Heritage

Quarterly Newsletter & Investment Review

Issue 96 Quarterly news & investment review from Heritage Quarter 4 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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A good year for investors despite the ongoing pandemic

Despite the many challenges from the Covid pandemic that have continued throughout the year and the recent resurgence of inflation, 2021 has actually turned out to be a very good year for investors.

We are pleased to report that the Heritage funds have had a strong year with further gains in the final quarter of over 3% taking the full year returns for our funds to over 14%. Further details on the Heritage Managed Portfolio Fund are on page 3 and on page 4 we highlight the SVS Heritage Balanced Portfolio Fund's achievement of reaching its 5th anniversary.

"Spotlight On" - Investing in property

Much of our investment commentary quite naturally centres around equities and bonds as the two major asset classes. However, as multi-asset managers we are also always on the lookout for other alternative types of investments that can help to enhance returns and diversify risk. In recent years there have been an ever increasing range of interesting new alternative investments and whilst we have now built up limited exposure to some of these including infrastructure, renewable energy and asset leasing, the most important alternative area for us is still property investment.

The fundamental attractions of property are that it is a tangible asset which is relatively simple to see and understand, it produces an income in the form of rent and as a real asset it provides a natural hedge against inflation, as in the long run both rental income generated by the buildings and the capital values of the land they are built on tend to rise.

In the same way that the equity market can be broken down into sectors such as industrials, consumer, financials and IT etc., property can also be split into several main sectors which can be selected for their differing characteristics and risk and return profiles. The lowest risk property investments are those rented on long leases to tenants that provide essential services and are financially secure. A good example of these are doctors surgeries and medical centres, where the rental payments are effectively underwritten by the government via the NHS. Primary Health Properties is a listed company that we have owned for nearly 20 years and has a built an impressive track record of increasing the dividend each year. Another low risk example are supermarkets, particularly well located ones that are suitable for omni-channel sales including in-store, click and collect and online delivery hubs. Supermarket Income REIT is a more recent addition to our funds and its portfolio of properties, rented to the major supermarkets on long inflation linked leases, should provide rental and hence dividend growth for many years to come.

Beyond these fairly specialist low risk properties come the major commercial markets consisting of industrial, office and retail property. The market here is always evolving and requires active management. The introduction of the tax efficient REIT (Real Estate Investment Trust) regime in 2007 provided a boost to the sector and a number of property companies converted to REIT status including one of our long standing holdings, Picton Property. Picton has navigated the market well over the years by actively managing the portfolio by reducing exposure to the structurally challenged retail sector, whilst simultaneously increasing exposure to the more buoyant industrial sector.

Continued on page 4.

Heritage Capital Management Limited

Review for the quarter ended 31st December 2021

Market Commentary and Outlook

It is remarkable to consider that despite all of the damage done to economies around the world due to the impact of Covid and the restrictions imposed on normal activity, that all of the major stock markets are now trading above the levels that they were before the onset of the pandemic in early 2020.

This can partly be explained by the strong recovery in corporate earnings, as many businesses have not only survived the pandemic, sometimes with significant taxpayer help through furlough and Covid bounce-back loans, but have also used it as an opportunity to reduce their costs and improve efficiency and profit margins.

However, there are still some serious risks associated with the pandemic that could still raise their heads. For example, whilst China has apparently been quite good at controlling the virus their zero Covid policy has been at a large economic cost and for the first time for many years Chinese GDP growth is set to lag behind the US and other major developed economies. As China's strong growth over the past few decades has been the major driver of global GDP, any weakness here could have serious knock-on effects for the global economy.

Another by-product of the pandemic has been the disruption to supply chains and labour markets which has contributed to the recent emergence of inflation. Whilst many commentators believe that this might just be a temporary issue, cautious investors will realise that this cannot be taken for granted and that some inflation protection will be required to be built into their portfolios.

United Kingdom

The UK market has continued its positive run this year with the FTSE 100 adding a further 4.2% in the final quarter to end the year with an overall return of 14.3%, with smaller companies having an even stronger year.

Although the UK suffered a more severe recession than most in 2020, the recovery has been stronger than many had predicted and the UK is now on course to outgrow the other G7 nations in 2022 for the second year in a row according to the latest forecasts. The strengthening economy coupled with rising inflation numbers has resulted in the Bank of England raising interest rates in December, and the focus in 2022 will be on how much further they may need to go, as the initial rise from an historic low of 0.1% to just 0.25% is unlikely to make any significant impact.

United States

The US was once again the best performing major market and once again this impressive performance has been driven by the giant global technology companies.

Back in 2018 we reported that Apple had become the first company in history to reach a $1 trillion valuation and today it is homing in on $3 trillion and has now been joined in the $1 trillion club by Microsoft, Alphabet (Google), Amazon, Tesla and Facebook (recently renamed as Meta).

The main risk to the US market appears to be rising inflation which recently surged to 6.8%, its highest rate since 1982. Whilst it is likely that some of the current inflationary pressures will abate in the new year, markets are now expecting the Federal Reserve to start raising rates in early 2022.

Europe

Following their losses last year, European markets had a good recovery in 2021 with a gain of just over 20%.

After a number of years of reasonable stability political changes are something to keep a watch on in Europe as Angela Merkel's historic 16 years as leader finally came to an end when the Social Demorcrat, Olaf Schulz, was sworn in as the new German Chancellor in December and April 2022 will see the French presidential election.

Japan

Japan was the only major market that lost ground in the final quarter resulting in the overall weakest performance of the major indices for the full year for the Nikkei 225 which gained just under 5%. In a sobering thought for investors who believe that equity markets always rise in the long run, the Nikkei index at its current level of just under 30,000 is still below the all-time high of 38,915 reached way back in December 1989.

Emerging Markets

In contrast to the strong performances of the major developed market indices, emerging markets had a poor year with the overall Emerging World Index in negative territory for 2021. The weakness of China which now represents around a third of the emerging market index was one of the main reasons for this and as ever currencies can also be a major risk for emerging market investors as witnessed by the 40% fall in the Turkish lira this year.

Investment Statistics - 31/12/2021

Equity Markets	Q4 2021	2021	2020	PE Ratio	Dividend Yield	Central Bank Interest Rates	10 yr Gvnmt Bond Yields	Exchange Rates	
								vs GBP	vs USD
TR Global ($)	5.82%	18.84%	15.73%						
US (S&P 500)	10.65%	26.89%	16.26%	27	1.7%	0.25%	1.50%	1.3529	1.0000
UK (FTSE 100)	4.21%	14.30%	-14.34%	15	3.4%	0.25%	0.97%	1.0000	1.3529
Europe (STOXX 50)	6.18%	20.99%	-5.14%	18	2.3%	0.00%	-0.18%	1.1899	1.1368
Japan (Nikkei 225)	-2.24%	4.91%	16.01%	15	1.7%	-0.10%	0.07%	155.71	115.08

Total returns- including dividends

Source: Thomson Reuters

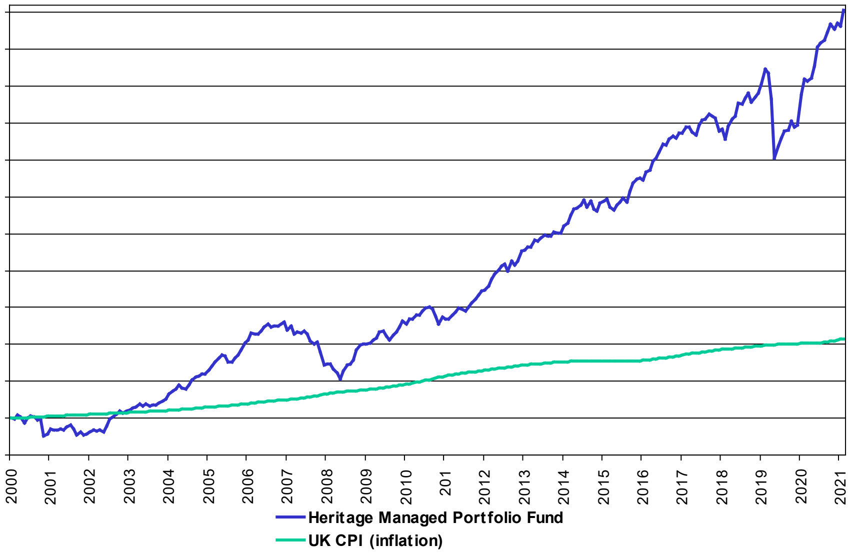
Heritage Managed Portfolio Fund

Review for the quarter ended 31st December 2021

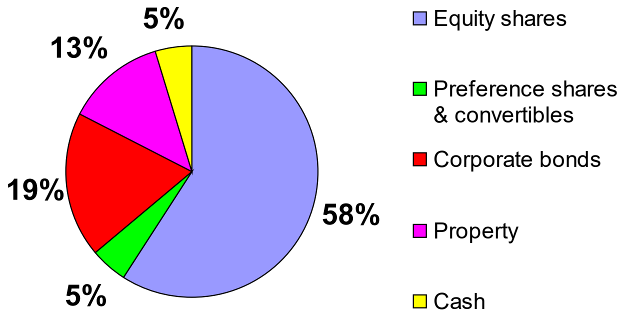
Performance	Managed Portfolio Fund	Inflation (UK)
Return for the quarter (net)	3.51%	1.04%
Year 2021 return (net)	14.07%	2.20%
Year 2020 return (net)	-1.87%	0.93%
Year 2019 return (net)	16.31%	1.82%
Year 2018 return (net)	-2.76%	2.51%
Year 2017 return (net)	11.50%	2.72%
Year 2016 return (net)	7.48%	0.68%
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 31 December 2021	£376.59
Fund size	£223.0 million
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	7.4%
TR World Index	13.9%

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.

Despite the latest Covid wave due to the emergence of the new omicron variant, the Fund had a strong end to the year with a 3.5% return for the final quarter taking the gain for the full year to 14.1%.

There were a number of strong contributions this year with T Clarke, Greggs, Vertu Motors and System1 all up by more than 50% and we also received a boost from take-over bids for Daily Mail & General Trust and Clinigen this quarter. It was a particularly strong year for our listed private equity trusts with Oakley Capital, HgCapital and ICG Enterprise all gaining more than 30%. The only real weak spot was our specialist insurers including Hiscox, Lancashire and Conduit, although with premium rates strengthening these look well placed for the year ahead.

Our property holdings had a strong year with Secure Income REIT, Picton Property and TR Property all producing returns of over 20% and a 58% gain for Conygar as a result of good progress on their large development site in Nottingham. There have also been some interesting new alternative asset classes available in recent years and in addition to our existing holdings in listed infrastructure and renewable energy funds, earlier this year we initiated a holding in the Hipgnosis Songs Fund which owns a catalogue of popular song rights and is benefitting from the growth in music streaming.

Although it was a difficult year for government and investment grade bonds, our portfolio of higher yielding bonds and preference shares actually had a decent year as prices held up well as yield spreads tightened and we continue to receive an attractive income yield of over 6%.

Whilst 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 property (continued)

At the far end of the spectrum in terms of riskiness comes property development. This typically involves applying for planning permission and then constructing entirely new buildings and finding tenants. As this can often take many years and involve significant capital upfront with no guarantees of success it is not really suitable as a core investment but good schemes can be very profitable and we do occasionally and selectively invest in these. A current example is Conygar which acquired the 36 acre Island Quarter site in Nottingham City Centre and has now received planning permission for a mixed use scheme of over 2 million square feet of homes, grade A offices, student accommodation and retail and leisure units.

In addition to the various major categories of property investments mentioned above there are others such as residential, leisure and care homes that we have more limited exposure to. Overall we believe that there is an important role in a well-diversified portfolio for property and we will continue to monitor and actively manage the mix of property investments for our funds.

SVS Heritage Balanced Portfolio Fund passes 5 year milestone

As investment is really only appropriate for those with a reasonably long-term outlook, looking at short term performance figures is often of little relevance and it is only once a period encompassing both good and bad market conditions has been completed that any meaningful conclusions can be drawn. The SVS Heritage Balanced Portfolio Fund has now established a 5 year track record, and whilst we would say that it is still early days, we are pleased to report that the progress to date has been encouraging with £100,000 invested in the Fund at launch worth £148,700 today.

Although when it comes to the management of the Fund we pay no attention to stock market indices, the performance of the FTSE 100 Index provides a good indication of the background against which we have been investing and it is interesting to note that the index level is just 9% higher than it was when the Fund launched. We are also pleased to report that the Fund has achieved its primary objective of protecting and enhancing the real value of investors capital by beating inflation, with the 48.7% return being well above the UK Consumer Price Index rise of 10.7% over the same period.

Of course investors should be aware that past results are not a guide to future performance, but what we can guarantee is that that we will continue to implement the same investment approach that has proved successful over the past 5 years.

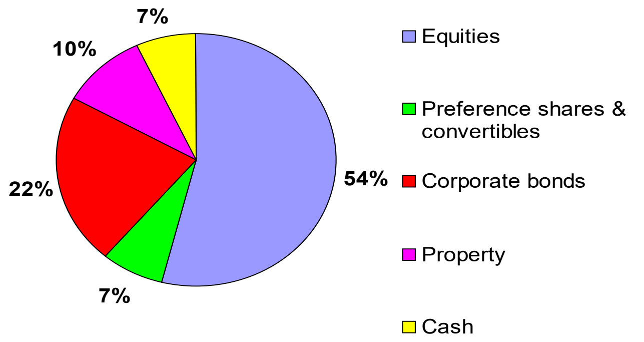
SVS Heritage Balanced Portfolio Fund

Price at 31/12/21	148.7p (launched at 100p 1/12/16)
Fund size	£35.3 million
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 Q4	2021	2020	2019	2018	Inception 01/12/16
SVS HBPF	3.19%	15.00%	-1.52%	18.29%	-3.48%	48.70%
UK CPI	1.04%	2.20%	0.93%	1.82%	2.51%	10.74%

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 ended the year with another positive quarter with a return of 3.2% taking the full year return to 15.0%. 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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