Heritage

Quarterly Newsletter & Investment Review

Issue 107 Quarterly news & investment review from Heritage Quarter 3 2024

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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

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Interest rate cuts help markets to make further positive progress

Although it was quite a volatile quarter for markets the net result was further positive progress, helped by the arrival of much anticipated first interest rate cuts over the summer in the US, UK and Europe.

We are pleased to report that the Heritage funds have also had a another positive quarter and are now up by over 7% for the year-to-date. 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"- The benefits of a conservative approach

As most regular readers of our newsletters are well aware, Heritage has always positioned itself at the conservative end of the investment spectrum. Our clients' investments often represent a substantial portion of a family's hard earned wealth and in most cases their priority is to preserve and enhance their capital. We therefore feel that a conservative approach is appropriate. Notwithstanding this, there are also sound reasons for not taking excessive or undue risk when it comes to investing generally.

Firstly a consideration of the basic mathematics of compound returns demonstrates the importance of avoiding significant losses. Many who take a high risk approach do not appreciate that if you make a 50% loss on your portfolio you subsequently require a 100% gain simply to get back to your starting capital. Also, it is interesting to note that an investment that returns a consistent 10% per annum produces a higher overall return than any other combination with an average annual return of 10% made up of more volatile returns (e.g. alternative years with +30% and -10% returns).

Another reason that a lower risk approach to investment can actually be more rewarding is rooted in behavioural science, as studies have shown that investors in aggregate tend to underperform the averages of the underlying markets that they invest in due to poor market timing. This is because those who take on too much risk end up selling at the worst possible time after a big drawdown, as they can no longer bear further losses or even become forced sellers if they are too highly geared. By contrast a conservative investor is better able to avoid or ride out losses and this ability to stick with the programme and benefit from the subsequent recovery, enables them to achieve better long term returns. This more relaxed investment approach based on maximising "time in the market" rather than a more frenetic "timing the market" approach favoured by higher risk investors and traders generally works much better over the long run.

Of course good investment returns cannot be achieved without taking some risk and it is therefore the careful management of risk that is the key. This can be demonstrated by looking at the Heritage Funds, which have produced good returns with unusually low volatility over many years. Our Funds' objective are to generate long-term capital growth at a lower risk than that associated with pure equity market investment. Over the years this approach has enabled us to avoid some very significant falls in stock markets of more than 50%, including during the 2000-2002 bursting of the technology bubble and the 2008 great financial crisis (GFC). In fact the volatility of the Managed Portfolio Fund since inception has been around 7.5%, compared to nearly double that for a typical equity market index.

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Heritage Capital Management Limited

Review for the quarter ended 30th September 2024

Market Commentary and Outlook

Global equity markets have continued their good run this year, with further gains for the majority of the major indices this quarter. Whilst the overall position for the last quarter has improved, it has nevertheless been an unusually volatile period for markets. In particular, weaker than expected US labour figures in early August sparked a sudden fear of a recession and triggered a plunge in equity markets worldwide. In the US the VIX index, which measures market volatility, made its third sharpest jump on record, behind only the Lehman collapse at the height of the financial crisis in 2008 and the 2020 pandemic.

The episode highlights how investor sentiment can impact markets and how finely balanced this can be at times. On the one hand slightly weaker employment numbers can be taken as a positive for markets as it increases the likelihood of interest rate cuts to support the economy and lower rates are positive for financial assets. On the other hand, as in this case, the weak figures tipped over into a fear of an unexpected outright recession which panicked the markets.

Fortunately, global markets subsequently calmed down and recovered their poise and perhaps one of the lessons from this episode is not to worry too much about every short term twist and turn in the markets. In fact an investor who took the whole of August off without checking on markets, would have returned to find the major indices at a very similar level to where they were before their summer break, blissfully unaware of the historically high levels of volatility.

United Kingdom

The FTSE 100 index had another positive quarter and has now made a positive return of just over 6.5% so far this year.

Investors are currently nervously awaiting the new Labour government's first budget for 14 years coming up on October 30th, as chancellor Rachel Reeves and PM Kier Starmer have already made it clear that those who have built up any savings, investments, pensions or other forms of wealth will be targeted. Another concern is that their gloomy rhetoric about the UK's prospects and determination to magnify any economic issues and blame the previous government, risks becoming a self-fulfilling prophecy.

Having said that there are still grounds for optimism, as the OECD has recently positively updated its forecast for UK GDP growth and the upgrade is the biggest of any country in the G7. Furthermore, inflation has now fallen back from its peak of 11% to just above its 2% target and interest rates have finally started to come down, with an initial cut from 5.25% to 5.0% in August. Finally, the pound has also continued its resurgence this year and is up over 5% against the US Dollar.

United States

Despite the above mentioned volatility in August, the US has extended its strong run, with a further gain of 5.5% this quarter taking the S&P 500 index to a new all-time high of over 5,700.

The much anticipated first interest rate cut by the Federal Reserve Bank finally arrived in September, with a 0.5% reduction, with further cuts from the current level of 5.0% in the final quarter of 2024 expected. The other major event to look out for in the US is the upcoming presidential election in November and with the American electorate completely and evenly divided between Harris and Trump, the result currently looks too close to call.

Europe

European markets also had a decent quarter and like its counterparts in the UK and US, the European Central Bank has also reduced interest rates.

As well as an ongoing war in Ukraine on its eastern flank, there have been a number of recent elections in Austria, Germany and France that have created significant political uncertainty in Europe. Whilst equity markets so far appear to be shrugging off any geopolitical concerns across the continent, as always it is also worth keeping an eye on government bond markets for signs of stress and recently concerns over rising deficits and debt have seen French 10 year government bond yields, that previously traded closer to German bonds, widen out to the same level as Spain.

Japan

Whilst the major western markets are broadly following similar paths, Japan has continued its tendency to move to a different beat. Unlike the other major central banks that are now cutting interest rates, Japan has moved in the opposite direction with a small increase. Japan was also the only major market in negative territory this quarter. The plus side of this tendency to follow its own path is that it provides a genuine level of diversification for international investors.

Emerging markets

After a long period of relative weakness, emerging markets have been having a better run this year. Generally a weaker US Dollar is considered to be a positive for emerging markets, as a stronger dollar puts pressure on emerging economies to raise interest rates to defend their currencies, which is negative for equity market performance.

Investment Statistics - 30/09/2024

Equity Markets	Q3 2024	2024 YTD	2023	PE Ratio	Dividend Yield	Central Bank Interest Rates	10 year Gvnmt Bond Yields	Inflation CPI	Exchange Rates	
									vs GBP	vs USD
TR Global ($)	7.01%	17.99%	22.19%							
US (S&P 500)	5.53%	20.81%	24.23%	27	1.2%	5.00%	3.79%	2.60%	1.3370	1.0000
UK (FTSE 100)	0.89%	6.51%	3.78%	14	3.4%	5.00%	4.01%	2.20%	1.0000	1.3370
Europe (STOXX 50)	2.17%	10.59%	19.19%	15	3.1%	3.65%	2.12%	1.60%	1.2011	1.1161
Japan (Nikkei 225)	-4.20%	13.31%	28.24%	20	1.6%	0.25%	0.86%	3.10%	191.87	143.04

Total returns- including dividends

Source: Financial Times & FactSet

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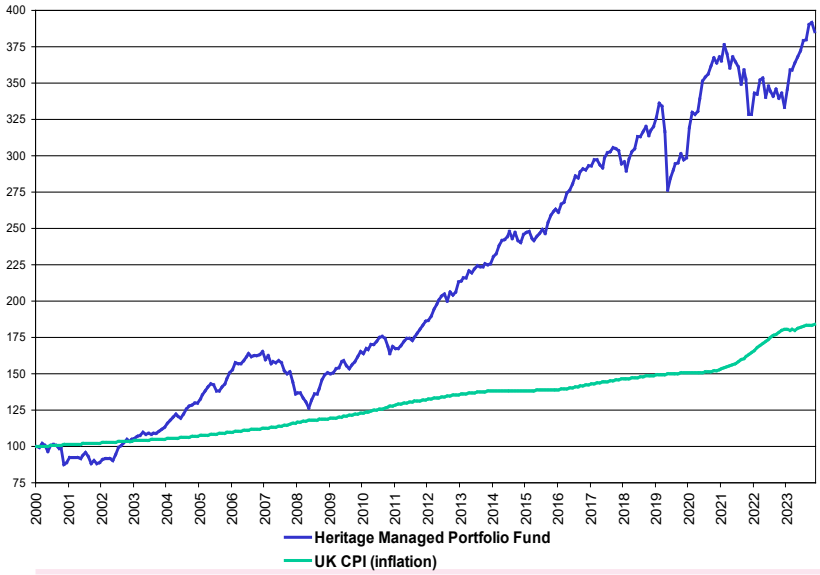
Heritage Managed Portfolio Fund

Review for the quarter ended 30th September 2024

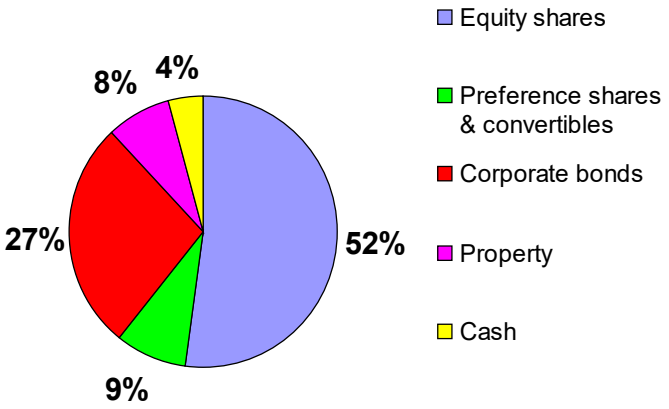
Performance	Managed Portfolio Fund	Inflation (UK)
Return for the quarter	1.46%	0.30%
Return for 2024 year-to-date	7.27%	1.97%
Year 2023 return	5.02%	3.95%
Year 2022 return	-9.14%	10.66%
Year 2021 return	14.07%	5.40%
Year 2020 return	-1.87%	0.37%
Year 2019 return	16.31%	1.40%
Year 2018 return	-2.76%	2.29%
Year 2017 return	11.50%	3.16%
Compound annual return since 2001	5.85%	2.58%

Fund information	
Price at 30th September 2024	£385.49
Fund size	£192.9 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	7.5%
TR World Index	13.6%

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, with a gain of 1.46% taking the return for the year-to-date to 7.27%.

The strongest performers from our share portfolio this quarter were a mixed bunch led by small cap market research company System1, consumer healthcare stock, Haleon, and housebuilder, Bellway, which were all up over 20%. Other contributors with gains of over 10% included ports operator Ocean Wilsons, on the back of a possible take-over bid, Greggs the baker, insurer Lancashire and a couple of our FTSE 100 stocks, Unilever and Compass group. Detractors this quarter included Associated British Foods, AstraZeneca and Computacenter, although we remain positive about these core long-term holdings.

The much anticipated first reduction in UK base rates at the start of August helped to provide a boost for our bonds and various other fixed income securities and preference shares, which had a decent quarter and we continue to earn an attractive overall income yield of approximately 7%.

Also, with rates finally coming down sentiment has started to turn a bit more positive for our property holdings and other income producing alternatives such as infrastructure and renewables.

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.

"Spotlight On" - A conservative approach - continued

In practical terms there are a number of ways that we manage our Funds to make sure they are not taking on too much risk.

Our multi-asset approach is one of the main keys to this, as whilst we recognise that good investment returns are only possible if a certain amount of risk is undertaken and that historically equities have offered a better returns than bonds and cash, it is important not to underestimate the considerable risks involved in equity investment. We therefore seek to manage and control this risk through also investing in less risky alternatives such as fixed interest securities and income producing investments with asset backing, such as property and infrastructure assets.

In fact diversification is one of the most important tools that that we use, which in simple terms is ensuring that we don't fall foul of the old maxim about the wisdom of never keeping all your eggs in one basket. Whilst it might be tempting to load up on a particular favourite investment, the reality is that it is always possible for things to go badly wrong for even the best companies. We therefore limit our holdings to well under 5% of the fund and have well over a hundred individual holdings in total.

In summary, we believe that over the long run a conservative, low risk approach to investing has much to commend it, and that when it comes to investing, at Heritage are quite happy to be likened to the tortoise rather than the hare.

Investment trusts – welcome changes to the badly designed disclosure regime

As a result of their unique structure, for a number of years now investment trusts have been at a competitive disadvantage compared to open ended companies when it comes to the regulatory requirements around fee disclosure. The current poorly designed regime with onerous and misleading disclosure requirements has made them harder to advise on and recommend for many financial advisers and wealth managers. Thankfully the government and FCA have now recognized this and are acting to make the necessary changes and level the playing field.

Heritage has always made use of investment trusts for exposure to specialist areas such as private equity, property and alternative investments, so we welcome the changes which should now make them easier for advisers to recommend and therefore provide a much welcome boost to the investment trust sector.

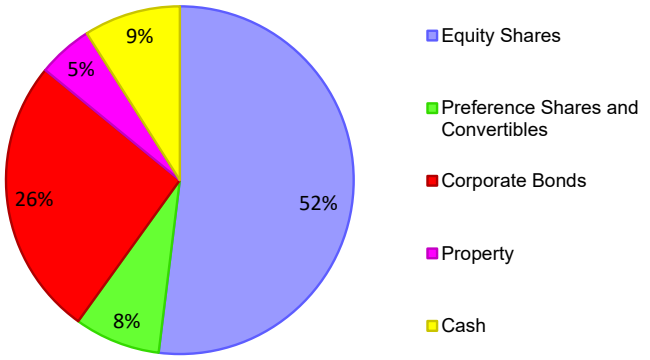
SVS Heritage Balanced Portfolio Fund

Price at 30/09/24	155.6p (launched at 100p 1/12/16)
Fund size	£36.1 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 Q3	2024 YTD	2023	2022	2021	Inception 01/12/16
SVS HBPF	2.44%	8.21%	5.43%	-8.27%	15.00%	55.60%
UK CPI	0.30%	1.97%	3.95%	10.66%	5.40%	32.71%

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 2.44% this quarter taking the year-to-date gain to 8.21% 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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