Heritage

Quarterly Newsletter & Investment Review

Issue 109 Quarterly news & investment review from Heritage Quarter 1 2025

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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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Trump tariffs knock global markets

It has been a difficult start to 2025 for investors, as the uncertainty over proposed wide ranging tariffs by the US has dented investor sentiment.

We are pleased to report that despite this the Heritage funds have managed to produce a small positive return in 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"- A multi-asset fund approach

Most investment management groups offer a large number of funds to their clients, reflecting the very wide range of asset classes that are available. In addition to the major asset classes of shares, bonds and property it has been increasingly possible to gain exposure to more specialist areas such as private equity, infrastructure, renewable energy, commodities and hedge funds to name but a few.

Whilst having a sensible level of diversification across different asset classes makes good sense, as it provides diversification and helps to reduce risk, most individuals who are not investment professionals feel ill equipped to weigh up the relative merits and risks associated with such a diverse range of asset classes against an ever changing economic and geopolitical backdrop. Left with this bewildering array of options the result is that many individuals end up either taking on too much risk by simply putting it all in an equity index tracking fund, which leaves them overly exposed to the one of the most volatile asset classes, or too little risk by simply holding cash if they find it all too daunting and difficult to fully understand the advantages of investing for the long-term. This is why we believe that an actively managed multi-asset fund can provide a useful solution for most people's needs.

A managed fund provides a ready-made well diversified portfolio within a single holding, with the key asset allocation decisions made by an investment professional, taking into account factors such as historical returns, interest rates, yield curves, economic statistics and forecasts and valuation measures including PE ratios and dividend yields for shares and yields to maturity for bonds. Risk analysis is also an important consideration, with volatility being an important measure for equities and credit and duration risk needing to be analysed for bonds.

Furthermore, as all the activity takes place within the fund itself, there is no need for the client to be constantly making or approving switches between investments, which also helps to keep things simple and paperwork and administration to a minimum.

A further advantage for taxable investors is that they do not need to keep track of a multitude of income receipts including dividends from shares, interest on bonds and rent on property and there is no need to consider possible capital gains when switching between holdings, with all gains being rolled up tax free within the fund.

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Heritage Capital Management Limited

Review for the quarter ended 31st March 2025

Market Commentary and Outlook

It has been a difficult start to 2025 for investors, with uncertainty around how proposed US tariffs might harm global trade impacting investor sentiment. The net result is that the World Index has fallen by around 1.5% in the first quarter, led by the US market which was down by nearly 5%.

This has taken many investors by surprise, as the consensus at the start of the year was that the US looked set to continue to drive ahead. The newly elected president's promise of tax cuts, deregulation and "America First" policies were initially well received by the business community and investors talked up the concept of "US exceptionalism". However, this initial enthusiasm has proved to be overly optimistic and tariff threats, that were thought to probably just be a negotiating tactic, are in fact becoming a reality that threaten global trade, with the US itself being one of the major potential victims of the resultant trade war.

United Kingdom

The UK market has actually had a positive start to the year with the FTSE 100 index gaining 5%, with its higher weighting in banks and resource companies and lower weighting to technology for once proving to be an advantage. However, the wider UK market has had a more difficult start to the year with the mid cap FTSE 250 index down by 5% and the small cap index falling by around 7%.

UK businesses are bracing themselves for a number of changes that have been introduced by the Labour government, which whilst keen to talk up their growth credentials have actually introduced a raft of headwinds for businesses. The increase to employer's National Insurance and the introduction of various new workers' rights, including an increased minimum wage, will all impact company profitability and make it harder for them to invest for future growth.

However, there are still some positives to help balance things as interest rates have continued to come down, with a further cut from 4.75% to 4.5% this quarter and there is hope that the UK will be less impacted by US tariffs than most countries due to the size and make-up of its trade balance. And for investors the valuations of UK stocks also continue to look comparatively attractive on an average PE ratio of 17 and dividend yield of 3.5%.

United States

The long run of the US outperforming the other major markets has come to an abrupt end with the S&P 500 index falling by just under 5% in the first quarter and the technology heavy Nasdaq index losing around 10%.

Much of this reversal has been due to weakness of the so called "Magnificent Seven". The only one of the seven to escape was Meta (Facebook) which was flat on the quarter, whilst Apple, Microsoft, Nvidia, Amazon and Alphabet all suffered double digit percentage falls and Tesla lost a third of its value.

Not surprisingly investors who were previously "all-in on US stocks" are starting to lose faith in the idea of "US exceptionalism" and with a falling stock market and weakening US Dollar, many are starting to regain their appetite for looking beyond America for investment opportunities and a bit more diversification.

Europe

Perhaps surprisingly, Europe has actually been the best performing major market so far this year despite ongoing political uncertainty and no end in sight yet to the war in Ukraine.

In response to the threat posed by Russia and the realisation that Europe can no longer rely on the US to come to its rescue, the EU has begun ramping up its defence expenditure budget with the aim to raise an extra €800 billion over the next few years. Furthermore, the incoming German chancellor, Friedrich Merz, is pushing ahead with a €500bn infrastructure fund and exempting defence spending above 1% of GDP from its debt brake.

Although on the one hand this is all quite worrying, there is a potential economic boost to come from the additional spending and several commentators are now speculating that America's apparent abandonment of its European allies may just have inadvertently spurred a move to make MEGA (Make Europe Great Again) the new MAGA.

Japan

Japan was the weakest of the major markets this quarter with the Nikkei index off by just over 10%. One striking feature is that having experienced three decades of no inflation or even outright deflation, the current rate of Japanese inflation is actually the highest of the major economies at just under 4%.

Emerging markets

Emerging markets have overall had a reasonable start to the year, with a small gain in the first quarter comparing favourably to the fall in the World Index, although as always there were large differences between individual markets, with China and Brazil leading the way this time and last year's best performer, India, suffering a setback.

Investment Statistics - 31/03/2025

Equity Markets	Q1 2025	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 ($)	-1.49%	16.98%	22.19%							
US (S&P 500)	-4.59%	23.31%	24.23%	26	1.1%	4.50%	4.21%	2.80%	1.2908	1.0000
UK (FTSE 100)	5.01%	5.69%	3.78%	17	3.5%	4.50%	4.68%	2.80%	1.0000	1.2908
Europe (STOXX 50)	7.20%	8.28%	19.19%	17	2.8%	2.65%	2.71%	2.20%	1.1950	1.0802
Japan (Nikkei 225)	-10.72%	19.22%	28.24%	21	1.9%	0.25%	1.48%	3.60%	193.03	149.54

Total returns- including dividends

Source: Financial Times, FactSet and iShares

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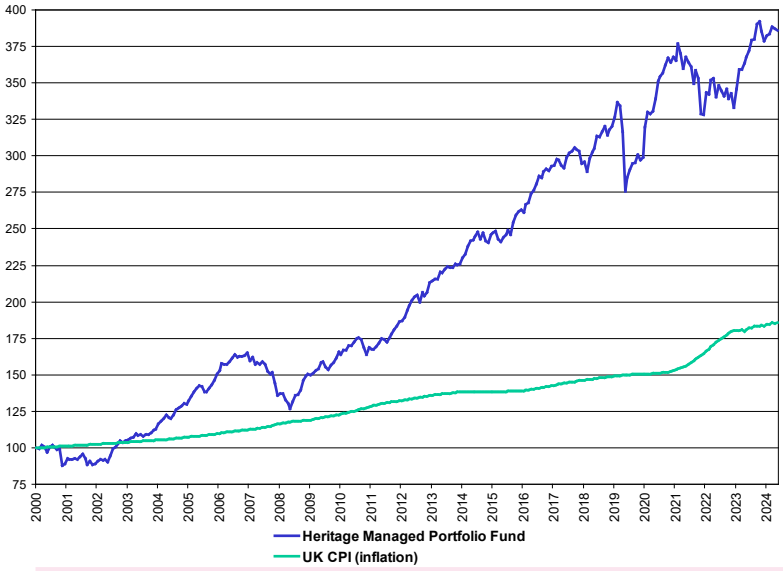
Heritage Managed Portfolio Fund

Review for the quarter ended 31st March 2025

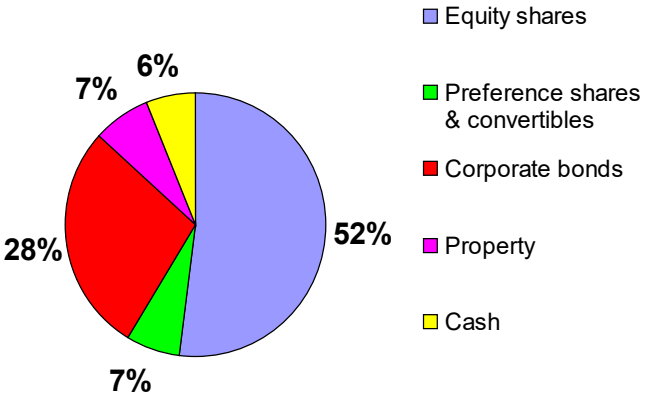
Performance	Managed Portfolio Fund	Inflation (UK)
Return for the quarter & 2025 YTD	0.72%	0.67%
Year 2024 retrun	6.66%	2.58%
Year 2023 return	5.02%	3.95%
Year 2022 return	-9.14%	10.66%
Year 2021 return	14.07%	5.40%
Year 2020 return	-1.87%	0.37%
Year 2019 return	16.31%	1.40%
Year 2018 return	-2.76%	2.29%
Year 2017 return	11.50%	3.16%
Compound annual return since 2001	5.74%	2.58%

Fund information	
Price at 31st March 2025	£383.03
Fund size	£186.7 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.

Although it has been a weak start to the year for global markets generally due to the uncertainty around US tariffs, the Fund has managed to produce a small positive return of 0.72% for the first quarter.

The best contributions from our share portfolio included our bank holdings, Standard Chartered, HSBC and Lloyds BG, insurers Beazley, Aviva and Hiscox and healthcare stocks, AstraZeneca and GSK. Other notable contributors came from our largest holding, Computacenter which gained 15% after reporting a positive outlook and the largest percentage gain came from a small holding in Alliance Pharma which was up 40% due to a take-over bid. On the other hand, the largest detractors this quarter were Greggs, Conduit, Diageo and Bloomsbury and it was generally a weaker quarter for smaller companies.

Our property holdings were boosted by a take-over approach by US giant KKR for one of our healthcare property holdings, Assura, which was up 20% and there are some positive signs that the cycle may finally be turning for property, with gains of over 10% this quarter for Supermarket Income REIT, Picton Property and Target Healthcare REIT.

Our bond portfolio has had a solid start to the year and we continue to benefit from an overall attractive running income yield of around 7%, and a slightly higher yield to redemption.

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"- Multi-asset investing continued

This approach makes a managed multi-asset fund suitable as a core holding and in fact many people find it the most appropriate home for most of, or in many cases their entire portfolio. In addition to this it can also be used by more sophisticated investors or those working with a financial advisor as part of a core/satellite approach - where a core holding in a managed fund is supplemented with other specialist funds of their choice in order to tailor their overall portfolio and tilt it towards a more adventurous or conservative overall profile.

There are a number of factors that we consider go into making a good managed fund. These include;

- taking a long-term approach without any constraints on the range of possible investments or placing an undue emphasis on risky equities
- independence so that investments are chosen purely on merit,
- substantial participation by the fund manager to demonstrate commitment and alignment of interests
- keeping costs to a minimum

Heritage clients will hopefully recognise the above factors as the key ingredients of our own Heritage Managed Portfolio Fund and SVS Heritage Balanced Portfolio Fund.

A reminder of tax rates and reliefs

With the new UK tax year starting on 6th April we thought it would be useful to provide a quick reminder of the rates that will apply to investors.

Firstly, capital gains tax (CGT) has risen from 10% to 18% for basic rate taxpayers, and from 20% to 24% for higher and additional rate taxpayers. For companies the corporation tax rate remains at 25% which applies to both trading profits and capital gains. Small companies with profits below £50,000 pay a reduced rate of 19%.

For individuals, dividend income from their investments is taxed at 8.75% for basic taxpayers, 33.75% for higher rate payers and 39.35% for additional rate taxpayers.

It is also worth remembering that any investments returns within an ISA (Individual Savings Account) or personal pension such as a SIPP (Self Invested Personal Pension) are not subject to income tax or CGT and so it makes sense to make maximum use of the annual individual ISA allowance of £20,000 and SIPP contribution limit of £60,000 if possible.

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.

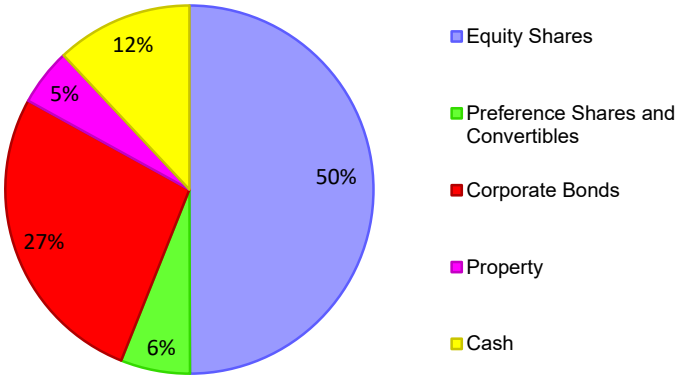
SVS Heritage Balanced Portfolio Fund

Price at 31/03/25	156.3p (launched at 100p 1/12/16)
Fund size	£36.5 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	2025 Q1	2024	2023	2022	2021	Inception 01/12/16
SVS HBPF	0.77%	7.86%	5.43%	-8.27%	15.00%	56.30%
UK CPI	0.67%	2.58%	3.95%	10.66%	5.40%	34.39%

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.

Despite challenging global markets the Fund managed to produce a small positive return of 0.77% in the first quarter. 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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