Heritage

Quarterly Newsletter & Investment Review

Issue 101 Quarterly news & investment review from Heritage Quarter 1 2023

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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Banking fears disrupt positive start to the year

Following two years of Covid disruption we have now had a second year where hopes of a return to normality and calm have been dashed in the first quarter. Last year it was Russia's invasion of Ukraine in February and this year an initially encouraging start to the year has given way in March to fears of a banking crisis.

As a result it has been a frustrating first quarter for the Heritage funds, as the ladders that were climbed in January and February were followed by a nasty snake in March and the Managed Portfolio Fund ended the quarter just below where it started the year. As usual further details for the Heritage Managed Portfolio Fund can be found on page 3 and the SVS Heritage Balanced Portfolio Fund on page 4.

"Spotlight On" - Investment Trusts

In addition to individual company shares and bonds the Heritage Funds also hold a number of investment trusts. These are investment companies that are listed on the London Stock Exchange and trade in exactly the same way as company shares.

Investment trusts provide a very useful way in which to gain exposure to areas that we feel offer good investment opportunities and are an excellent tool for diversification. Examples of this are our use of investment trusts for the Far East and other emerging markets as well as specialist sectors such as healthcare. Also, because unlike open ended investment funds they have a fixed capital base, investment trusts are well suited for holding illiquid investments such as private equity, property, infrastructure and other alternative assets.

However, despite research providing much evidence of what most investment professionals have long understood, that they offer superior returns and lower costs to typical unit trusts, it is the open ended funds that have continued to dominate the investment industry and investment trusts that remain "one of the City's best kept secrets".

Some of the distinguishing features of investment trusts that make them such a useful tool for investors are;

Closed-end structure – with a fixed number of shares, investment trusts are not forced to sell assets to meet sudden outflows for redemptions in a falling market, nor are they under pressure to invest new subscriptions if there are no suitably priced investments available.

Independent boards – With a unit trust it is the fund management group that has control of the fund. Investment trusts on the other hand have an independent board of directors who are responsible for ensuring that the trust is run for the benefit of the investors, including the ability to change the manager if necessary and to oversee strategic issues such as the use of modest gearing to enhance returns.

Costs and dealing – Investment trust charges are highly competitive and annual management charges tend to average less than those of other comparable funds which often have the added disadvantage of high initial charge or dealing restrictions, whilst investment trusts continually trade on the stock exchange.

Longevity and stability – Having been around since the late 1860's, investment trusts are the oldest form of collective investment fund and their longevity is reassuring in a financial world that has become increasingly concerned with short term issues.

Continued on page 4.

Heritage Capital Management Limited

Review for the quarter ended 31st March 2023

Market Commentary and Outlook

Although 2023 started on a positive note for investors, the early optimism gave way to fears for the health of the banking system in March. The problems first emerged at the previously little known Silicon Valley Bank in California, but any hopes that this would an isolated event were dashed with the subsequent sudden demise of Credit Suisse, which had to rescued in a hastily put together deal by the Swiss National Bank which resulted in it being consumed by its major competitor, UBS.

However, rather than calming markets the deal caused further turbulence as there was understandable consternation that some bond holders were wiped out at the expense of shareholders, which goes against the well established principle that bond holders rank ahead of shareholders in the capital structure. Whilst this has dealt a blow to the credibility of the Swiss financial system, it was at least encouraging to see the Bank of England and European Central Bank confirming the established status quo for bank capital as far they are concerned.

Prior to these recent concerns about the financial sector, the market had expected central banks to keep raising interest rates in order to curb inflation. However, the recent turmoil could lead to a contraction in credit conditions by the banking sector which would amplify the impact of higher interest rates on the economy, meaning that significant further rate rises are probably now no longer required.

United Kingdom

The FTSE 100 index made a positive start to the year and actually managed to briefly break through the 8,000 barrier for the first time in mid-February, before falling back in March. Smaller companies have continued their run of underperformance, with the FTSE 250 mid cap, FTSE Small Cap and AIM indices all ending the first quarter in negative territory.

Following a tumultuous time for UK politics last year, the major objective of Rishi Sunak has been to restore some calm and stability. It has therefore been encouraging to see that his “Windsor framework” for Northern Ireland has helped to positively reset the fractious relationship with Europe and there has also been slightly better news on the economic front, where there is now hope that the severe recession that many had been forecasting for this year now may be avoided, and the pound has also continued its recovery.

Furthermore, the most significant positive for longer term prospects may be Britain’s accession to the Pacific trade pact. When the UK joins the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), the 12 members including Australia, Canada, Japan, Mexico, New Zealand, Vietnam and Singapore will have a population of well over 500 million and a combined economy worth 16% of world GDP, just ahead of the European Union.

The main negative at the moment is that inflation is not yet under control and is not being helped by ongoing wage pressure and strikes. The Bank of England has therefore continued to raise interest rates from 3.5% at the start of the year to the current level of 4.25%.

United States

The US market had a decent first quarter led by a partial recovery of the large tech stocks that had such a poor year in 2022 with the tech heavy Nasdaq index outperforming the Dow Jones Industrial index by the widest for over 20 years.

The big corporate news was the failure of Silicon Valley Bank, which was followed by 11 of the biggest US banks putting together a $30 billion rescue package for First Republic Bank to help stabilise the banking system and restore confidence to financial markets.

This shock to markets together with signs that US inflation may have now already passed its peak, means that the latest expectations are that interest rates may well have also already peaked at their current level of 5%, and that the Federal Reserve may even start to cut rates again as early as this summer.

Europe

Of all the major markets, Europe has had the best start to the year with a double digit gain in the first quarter.

In common with other regions, inflation is also of major concern across Europe and the European Central Bank has continued to raise Euro interest rates by a further 1.0% to 3.5%.

Japan

The Japanese market has also had a positive start to the year, although in a continuation of last year’s trend the Yen has further weakened against the other major currencies, weighing down returns for international investors. This continued weakness in the Yen is partly down to the fact that Japan’s interest rates have remained negative, whilst all the other major currencies now have reasonably positive rates.

Emerging markets

Emerging markets have generally underperformed the other major markets in the first quarter, with the likes of Brazil, India and South Africa all in negative territory for the year to date.

Investment Statistics - 31/03/2023

Equity Markets	Q1 2023	2022	2021	2020	PE Ratio	Dividend Yield	Central Bank Interest Rates	10 yr Gvnmt Bond Yields	Exchange Rates	
									vs GBP	vs USD
TR Global ($)	6.76%	-17.91%	18.84%	15.73%						
US (S&P 500)	7.03%	-19.92%	26.89%	16.26%	21	2.1%	5.00%	3.49%	1.2333	1.0000
UK (FTSE 100)	2.42%	0.91%	14.30%	-14.34%	11	3.9%	4.25%	3.49%	1.0000	1.2333
Europe (STOXX 50)	13.74%	-11.74%	20.99%	-5.14%	14	3.3%	3.50%	2.30%	1.1371	1.0839
Japan (Nikkei 225)	7.46%	-9.37%	4.91%	16.01%	15	2.1%	-0.10%	0.32%	163.71	132.79

Total returns- including dividends

Source: Refinitiv

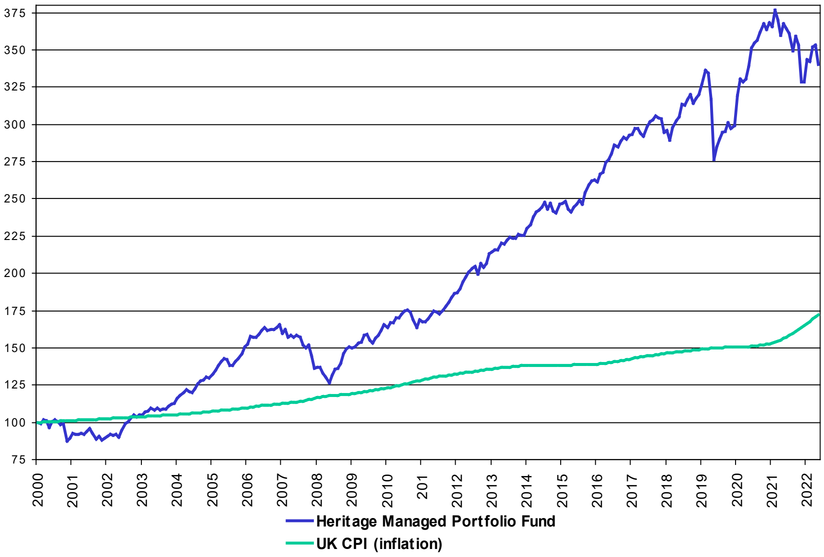
Heritage Managed Portfolio Fund

Review for the quarter ended 31st March 2023

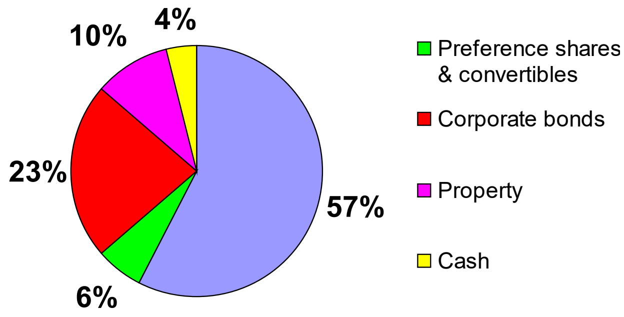
Performance	Managed Portfolio Fund	Inflation (UK)
Return for the quarter & 2023 ytd (net)	-0.46%	2.61%
Year 2022 return (net)	-9.14%	8.97%
Year 2021 return (net)	14.07%	2.20%
Year 2020 return (net)	-1.87%	0.93%
Year 2019 return (net)	16.31%	1.82%
Year 2018 return (net)	-2.76%	2.51%
Year 2017 return (net)	11.50%	2.72%
Year 2016 return (net)	7.48%	0.68%
Year 2015 return (net)	6.80%	0.04%
Compound annual return since 2001	5.67%	2.46%

Fund information	
Price at 31st March 2023	£340.57
Fund size	£179.3 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	7.6%
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.

It has been a slightly frustrating quarter for the Fund, as the good gains made in January and February were given up in March, as the banking crisis impacted global markets, and overall the Fund was marginally down by 0.46%.

Our share portfolio returns were mixed this quarter with notable positive contributions from Computacenter, Associated British Foods, Conduit, Greggs, TClarke & RELX, which were all up over 10% thanks to encouraging trading updates. On the negative side our worst performers included Beazley, Lancashire and Close Brothers, and our Asian investment trust holdings also had a weaker quarter.

Following a positive start to the year, our property holdings also suffered a sharp setback in March. Net asset values have been falling due to the higher interest rate environment that we are now in but on the plus side rental income has been increasing, making the overall yield from our property investments more attractive at over 5% on average.

Our bond portfolio has had a reasonable start to the year, despite some volatility in the prices in bank bonds due to the recent banking crisis, and with a running income yield of over 7.5% our bonds add a valuable contribution to the Fund’s returns.

Whilst the near term outlook remains uncertain, we believe that our portfolio of well diversified investments is well positioned to generate attractive returns for long-term investors.

“Spotlight On”- Investment Trusts continued

Specialist areas – Investment trusts are particularly well suited to specialist areas such as property and private equity where liquidity can be an issue. This was once again highlighted during the Covid pandemic, when many high profile property unit trusts had to suspend dealing when they received a flood of redemptions, whilst shares in similar REITS (real estate investment trusts) were able to continue to trade unaffected by such pressures. In recent years investment companies have also been successfully launched to invest in a whole range of other alternative assets such as infrastructure and renewable energy.

Discount factor – as the price of an investment trust is set by the market, it may differ from the Net Asset Value of the underlying investments. If, as is often the case, the price is below the NAV the trust is said to trade at discount and this may present a good buying opportunity. However, this is a complex area and discounts can widen further, so experience and expertise is required before attempting to benefit from the discount factor.

Dividend Heroes – Investment trusts have an excellent track record for paying and growing dividends and the AIC (Association of Investment Companies) maintains a list of “Dividend Heroes” that have increased their dividends for over 20 consecutive years, with 8 of these having increased their dividends for over 50 consecutive years. This is made possible by their ability to maintain and build reserves which can then be used to grow dividends even during difficult periods such as the financial crisis in 2008 and more recently the Covid pandemic.

The combination of all these advantages has resulted in investment trusts having a superior performance record when compared to other similar funds and is why it is an area that we have chosen to actively build considerable expertise in over the years.

Budget changes for investors

The recent budget changes have been mostly negative for investors, with cuts to the annual capital gains tax and dividend allowances. The surprisingly good news was on the pension front, where the annual contribution allowance has been increased from £40,000 to £60,000 and the overall Life Time Allowance of £1,073,100 is set to be completely abolished.

Overall these changes make it even more important to fully utilise as far as possible the tax advantages offered by ISAs and pensions.

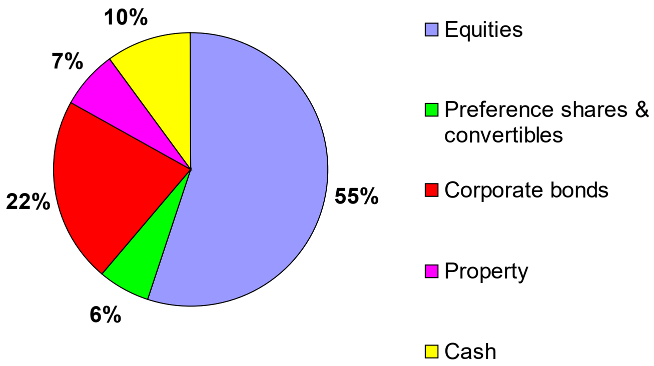
SVS Heritage Balanced Portfolio Fund

Price at 31/03/23	1.349p (launched at 100p 1/12/16)
Fund size	£30.5 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	Evelyn Partners

Performance

Return	2023 Q1	2022	2021	2020	2019	Inception 01/12/16
SVS HBPF	-1.10%	-8.27%	15.00%	-1.52%	18.29%	34.90%
UK CPI	2.61%	8.97%	2.20%	0.93%	1.82%	23.82%

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 was down by 1.1% this quarter and 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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