Heritage

Quarterly Newsletter & Investment Review

Issue 93 Quarterly news & investment review from Heritage Quarter 1 2021

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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An encouraging start to the year

In sharp contrast to the tumultuous first quarter suffered by investors last year, it has been a much calmer and positive start to the year in 2021, as markets look forward to a post pandemic gradual return to full economic activity.

We are pleased to report that the Heritage funds have had a good start to the year with both the Heritage Managed Portfolio Fund and SVS Heritage Balanced Portfolio Funds gaining around 2.7% in the first quarter.

It is also pleasing to note that those that followed the advice in our newsletter article at this time last year, encouraging investors to keep faith with their strategy, have been rewarded with a strong recovery and both of the above mentioned Heritage funds are up by more than 20% over the past year.

Wishing Roy Glew a happy retirement

As many of our clients will know, Roy is one of the founding partners of Heritage Capital Management Limited, having established Heritage 29 years ago with Dave Olsen. Roy and Dave first worked together as partners of an accountancy firm in Johannesburg, South Africa in the 1970s before linking up again in London in the 1980s as part of the founding team of international wealth management group Stonehage. In 1992 they took the decision to start up on their own and founded Heritage Capital Management Limited as a boutique investment management company.

Over the subsequent period spanning three decades, Roy has played a major role in establishing Heritage as a trusted investment manager for an ever growing number of wealthy families who appreciate our conservative investment approach with a focus on capital preservation and enhancement. Roy was also instrumental in the setting up the first Heritage funds (originally domiciled in the British Virgin Islands) in 1996, which enabled us to more closely align our own families investments with those of our clients and provide reassurance that we are very comfortable eating our own cooking.

Since Roy's daughter, Jemma, joined Heritage in 2014 Roy has gradually been reducing his involvement in the day-to-day business, but continued to advise the Heritage USD Absolute Return Fund right up until his retirement at the end of March this year. In the same way that Dave Olsen has remained a valuable informal advisor and investor in the Heritage funds following his retirement in 1997, we are very pleased to say that Roy has expressed his intention to do likewise.

For now it just remains for us to say a big thank you to Roy for all that he has done for Heritage over the years and wish him a very long and happy retirement.

"Spotlight On"- Investing in Asia

In this quarter's "Spotlight On" feature we focus on why we favour the Far East and Asian markets for a large part of our international exposure.

Our primary attraction to Asia is the impressive growth story. Asia continues to power global economic growth and already accounts for around half of the world's GDP led by the world's most populous nations, China and India. The demographic trends and rapid urbanisation also favour the region and Asia is already now home to eight of the world's largest ten cities with Tokyo, Jakarta, Delhi, Manila, Seoul, Shanghai, Mumbai and Beijing all now home to over 20 million people and others such as Singapore and Hong Kong acting as major financial hubs for the region.

Continued on page 4.

Heritage Capital Management Limited

Review for the quarter ended 31st March 2021

Market Commentary and Outlook

Whilst this time last year investors were nursing heavy losses from the worst quarter in over thirty years, 2021 has thankfully provided a much better start to the year with all of the major markets getting off to a positive start.

The pandemic caused a recession for every major developed country in 2020 and overall global GDP is estimated to have fallen by around 3.8%. The predictions are that there will be a sharp bounce back in 2021, although the timing and strength of the recoveries will vary from country to country depending on a number of factors. Firstly, the ability to deal with the virus and prevent further economically harmful lockdowns which will to a large extent depend on the success of the vaccine rollout and secondly the response of central banks and governments in implementing policies that balance the need to help repair the severely damaged public finances over the longer term with a much needed stimulus to help nurse a recovery in the short term.

United Kingdom

The UK market has made a positive start to the year with the FTSE 100 index up by 3.9% and the Small Cap index continuing its recent outperformance.

Whilst the UK undoubtedly made a number of errors in its initial handling of the pandemic, it has at least made excellent progress with its vaccination programme. Having firstly moved early to secure a large supply, the rollout has also been well managed, which combined with a good uptake means that over 30 million people or over 60% of all adults have now had their first jab.

The key now will be to see how soon this progress on vaccinations will enable a recovery in economic activity and a return to more normal daily life.

As always in the UK there is much interest in house prices and Chancellor, Rishi Sunak, seems as keen as his predecessors to help avoid a slump by extending the stamp duty holiday. He also used the recent budget to announce an extension to the furlough scheme to help employment. However, all this generosity will eventually have to end and in a major reversal of tax policy the main corporation tax rate is now set to increase from 19% to 25% in 2023.

United States

The US market has continued its strong run with the S&P 500 index recently breaking through the 4,000 barrier for the first time.

The above mentioned need to balance the requirement for short term stimulus to boost a recovery with the need to restore the health of public finances, is currently being grappled with in the US where no sooner had Joe Biden's $1.9 trillion stimulus package been passed than attention moved to the proposals to fund it, with the current Biden plan including a substantial rise in corporation tax rates from 21% to 28%.

Turning to investment markets the major focus of the first quarter has been the increase in bond yields with the 10 year US treasury yield nearly doubling from 0.9% at the start of the year to 1.75% resulting in big year-to-date losses for government bond investors. For now it is too early to say whether this is just a short term reversal of last year's recessionary pressures or the first signs of a more serious threat of longer term inflation.

Europe

European markets have had a strong start to the year, boosted by a recovery in the cyclical value stocks that had been hardest hit last year.

European politicians have understandably come under much criticism for the handling of Europe's vaccine rollout. Firstly, they acted too slowly in securing orders of vaccines and have then compounded this with their mixed messages over both the efficacy and safety of the vaccines and they have now resorted to trying to divert the blame and issue protectionist threats of vaccine blockades. All of this has highlighted the cumbersome bureaucracy and political shortcomings of the EU as an institution and the fallout has not been limited to just the EU leader Ursula von der Leyen, as even those national leaders who held the securest positions such as Germany's Angela Merkel and the Nertherlands's Mark Rutte are now coming under much pressure from their electorates.

Japan

Japan has also had a good start to the year with a first quarter return of 6.3%. Prime Minister Yoshide Suga has recently lifted the coronavirus state of emergency and Japan has generally dealt with the virus quite well, having reduced the infection rate without having to impose the economically damaging restrictions seen in many other countries. Its overall death rate remains well under 100 per million compared to well over 1,000 deaths per million in the US and all the major European nations.

Emerging Markets

Although emerging markets were positive overall this quarter, in line with the major developed markets, the average hides some quite diverse performances with China and Brazil amongst those that were actually down in the first quarter.

Investment Statistics - 31/03/2021

Equity Markets	Q1 2021	2020	2019	PE Ratio	Dividend Yield	Central Bank Interest Rates	10 yr Gvnmt Bond Yields	Exchange Rates	
								vs GBP	vs USD
TR Global ($)	5.39%	15.73%	26.29%						
US (S&P 500)	5.77%	16.26%	28.88%	30	1.9%	0.25%	1.75%	1.3779	1.0000
UK (FTSE 100)	3.92%	-14.34%	12.10%	19	3.3%	0.10%	0.85%	1.0000	1.3779
Europe (STOXX 50)	10.32%	-5.14%	24.78%	26	2.3%	0.00%	-0.29%	1.1746	1.1728
Japan (Nikkei 225)	6.32%	16.01%	18.20%	25	1.4%	-0.10%	0.10%	152.54	110.70

Total returns- including dividends

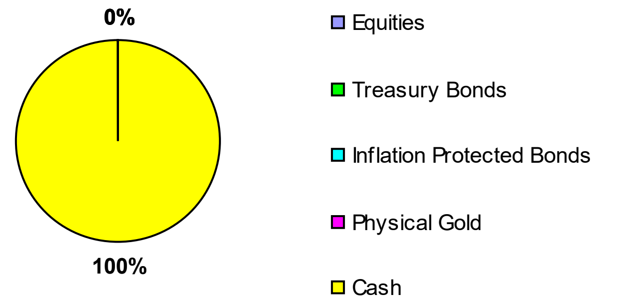
Source: Thomson Reuters

Heritage Investment Fund Limited

Review for the quarter ended 31st March 2021

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 March 2021	US$189.60	£338.95		
Return for the quarter & 2021 ytd (net)	-0.04%	2.67%	0.38%	0.14%
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 since 2001	3.16%	6.25%	2.08%	2.05%
Annual volatility	7.42%	7.45%	0.14%	0.10%
Size of Fund (millions)	US$17.6	£189.1		

US Dollar Absolute Return



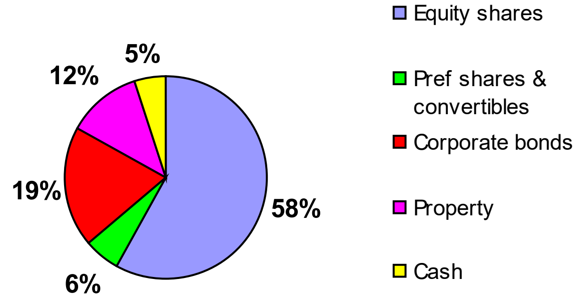
During March, it was decided to close the US Dollar Absolute Return Fund as Heritage has very few clients who invest in US Dollars and the Fund has not attracted new investors in recent years.

Prior to 2015, the Fund was restricted to investing in investment grade bonds. Since that date, the Fund has been permitted to invest in equities and other securities, and has grown by 35%. Over the past 1, 3 and 5 years it has returned 13.66%, 20.80% and 35.60% respectively. It had its best year last year when it returned 12.93% due to its hedging strategies.

During the first quarter, US equity markets rose in value as investors moved into risk assets as the vaccination programme was successfully rolled out and the economic outlook improved. However, 10 year government bond yields almost doubled during the period on concerns about inflation, and investors sold haven assets and moved into riskier equities. Although gold is seen as an inflation hedge, its value fell significantly during the quarter as rising bond yields increased the opportunity cost of holding non-yielding gold.

The Fund did not make any progress during the first quarter, losing 0.04%, as a result of the significant negative impact of rising bond yields on its government bond and gold investments.

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 had a strong month in March taking the first quarter and year-to-date return to 2.67%. It is also pleasing that the Fund price has now returned to a new high following a strong recovery from the Covid induced weakness in the first quarter of last year.

The first quarter is always a busy time for companies reporting year end results and we are pleased to say that most of our holdings were able to report encouraging progress despite a very challenging year in 2020, and even those that are in sectors that were hit hardest by the lockdowns have seen their share prices recover as the market begins to anticipate a re-opening thanks to the successful vaccine rollout.

Whilst there has been concern over rising yields in government bond markets this quarter, our portfolio of higher yielding corporate bonds has continued to perform steadily and generates a very healthy yield of over 6.5% and our property holdings also provide a decent income yield with the added benefit of potential long-term growth.

Although the near term outlook remains uncertain, we believe that our portfolio of investments is well positioned to generate attractive returns for long-term investors, whilst our relatively defensive positioning should provide some protection against the risks of market weakness.

" Spotlight On" - Investing in Asia *(continued)*

Up until quite recently Asia was recognised as being the world's manufacturer and very reliant on cheap labour producing goods to export to the wealthier Western world. However, Asia has made rapid advances in cutting edge technologies and now accounts for over 50% of global internet users. Furthermore, Asia now has its own growing middle class which is driving domestic consumption and providing a powerful engine for further economic growth. In fact it is predicted that by 2030 66% of the world's middle classes will be living in Asia compared to under 30% just 10 years ago.

From an investment point of view the attraction is that not only are these demographic and structural changes well embedded and will continue to play out for many years to come, but the region is also home to many excellent quality companies with good profitability, strong balance sheets, operating in growing markets.

Having established that the region is a good long-term home for a decent allocation within our funds there are a number of attractive ways that we are able to gain exposure. Firstly, there are a several companies listed here in London that derive the majority and in some cases virtually all of their revenues and profits within Asia. For example, Unilever has a portfolio of food, personal and home care consumer brands that appeal to the growing Asian middle classes and these emerging markets now account for the largest part of the groups profits and growth. Life insurance company Prudential is another that has decided to focus on the Asian growth story after hiving off its UK and US operations to focus exclusively on the Far East and HSBC bank recently announced a further "pivot to Asia" which is already comfortably its largest and most profitable market.

In addition to these direct holdings, we are also fortunate to have a good choice of well managed Asia Pacific investment trusts that can provide us with exposure to companies that operate and are listed on local exchanges within the region. Examples of these include the Asia Dragon Trust which holds a number of large growth stocks including Chinese internet companies Tencent and Alibaba and Korea's Samsung Electronics and Aberdeen Asian Smaller Companies Trust, which as the name suggests invests in smaller companies in Asia that offer more dynamic growth prospects. Perhaps surprisingly the region is also home to many attractive dividends payers and Henderson Far East Income, which we have owned since 2001, has a very attractive dividend yield of 7% which continues to grow each year.

Overall then investing in Asia offers a combination of international diversification and excellent long term growth prospects and finally and importantly for us, valuations for Asian companies still look relatively attractive.

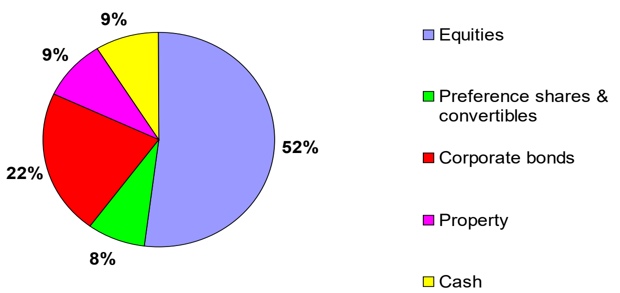
SVS Heritage Balanced Portfolio Fund

Price at 31/3/21	132.9p (launched at 100p 1/12/16)
Fund size	£28.5m
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	2021 Q1	2020	2019	2018	2017	Inception 01/12/16
SVS HBPF	2.78%	-1.52%	18.29%	-3.48%	12.30%	32.90%
UK CPI	0.14%	0.93%	1.82%	2.51%	2.72%	8.51%

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 had a good start to the year with a positive return of 2.78% in the first quarter. 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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