Heritage

Quarterly Newsletter & Investment Review

Issue 106 Quarterly news & investment review from Heritage Quarter 2 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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Another positive quarter for investors despite many challenges

Whilst the interest rate reductions that markets were expecting this year have so far failed to materialise and geopolitical uncertainty continues to be elevated due to numerous key elections as well as ongoing wars in Ukraine and the middle east, investment markets have managed to make further positive progress this quarter.

We are pleased to report that the Heritage funds have had a another positive quarter, with a gain of 3.3% taking the return for the first half of the year to 5.7%. 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"- Taking a long-term approach

It is interesting to note how often we are asked about our thoughts on what will happen to financial markets in the near future or year ahead. To a certain extent this is understandable, as at the moment we have considerable short term uncertainty arising about the direction of interest rates, as well as plenty of geopolitical risks to contend with. This focus on the short term is encouraged both by the media which thrives on the news that drives current markets and the investment banks and brokers that profit from anything that stimulates more active trading activity.

Whilst this focus on the short term is understandable in a modern society in which we are constantly bombarded by 24-hour news and social media, we believe that it is at odds with the needs of most investors including the individuals, pension funds and trusts that we count as our clients, for whom taking a much longer term view is more appropriate.

Of course taking a long-term view does not mean completely ignoring whatever is happening at the moment and simply hoping that things will turn out alright in the end. It is crucial to be able to pick out the key factors that provide relevant investment signals as opposed to the large amount of unnecessary and unhelpful "noise". Differentiating between the noise and what is important to the ultimate prospects for a business allows investors to assess whether current price movements are likely to be temporary or not and helps avoid making snap decisions based on irrelevant facts or chasing the latest fads.

The other important thing that long-term investors need to bear in mind is that although it is the sharp short term movements in prices and capital values that grab all the headlines, the bulk of the long run returns actually come from the income generated from the dividends on the shares, interest on the bonds and rental income from the properties and the reinvestment and the compounding of these returns.

Overall, the ability to focus on what drives returns means that rather than being a cause for over enthusiasm when prices rapidly rise or being alarmed and fearful when prices fall, the long-term investor is able to constantly undertake a rational analysis of valuations. This approach has the added benefit of resulting in a much lower turnover and avoids the additional cost burden that results from higher frequency trading.

Heritage Capital Management Limited

Review for the quarter ended 30th June 2024

Market Commentary and Outlook

Global equity markets have continued their strong run this year, with a further gain of just over 4% in the second quarter.

Whilst global and major market indices are useful tools for analysing overall equity market performance, it is also interesting to dig a bit deeper into what makes up the indices and how much the constituent sectors and individual stocks can vary.

For example a deeper dive into the UK market so far this year shows a huge divergence between the various industrial sectors that is masked by looking at the fairly pedestrian return of just over 2.6% for the overall market. The top performing sectors so far this year are Telecoms equipment (up 48%), Industrial materials (+35%), Aerospace & defence (+28%) and Banks (+15%), with four other sectors up by over 10%. At the other end of the scale can be found the Personal goods sector which is down by 37%, Automobiles & parts (-29%) and Chemicals (-15%).

At the individual stock level the range of performances is even wider. Taking just the shares in the FTSE 100 index of the largest companies, there are three companies up by over 50%, Darktrace, Hargreaves Lansdown and Rolls-Royce, whilst JD Sports, Entain and Burberry have all fallen by over 25% so far this year.

These very large divergences between sectors and stocks present both a risk and an opportunity for active investors. Whilst adventurous investors can potentially make very large returns by correctly backing a concentrated selection of stocks or sectors, as conservative investors we are very aware of the flipside of this equation and our focus is on reducing risk through diversification as much as picking winners.

United Kingdom

The FTSE 100 index had another positive quarter and is now up by just over 5.5% so far this year. Encouragingly smaller listed companies, which had been lagging the blue chips, have now also started to rally, with the FTSE SmallCap index outperforming the FTSE 100 this quarter for the first time in a while.

There was also more encouraging news on UK inflation which has now fallen all the way back from its peak of 11% in 2022 to its 2% target. However, the Bank of England has chosen not to lower interest rates during an election period, although the expectation is that rates will begin to fall later in 2024, which should hopefully provide a boost for investors in equities, bonds and property.

United States

The US has extended its strong run, with the potential growth in AI (Artificial Intelligence) continuing to be a major theme, driving the S&P 500 index to a new all-time high.

In particular AI chip maker, Nvidia, has continued its meteoric rise and in early June it briefly became the world's most valuable company, overtaking Microsoft and Apple with a market value of over $3.3 trillion.

With inflation still stubbornly remaining above its 2% target, the Federal Reserve Bank has continued to hold interest rates at a 25 year high of 5.5% and has also started to dampen expectations around the timing and extent of any reductions in the second half of the year.

Europe

Europe was the weakest of the major markets this quarter with a loss of 3.7%.

French president Emmanuel Macron's surprising decision to call a snap election appears to have backfired and has also not gone down well with the markets, with the CAC 40 index of leading French companies falling around 10%. Perhaps more worryingly, the bond markets have also been spooked and the spread on French government debt against German bonds has widened to levels not seen since the Eurozone sovereign debt crisis more than 10 years ago.

Japan

Following a very strong start to the year, which saw the Nikkei index finally surpass its all-time high first reached back in December 1989, Japan had a much quieter second quarter with a small loss of just under 2%. More significant for international investors has been the continued weakness of the Yen. For example its level against the pound has depreciated from under 130 a few years ago and 180 at the start of this year to the current level of 203.5.

Emerging markets

It is not just developed markers that are having a big year for elections, the world's largest democracy, India, went to the polls this quarter with Narendra Modi securing a third term but needing a coalition for the first time. There was also a historic election in South Africa, with the ruling ANC failing to secure a majority for the first time since coming to power under Nelson Mandela in 1994. Both of these results have been taken fairly positively by markets and overall it has been a better quarter for emerging markets generally.

Investment Statistics - 30/06/2024

Equity Markets	Q2 2024	2024 YTD	2023	2022	PE Ratio	Dividend Yield	Central Bank Interest Rates	10 yr Gvnmt Bond Yields	Exchange Rates	
									vs GBP	vs USD
TR Global ($)	4.17%	11.84%	22.19%	-17.91%						
US (S&P 500)	3.92%	14.48%	24.23%	-19.92%	28	1.3%	5.50%	4.39%	1.2649	1.0000
UK (FTSE 100)	2.66%	5.57%	3.78%	0.91%	14	3.6%	5.25%	4.32%	1.0000	1.2649
Europe (STOXX 50)	-3.73%	8.24%	19.19%	-11.74%	16	2.8%	4.25%	2.60%	1.1782	1.0735
Japan (Nikkei 225)	-1.95%	18.29%	28.24%	-9.37%	16	1.5%	0.10%	1.06%	203.48	160.91

Total returns- including dividends

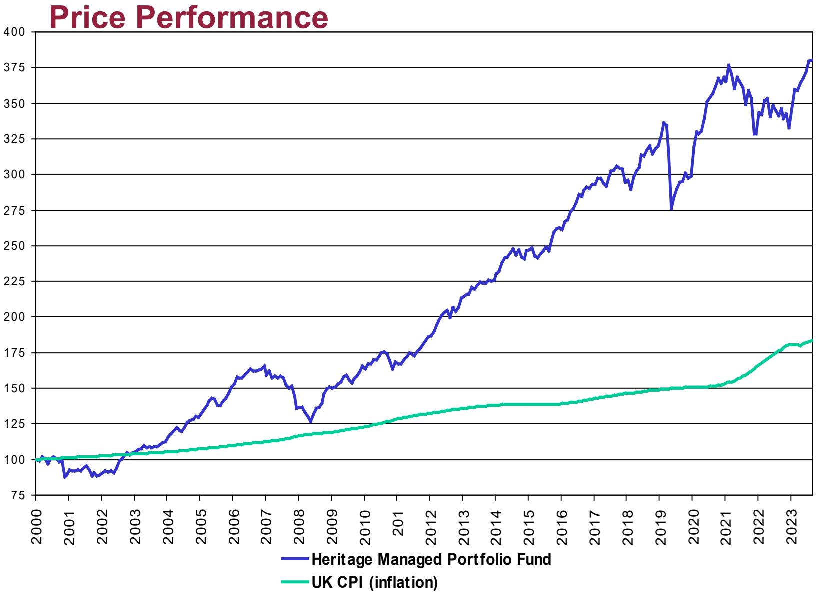
Source: Refinitiv

Heritage Managed Portfolio Fund

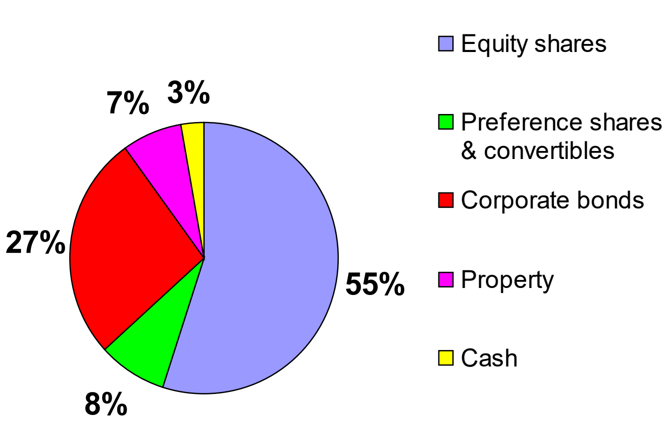
Review for the quarter ended 30th June 2024

Performance	Managed Portfolio Fund	Inflation (UK)	Fund information	
Return for the quarter	3.33%	1.21%	Price at 30th June 2024	£379.95
Return for ytd	5.73%	1.67%	Fund size	£193.6 million
Year 2023 return	5.02%	3.95%	Fund domicile	Guernsey
Year 2022 return	-9.14%	10.66%	Fund status	Non-distributor (“roll-up”)
Year 2021 return	14.07%	5.40%	Subscriptions/redemptions	Monthly dealing
Year 2020 return	-1.87%	0.37%	Further Information	www.heritage-capital.co.uk
Year 2019 return	16.31%	1.40%		
Year 2018 return	-2.76%	2.29%	**Risk**	**Annual Volatility**
Year 2017 return	11.50%	3.16%	Managed Portfolio Fund	7.6%
Compound annual return since 2001	5.85%	2.59%	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 another positive quarter with a gain of 3.33% taking the return for the first half of the year to 5.73%.

Our share portfolio had a strong quarter with a number of notable contributors. Bloomsbury Publishing announced record results and was up 18% and other strong performances came from System1, Astrazeneca, HSBC, Unilever, Computacenter and Beazley. There was also a boost from a take-over of T Clarke, a long time holding in a small cap electrical engineer. Unusually one of our specialist investment trusts was also subject to a take-over and following a hotly contested bidding war for the Hipgnosis Songs Fund, which saw the share price rise 50%, we will happily accept the final offer for a holding that has not been without its challenges. Our listed private equity fund holdings also had a good quarter with our largest holding, Oakley Capital, making the strongest contribution.

With the expected reductions in interest rates having not yet materialised, our property holdings and alternatives, including infrastructure and renewables, have struggled to make progress so far this year but these do look well positioned now if rates do finally start to reduce in the second half.

Our portfolio of bond and other fixed income securities had a steady quarter and continues to generate an attractive income yield of 7%.

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.

Important update on timings for subscriptions and redemptions to the Heritage funds

Subscriptions and redemptions to the Heritage Managed Portfolio Fund can be made at any month end and it is important to note the key timings around the month end processes for these.

For subscriptions;
We need to be in receipt of funds and your subscription instructions by **12.00pm on the business day prior to the last business day of the month.** Previously we have been able to informally accept subscriptions right up until the month end, but with new custody arrangements and ever stricter regulatory requirements we need to ensure that there are no exceptions to this.

For redemptions;
We also need to receive any instructions for month end redemptions by **12.00pm on the business day prior to the last business day of the month.**

The **settlement** date for receiving redemption proceeds into your Heritage account will continue to be **5 working days after the month end.**

Any onward transfers of these proceeds to other accounts need to be separately instructed and may take an extra day or two to reach the account depending on banking arrangements.

The above arrangements apply to both the ***Heritage Managed Portfolio Fund and LGBSME Private Debt Fund*** which are both part of the Guernsey domiciled Heritage Investment Fund Ltd.

For completeness, please note that our UK regulated fund, the ***SVS Heritage Balanced Portfolio Fund***, is a **daily dealing** fund. For purchases funds need to be in your account on the dealing day and for sales the **settlement day is 4 working days after the trade date.**

Of course clients are also able to hold a very wide range of other investments in their Heritage account, should they wish to, and the dealing and settlement arrangements for these will depend on the particular market or exchange that these are traded on.

UK Election

As this newsletter has been published a few days before the result of the UK general election is known we will be commenting on any investment related issues in our next quarterly newsletter - or if anything more urgent should emerge then on our website.

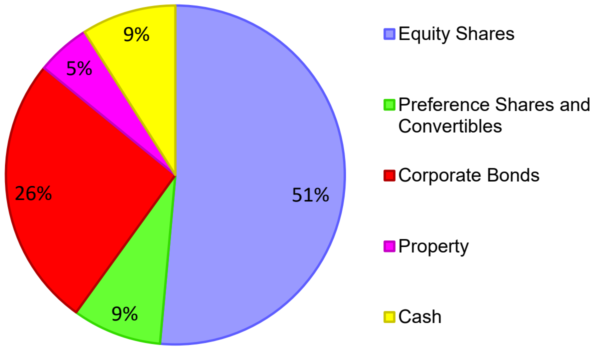
SVS Heritage Balanced Portfolio Fund

Price at 30/06/24	151.9p (launched at 100p 1/12/16)
Fund size	£35.5 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	2024 Q2	2024 YTD	2023	2022	2021	Inception 01/12/16
SVS HBPF	3.33%	5.63%	5.43%	-8.27%	15.00%	51.90%
UK CPI	1.21%	1.67%	3.95%	10.66%	5.40%	32.85%

Asset allocation



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 a positive return of 3.33% this quarter taking the year-to-date gain to 5.63% 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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