Heritage

Quarterly Newsletter & Investment Review

Issue 108 Quarterly news & investment review from Heritage Quarter 4 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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Lower inflation a positive for investors in 2024

2024 was the year that inflation, which had been running at worryingly high levels over the past few years, returned to a more manageable level and whilst interest rates have not yet fallen as far or fast as hoped for in response, investment markets have still been able to make decent progress this year, despite a small dip in the final quarter.

We are pleased to report that the Heritage funds have had a another positive year, with gains of around 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"- Stock picking

Most investment commentary tends to focus on interest rates, the macro-economic environment, geopolitics and the big thematic issues that impact overall investment markets. Moving beyond this, fund management groups will also be expected to provide details of their overall approach and investment style. At Heritage, we also provide some regular "top down" analysis and commentary, but what really interests us more is digging a bit deeper into the individual holdings that arise from our predominantly "bottom up" stock-picking approach.

With this in mind we thought it would be helpful to provide a couple of examples that neatly typify our approach, namely Bloomsbury Publishing and BP Marsh. Both of these were amongst our top performers this year and now sit within the top 5 holdings in our funds. However, neither of these have been overnight success stories and have required a patient, long-term approach. Coincidentally we initially bought small stakes in both companies way back in October 2015 and have added to our positions as we became more comfortable with them both over the years.

Bloomsbury is a small independent publishing house that first made a name for itself when its founder, Nigel Newton, famously took on an unknown author that had been rejected by all other publishers. The subsequent success of JK Rowling's Harry Potter books produced a huge boost to Bloomsbury. However, by the time we first looked at the company in 2015, it was being written off by the market as a one hit wonder whose best days were behind it and the shares were languishing on a PE ratio of just 12 times earnings and the share price had halved from its peak in 2005. What the market was missing was that Bloomsbury had been starting to shrewdly reshape its business by using the strong cashflows that Harry Potter continued to generate to move into new areas, such as academic and professional publishing, as well as organically developing a highly successful digital online business. Other factors that we liked about the company were its solid balance sheet with no debt and net cash and good management, led by their founder who still retained a significant stake.

The company continued to build on this approach and over time we added to our holding. It also helped that Covid actually turned out to be a positive factor by leading to a sustained increase in reading and most recently Bloomsbury has received a further boost by publishing the hugely successful Sarah J Maas "Romantasy" books, made even more popular by BookTok. All of this has resulted in turnover rising from £110m in 2015 to £343m this year and profits from just under £10m to £40m. Pleasingly the share price has followed suit and the market value of Bloomsbury has increased from £130m to well over £500m, resulting in the company being promoted from the small cap index to the FTSE 250 index.

Continued on page 4

Heritage Capital Management Limited

Review for the quarter ended 31st December 2024

Market Commentary and Outlook

Despite a mixed final quarter which resulted in a small decline for the World Index, global equity markets had another positive year overall in 2024.

The main driver of these returns continues to be a small handful of American technology giants, collectively known now as the Magnificent Seven. Their dominance has now reached the point where they account for a third of the US S&P 500 index and 20% of the World Index. This year the standout performer was Nvidia, which nearly trebled in value as investor enthusiasm for its Artificial Intelligence (AI) chips reached fever pitch and there were impressive gains for the other members of the club – Alphabet (Google), Amazon, Apple, Meta (Facebook), Microsoft and Tesla.

However, whilst this meteoric rise of the Magnificent Seven has undoubtedly boosted overall recent market returns, the danger looking forwards is that investors may now be inadvertently exposed to a highly concentrated handful of stocks on very stretched valuations.

United Kingdom

The FTSE 100 index had a weaker final quarter, with a small decline taking the full year return to 5.7%.

The UK experienced its first budget under a Labour government for 14 years in October and unfortunately it was investors and anyone deemed to be "wealthy" who have been particularly targeted by a range of tax increases. London's junior AIM market has suffered another poor year with a loss of 5%, not helped by a reduction in the inheritance tax break previously enjoyed by AIM listed shares.

Furthermore, businesses will also be hit by the increase to employer's National Insurance and there is a real danger that Labour's gloomy rhetoric becomes a self-fulfilling prophecy. However, there are still some grounds for optimism, as 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 a further cut from 5.0% to 4.75% this quarter. It's also mildly encouraging that the OECD is at least projecting stronger GDP growth for the UK in 2025 than its European neighbours and valuations of UK stocks also continue to look attractive on a PE ratio of 16 and a dividend yield of 3.6%.

United States

The US has extended its strong run, with a gain of 2.1% in the final quarter taking full year return for the S&P 500 index to over 20%, which as mentioned above was primarily driven by a handful of large technology stocks. Also, markets have been further buoyed by another cut in interest rates by the Federal Reserve Bank, bringing them back below 5%.

The big uncertainty for investors looking ahead into 2025 is what the new Trump presidency will entail, given the strong protectionist policies on the election trail. Promises to put 60% tariffs on Chinese imports and 20% on all other countries would clearly have massive implications for global trade. However, as is often the case with Trump, these bold promises may just be a negotiating tactic and the reality may turn out to be less dramatic.

Europe

Europe was the weakest of the major markets in the final quarter with a 2.1% decline, although 2024 was still a reasonably positive year overall.

As well as the uncomfortably close ongoing war in Ukraine, there has been a considerable increase in political and economic uncertainty in Europe this year. Unlike previous periods of turmoil which emanated from the southern Mediterranean countries, this time it is the traditional powerhouse economies of Germany and France that are feeling the strain. Germany is no longer benefitting from cheap Russian gas and much of its manufacturing base, such as the car industry, appear to be entering structural decline, whilst France has a serious debt problem with government debt ballooning to over 100% of GDP, well above the supposed European Union limit of 60%.

Against this background the European Central Bank has moved to reduce interest rates further and faster than other major central banks, with another cut of 0.5% in the final quarter taking the rate to 3.15%.

Japan

Japan was the strongest of the major markets in the final quarter and the Nikkei index also had a good year overall. However, returns for international investors have been heavily diluted by the continued weakness of the Japanese Yen which fell by around 12% against the US Dollar in 2024, despite Japan being the only major economy to have raised interest rates this year.

Emerging markets

Emerging markets had a decent year in 2024 but the overall average masks some huge divergences between individual countries. Argentina was the runaway leader this year as markets were encouraged by the radical changes made by president Javier Milei, whilst at the other end of the spectrum political turmoil in Korea sent its Kosdaq Index down by over 20%.

Investment Statistics - 31/12/2024

Equity Markets	Q4 2024	2024	2023	PE Ratio	Dividend Yield	Central Bank Interest Rates	10 year Gvnmt Bond Yields	Inflation CPI	Exchange Rates	
									vs GBP	vs USD
TR Global ($)	-0.86%	16.98%	22.19%							
US (S&P 500)	2.07%	23.31%	24.23%	27	1.2%	4.50%	4.58%	2.70%	1.2511	1.0000
UK (FTSE 100)	-0.78%	5.69%	3.78%	16	3.6%	4.75%	4.57%	2.60%	1.0000	1.2511
Europe (STOXX 50)	-2.09%	8.28%	19.19%	15	3.1%	3.15%	2.35%	2.20%	1.2095	1.0355
Japan (Nikkei 225)	5.21%	19.22%	28.24%	22	1.6%	0.25%	1.08%	2.90%	196.83	157.16

Total returns- including dividends

Source: Financial Times & FactSet

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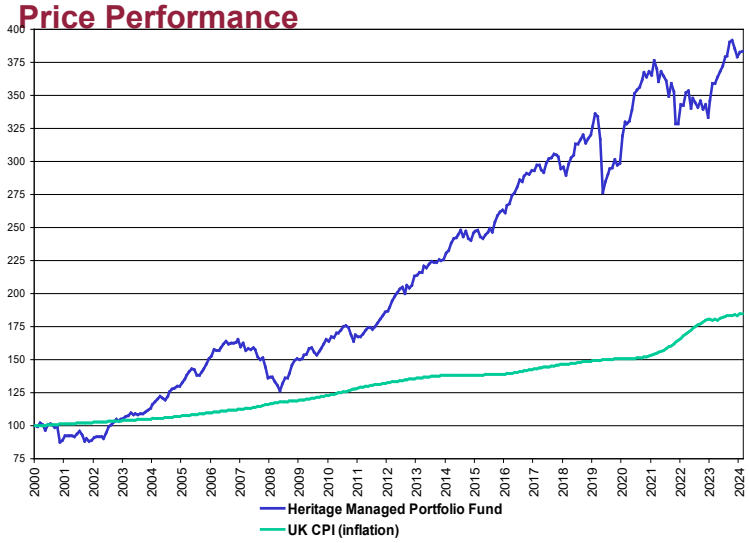
Heritage Managed Portfolio Fund

Review for the quarter ended 31st December 2024

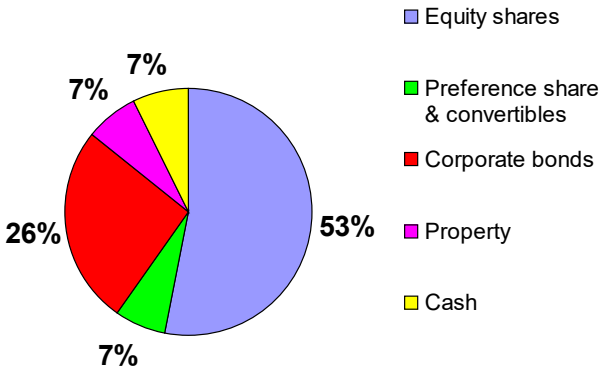
Performance	Managed Portfolio Fund	Inflation (UK)
Return for the quarter	-0.57%	0.60%
Return for 2024	6.66%	2.58%
Year 2023 return	5.02%	3.95%
Year 2022 return	-9.14%	10.66%
Year 2021 return	14.07%	5.40%
Year 2020 return	-1.87%	0.37%
Year 2019 return	16.31%	1.40%
Year 2018 return	-2.76%	2.29%
Year 2017 return	11.50%	3.16%
Compound annual return since 2001	5.77%	2.58%

Fund information	
Price at 31st December 2024	£383.28
Fund size	£186.4 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 had a decent year overall in 2024, with a gain of 6.7%.

Our portfolio of shares had a positive year, but as usual there were large differences in individual performances. Amongst the strongest contributors with its share price more than doubling was niche market researcher, System1, and other shares that appreciated by over 40% were BP Marsh, Beazley, Standard Chartered, Animalcare and Bloomsbury. Other double digit gainers included Compass, HSBC, RELX, Intermediate Capital and Unilever. On the other hand our largest holding, Computacenter, had a weak year and other notable fallers were Close Brothers, Victrex and Youngs.

Our property holdings and other alternatives such as infrastructure and renewables had a frustrating year, as expectations for interest rates cuts were scaled back. These holdings are now generally on very attractive dividend yields and should produce decent returns going forwards.

Our bond portfolio had a decent year and we continue to benefit from an overall attractive running income yield of just over 7% and a yield to redemption of just below 8%. Also, our small portfolio of zero dividend preference shares yields just under 7% to maturity and had an encouragingly strong end to the year.

Although the near term outlook remains uncertain as ever, 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" - Stock picking - continued

BP Marsh is a specialist investor in early stage insurance related businesses established by industry veteran, Brian Marsh, who is still chairman and the largest shareholder. Despite building an impressive 25 year track record the shares were trading at a hefty 35% discount to their underlying net asset value (NAV) when we bought our initial stake in 2015.

As BP Marsh was run from just across the road from our Heritage office, we got to know the team and as we became more comfortable that a new generation of management, led by Dan Topping, were successfully building and expanding on the founder's extensive experience and industry contacts we gradually added to our position.

Following an excellent run of successful investments the underlying net asset value per share grew from 215p in 2015 to 629p at its most recent year end in January 2024. More good news this year has seen a further increase in NAV to 691p and the shares have finally moved from their previous large discount to NAV to a small premium, as investors finally recognise the remarkable progress that has been made.

Overall Bloomsbury and BP Marsh exhibit key characteristics of successful Heritage stock picks, with both being small companies on attractive valuations, operating in specialist niche areas, with a strong founder led management team, strong balance sheets with no debt and paying decent and growing dividends. We have also had to take a long term patient approach, as their best results have come nearly 10 years after our initial investment, with both their share prices up by around 50% in 2024.

Budget changes to pensions and inheritance tax

Whilst in an ideal world individuals would be able to make long term plans for both their retirement and estate with a stable set of tax rules and regulations, frustratingly each new set of politicians can't seem to resist making changes that play havoc with the best laid plans. The new Labour chancellor, Rachel Reeves, has taken this to a whole new level with sweeping changes to both pensions and inheritance tax and there were also increases in capital gains tax rates in her first budget.

Although at Heritage we are investment managers rather than financial or tax advisors, we realise that tax planning is an important part of ensuring that the best net returns are achieved for clients and we do work closely with associated advisors who are able to help with this type of planning and structuring, so please do not hesitate to get in touch with us if you are looking for some help and guidance with this.

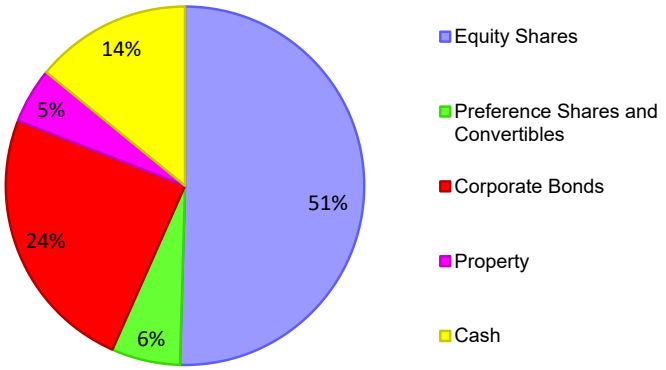
SVS Heritage Balanced Portfolio Fund

Price at 31/12/24	155.1p (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 Q4	2024	2023	2022	2021	Inception 01/12/16
SVS HBPF	-0.32%	7.86%	5.43%	-8.27%	15.00%	55.10%
UK CPI	0.60%	2.58%	3.95%	10.66%	5.40%	33.50%

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 had a decent year with a positive return of 7.86% 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.

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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