Heritage

Quarterly Newsletter & Investment Review

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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 strong end to a challenging year

Whilst 2020 will always be remembered as the year that the coronavirus pandemic brought chaos to the world, the recent news of effective vaccines has at least provided a much needed boost and allowed global investment markets to end the year on a high note.

We are pleased to report that the Heritage funds also ended the year strongly with the Heritage Managed Portfolio gaining 11.0% in the final quarter and the 4.5% return for the USD Absolute Return Fund helping it to its best ever year. Further details and commentaries on our funds can be found as usual on pages 3 and 4.

20 years for the Heritage Managed Portfolio Fund

We are also pleased to report that the Heritage Managed Portfolio Fund has recently celebrated its 20th anniversary. We often emphasise the need to take a long-term view with investments and two decades is a sufficiently long period to be able to look back on and make a few meaningful observations about how our investment strategy has worked in practice.

Despite many challenges along the way...
The Fund was established in December 2000 which turned out to be a difficult time, as a savage bear market saw the major equity indices lose around half their value from their peak reached at the height of the technology bubble. After a decent recovery the great financial crisis in 2008 dealt another huge blow to investments and whilst the second decade has generally been a bit more benign, there have still been many challenges along the way, such as the European sovereign debt crisis and most recently the coronavirus pandemic.

..the Fund price has more than trebled...
Fortunately, despite these challenges the overall result for an investor in the Fund has been rewarding and an investment of £100,000 in the Fund at launch would now be worth just over £330,000 today. This equates to a compound annual return in excess of 6% per annum which is a significant premium to both inflation and cash deposit rates which have averaged around 2% and whilst we prefer to focus on simply trying to make decent long-term positive returns rather than worrying about so called benchmarks, it is interesting to note that the FTSE 100 index has barely progressed over the same 20 year period from 6,143 when the Fund launched to 6,461 today.

...with lower risk...
Our emphasis on risk management through a cautious and flexible multi-asset approach has helped to better protect investors' capital and the Fund's volatility (a statistical measure of risk based on the variability of returns) has generally been around half that of the equity markets. Perhaps more meaningfully in terms of how risk is perceived in the real world is the fact that during the worst 10 year period for the Fund it still managed to produce an overall gain of 64%, whilst the worst 10 years for the index saw a fall of 10%. Crucially, despite our cautious approach we have also been able to take on more risk when we considerate it appropriate, resulting in a best return for the Fund over 10 years of 141%.

Some highlights...
Our most successful investments have often come from taking advantage of the high yields and low prices offered by investments that have fallen out of favour with other investors. Examples of this include our purchases of shares in boring "old economy" industries at the height of the dotcom bubble, insurance companies after 9/11, zero dividend preference shares following the split capital investment trust crisis and corporate bonds during the financial crisis.
Continued on page 4.

Market Commentary and Outlook

A strong final quarter for markets has resulted in a much better year overall than might have been anticipated in a year during which a lethal virus has unexpectedly swept across the world, causing the first global recession since the financial crisis in 2008.

In fact the market has broadly followed the path of the pandemic this year with a sharp setback in March as the virus took hold, followed by an initial recovery mirroring the improvement in the number of cases over the summer, before suffering further weakness as a second wave swept through in the autumn. The big difference recently is that despite another current worrying surge in infections due to a new strain of the virus, investors can now see a path out of this cycle of further waves and lockdowns, thanks to the successful development of a number of vaccines which will be rolled out in the new year.

United Kingdom

Overall it has been a poor year for the UK market and despite a final quarter gain of just over 10% the FTSE 100 index ended down by over 14%, making it the worst year since 2008, although it was a slightly better story for smaller companies with the FTSE SmallCap index only down 4% and the junior AIM market actually up for the year.

Whilst it has understandably been the impact of coronavirus that has dominated investment markets, the dog that didn't bark at the end of this year was the Brexit transition. After more than four and a half years since the UK voted to leave the European Union the danger of a chaotic departure without any deal was avoided as a last minute agreement between Boris Johnson and Ursula von der Leyen involving compromises by both sides was achieved.

Although the arguments about the exact impact of Brexit will no doubt continue for years to come, there has already been some evidence that Britain can benefit from freeing itself from EU regulations and bureaucracy, as it has raced ahead with its vaccination programme which will be given a further boost by the roll out from early January of the more stable version of the vaccine jointly developed by Oxford University and AstraZeneca.

United States

Following a first quarter plunge of 20%, the US market has gone on to defy the odds and the impact of a pandemic induced recession to produce another year of double digit positive returns.

This strong performance is largely thanks to small number of giant technology companies such as Amazon, Apple, Facebook, Google/Alphabet and Netflix which have been considered amongst the few winners from the current crisis. However, the most amazing performance came from electric car manufacturer, Tesla, whose share price was up by 740% in 2020. Despite having never yet reported an annual profit and only selling a fraction of the number of cars of the existing major manufacturers, its market value of over $600bn is now higher than the 10 next largest car makers combined, leading some to question whether we are reaching the point where there is a danger of another bubble developing in US technology related stocks.

Despite a close and bitterly contested election it is now clear that Donald Trump will be the first US president to fail to win a second term since the early 1990s and that the 78 year old Democrat Joe Biden will become the oldest US president to be inaugurated on January 20th, although without a clear majority in Congress, Biden will find it difficult to make many radical changes – an overall result that has been considered to be broadly positive by investors.

Europe

A strong final quarter for European markets helped to reduce the full year loss to just over 5%.

With Eurozone GDP growth already being quite sluggish in recent years and a projected fall of over 8% due to the pandemic and associated economic constraints in 2020, Europe now faces a difficult challenge to both restore economic growth and hold together the political project which has taken a blow as a result of the departure of one of its largest members.

Japan

In common with many Eastern countries, Japan has managed to do a better job of containing the impact of the virus than the West and the Nikkei was the best performing major market this quarter enabling it to move well into positive territory for the full year. However, in common with countries around the world its economy has still required an unprecedented level of support to help it get through the pandemic and the total stimulus package now amounts to over $3 trillion or two thirds of its total GDP.

Emerging Markets

Whilst it has been the EU-UK trade deal that has made most of the recent headlines, 15 Asia-Pacific countries quietly agreed the biggest free-trade deal in history in November. The Regional Comprehensive Economic Partnership was signed by China, Japan, South Korea, Australia and New Zealand together with ten SE Asian countries and covers a third of the world's population and 30% of global GDP – a reminder that investors can no longer afford to ignore such an important and growing trading bloc.

Investment Statistics - 31/12/2020

Equity Markets	Q4 2020	2020	2019	PE Ratio	Dividend Yield	Central Bank Interest Rates	10 yr Gvnmt Bond Yields	Exchange Rates	
								vs GBP	vs USD
TR Global ($)	15.72%	15.73%	26.29%						
US (S&P 500)	11.69%	16.26%	28.88%	30	2.0%	0.25%	0.91%	1.3673	1.0000
UK (FTSE 100)	10.13%	-14.34%	12.10%	17	3.3%	0.10%	0.20%	1.0000	1.3673
Europe (STOXX 50)	11.24%	-5.14%	24.78%	23	2.5%	0.00%	-0.58%	1.1188	1.2213
Japan (Nikkei 225)	18.37%	16.01%	18.20%	27	1.6%	-0.10%	0.02%	141.04	103.24

Total returns- including dividends

Source: Thomson Reuters

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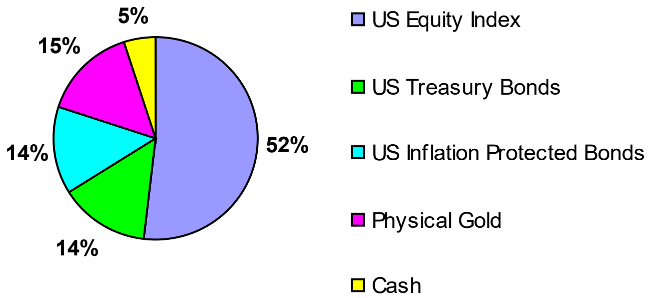
Heritage Investment Fund Limited

Review for the quarter ended 31st December 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 31 December 2020	US$189.67	£330.15		
Return for quarter (net)	4.49%	11.00%	0.32%	0.13%
Year 2020 return (net)	12.93%	-1.87%	1.32%	0.93%
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)	3.20%	6.19%	2.09%	2.07%
Annual volatility	7.98%	17.23%	0.22%	0.15%
Size of Fund (millions)	US$20.2	£185.6		

US Dollar Absolute Return



The US Dollar Absolute Return Fund aims to generate annual returns in excess of inflation by investing in liquid, well-diversified exchange traded funds which track developed equity market, bond and gold indices, whose returns are normally uncorrelated in order to reduce losses and volatility. In view of the prohibitively expensive cost of protective put options in these volatile markets, the downside risk of the Fund is not presently hedged as in the past and significant losses may be incurred in the event of severe market falls.

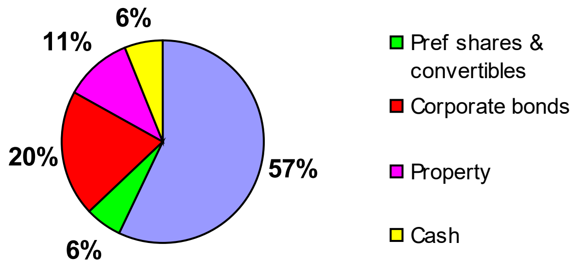
The US equity market position, which is held for growth, had a good quarter driven by the commencement of vaccination programmes and the results of the US election. The gains were partially reduced by losses on our managed derivatives positions, which have now expired.

The position in US Treasury Bonds, which is held for capital protection and as a hedge against equity market weakness, fell in value during the month as yields rose significantly as investors moved into risk assets. The US Treasury Inflation Protected Bonds rose in value during the month on inflation expectations.

The physical gold position, which is held as a hedge against inflation and US Dollar weakness, fell in value during the month as investors sold haven assets.

The Fund gained 4.49% for the quarter and is up 12.93% for the year. Although the downside risk is presently unhedged, the uncorrelated, diversified asset class exposure of the Fund should help reduce losses 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.

Although 2020 has been a very challenging year it has at least ended on a very positive note with a 11.00% gain in the final quarter being the best for the Fund since 2003, taking the full year return to a small loss of 1.87%. This strong performance is mainly thanks to the recent very encouraging news about coronavirus vaccines which has provided a huge boost.

Virtually all of our holdings made positive contributions this quarter with the biggest gains tending to come from those shares that had been hardest hit by this year's pandemic, where the prospects for recovery are now much improved, as well as those that have announced stronger than anticipated trading such as niche fund manager Intermediate Capital Group and publisher Bloomsbury which were both up over 40%. We also had a take-over bid for retirement house builder Mc-Carthy & Stone.

Our property holdings also had a very strong quarter, although the exceptions were the defensive healthcare funds as investors rotated away from the safe haven investments into those that stand to benefit more from a recovery. Finally, our higher yielding bonds and preference shares also enjoyed a good final quarter.

Although the near term outlook remains uncertain, we believe that our portfolio of investments is well positioned

This report is not an invitation to subscribe for shares in the Heritage Investment Funds and is for the information of investors only. Investors should be aware that past investment performance is not a guide to future performance, and that the value of investments may fall as well as rise. An investor may get back less than the original amount invested.

20 years of the Heritage Managed Portfolio Fund (*continued*)

Whilst this contrarian value approach has generally served us well we have also sought to identify and benefit from long term growth themes such as the increasing need for healthcare and savings for ageing populations in more mature Western countries and superior economic and domestic consumption growth prospects for emerging markets.

Another recurring theme that has proved beneficial over the years has been our ability to invest in companies that are too small for most of the large well known funds. These companies can operate in profitable niches and often end up eventually being taken over by larger groups at a substantial premium. We have had many such examples over the years including numerous specialist Lloyd's insurance companies, Stagecoach Theatre Arts, Latchways, Nationwide Accident Repair, Dairy Crest, Tarsus, Greene King, Charles Taylor, Cello and most recently McCarthy & Stone to name just a few.

...and lessons learned

Of course it has not all been plain sailing and there have inevitably also been a few individual stock and bond selections that have hurt the Fund's performance, although fortunately overall we seem to have picked many more winners than losers. Also, whilst missing out on opportunities does not negatively impact results there are lessons to be learned from the ones that got away, such as the small local plant hire group Ashtead, which we sold too soon and then watched it progress all the way into the FTSE 100 index.

Growing bigger

Achieving good returns for our existing investors has always been the top priority for us, but it is interesting to note that producing decent returns without taking too much risk has also encouraged new investment into the Fund, with the number of investors increasing from under 20 at launch to nearly 400 today, thanks almost entirely to referrals and word of mouth. In fact the combination of investment growth and new subscriptions has enabled the Fund to grow from just £2m at launch to its current size of £185m. In addition to this the Fund has also spawned a new UK version of itself, the SVS Heritage Balanced Portfolio Fund, which mirrors the same approach and enables tax efficient ISA investment for UK investors.

And on we go...

Looking back at the first two decades for the Heritage Managed Portfolio Fund, we hope that we have at least demonstrated that our conservative and common sense approach has stood the test of time and that compounding reasonable returns over a long period can result in very significant gains for patient investors. Whilst we can be certain that we will face many new challenges in the future we believe that the Fund remains well equipped to continue producing decent returns for its investors for many more years to come.

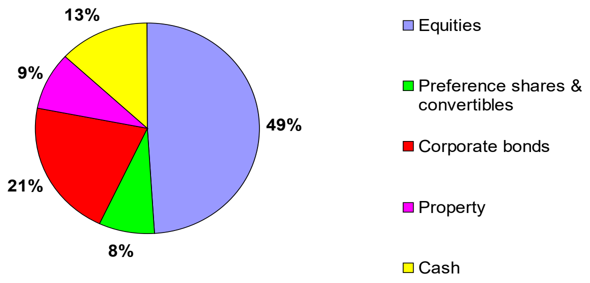
SVS Heritage Balanced Portfolio Fund

Price at 31/12/20	129.3p (launched at 100p 1/12/16)
Fund size	£27.1m
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 Q4	2020	2019	2018	2017	Inception 01/12/16
SVS HBPF	10.80%	-1.52%	18.29%	-3.48%	12.30%	29.30%
UK CPI	0.13%	0.93%	1.82%	2.51%	2.72%	8.36%

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 ended the year with its strongest ever quarter with the gain of 10.8% helping to reduce the full year loss over a very challenging year to just 1.5%. 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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