Heritage

Quarterly Newsletter & Investment Review

Issue 86 Quarterly news & investment review from Heritage Quarter 2 2019

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 first half

We are pleased to report that the recovery in investment markets has continued into the second quarter, leading to an excellent first half of the year for markets generally.

The Heritage funds have also continued to perform well, with the Managed Portfolio Fund up by a further 3.84% over the quarter to take the year-to-date return to 9.53%. Further details on the Managed Fund and our US Dollar Absolute Return Fund can be found on page 3 and on our UK regulated fund, the SVS Heritage Balanced Portfolio Fund on page 4.

The advantages of smaller independent investment managers

In our last quarterly newsletter we dealt with how listed small companies have tended to perform better than larger ones and numerous studies have demonstrated that when it comes to investment management the same is true – i.e. smaller owner managed boutiques tend to outperform the giant investment institutions. There are sound underlying reasons for this and below we have listed the key factors that we think help to explain the results of the studies and the successful track record that we have established here at Heritage;

Independence and simplicity – Smaller, independent investment houses are free from the often conflicting pressures within larger organisations. This allows them to select the best investments from a truly independent perspective. Our clients have therefore not been exposed to the multitude of complex products that are pushed onto those dealing with the large institutions, with often disastrous results. We believe in keeping things simple.

Flexibility and liquidity – Large funds can become constrained and unwieldy as a result of their sheer size. The flexibility of smaller fund managers is an important aspect of their competitive advantage. At Heritage, it also allows us to offer some interesting investment opportunities that are simply not available via larger institutions. Importantly it also means that liquidity is less of an issue than it is for those managing billions of pounds – as those invested in the gigantic Woodford funds have recently learned to their cost.

Personal service – With more lucrative fees on offer from large corporate clients, most multinational investment institutions now allocate less experienced staff to individual private clients. At Heritage, we continue to build our business around the concept of long-standing relationships and a high level personal service.

Management participation - Investors should be cautious of funds that are managed by individuals who are not prepared to commit a significant proportion of their own wealth to the fund, as is so often the case with large retail funds. A large personal stake in the fund does not automatically guarantee success but investors in Heritage's funds can take some comfort from the knowledge that we do "eat our cooking" and that our interests are aligned with our clients.

Stability - A further advantage of having a manager with a personal interest in both the fund and the management company is that it provides better stability. Too often fund managers and investment advisors who are simply employees lack the commitment and loyalty to stay with a company for more than a few years.

Lower charges – Smaller companies that maintain a low profile do not spend large amounts on advertising, or carry the overheads associated with a large sales force. Most fund managers seek to recover these marketing costs from investors (for example by charging initial fees), whereas Heritage clients do not suffer any entrance or exit charges, our annual management fees remain very competitive and our long-term buy and hold approach minimizes transaction costs.

We believe that the benefits outlined above mean that smaller, privately owned investment companies such as Heritage will continue to offer clients a more attractive alternative, with the prospect of superior long-term performance and an overall better service.

Market Commentary and Outlook

All of the major equity markets have added solid second quarter gains to their strong start to the year, resulting in the best first half year for the world index for over 20 years.

Whilst these type of strong returns are of course very pleasing for investors it is important to not allow complacency to set in and to keep an eye out for the risks that may derail such a strong run. In this respect it is worth remembering what happened to markets following their strongest ever first half year way back in 1987, as this was also the year that was best remembered by investors for the infamous stock market crash that happened a bit later in October on "Black Monday".

One interesting current statistic that gives us some cause for concern is in the IPO market. In normal times companies tend to start out as privately owned and only seek a stock market listing once they have successfully matured to profitability. However, the proportion of companies coming to the stock market via IPOs that are still loss making this year is a now at a record high, even surpassing the proportion at the height of the technology bubble.

Whilst some of these loss making groups with exciting new technology and huge valuations such as Lyft, Pinterest, Uber and Slack to name but a few, may go on to become long term stock market winners, it is also quite possible that many will continue to consume large amounts of investor capital without ever living up to the current hype.

Despite these and other concerns, we also recognise that timing markets is an impossible task and that taking risk and maintaining some exposure to equities is an important part of generating decent long-term returns but the key for investors is to not lose their discipline whilst enjoying the current buoyant market conditions.

United Kingdom

The UK market was up just over 3% this quarter and over 11% for the year-to-date and whilst this is a little below the other major western markets it is still a very strong performance, particularly considering all of the current uncertainties.

In addition to the ongoing Brexit saga. the next year will also see significant changes in the top posts for the UK economy. In addition to the imminent change of Prime Minister, the formal search to replace Mark Carney as the Governor of the Bank of England has begun and Philip Hammond is highly unlikely to maintain his role as the Chancellor of the Exchequer in a new cabinet formed by either Boris Johnson or Jeremy Hunt.

United States

The US market has continued its very strong run, making this the best first half year for the S&P 500 index since 1997.

There was relief that the reporting season for first quarter corporate earnings passed without an overall decline as many analysts had feared. However, there was still a significant slowdown and concerns remain as companies battle the headwinds of slowing global growth and ongoing uncertainty surrounding US-China trade negotiations. It is interesting to note that whilst bond markets appear to be taking this likely slowdown into account (see article on page 4 for further details), the negative implications for corporate earnings seem so far to have been ignored by equity markets.

Europe

European markets are also enjoying a good year and the 4.5% gain in the second quarter was actually ahead of the other major markets.

As similarly noted above for the US, the buoyant European equity market does appear to be at odds with bond markets, where the 10 year yield on German government bonds has now fallen to a negative 0.32% - hardly the sign of a robust outlook for the economy.

Japan

Whilst a positive return of over 2% for the quarter and 8.5% for the year-to-date for Japan's Nikkei index sounds decent enough, it is behind the other major markets and still only a partial recovery of the previous precipitous 17% fall in the final quarter of last year.

Emerging Markets

The leading BRIC emerging markets have been more mixed this quarter with strong gains for Russia and Brazil contrasting with losses for China and India, although from a long term perspective many investors still see huge potential for India which is forecast to overtake China to become the world's most populous country within the next decade and the recent re-election of Modi as prime minister could set the stage for the further reform required for the economy to meet its full potential.

Investment Statistics - 30/06/2019

Equity Markets	Q2 2019	2019	2018	PE Ratio	Dividend Yield	Central Bank Interest Rates	10 yr Gvnmt Bond Yields	Exchange Rates	
								vs GBP	vs USD
TR Global ($)	3.68%	15.92%	-9.61%						
US (S&P 500)	3.79%	17.35%	-6.24%	21	2.4%	2.50%	2.00%	1.2693	1.0000
UK (FTSE 100)	3.02%	11.46%	-12.48%	15	4.5%	0.75%	0.84%	1.0000	1.2693
Europe (STOXX 50)	4.50%	16.70%	-14.34%	17	3.6%	0.00%	-0.32%	1.1160	1.1331
Japan (Nikkei 225)	2.13%	8.57%	-12.08%	15	2.1%	-0.10%	-0.14%	137.97	108.70

Total returns- including dividends

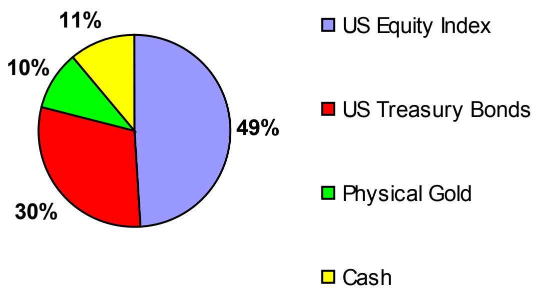
Source: Thomson Reuters and the Financial Times

Heritage Investment Fund Limited

Review for the quarter ended 30th June 2019

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	5%	6-7%		
Price at 30 June 2019	US$160.69	£316.81		
Return for quarter (net)	2.62%	3.84%	0.15%	6.46%
Year 2019 return to date (net)	6.56%	9.53%	0.88%	16.53%
Year 2018 return (net)	-5.42%	-2.76%	2.49%	-4.26%
Year 2017 return (net)	10.83%	11.50%	2.14%	13.78%
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%
Compound annual return (from 1/01)	2.54%	6.47%	2.13%	6.72%
Annual volatility	6.59%	6.12%	0.26%	13.86%
Size of Fund (millions)	U$13.6	£188.3		

US Dollar Absolute Return Fund



The US Dollar Absolute Return Fund aims to generate annual returns in excess of inflation and to protect investors' capital against significant annual losses by hedging using derivatives. The Fund invests in liquid, well-diversified exchange traded funds which track US equity, bond and gold indices, whose returns are normally uncorrelated in order to reduce losses and volatility.

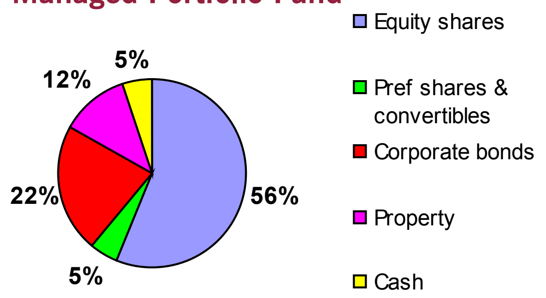
The US equity market position, held for growth, had a volatile quarter on concerns over the unresolved US trade disputes and the outlook for slower economic growth.

The position in US Treasury Bonds, which is held for capital protection and as a hedge against equity market weakness, rose in value during the quarter as yields fell on the expectation that short term interest rates will be reduced.

The physical gold position, which is held as a hedge against inflation and US Dollar weakness, rose significantly in value over the quarter as investors sought a haven from equity market volatility and on the outlook for lower interest rates.

The Fund gained 2.62% for the quarter and is up 6.56% for the year to date. The performance has been significantly reduced by losses on hedging, but the maximum loss that the Fund can incur for the calendar year is less than 5%.

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 continued it's good run this year with a gain of 3.84% for the second quarter, taking the year-to-date return up to 9.53%.

A number of our individual company holdings had a strong quarter with Intermediate Capital, Greggs and Computacenter all up 25% or more as a result of strong trading updates and we also received a sizeable boost from a take-over offer for exhibitions group, Tarsus, which was up 40%. There have also been good contributions from our specialist funds including Oakley Capital (private equity) and Utilico Emerging Markets which were both up over 10%.

Our property holdings had another good quarter the best contributions coming from healthcare property specialist, Assura and Picton Property, whilst our bond portfolio was mixed with a couple of holdings detracting from an otherwise solid performance.

Looking ahead, we believe that our portfolio of investments remains well positioned to generate attractive returns for long-term investors, whilst our relatively defensive positioning should continue to provide some protection against the risks of any general market weakness later this year.

The changing trend of global interest rates

At the beginning of the year, the US Federal Reserve was projecting two increases in its short term interest rate, with the Bank of England also indicating that its base rate may have to rise in 2019. The European Central Bank, on the other hand, was advising that interest rates would remain on hold during the current year.

However, with the global economic outlook weakening and unresolved trade tensions, both the US and EU central banks have indicated that they are willing to consider lowering interest rates unless the outlook improves. In the US, short interest rate futures are forecasting two interest rates cuts of 0.25% each by the end of the year to bring its short term rate down from 2.50% to 2.00%

The UK, on the other hand, has not joined other central banks in moving towards looser monetary policy and has maintained its base rate at 0.75%. The consensus view of the Monetary Policy Committee is that further gradual and limited interest rate rises will likely be required in the UK, despite the fact that they are forecasting weak economic growth. The big unknown is how Brexit will turn out. If the UK leaves the EU with a deal, it is likely that interest rates will be increased, but they could be cut if the UK leaves without a deal.

With yields on longer-dated bonds falling faster than shorter-dated interest rates, the yield curve is progressively inverting. Historically, an inverted yield curve can often signal an economic slowdown or recession and the International Monetary Fund has downgraded its growth forecasts for all the advanced economies.

Changes in short term interest rates normally have an impact on exchange rates and have led to both the US Dollar and Sterling weakening recently. The valuations of risk and other interest rate sensitive assets, however, have been boosted by the outlook for lower interest rates and equities, bonds, property and gold have all rallied this year. Heritage's investment funds hold these asset classes and they have contributed to the good performance so far this year.

Jemma on maternity leave

As our newsletter goes to press Jemma Spencer is due to give birth any day. Apart from wishing her all the best we would also like to let our clients know that she will be taking some maternity leave before normal service is resumed and that in the mean time if you require anything that would normally be dealt with by Jemma, one of the rest of the Heritage team will be very happy to help you.

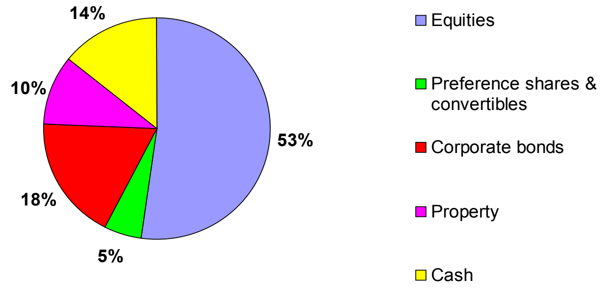
SVS Heritage Balanced Portfolio Fund

Price at 30/06/19	122.4p (launched at 100p 1/12/16)
Fund size	£19.9m
Fund type	OEIC, UCITS (UK domiciled)
Eligible for	ISAs, SIPPs, Funds at Lloyd's
Pricing and dealing	Daily
Minimum Investment	£10,000
Management fee	1% per annum
Administrator/ACD	Smith & Williamson

Performance

Total Return to 30/06/19	Q2 2019	2019 ytd	2018	2017
Heritage Balanced Portfolio Fund A Accumulation	3.99%	10.27%	-3.48%	12.30%
Thomson Reuters UK Index	1.88%	10.24%	-12.98%	8.53%

Asset allocation



Commentary

The approach adopted by the Fund is in line with the existing larger offshore version of the fund (the Guernsey regulated Heritage Managed Portfolio Fund) – i.e. 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 continued its good run this year with a gain of 3.99% for the second quarter taking the year-to-date return up to 10.27%. The more detailed comments on the HMPF performance on page 3 of this newsletter also apply to the SVS Heritage Balanced Portfolio Fund.

Further details and the full fact sheet for the fund can be found on our web site at www.heritage-capital.co.uk.

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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