Heritage

Quarterly Newsletter & Investment Review

Issue 110 Quarterly news & investment review from Heritage Quarter 2 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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Global markets stage strong recovery

It was a particularly volatile quarter for global markets, with a severe plunge in early April as a result of the shock and uncertainty surrounding the "liberation day" US tariff announcements, followed by a strong recovery over the rest of the quarter, despite the ongoing geopolitical turmoil.

We are pleased to report that the Heritage funds had a good quarter with gains of over 3%, taking the year-to-date gains to over 4%. 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"- Preference shares

As multi-asset investors much of our attention is focused on equities and bonds as the two major asset classes, but our interest also extends to a number of other areas of the investment markets, where we can often find interesting opportunities to both enhance returns and manage risk. A good example of this includes preference shares, which are hybrid securities that share certain characteristics of both equities and bonds and offer an attractive blend for our funds.

As the name suggests, preference shares offer a preferred return and rank ahead of ordinary shareholders in a company's capital structure. Whilst ordinary shareholders are entitled to their share of a company's profits, which can be paid out as dividends, this can only be done once the preference shareholders have been paid their preference dividends. Typically the preference share dividend will be a set fixed amount which means that in many respects it feels like and behaves more like a bond with a fixed coupon and trades on a yield basis, in common with bond markets. Also, as the preference shares rank behind bond holders they do offer a higher yield to compensate for this.

In practice the fixed dividend rate or coupon on a preference share will generally offer a premium to bonds issued by a company in the region of around 3% or more – so a company that issues bonds with a 5% coupon may also have a preference share issue with an 8% yield. For funds such as ours this offers an attractive return profile. A good example of a preference share that we currently hold is the REA Holdings plc 9% preference share, which currently trades a bit below par and offers an attractive running income yield of 10%.

A number of banks, building societies and insurers have also issued preference shares and we hold several of these including Lloyds Banking Group, Santander, Coventry Building Society, Standard Chartered Bank and Ecclesiastical Insurance. These all have attractive coupons ranging between 8% and 12% and currently trade on premiums to par, providing a running income yield of around 6-7%. However, these securities are considered to be a bit anachronistic by the regulators, who have been encouraging new forms of regulatory capital such as Additional Tier 1 bonds (AT1s) for banks and Restricted Tier 1 bonds (RT1s) for insurers and the supply of preference shares is much depleted, meaning the preference market is now completely ignored by most large institutional fund managers.

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Heritage Capital Management Limited

Review for the quarter ended 30th June 2025

Market Commentary

Overall it was a good quarter for global markets, with all of the major indices ending in positive territory. However, the headline returns for the year-to-date do not begin to tell the full story, which provides a classic lesson on how investor sentiment drives short-term market movements.

The year started with investors continuing in optimistic mood surrounding hopes for the incoming Trump administration and a continuation of the "US exceptionalism" that had become an accepted theme. But the initial gains in January soon gave way to increasing concerns over the growing possibility of the introduction of US tariffs and the overall market ended the first quarter in negative territory.

In early April concern gave way to sheer panic, as the so called "Liberation Day" tariffs landed as a bombshell that threatened an all-out global trade war. However, this was then shortly followed by relief, when Trump was subsequently forced to backdown as the bond markets and China failed to follow his script and on the back of this, by the end of April, equity markets had managed to recover most of their losses.

In fact markets even coined a name for this, as the so called "TACO trade" – standing for "Trump Always Chickens Out". As a result markets moved from a phase of relief to showing signs of growing complacency in May and June, as investors shrugged off a continuing stream of geopolitical tensions, including a war in the middle east and economic uncertainty over trade and tariffs.

The story so far in 2025 has therefore been a journey for investor sentiment, from optimism to concern to sheer panic, followed by relief and finally complacency. Just trying to follow every twist and turn can be exhausting and attempting to trade it even more so. As long term conservative investors, we try our best keep a level head and to not get caught up in these ever changing mood swings that take markets on a roller-coaster ride. After all as we like to say, in the long run it's "time in the market" that provides investors with the best chance of compounding decent returns, rather than "timing the market".

United Kingdom

The FTSE 100 index of UK leading shares made further progress this quarter, with a gain of just over 2% taking the year to-date return to 7.2%. Encouragingly it was also a better quarter for the wider market, with the FTSE 250 index of mid-cap stocks and the FTSE Small Cap index having their best quarters for a while.

Even the junior AIM market had a strong quarter, and it also celebrated its 30th anniversary in June. Whilst over the years it has incubated a decent number of growth companies, sadly there have also been numerous losers that have tended to drag down the overall performance of the AIM index.

As Keir Starmer's Labour government reaches its first year in office there has not been much to cheer about for businesses that are now having to deal with increased employer's National Insurance taxes, various new workers' rights and an increased minimum wage. On top of this changes to the long established "non-domiciled" regime has reversed the flow of entrepreneurial wealth creators that had chosen to make Britain their home.

On a more positive note interest rates have continued to come down, with a further cut from 4.5% to 4.25% this quarter and for investors the valuations of UK stocks also continue to look comparatively attractive.

United States

Following a weak first quarter and an initial further plunge in April the US market has staged a strong recovery, with the S&P 500 recently reaching a new all-time high at 6,200.

However, the other notable move this year has been the weakness of the US Dollar. On a trade weighted basis it has fallen by over 10%, which means that the dollar gains on the US market have been entirely offset by the currency loss for international investors, including those here in the UK where the pound has moved from 1.25 against the dollar at the start of the year to 1.37.

Europe

From being the strongest major market in the first quarter, Europe was the weakest in quarter two. Much of this relative weakness has been down to a slight faltering by a number of large listed companies that had previously driven European indices higher, including GLP-1 wonder drug maker Novo Nordisk, luxury goods giant LVMH, Deutsche Telecom and Swiss stalwarts Nestle, Roche and Novartis, which all suffered share price falls this quarter.

Japan

In a mirror image of Europe, Japan has gone from the weakest market in the first quarter to the strongest this time round, taking the Nikkei index back into positive territory for the year-to-date. Japan tends to be the least well correlated of the major developed markets and therefore acts as a good diversifier for investment portfolios. It also has a number of world class industries and companies and is benefitting from structural reforms that are finally bearing fruit.

Emerging markets

Emerging markets have continued their decent run this year, with Korea and India leading the way this quarter with double digit percentage gains.

Investment Statistics - 30/06/2025

Equity Markets	Q2 2025	2025 Ytd	2024	PE Ratio	Dividend Yield	Central Bank Interest Rates	10 year Gvnmt Bond Yields	Inflation CPI	Exchange Rates	
									vs GBP	vs USD
TR Global ($)	11.91%	10.24%	16.98%							
US (S&P 500)	10.57%	5.50%	23.31%	26	1.2%	4.50%	4.23%	2.40%	1.3718	1.0000
UK (FTSE 100)	2.08%	7.19%	5.69%	17	3.5%	4.25%	4.49%	3.40%	1.0000	1.3718
Europe (STOXX 50)	1.05%	8.32%	8.28%	17	2.9%	2.15%	2.58%	1.90%	1.1659	1.1768
Japan (Nikkei 225)	13.67%	1.49%	19.22%	20	1.8%	0.50%	1.43%	3.50%	199.40	144.22

Total returns- including dividends

Source: Financial Times, FactSet, iShares and Multrees investor Services Ltd

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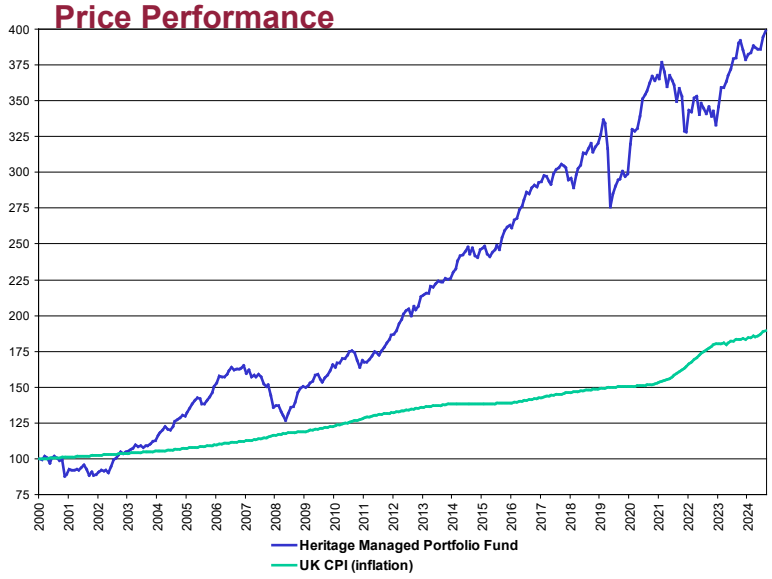
Heritage Managed Portfolio Fund

Review for the quarter ended 30th June 2025

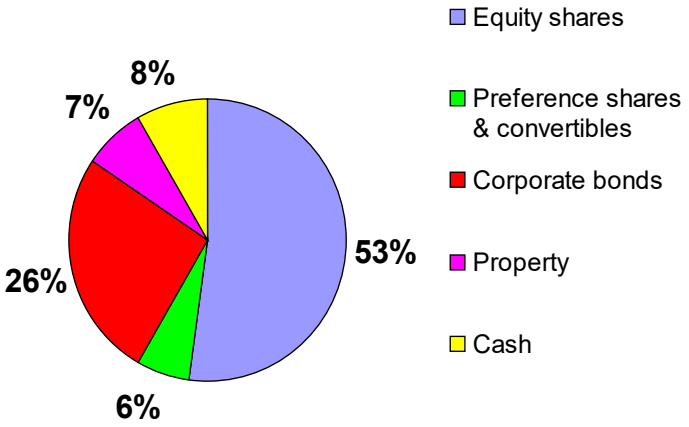
Performance	Managed Portfolio Fund	Inflation (UK)
Return for the quarter	3.37%	1.76%
Year 2025 return YTD	4.11%	2.44%
Year 2024 return	6.66%	2.58%
Year 2023 return	5.02%	3.95%
Year 2022 return	-9.14%	10.66%
Year 2021 return	14.07%	5.40%
Year 2020 return	-1.87%	0.37%
Year 2019 return	16.31%	1.40%
Year 2018 return	-2.76%	2.29%
Compound annual return since 2001	5.82%	2.62%

Fund information	
Price at 30th June 2025	£399.02
Fund size	£189.6 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.

It was a particularly volatile quarter for markets, with an initial plunge in early April following the US tariff announcements, followed by a strong recovery over the rest of the quarter. Overall the Fund was up by 3.37% for the second quarter and for the year-to-date the Fund has now gained 4.11%.

There were many more gainers than losers in our share portfolio, with notable positive contributions from Bellway, Young's and Aviva. Corporate news and trading has generally been encouragingly positive, although as always in a diversified portfolio there are also weaker spots and this quarter Diageo, AstraZeneca, Bloomsbury and System1 were all detractors. Our specialist investment trust holdings had a positive quarter with good contributions from Utilico Emerging Markets Trust, Aberdeen Asia Focus, ICG Enterprise, North Atlantic Smaller Companies and Oakley Capital.

Our property holdings had their best quarter for several years with TR Property, Target Healthcare REIT, Picton Property, Supermarket Income REIT and LondonMetric Property all up over 10%. There was also a boost from the take-over battle for Assura, which appears to have been won by a merger proposal from its listed peer Primary Health Properties, which we also hold.

Our bond portfolio has continued its solid run so far this year and offers an attractive yield of just over 7%. There was also a welcome one off boost to the capital as Aviva offered to repurchase a number of preference shares at an attractive premium.

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"- preference shares continued

Another type of preference shares that we invest in are zero dividend preference shares (ZDPs). As the name implies these do not pay a dividend but are redeemed at a premium to par at a later date which provides a return as a capital gain. These tend to be issued by listed investment companies, which importantly means that the repayment is well covered by a diversified and transparent portfolio of underlying holdings.

For example in May we bought the ZDPs of a new issue by EJF Investments at 100p, which are scheduled to be redeemed at a price of 145.5p in December 2029, with the increase in value over the life of the ZDPs equating to a yield of 8.5% per annum.

In common with the preference shares of banks and insurers, there are far fewer zero dividend preference shares in issue these days although we have still managed to put together a small portfolio of these yielding over 7% on average, with a range of maturities from 2026 to 2031.

In fact the scarcity of preference shares has created an opportunity for smaller fund managers such as ourselves, as most large institutional managers now tend to ignore preference shares as a small esoteric part of the market that is not worth worrying about, leaving it as a fruitful hunting ground for our Heritage funds.

New Heritage team member – Zoe Olsen

We are very pleased to welcome the newest member of our well established team at Heritage, Zoe Olsen.

Zoe joins us from North Highland, a global management consulting firm, where she specialised in strategic transformation and operational improvement across a range of industries. She holds a First Class Honours degree in Business Management from the University of Exeter. Zoe's main role is as assistant fund manager and she also supports the team in a variety of other areas of the business.

As a reminder, the latest Heritage team and areas of responsibility consists of;
Graeme Olsen and Jemma Spencer – Directors of the business responsible for managing client investments and client relationship management.
Rayman Wong – Company accountant, Compliance Officer and administration of client investments.
Amanda Wasnock – Client cash management and office manager.
Clare Thompson – Administration of client investments and cash.
Mark Glew – Client tax statements and returns.
Zoe Olsen – Our newest team member as mentioned above.

More detailed biographies for all can be found on our website at www.heritage-capital.co.uk/our-people.

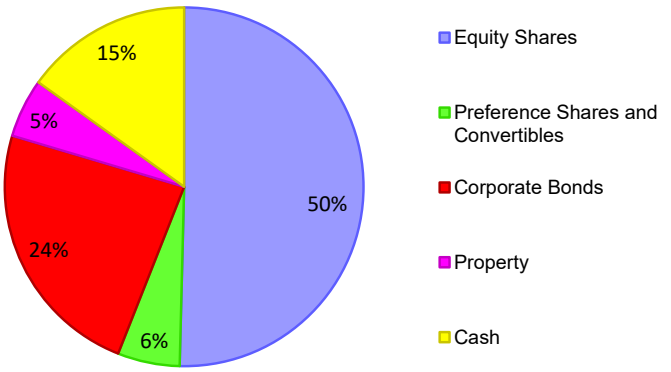
SVS Heritage Balanced Portfolio Fund

Price at 30/06/25	162.4p (launched at 100p 1/12/16)
Fund size	£38.2 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 Q2	2025 Ytd	2024	2023	2022	Inception 01/12/16
SVS HBPF	3.90%	4.71%	7.86%	5.43%	-8.27%	62.40%
UK CPI	1.76%	2.44%	2.58%	3.95%	10.66%	36.76%

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 Heritage Balanced Portfolio Fund had a good quarter with a gain of 3.9% taking the year-to-date return to 4.7%. 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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