Heritage

Quarterly Newsletter & Investment Review

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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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The recovery gathers pace

It has been a good period for global investors as economies around the world start to open up again, following the economically damaging lockdowns imposed to contain the Covid pandemic.

We are pleased to report that our funds have had another good quarter with a gain of 5.2% taking the year-to-date return to 8.0% for the Heritage Managed Portfolio Fund. Further details and commentaries on our funds can be found as usual on pages 3 and 4.

"Spotlight On" - Investing in family businesses

Many Heritage clients are already familiar with the virtues of family owned businesses, having created their own wealth through successfully establishing and running a family business. Furthermore, Heritage itself is a family business, and over the years we have often highlighted the merits of this structure.

A key advantage is the stability provided by the commitment and loyalty found within a successful family business. This is good for the business as it means that key personnel are not susceptible to poaching from competitors and this stability is good for clients too, particularly in an industry such as investment, where planning, management and relationships should all ideally be done with a very long-term time frame in mind. Furthermore, this also has interesting implications for the investments that we manage within our funds.

Family owned businesses have been the subject of various academic studies that have provided empirical evidence to back up our intuitive belief as researchers have found that over the long-term listed family businesses outperformed the rest of the market by a significant margin.

In addition to that, the family businesses were also less likely to fail and posted less volatile results, with the structural stability and long-term strategic thinking provided by a family doing its best to protect its wealth for future generations undoubtedly being part of the reason for this.

This was clearly demonstrated back in the 2008 credit crisis and more recently in the Coronavirus crisis, where professional managers with more of an eye on their salaries and job security were happy to raise additional capital using discounted rights issues, whilst owner managed family businesses generally entered the crisis with stronger balance sheets and were better able and more inclined to safeguard the value of their existing equity.

Despite the evidence of superior long-term performance and lower risk, it is interesting that most family businesses still trade at a discount rather than a premium to their listed peers. The most likely reason for this is that most institutional investors seem to have a preference for and appear be more attuned to slick professional managers and modern corporate governance methods, rather than traditional family values.

At Heritage we are pleased to say that we both recognise and embrace the advantages provided by owner managed family businesses and on page 4 we give some examples of this strategy in action.

Continued on page 4

Market Commentary and Outlook

Global markets have continued to build on their good start to 2021 in the first quarter with another solid performance to reach the half-year in decent shape. Corporate earnings, which overall took a big hit last year have generally been showing encouraging signs of recovering and share prices have continued to rally from the low point caused by the initial shock last year.

Whilst the pandemic caused a recession for every major developed country in 2020, there has been much welcome evidence of a sharp bounce back in 2021, and the OECD has recently revised up its global GDP growth forecast from 4.2% to 5.8% for this year. However, the timing and strength of the recoveries will vary from country to country depending on their ability to prevent further economically harmful lockdowns.

It is undoubtedly encouraging to see the global economy "reopening" but as a result of this there is also now one major issue clouding the outlook going forwards, which is the build-up of inflationary pressures. Supply chains have been unable to keep up with the pent up surge in demand, with shortages ranging from raw materials to semiconductors, further exacerbated by an acute pressure on shipping capacity. Unsurprisingly companies have had to respond by raising prices.

The big question for investors is whether these inflationary pressures turn out to be just transient or herald the start of a more serious return of longer term inflation. As always these things are very difficult to predict with any certainty and the best course of action is to make sure that your portfolio is well diversified and includes sufficient real assets, such as property and companies with strong competitive positions that can respond to or even benefit from inflation.

United Kingdom

The UK market has continued its positive start to the year with the FTSE 100 index up by a further 4.8% this quarter and the Small Cap index has maintained its recent outperformance.

The UK has made excellent progress with its vaccination programme with 80 million doses now administered and well over 60% of the adult population fully vaccinated. Crucially this has enabled it to break the link between infection numbers to hospitalisations and deaths and allowed the economy to start reopening. In fact the Bank of England now expects growth of 7.3% in 2021, the biggest expansion in 70 years.

The UK hosted the G7 summit in Cornwall in May at which US President Biden proposed a global minimum corporate tax rate which should see some of the large US tech groups paying more tax in future, although in a boost for the City, UK chancellor Rishi Sunak appears to have secured an exemption for the financial services sector.

United States

The US market has continued its strong run with the S&P 500 index once again leading the other major markets with a gain of over 8% this quarter.

Whilst the overall US market continues to be driven higher by a concentrated number of well known global tech stocks there have recently been some signs of potential over exuberance in other parts of the market. This includes the new phenomenon of so called "meme stocks", where small investors band together on social media platforms such as Reddit, Twitter and Tik Tok resulting in dramatic share price rises for previously unknown small companies with business fundamentals that in no way justify this, leading to further huge volatility as reality eventually sets in. Similarly many investors have been jumping on the SPAC bandwagon. Also known as a "blank check company", a Special Purpose Acquisition Company is basically a company that has no existing business but raises some cash on listing in the hope that it might acquire or merge with another business.

Europe

European markets have also continued to enjoy a strong recovery as the initially slow rollout of the vaccine has now picked up and case numbers have also generally been falling across much of the continent. However, recent signs of the new Delta variant of the virus taking hold highlight the risks that the battle is not yet over.

Japan

Japan was the only major market to lose ground this quarter. After initially appearing to deal relatively well with the pandemic its vaccine rollout has been disappointingly slow and Prime Minister Suga's approval ratings have been slipping. Even hosting the Olympics, which would normally be a cause for celebration and pride, as well as providing a boost to the host nation, has instead become more of an unwelcome distraction for the Japanese.

Emerging Markets

Although emerging markets overall had another positive quarter, the average hides some quite diverse performances with Brazil recovering from a poor start to the year with a gain of over 10%, whilst at the other end of the spectrum South Africa lost ground as it struggles to contain a new wave of the Covid virus.

Investment Statistics - 30/06/2021

Equity Markets	Q2 2021	2020	2019	PE Ratio	Dividend Yield	Central Bank Interest Rates	10 yr Gvnmt Bond Yields	Exchange Rates	
								vs GBP	vs USD
TR Global ($)	7.37%	13.15%	15.73%						
US (S&P 500)	8.17%	14.41%	16.26%	28	1.8%	0.25%	1.48%	1.3827	1.0000
UK (FTSE 100)	4.82%	8.93%	-14.34%	18	3.1%	0.10%	0.72%	1.0000	1.3827
Europe (STOXX 50)	3.70%	14.40%	-5.14%	25	2.2%	0.00%	-0.20%	1.1663	1.1855
Japan (Nikkei 225)	-1.33%	4.91%	16.01%	17	1.5%	-0.10%	0.05%	153.63	111.10

Total returns- including dividends

Source: Thomson Reuters

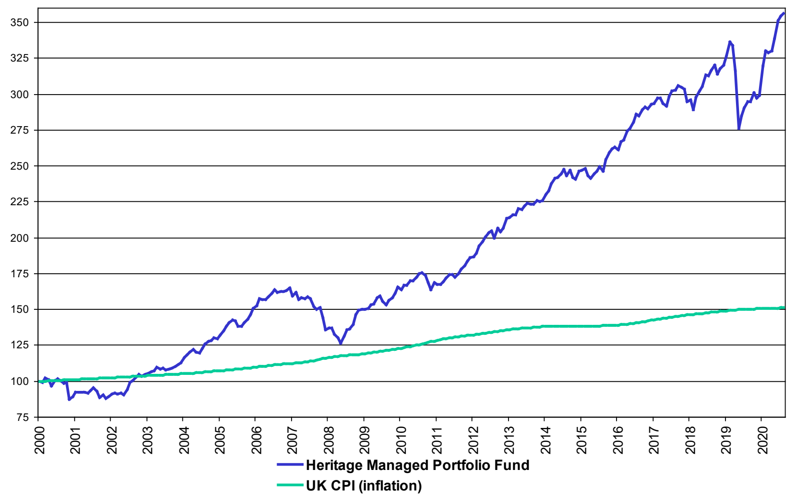
Heritage Managed Portfolio Fund

Review for the quarter ended 30th June 2021

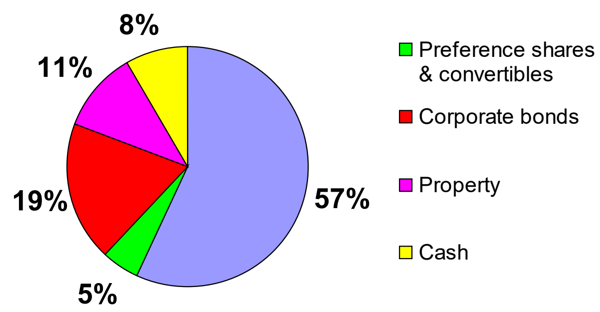
Performance	Managed Portfolio Fund	Inflation (UK)
Return for the quarter (net)	5.19%	0.36%
2021 year to date (net)	7.99%	0.50%
Year 2020 return (net)	-1.87%	0.93%
Year 2019 return (net)	16.31%	1.82%
Year 2018 return (net)	-2.76%	2.51%
Year 2017 return (net)	11.50%	2.72%
Year 2016 return (net)	7.48%	0.68%
Year 2015 return (net)	6.80%	0.04%
Year 2014 return (net)	7.74%	1.47%
Compound annual return since 2001	6.25%	2.05%

Fund information	
Price at 30 June 2021	£356.54
Fund size	£212.9m
Fund domicile	Guernsey
Fund status	Non-distributor ("roll-up")
Subscriptions/redemptions	Monthly dealing
Further Information	www.heritage-capital.co.uk
Risk	**Annual Volatility**
Managed Portfolio Fund	7.7%
TR World Index	11.5%

Price Performance



Asset Allocation



Commentary

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 another positive quarter with a return of 5.2%, helped by the opening up of the economy as Covid restrictions continue to be eased. For the year-to-date the Fund is now up by 8.0%.

A number of our share holdings reported strong results including Bloomsbury Publishing, Air Partner, T Clarke, Greggs, Diageo and Intermediate Capital which were all up over 10% this quarter. Our listed private equity holdings also had a particularly strong quarter with Electra PE, BP Marsh and Oakley Capital all appreciating by over 20%.

Our property holdings also had another positive quarter as investors became more positive about a post Covid recovery with Regional REIT providing the largest positive contribution.

Finally our portfolio of higher yielding corporate bonds and preference shares has continued to perform well and generates a healthy yield of over 6%.

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 family businesses (continued)

Of course family businesses form only a very small percentage of companies listed on stock exchanges and a simple passive strategy of including a market weighting of these would be fairly insignificant in most funds. However, it is possible to actively seek out companies that fit the bill as we have done for the Heritage funds and the following provide some examples.

Associated British Foods was founded by the Weston family in 1935 and is still controlled by them today with George Weston the current CEO. In addition to the original groceries and food ingredients businesses that the name suggests, it also founded the fashion retail business, Primark, as a subsidiary in Ireland in 1969. Rather than divesting this as "non-core" asset, as suggested countless times over the years by investment bankers and institutional investors, ABF chose to take a long-term approach to invest in and nurture the Primark brand and today it has grown to become one of the most successful international retailers and provides the largest part of ABF profits.

Young & Co's Brewery was founded in 1831 and is still controlled by the founding family. It has built up a hugely valuable collection of over 270 of the UK's best pubs. Unlike many of its listed peers it has resisted the temptation to borrow heavily against this estate and this conservative approach has enabled it to avoid the heavily dilutive rescue rights issues that periodically have plagued many other heavily geared operators in their sector.

The Daily Mail & General Trust was established in 1922 to manage the Rothermere family media interests. This listed family trust holding structure has successfully incubated many other valuable businesses over the years, including the Euromoney financial publication, the Zoopla online estate agency and most recently Cazoo, the innovative car sales business which is planning a $7bn listing on the New York Stock Exchange.

The above are just a few examples of family businesses that we hold within the Heritage funds and there are others including Schroders, where the founding family have built a leading global asset manager over the last 200 years.

The common theme running through all of these companies is that they have stood the test of time over many business cycles and major crises and their willingness and ability to take a long-term approach to protect and enhance the wealth created for future generations. These attributes make them attractive investments to us as it is closely aligned with our own long-term approach to managing our own funds and those of our clients and their families.

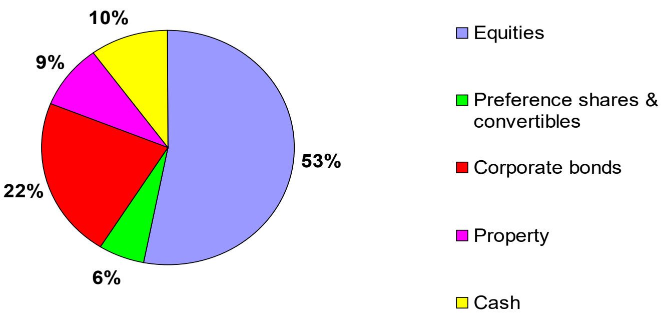
SVS Heritage Balanced Portfolio Fund

Price at 30/6/21	141.1p (launched at 100p 1/12/16)
Fund size	£31.1m
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	2021 Q2	2021 ytd	2020	2019	2018	Inception 01/12/16
SVS HBPF	6.17%	9.13%	-1.52%	18.29%	-3.48%	41.10%
UK CPI	0.36%	0.50%	0.93%	1.82%	2.51%	8.90%

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 had another positive quarter with a return of 6.2%, helped by the opening up of the economy as Covid restrictions continue to be eased. For the year-to-date the Fund is now up by 9.2%. 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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