Heritage

Quarterly Newsletter & Investment Review

Issue 95 Quarterly news & investment review from Heritage Quarter 3 2021

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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.

Contacts - directors

Graeme Olsen
graeme@heritage-capital.co.uk
Graeme is responsible for client portfolios and advising the Heritage Managed Portfolio and SVS Heritage Balanced Portfolio Funds.

Jemma Spencer
jemma@heritage-capital.co.uk
Jemma is responsible for compliance oversight and assisting with the management of the Heritage funds.

www.heritage-capital.co.uk
Tel +44 (0) 20 7799 2110
Fax +44 (0) 20 7222 1599
Broadway House, Tothill Street,
London SW1H 9NQ

Another positive quarter for the Heritage funds

As economies around the world continued to open up over the summer markets continued to rise, although a more recent bout of volatility in September has resulted in an overall fairly flat quarter for most of the major indices.

We are pleased to report that our funds have had another good quarter with a gain of just over 2% taking the year-to-date return to over 10% for both the Heritage Managed Portfolio Fund and the SVS Heritage Balanced Portfolio Fund. Further details and commentaries on our funds can be found as usual on pages 3 and 4.

"Spotlight On" - Tax efficient investment

Whilst our main focus at Heritage continues to be on providing good investment returns, we recognise that most clients are generally also interested in making sure that their investments are structured as tax efficiently as possible. With tax rates now set to rise the interest in tax efficiency is likely to become even more important.

The first point to note is that investing through a fund structure offers a much better way of providing tax efficiency compared to an individual portfolio of many shares and bonds, meaning that even the largest clients with many millions to invest choose the fund structure. With that in mind we offer two funds, both with the same investment approach, but each with their own tax advantages.

Firstly, our offshore Guernsey fund, the Heritage Managed Portfolio Fund, remains an excellent vehicle for tax planning purposes with its ability to roll up and reinvest the gross returns, whilst allowing individual investors, both within the UK and internationally, to defer and then choose the eventual timing of any gains and associated tax. This ability to roll up all income and gains and defer tax indefinitely has another useful administrative benefit, which is that nothing needs to be entered into your tax return each year unless a sale is made.

For those clients who do require a regular income, the Fund can also be used to provide this in a particularly tax efficient manner. We simply arrange to make regular small redemptions from your holding in the Fund which is then transferred to your bank account, with the big advantages being that unlike income generated from other investments, such as dividends from income funds, you can choose the exact amounts and frequency to suit your needs and crucially most of the amount you receive is a tax free return of capital, with only the top slice representing the gain being taxable.

Whilst the Heritage Managed Portfolio Fund remains our largest fund and has a number of tax planning benefits as outlined above, we thought it was important to offer clients the ability to also take advantage of the full range of tax advantages and allowances and so in 2016 we launched a UK version of the fund, the SVS Heritage Balanced Portfolio Fund. The main reason for this is the ability to use the fund for ISA investments. The ISA (Individual Savings Account) allowance has increased significantly over the years and is currently £20,000 per annum meaning that even the very wealthy, who had perhaps previously seen ISAs as being of marginal interest, can now build a significant tax free fund which is accessible without restriction.

Continued on page 4

Heritage Capital Management Limited

Review for the quarter ended 30th September 2021

Market Commentary and Outlook

Corporate earnings, which took a big hit last year due to the pandemic, have continued to recover and over the summer this was reflected in improving share prices, although a more challenging month in September has resulted in the World Index ending the quarter slightly down.

As always it is not plain sailing for investment markets and the inflation worries that we highlighted in our previous quarterly report remain of concern. Added to this investors have more recently been grappling with a new threat, the Chinese government.

Whilst investors have for some time been worried about how western politicians and regulators might try and tackle the dominance of giant technology companies, it has been the government of China that has been first to take serious action. They have recently introduced sanctions on several leading internet companies including the planned break up of Alibaba's popular super-app Alipay and a cybersecurity review targeting ride-hailing business Didi, ordering the company to remove numerous apps from its platform.

Other measures, ranging from a ban on private tutoring businesses making a profit to limiting the time that children can spend online gaming, have also caused alarm for the likes of Tencent and Baidu. On top of all of this there is currently also a huge question mark hanging over the future of China's most indebted property group, Evergrande, and whether the government will allow or even precipitate its collapse, which might lead to a wider financial crisis for banks and other lenders.

This political and regulatory crackdown has provided foreign investors with a reminder that whilst in many ways China has grown to resemble other mature capital markets with the added attraction of huge potential growth, it still retains all the unpredictability and volatility of an emerging market and that investing in companies that operate in a communist one party state does not come without serious risk.

United Kingdom

The UK market has continued its positive run this year with the FTSE 100 index eking out another 0.7%, whilst the Small Cap index has maintained its recent outperformance.

The UK's stock market has recently been enjoying a strong market for new IPOs (initial public offerings, where companies raise funds and list on the stock exchange for the first time), with the biotech company and maker of Covid testing kits, Oxford Nanopore Technologies, leading the way with its first day share price surge taking its value to over £5bn.

However, much of the warm glow that came from hosting the successful G7 summit in Cornwall earlier in the summer and the successful vaccine rollout has been fading recently and replaced by concerns about fuel and other shortages as a result of worrying supply chain issues and labour shortages.

United States

The US market had a weaker quarter, gaining just 0.2%, although it remains the strongest performing major market for the year to date.

The main brake holding back US markets is the Federal Reserve chairman Jay Powell's recent message that monetary policy is about to become a lot tighter. It now seems very likely that the final quarter of this year will see not only the phasing out of the huge pandemic stimulus programme but also the start of rising interest rates to combat the threat of inflation.

Europe

European markets were down by 0.4% this quarter with political uncertainty being one of the main areas of concern. The recent German election has brought the end of an era with Angela Merkel's Christian Democratic Union party's defeat ushering in a period of uncertainty as several of the main parties and politicians jostle for position in a new coalition.

Japan

Japan was the best performing major market this quarter with a gain of 2.3% This is primarily down to optimism about the upcoming change in prime minister. Last quarter we commented that Prime Minister Yoshihide Suga's approval ratings have been slipping. However, even the subsequent hosting of the Olympics, which might normally have a provided a positive impact, failed to boost Suga's standing and he has now resigned and been replaced as PM by former foreign minister, Fumio Kushida.

Emerging Markets

Emerging markets had a weaker quarter and overall now also trail developed markets for the year to date. As mentioned above the increased political interference in the Chinese market has acted as a reminder of the risks associated with investing in emerging markets.

Investment Statistics - 30/09/2021

Equity Markets	Q3 2021	2021 YTD	2020	PE Ratio	Dividend Yield	Central Bank Interest Rates	10 yr Gvnmt Bond Yields	Exchange Rates	
								vs GBP	vs USD
TR Global ($)	-0.75%	12.30%	15.73%						
US (S&P 500)	0.23%	14.68%	16.26%	26	1.9%	0.25%	1.53%	1.3472	1.0000
UK (FTSE 100)	0.70%	9.69%	-14.34%	14	3.5%	0.10%	1.02%	1.0000	1.3472
Europe (STOXX 50)	-0.40%	13.95%	-5.14%	19	2.5%	0.00%	-0.19%	1.1632	1.1581
Japan (Nikkei 225)	2.30%	7.32%	16.01%	16	1.5%	-0.10%	0.07%	149.93	111.27

Total returns- including dividends

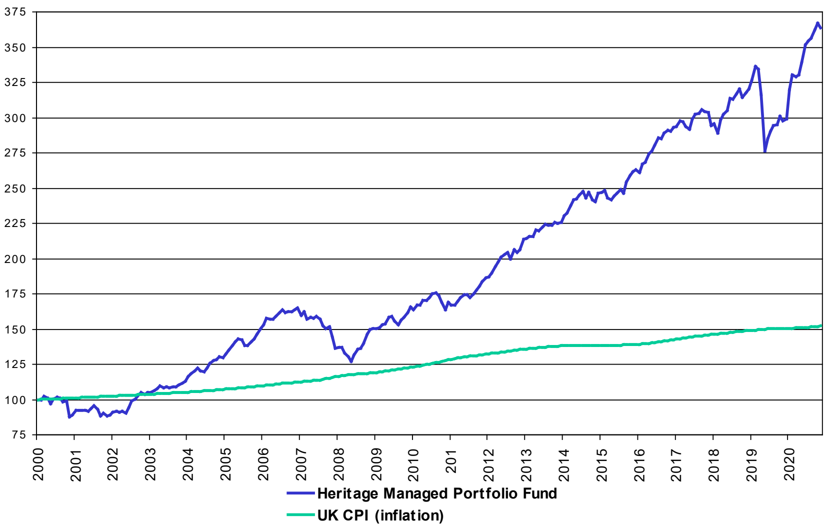
Source: Thomson Reuters

Heritage Managed Portfolio Fund

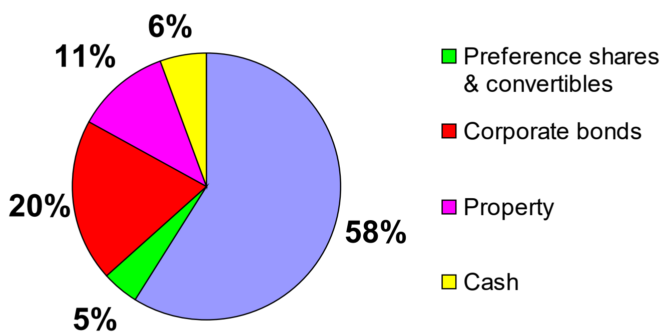
Review for the quarter ended 30th September 2021

Performance	Managed Portfolio Fund	Inflation (UK)	Fund information	
Return for the quarter (net)	2.04%	0.64%	Price at 30 September 2021	£356.54
2021 year to date (net)	10.20%	1.15%	Fund size	£216.2m
Year 2020 return (net)	-1.87%	0.93%	Fund domicile	Guernsey
Year 2019 return (net)	16.31%	1.82%	Fund status	Non-distributor (“roll-up”)
Year 2018 return (net)	-2.76%	2.51%	Subscriptions/redemptions	Monthly dealing
Year 2017 return (net)	11.50%	2.72%	Further Information	www.heritage-capital.co.uk
Year 2016 return (net)	7.48%	0.68%		
Year 2015 return (net)	6.80%	0.04%	**Risk**	**Annual Volatility**
Year 2014 return (net)	7.74%	1.47%	Managed Portfolio Fund	7.7%
Compound annual return since 2001	6.25%	2.05%	TR World Index	11.5%

Price Performance



Asset Allocation



Commentary

The Managed Portfolio Fund seeks to generate attractive long-term investment returns 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 run of positive quarters this year, despite a slightly weaker month in September, with a return of 2.04% for the third quarter taking the year-to-date return to 10.20%.

We have continued to receive encouraging trading updates from a number of companies with our small company holdings leading the way. TClarke and Animalcare were both up over 20% this quarter and there were also double digit percentage gains for Air Partner, Greggs, Hotel Chocolat and System1 Group.

Our listed private equity holdings have also continued their good run with Dunedin Enterprise, ICG Enterprise and HgCapital all up over 10%, whilst the detractors this quarter included our Asian and Far East exposure.

Our property holdings also had another positive quarter with Picton Property and TR Property the strongest performers.

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" - Tax efficient investment (continued)

In fact we now have clients who have accumulated ISA funds well in excess of £1 million using both husband and wife allowances.

Another area of tax efficient investment that has seen a big change in recent years is pensions. Under the old rules you were either a member of your employer's "final salary" pension scheme and/or you had your own personal pension fund that then had to be used to purchase an annuity. Fortunately annuities are no longer compulsory and personal pension funds can now be used to drawdown an income for life and the capital can be left (often inheritance tax free) to your family. With all sorts of other complex rule changes surrounding contribution limits and "Life Time Allowances" the tax side of things can get quite complicated and we would definitely recommend taking specialist advice. However, when it comes to the investment side of things we are pleased to confirm that things are much simpler and that both of our funds are very suitable investments for a personal pension or SIPP (Self Invested Personal Pension) as they are commonly known.

The examples above of how individuals can use the Heritage funds as part of a tax efficient investment strategy are by no means exhaustive and we also have many other types of clients including trusts, companies and partnerships that use our funds. Finally, it is important to note that although this article is hopefully a useful general guide to the tax planning opportunities offered by our funds, it may be appropriate to seek specialist advice depending on individual circumstances and we would be very happy to point you in the right direction for this if required.

Heritage office update

As a company we have been very fortunate to be able to continue to operate remotely over the course of the coronavirus pandemic. In fact we have also discovered that there are actually more effective and efficient ways to work than everyone commuting into London and working in the office all day, every day. We have also acquired new technology and learned new skills, such as webcams and Zoom calls, that will continue to be useful in the years ahead and the major upgrade to our web site last year has also been a welcome improvement in the way that we can keep our investors updated.

However, we are now very pleased to have finally started returning to our office in Broadway House and in particular to once again welcoming clients who would like to meet with us in person. If you would like to arrange to pop in for a face to face meeting we would be delighted to see you!

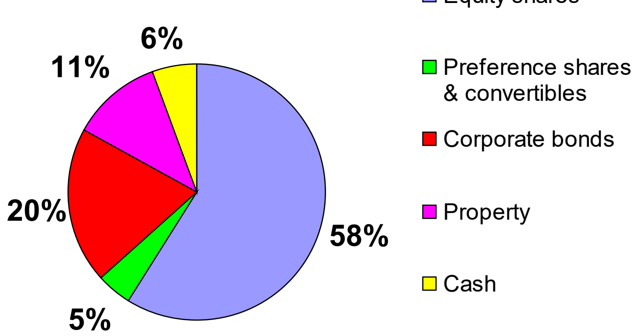
SVS Heritage Balanced Portfolio Fund

Price at 30/9/21	144.1p (launched at 100p 1/12/16)
Fund size	£34.03m
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 Q3	2021 ytd	2020	2019	2018	Inception 01/12/16
SVS HBPF	2.13%	11.45%	-1.52%	18.29%	-3.48%	41.10%
UK CPI	0.64%	1.15%	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 investment returns 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 2.1% and for the year-to-date the Fund is now up by 11.5%. 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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Heritage Capital Management Limited
Broadway House, Tothill Street, London SW1H 9NQ
Tel: +44 (0) 20 7799 2110 Fax: +44 (0) 20 7222 1599
General email: info@heritage-capital.co.uk
Website www.heritage-capital.co.uk