Heritage

Quarterly Newsletter & Investment Review

Issue 91 Quarterly news & investment review from Heritage Quarter 3 2020

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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Coronavirus second wave fears put the brakes on recovery

The welcome recovery from the low point in March this year that had been driving markets higher over the summer months, has recently been interrupted by fears over the potential negative impact of a second wave of the coronavirus pandemic, which currently appears to be gaining momentum at a worrying rate.

We are pleased to report that despite this setback which saw the UK market fall by just under 5% in the third quarter, the Heritage Funds have all made positive progress. Further details and commentaries on our funds can be found as usual on pages 3 and 4.

One of the key features of our funds is the level of diversification across both asset classes such as equities, bonds, property and cash, as well as at the sector and individual company level. Whilst our fund commentaries within this quarterly newsletter and the monthly fund fact sheets that we publish on our website hopefully provide much useful information, there is a limit to how much detail we can go into within these, and so we thought that it would be helpful to provide a regular more in-depth look at some of the main areas and themes that we invest in.

The first of these articles in our new "Spotlight On" series can be found on page 4 and focuses on Healthcare investing, which as well as being topical during the current pandemic also helps to highlight some of the key features of our investment approach.

New Heritage website

We are pleased to announce that we recently completed a major upgrade to our website at www.heritage-capital.co.uk.

As well as enhancing the overall look with some photos using the theme of our location close to St James's Park and improving the navigation, we have also optimised the site for the large number of different devices such as PCs, tablets and smart phones and internet browsers that exist today. There are also various new bits of content, such as the About Heritage section with a history time-line and we have added a page with the full month end price history for all of our funds.

If you have any specific comments or general feed-back on our new website we would love to hear from you.

Office update

Unfortunately just as we had started to gradually and cautiously return to our office in central London in early September, the government's Coronavirus guidance has once again changed and it's a case of back to working remotely again for now. Having said that we are fortunate, given the nature of our business, that all of our team have been able to adapt to this new way of working.

Whilst it is frustrating that we are still currently unable to conduct face to face meetings, we have at least been able to maintain regular contact with each other as well as clients, brokers and the companies that we invest in with the help of tools such as Zoom and other new technologies. Going forwards we are hopeful that we will be able to maintain some of these new ways of working, which have actually proved to be surprisingly effective and efficient, whilst also eventually being able to return to our office and welcome visitors once again.

Heritage Capital Management Limited

Review for the quarter ended 30th September 2020

Market Commentary and Outlook

One of the key features of global stock markets this year has been that whilst the vast majority of companies have suffered a major setback, which is not at all surprising given how the pandemic has disrupted the global economy more than anything since the second World War, a small group of global technology giants have actually managed to continue to push on to ever greater heights. This dynamic also explains how the US has significantly outperformed the other major markets this year, as it is home to virtually all these tech titans including Apple, Amazon, Microsoft, Facebook and Alphabet (Google).

Perhaps the starkest demonstration of this came in September when the market value of Apple at £1.65 trillion overtook the entire value of the UK's FTSE 100 index at £1.63 trillion – which is quite a thought when you consider that the FTSE includes a host of leading global groups such as Unilever, AstraZeneca & Glaxo, Shell & BP, BHP, Rio Tinto & Anglo American, HSBC, Barclays & Prudential, Diageo, Reckitt Benckiser and Vodafone as well as some of the largest domestic UK companies including Tesco, National Grid and Legal & General, along with some 84 other blue chip companies not even mentioned.

United Kingdom

Following a decent recovery in the second quarter, the UK market was the weakest of the major markets this time and the 4.9% fall in the FTSE 100 index leaves it down by just over 22% for the year-to-date.

The market has tended to follow the path of the pandemic this year with the initial recovery mirroring the improvement in the number of cases over the summer, before suffering a setback as a second wave of the virus has recently swept across large parts of the country.

Not surprisingly the economy has suffered the largest downturn since records began with the initial lockdown resulting in a 20% plunge in GDP in the second quarter. Balancing the need to try and keep the virus under control with protecting the economy is not an easy challenge and whilst Prime Minister Boris Johnson and his scientific advisers are seemingly prioritising the former, it has been left to Chancellor Rishi Sunak to fight the corner for the economy, most recently by following his original furlough scheme and undertaking to do "whatever it takes" to help get the UK through the crisis with a new Coronavirus Job Retention Scheme and extensions for the various loan schemes and emergency VAT cut for tourism and hospitality.

United States

As already mentioned above, the US market has managed to buck the general trend this year due to the dominance of a few large technology groups and the gain this quarter has actually managed to propel the S&P 500 index into positive territory for the year-to-date.

However, going into the final quarter, investors in the US should be wary of complacency as the combination of increasing political risk from the upcoming November presidential election, the threat to the economy from any worsening of the Covid-19 situation and historically high share valuations all have the potential to derail the high flying stock market.

Europe

In line with the UK, the recovery in European markets has also been interrupted by the recent resurgence in coronavirus cases and is now down by just under 15% for the year-to-date.

Eurozone GDP fell by over 15% in the first half of the year making it by far the sharpest drop since the Euro was launched in 1999. In response EU leaders led by Germany and France with the encouragement of Italy have managed to agree a €750 billion recovery package, although not without reservations over rising debt levels from the self- declared "frugal four" of Austria, Denmark, the Netherlands and Sweden.

Japan

The Nikkei 225 has been one of the strongest performing international indices with a 4% gain in the quarter leaving it down by just 2% for the year-to-date.

The big news in Japan this quarter was the sudden resignation due to ill health of prime minister Shinzo Abe. Having become Japan's longest serving PM and introduced significant economic reforms there were initially fears that this period of political stability might be under threat but markets appear to be encouraged that his successor, Yoshihide Suga, seems likely to continue with the "Abenomics" reforms.

Emerging Markets

Emerging markets often tend to move broadly together but the most recent quarter has seen a large divergence with Brazil, Russia and Turkey all down between 5-20%, whilst on the other hand Far Eastern markets including China and Korea have actually made reasonable gains – the differing fortunes being perhaps best explained by their respective responses and abilities to deal with the current pandemic.

Investment Statistics - 30/09/2020

Equity Markets	Q3 2020	2020	2019	PE Ratio	Dividend Yield	Central Bank Interest Rates	10 yr Gvnmt Bond Yields	Exchange Rates	
								vs GBP	vs USD
TR Global ($)	7.80%	0.01%	26.29%						
US (S&P 500)	8.47%	4.09%	28.88%	27	2.2%	0.25%	0.68%	1.2918	1.0000
UK (FTSE 100)	-4.92%	-22.23%	12.10%	18	4.0%	0.10%	0.23%	1.0000	1.2918
Europe (STOXX 50)	-1.25%	-14.73%	24.78%	22	2.8%	0.00%	-0.52%	1.1023	1.1720
Japan (Nikkei 225)	4.02%	-1.99%	18.20%	23	1.9%	-0.10%	0.02%	136.25	105.47

Total returns- including dividends

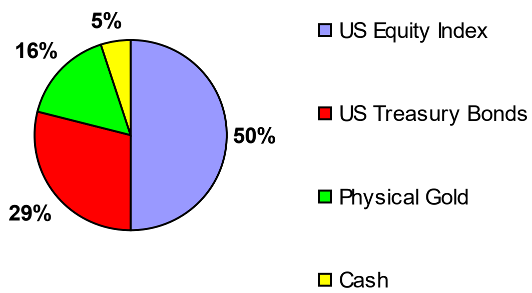
Source: Thomson Reuters

Heritage Investment Fund Limited

Review for the quarter ended 30th September 2020

Performance	US Dollar Absolute Return Fund	Managed Portfolio Fund	Inflation (US)	Inflation (UK)
Risk profile	Low	Medium		
Minimum investment horizon	3 years +	5 years +		
Target net annual return	5%	6-7%		
Price at 30 September 2020	US$181.52	£297.42		
Return for quarter (net)	3.99%	0.98%	0.24%	0.15%
Year 2020 return (net)	8.08%	-11.60%	1.00%	0.80%
Year 2019 return (net)	11.37%	16.31%	1.79%	1.82%
Year 2018 return (net)	-5.42%	-2.76%	2.49%	2.51%
Year 2017 return (net)	10.83%	11.50%	2.14%	2.72%
Year 2016 return (net)	2.08%	7.48%	1.16%	0.68%
Year 2015 return (net)	-0.47%	6.80%	0.08%	0.04%
Compound annual return (from 1/01)	3.01%	5.71%	2.10%	2.09%
Annual volatility	6.57%	15.66%	0.24%	0.15%
Size of Fund (millions)	US$19.5	£170.3		

US Dollar Absolute Return



The US Dollar Absolute Return Fund aims to generate annual returns in excess of inflation and to protect investors' capital against significant double-digit 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.

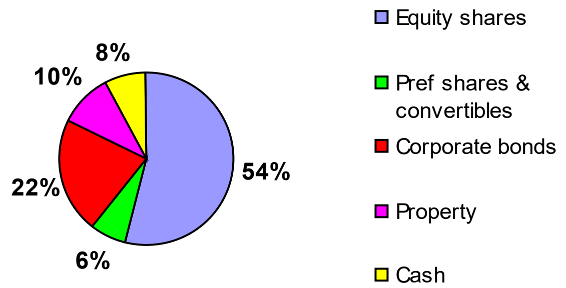
The US equity market position, which is held for growth, continued to recover in value during the quarter mainly driven by gains on technology stocks and signs that global economies are starting to recover. The gains were partially reduced by losses on our managed derivatives positions.

The position in US Treasury Bonds, which is held for capital protection and as a hedge against equity market weakness, was largely unchanged in value over the quarter as yields ended up much where they started the quarter.

The physical gold position, which is held as a hedge against inflation and US Dollar weakness, rose in value during the quarter as the US Dollar currency weakened.

The Fund gained 3.99% for the quarter and is up 8.08% for the year to date. The uncorrelated, diversified asset class exposure and the protective derivatives positions should help insulate the Fund against significant losses during the current year in the event of future market falls.

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.

Despite the recent setback for the overall market due to concerns over the impact of the second wave of Coronavirus cases, the Fund has managed another positive quarter with a gain of 1.0%.

Whilst the majority of our holdings were impacted by the 4.9% fall in the UK equity market this quarter, the major contributor to our relatively good performance was a gain of 44% from our largest holding, Computacenter, which is having a record year as it helps companies with their increasing IT support needs. Other positive contributions came from our Far East/Asian and listed private equity funds.

Our property investments had a mixed quarter, as the initial recovery petered out and suffered a sharp reversal as investors became more pessimistic about the structural challenges facing property as a result of the ongoing pandemic.

Although the outlook is currently very uncertain, we believe that our portfolio of investments remains well positioned to generate attractive returns for long-term investors, whilst our relatively defensive positioning and cash holding should provide some protection against the risks of further market weakness and enable us to add to favoured investments at attractive prices as opportunities arise.

"Spotlight On"
Investing in the Healthcare sector

In the first of our new "Spotlight On" series we take a look at the Healthcare sector, as it highlights a number of aspects of our approach to investing.

The starting point is that healthcare is one of the sectors that we have identified as a good area to have exposure to as it benefits from a positive long term secular trend. Demographics are both predictable and favourable, as an ageing population means an ever increasing demand for healthcare. In addition to the long-term positive growth story, investors have recently been reminded that healthcare is also a defensive sector, benefitting from the essential rather than discretionary nature of its products and services, which has helped to make the sector one of the relative winners during the current pandemic.

Another aspect to our healthcare investments that typifies our approach is the balance between large blue chip companies and smaller companies operating in niche areas. Firstly, we own shares in the two largest UK listed global pharmaceutical groups; AstraZeneca's successful focus on oncology drugs and excitement over its possible Coronavirus vaccine has helped it to recently become the most valuable FTSE 100 company, and GlaxoSmithkline is held as a solid global defensive stock with an attractive dividend yield that has a portfolio of consumer healthcare products to complement its therapeutic side.
In addition to these core large cap holdings we like to identify smaller companies that operate in growing niche areas - and just recently we had a boost from one of these, Cello Health which specialises in helping large pharma groups to market and distribute their products, which was subject to a take-over at a large premium.

Furthermore, our healthcare investments are also a good example of how we are able to use our expertise and experience of investing in specialist listed investment companies. We first invested in the Worldwide Healthcare Trust eight years ago when it was trading at a discount to its net asset value and since then its share price has increased from around £8 to over £35 as the highly qualified and specialist management team have consistently been able to pick the winners from a huge range of global biotech and life sciences companies.

Finally, our favourable view on the healthcare sector extends beyond the typical ones mentioned above into related areas, including exposure to animal healthcare shares and property investments such as Primary Health Properties, which we first bought in 2002 and has increased its dividend every year since.

Overall we are fairly confident that the attractive combination of defensiveness and predictable long-term growth will make healthcare one of our key sectors to invest in for many years to come.

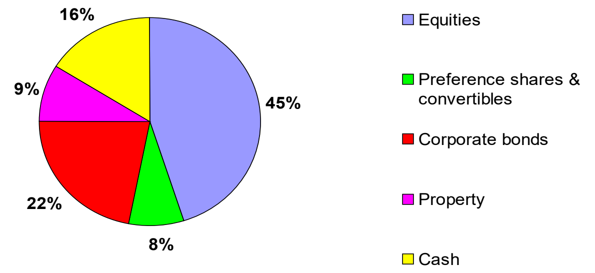
SVS Heritage Balanced Portfolio Fund

Price at 30/09/20	116.7p (launched at 100p 1/12/16)
Fund size	£23.54m
Fund type	OEIC, UCITS (UK domiciled)
Eligible for	ISAs, SIPPs, Funds at Lloyd's
Pricing and dealing	Daily
Minimum Investment	£10,000
Administrator/ACD	Smith & Williamson

Performance

Return	2020 Q3	2020 YTD	2019	2018	2017	Inception 01/12/16
SVS HBPF	1.40%	-11.12%	18.29%	-3.48%	12.30%	15.10%
UK CPI	0.15%	0.80%	1.82%	2.51%	2.72%	8.06%

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.

Despite the recent setback for the overall market due to concerns over the impact of the second wave of Coronavirus cases, the Fund has managed another positive quarter with a gain of 1.4%. The more detailed comments on the Heritage Managed Portfolio Fund 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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