Kingdom

The UK market had a decent first quarter with the FTSE 100 index registering an overall gain of around 2.5% and managing to hold its level above the 7,000 mark for a full quarter for the first time.

The UK formally gave notice to leave the EU when Theresa May triggered Article 50 of the Lisbon Treaty on 29th March, which now leaves two years of tortuous negotiations to come. The process will no doubt lead to a multitude of specific issues as well as some opportunities for the various industries that will be impacted but the hope is that common sense will prevail and mutually beneficial trade will ultimately be able to continue largely unaffected.

United States

The US has had a good start to the year with the S&P 500 moving further into record territory and ending the first quarter up just over 5.5%.

The direction that the Trump presidency will be taking the US is starting to become a bit clearer and so far markets have decided that the positive effects of his proposed fiscal stimulus and deregulation should just about outweigh any negative impact arising from reduced immigration and international trade. As expected the Federal Reserve Bank have continued to nudge interest rates up and although 1% is still low by historic standards the premium over European and Japanese rates that are zero/negative is becoming more significant.

Europe

European markets have so far led the way in 2017 with a gain of 6.4% for the index of its 50 top companies this quarter.

Company valuations still look reasonable in comparison to other major markets and there is the potential for a recovery in earnings growth, which has so far lagged behind the US, to start coming through and a number of recent economic indicators such as employment and factory activity have turned positive. However, as ever with Europe it is unlikely to be all plain sailing and there are plenty of pitfalls to navigate this year including elections in France and Germany as well as the Brexit negotiations.

Japan

Japan was the only major market that failed to make a positive return in the first quarter with the Nikkei index down 1% although once you factor in the recent stronger yen the result for international investors was a small gain.

Emerging Markets

Following a period of weakness emerging markets had a better year in 2016 and this return to form has so far continued into 2017.

However, political risk in many emerging markets remains an ongoing threat and there was recently a stark reminder of this as the politically motivated sacking and replacement of South Africa's respected finance minister, Pravin Gordhan, by president Jacob Zuma led to a plunge in the Rand and a downgrading to below investment grade of its sovereign debt.

Investment Statistics - 31/03/2017

Equity Markets	Q1 2017	2016	2015	PE Ratio	Dividend Yield	Central Bank Interest Rates	10 yr Gvnmt Bond Yields	Exchange Rates	
								vs GBP	vs USD
TR Global ($)	7.04%	8.49%	-2.07%						
US (S&P 500)	5.53%	9.54%	-0.73%	21	2.4%	1.00%	2.40%	1.2550	1.0000
UK (FTSE 100)	2.52%	14.43%	-4.93%	25	3.8%	0.25%	1.14%	1.0000	1.2550
Europe (STOXX 50)	6.39%	0.70%	3.85%	17	3.4%	0.00%	0.33%	1.1781	1.0652
Japan (Nikkei 225)	-1.07%	0.42%	9.07%	19	1.7%	-0.10%	0.07%	139.78	111.38

Total returns- including dividends

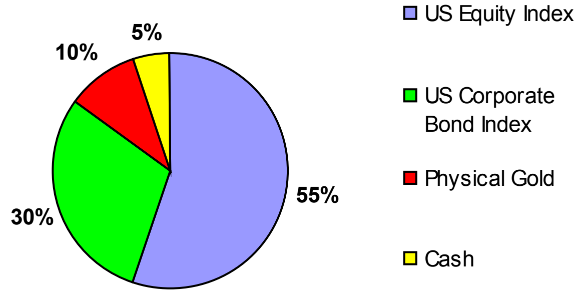
Source: Thomson Reuters and the Financial Times

Heritage Investment Fund Limited

Review for the quarter ended 31st March 2017

Performance	US Dollar Absolute Return Fund	Managed Portfolio Fund	Inflation (US)	TR Global World Index (£ total return)
Risk profile	Low	Medium		
Minimum investment horizon	3 years +	5 years +		
Target net annual return	3-4%	6-7%		
Price at 31 March 2017	US$147.29	£276.17		
Return for quarter & 2017 ytd (net)	2.38%	3.52%	0.40%	5.24%
Year 2016 return (net)	2.08%	7.48%	1.16%	29.59%
Year 2015 return (net)	-0.47%	6.80%	0.08%	3.49%
Year 2014 return (net)	5.42%	7.74%	1.65%	10.99%
Year 2013 return (net)	3.98%	13.85%	1.49%	19.85%
Year 2012 return (net)	1.95%	13.27%	2.10%	7.93%
Year 2011 return (net)	-2.28%	0.06%	3.21%	-4.50%
Compound annual return (from 1/01)	2.35%	6.49%	2.11%	6.49%
Annual volatility	4.35%	4.37%	0.19%	9.37%
Size of Fund (millions)	U$13.9	£163.8		

US Dollar Absolute Return Fund



The US Dollar Absolute Return Fund aims to protect investors capital and generate annual returns in excess of inflation by investing in a range of liquid, well-diversified exchange traded funds which track US equity, corporate bond and gold indices, and whose returns have a low or negative correlation in order to reduce volatility.

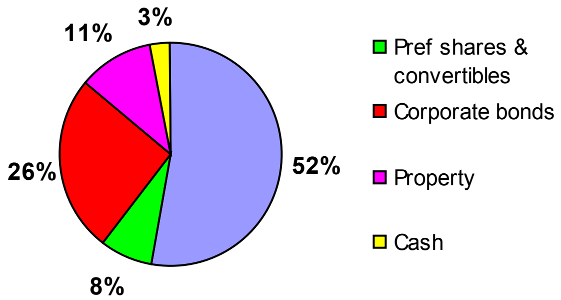
The Fund's core growth investment in the equity index ETF, which tracks the S&P 500 largest US companies, was 55% at the end of the quarter. The net gain for the quarter was 2.43%, as the US equity market made strong gains on the expectation of tax cuts and infrastructure spending under the new administration.

The Fund maintained its 30% investment in the US investment-grade corporate bond ETF, which yields 3.37% per annum, both for income and as a hedge against equity market weakness. The net loss for the quarter after hedging was 0.26%, as 10 year government bond yields and corporate bond spreads fluctuated during the quarter.

The Fund increased its investment in the physical gold ETF to 10% during the quarter, as a hedge against inflation and US Dollar weakness. This ETF gained 0.40% for the quarter, as both inflation rose and the US Dollar weakened.

The Fund produced a solid return of 2.38% for the quarter, and is well positioned to generate future returns in excess of inflation in the medium term.

Managed Portfolio Fund



The Managed Portfolio Fund seeks to generate long-term capital growth at a lower risk than that associated with pure equity market investment through active management of a well diversified multi-asset portfolio.

The Fund has made a good start to the year with a return of 3.52% in the first quarter.

It has been a busy period for companies reporting year end results and generally these have been quite positive for our portfolio holdings. Over the years we have become used to receiving the occasional bid for our smaller company holdings but we were surprised when one of our larger holdings, Unilever, received a bid from Kraft and although it was swiftly withdrawn it did help to highlight the long-term value in Unilever with the shares gaining 20% over the quarter.

Our bonds had a decent quarter and the overall yield on our bond portfolio has now come down to around 5%. Property returns were also good with a number of our listed property shares reporting decent increases in their net asset values and dividends.

Overall, we continue to believe that our portfolio of investments remains well positioned to generate attractive returns for long-term investors, whilst our relatively defensive positioning and diversification should continue to provide some protection against any major market setbacks.

Importance of currency diversification

Most investors focus on diversifying their portfolio amongst different asset classes, such as equities, bonds, property and commodities. Few investors, however, consider diversifying their currency exposure and most invest fully in their home currency. Past experience has shown that it is prudent to have some exposure to other major currencies in your portfolio as they can increase returns and reduce volatility.

The US Dollar index, for example, has a negative correlation with US equity market, bond and gold returns. As the world's premier reserve currency and home to 60% of the developed world equity market capitalisation, the US dollar exerts a strong influence on global markets and deserves consideration for inclusion in portfolios.

International investors have a habit of retreating to the safety of the US Dollar when turbulence strikes financial markets. In 2008, the year of the credit crisis when equity and bond markets collapsed, the US Dollar/Sterling exchange rate fell from 1.98 to 1.46, being a fall in the value of the Pound of approximately 26%.

Our US Dollar Absolute Return Fund provides investors with an opportunity to gain direct exposure to the US Dollar and although this Fund only gained a modest 2% in US Dollar terms in 2016 because of the strong US dollar, for a Sterling based investor this translated into a return of over 20%.

Although our Heritage Managed Portfolio Fund is priced in sterling it also offers currency diversification through the various international revenues and profits generated by the underlying companies held. It is difficult to give exact figures but it is estimated that over two thirds of UK listed companies revenues are earned overseas and in addition to this we also have exposure to other internationally listed companies and bonds.

Appointment of Jemma Spencer as a director

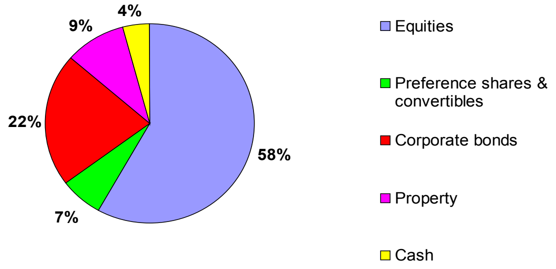
We are very pleased to announce that Jemma Spencer (nee Glew) has recently been appointed a director of Heritage Capital Management Ltd.

Having qualified as a Chartered Accountant, Jemma joined the Heritage team three years ago and has made significant progress including becoming a member of the Chartered Institute for Securities & Investment (CISI) and gaining the Investment Management Certificate and CISI Level 6 Certificate in Private Client Investment Advice & Management.

SVS Heritage Balanced Portfolio Fund - summary of key features

Price at 31/03/17	106.5p (launched at 100p 1/12/16)
Fund size	£12.9m
Fund type	OEIC, UCITS (UK domiciled)
Eligible for	ISAs, SIPPs, Funds at Lloyd's
Sedol code	BDQPPL5
Pricing and dealing	Daily
Minimum Investment	£10,000
Management fee	1% per annum
Administrator/ACD	Smith & Williamson

Asset allocation



Commentary and performance

The Fund has made a positive start to the new year with a gain of 4.0% in the first quarter.

The approach adopted is in line with the existing larger offshore version of the fund (the Guernsey regulated Heritage Managed Portfolio Fund) and the share price has now increased by 6.5% from its starting level of 100p on 1/12/2016 to its current level of 106.5p.

Further information

Further details and the full factsheet for our new fund can be found on our website at www.heritage-capital.co.uk and we would of course be very happy to answer any particular queries that you may have.

The information set out above does not constitute an offer to subscribe to shares, which may only be purchased after reading the full Prospectus/Key Investor Information Document (KIID). The Prospectus and KIID can be found at www.heritage-capital.co.uk.

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