Heritage

Quarterly Newsletter & Investment Review

Issue 105 Quarterly news & investment review from Heritage Quarter 1 2024

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

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A positive start to 2024 for investors

Pleasingly for investors, the rally that began in the final quarter of last year on the back of an improving outlook for inflation and interest rates has continued into 2024, helped by an encouraging corporate year end results reporting season.

The Heritage funds have also had a positive start to the year with gains of around 2.3% for the first quarter. 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"- Advantages of a fund based approach

Originally investment funds were set up to allow the not-so-wealthy to "pool" their resources in order to allow access to a professionally managed and well diversified spread of investments, which would not otherwise be available cost effectively on an individual basis.

This logic still applies today, but other considerations such as simplicity of administration, costs and tax planning advantages now mean that even the wealthiest of private clients tend to choose a fund based approach in preference to direct investment. The main advantages of investing through a fund can be summarised as follows;

Diversification and security **-** A fund allows individual investors to obtain exposure to a wide range of investments through a single holding. Additionally, many asset classes such as private equity, corporate bonds, property and other alternative investments are not easily accessible to an individual investor but can be accessed through a liquid pooled fund. Also, investors in the fund benefit from the assurance that their assets are securely held with separately appointed and regulated auditors, custodians, administrators and managers involved.

Management – Investment decisions can be taken purely on the basis of the investment merits, rather than being complicated by tax related concerns, as a fund is not liable to taxes such as capital gains tax that can apply to individual investors. Also, the fund's portfolio will receive the full time attention of a professional manager, whereas an individual portfolio will quite often only be reviewed and managed on an occasional or ad-hoc basis. Furthermore, in the case of a fund where the managers have their own wealth invested in the fund, the investor can take further comfort from the fact that the manager is "eating his own cooking".

Tax planning and efficiency - Holding a portfolio of investments within a single fund is also simpler and more flexible from a tax planning point of view. For example, a non-distributing ("roll-up") fund can be held for a number of years, or even indefinitely, without giving rise to any tax liability. This allows the investments to compound tax-free for many years as well as providing the investor with the ability to plan to only pay tax at a future time and date that suits him – for example, when he becomes a lower rate tax payer or becomes non-resident.

Administration and simplicity - A further benefit, which should not be underestimated, is the reduction in record keeping, administration and calculations required to keep track of many individual holdings, trades, dividends and interest etc., thereby eliminating the need to incur additional accountancy fees. Withdrawing money from a fund for a regular or ad hoc income amounts is also much easier - withdrawing say £10,000 from a fund can be done via a single sale of shares in the fund rather than multiple small sales of individual holdings.

Costs - The economies of scale that are available to a pooled fund give rise to cost advantages that are not available to individual portfolios. For example dealing within the fund should be at institutional commission rates rather than the higher rates usually charged to individual investors.

At Heritage, we continue to offer both an individual portfolio management service and our own fund-based service for our investment clients. However, for the reasons outlined above we continue to believe that the funds approach offers the best solution for the majority of clients.

Heritage Capital Management Limited

Review for the quarter ended 31st March 2024

Market Commentary and Outlook

Global equity markets had a strong start to the year with several of the major indices recording new highs, including the S&P 500 in the US which also now dominates the overall world index with a weighting that has risen to around 60%.

Unlike the final quarter rally last year, which was driven by good news on falling inflation and expectations that interest rates would soon start to reduce, the progress so far this year for equities has been driven by optimism around profit growth.

In fact, expectations around interest rate reductions have been moderated slightly recently and all of the major currency 10 year government bond yields have risen, which has been a headwind for the capital value of more rate sensitive assets such as bonds and property. However, it is encouraging that base rates are at least unlikely to have to increase further and expectations are that we will see central banks cutting rates later in the year.

With all of this in mind we think that for conservative investors, having an investment strategy based on a diversified range of asset classes including bonds, property and other alternative income producing assets including infrastructure and renewable energy makes sense, rather than one narrowly based on just equities which may be more vulnerable to a setback after a strong run.

United Kingdom

Although the FTSE 100 index had a positive start to the year, it has lagged behind the other major markets so far in 2024. Also, within the UK it was a weaker quarter for small caps and the AIM market which are both slightly down so far this year.

There was some encouraging news on UK inflation which has now fallen to just 3.4%, the lowest rate since September 2021 and well below its peak of 11% in 2022. This has provided hope that base rates have now peaked at 5.25% and that the Bank of England will start to reduce rates later in 2024, which should provide a boost for investors in equities, bonds and property.

United States

The US market had a strong start to the year, with the potential growth in AI (Artificial Intelligence) being a major theme.

In particular AI chip maker, Nvidia, has seen its market value soar to over $2.2 trillion making it now the third largest company in the US behind only Microsoft and Apple. Other impressive stats from its meteoric rise include the record in February for the largest ever one day increase in value for a company of $277 billion, which is significantly more than the total value of any one of the UK's largest listed companies.

In its most recent meeting in March, the Federal Reserve Bank held interest rates at a 25 year high of 5.5%, but signalled that it still expects to cut rates three times later in the year.

Europe

Europe also had a good first quarter, which has helped to take the market to a new all-time high.

Inspired by the "Magnificent Seven" large US tech stocks, Europe has christened its own group of leading companies as the "GRANOLAS". These extend to a couple of UK shares and consist of GSK, Roche, ASML, Nestle, Novartis, Novo Nordisk, L'Oreal, LVMH, AstraZeneca, SAP and Sanofi. These shares have been the driving force behind the overall recent rise in the European market, with the supposed advantage being that they cover a wider range of industries, compared to the narrow technology focus of their US equivalents.

Japan

Japan's Nikkei index was the best performing major market in the first quarter and furthermore it also finally managed to surpass the all-time high of 38,916 that it previously peaked at 34 years ago in December 1989. However, the caveat to all this positive news for international investors has been the weak Yen, which means that returns have been lower if measured in Sterling or US Dollars. The other notable milestone in Japan this quarter was the Bank of Japan's decision to raise interest rates for the first time in 17 years, ending the era of negative rates, with an increase from -0.1% to +0.1%.

Emerging markets

Whilst all of the major market indices made positive progress in the first quarter, emerging markets have continued their recent run of underperformance. Those making a negative start to the year included South Africa and Brazil, whilst two of the better performing emerging markets have been India, where valuations are now starting to look a bit stretched after a strong run, and Argentina where a radical new political approach so far appears to have gained the approval of investors.

Investment Statistics - 31/03/2024

Equity Markets	Q1 2024	2023	2022	2021	PE Ratio	Dividend Yield	Central Bank Interest Rates	10 yr Gvnmt Bond Yields	Exchange Rates	
									vs GBP	vs USD
TR Global ($)	7.67%	22.19%	-17.91%	18.84%						
US (S&P 500)	10.16%	24.23%	-19.92%	26.89%	26	1.7%	5.50%	4.19%	1.2623	1.0000
UK (FTSE 100)	2.84%	3.78%	0.91%	14.30%	13	3.7%	5.25%	3.94%	1.0000	1.2623
Europe (STOXX 50)	12.43%	19.19%	-11.74%	20.99%	15	3.0%	4.50%	2.29%	1.1677	1.0793
Japan (Nikkei 225)	20.63%	28.24%	-9.37%	4.91%	23	1.5%	0.10%	0.73%	191.00	151.31

Total returns- including dividends

Source: Refinitiv

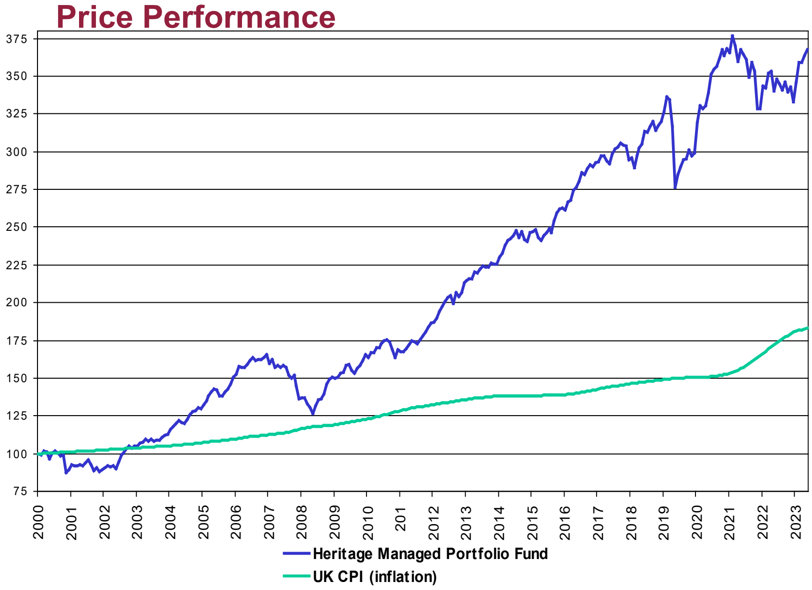
Heritage Capital Management Limited is authorised and regulated by the Financial Conduct Authority. Investors should be aware that past investment performance is not a guide to future performance, and that the value of investments may fall as well as rise. An investor may get back less than the original amount invested.

Heritage Managed Portfolio Fund

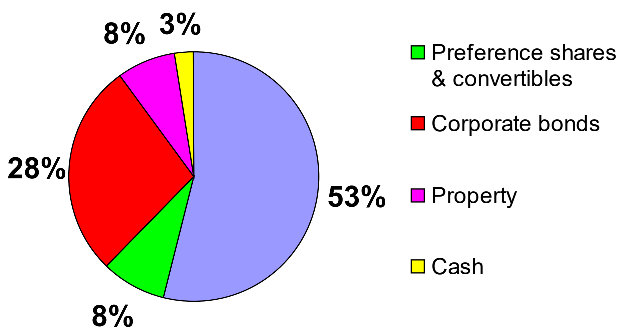
Review for the quarter ended 31st March 2024

Performance	Managed Portfolio Fund	Inflation (UK)	Fund information	
Return for the quarter & 2024 ytd (net)	2.33%	0.46%	Price at 31st March 2024	£367.72
Year 2023 return (net)	5.02%	3.95%	Fund size	£189.9 million
Year 2022 return (net)	-9.14%	10.66%	Fund domicile	Guernsey
Year 2021 return (net)	14.07%	5.40%	Fund status	Non-distributor ("roll-up")
Year 2020 return (net)	-1.87%	0.37%	Subscriptions/redemptions	Monthly dealing
Year 2019 return (net)	16.31%	1.40%	Further Information	www.heritage-capital.co.uk
Year 2018 return (net)	-2.76%	2.29%		
Year 2017 return (net)	11.50%	3.16%	**Risk**	**Annual Volatility**
Year 2016 return (net)	7.48%	2.10%	Managed Portfolio Fund	7.6%
Compound annual return since 2001	5.77%	2.57%	TR World Index	13.7%

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 had a positive start to the year with a gain of 2.33% in the first quarter.

Our portfolio of shares had a good quarter with the best contributions coming from our insurers, Beazley, Lancashire, Hiscox and Conduit and smaller companies System1, Bloomsbury, BP Marsh, Greggs, Gulf Marine Services and Ocean Wilsons also doing well. These good performances have been driven by encouraging results and trading updates and this has also extended to some of our large cap holdings including Intermediate Capital Group, GSK, Aviva and RELX. Disappointing news has thankfully been less common recently, but a couple of notable weaker performers have been Close Brothers and Victrex.

Following the very sharp rally at the end of last year our property holdings and alternatives, such as infrastructure and renewables, have struggled so far this year as expectations around the timing and scale of interest rate reductions have been slightly tempered.

Despite this our bond portfolio has had a solid start to the year. The average income yield on our bonds is 7%, and with the average prices still below par and interest rates cuts expected later in 2024 there is the potential for some capital gains to increase the total return to very attractive levels.

Although 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.

This report is not an invitation to subscribe for shares in the Heritage Investment Funds and is for the information of investors only. Investors should be aware that past investment performance is not a guide to future performance, and that the value of investments may fall as well as rise. An investor may get back less than the original amount invested.

Changes to custody arrangements

Following a review by our regulators, the Financial Conduct Authority (FCA), last year, we have been requested to transfer clients' investments and cash to an independent, specialist custodian. This arrangement is in common with many small and medium-sized investment firms, and is to provide increased protection for clients as custody of their assets and cash will be directly with the custodian, rather through the previous general client account arrangements in the name of Heritage Capital Management Ltd.

Following extensive research we have chosen to establish custody and cash accounts for our clients with Multrees Investor Services, a specialist and experienced independent custodian with over £11 billion in custody for investment firms. We are in the process of transferring our clients' investments and cash to Multrees who will, in future, be responsible for their safekeeping and administration. Clients will continue to deal directly with us as in the past and will not have any direct dealings with our underlying custodian.

There are still certain formalities to complete and we apologise for any interruption to our normal service standards during this transition period.for those clients who like to buy and sell their own individual investments. This does not affect the large majority of clients who invest only in the Heritage Funds where all trading continues as normal.

Update on payment arrangements from investment cash accounts

Over the years, there has been a tightening of the restrictions on cash payments by regulators and Heritage Capital Management Limited falls under the scope of the Second Payment Services Directive (PSD2), which applies to all investment firms.

Funds held in investment cash accounts are now only able to be used for investment related purposes, as well as a payments to a limited number of other acceptable accounts including beneficiaries, trustees, professional advisors and HMRC/tax authorities.

For any other payments we can only transfer funds into a bank account in the name of the client, from which clients will be able to make any third-party payments required themselves.

We are sorry for any inconvenience that the above changes may cause. They are being introduced for the greater protection of the assets and cash held by clients and will result in enhanced services in the longer term.

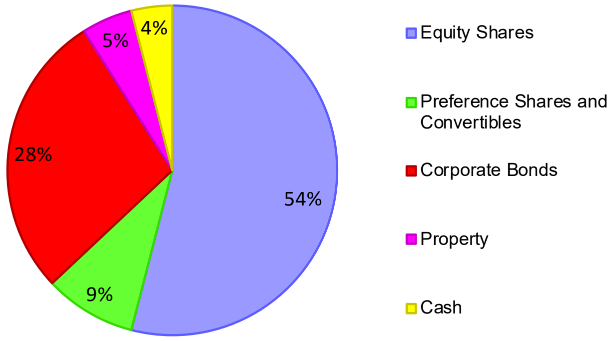
SVS Heritage Balanced Portfolio Fund

Price at 31/03/24	147.0p (launched at 100p 1/12/16)
Fund size	£34.18 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	2024 Q1	2023	2022	2021	2020	Inception 01/12/16
SVS HBPF	2.23%	5.43%	-8.27%	15.00%	-1.52%	47.00%
UK CPI	0.46%	3.95%	10.66%	5.40%	0.37%	30.73%

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 made a positive return of 2.23% 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.

Heritage

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