

SHINING A LIGHT ON..... THREADNEEDLE UK EQUITY INCOME

Update....

With individuals searching for a source of income, Equity Income Funds are coming under increasingly more scrutiny. In the last review we concluded that this fund is a steady eddy. It has a focus on large caps, it is well managed and it delivers consistent above benchmark performance. It is unlikely to spike in performance year by year meaning the relatively low volatility is a major consideration for the manager (and might be appreciated by some investors).

In this update with the manager we covered his view on the political landscape for the UK and the current positioning of the fund. The fund currently has 48 holdings with the top ten making up nearly 50% of the fund and the top four nearly 25%.

Turning to the political landscape – Richard believes the election will cause volatility in the market but only in certain sectors. The main areas that he sees are politically sensitive sectors including utilities, gaming, insurance, rail and banks. However, this will be short term volatility and generally he believes the UK is in a positive place.

The fall in the price of oil has wider positive macro-economic benefits and this will help certain sectors as people have more money in their pockets to spend. However, there are micro-economies which suffer as a result of the oil price fall. Aberdeen is an example of an area which could suffer but the overall picture is positive. Already the UK consumer confidence is back at pre-recession levels but there remains high levels of debt and this could have a negative impact on growth.

His belief, which matches the general market view, is that interest rates will start to rise over the next couple of years.

His style means that he searches out the ugly ducklings, those companies which others dislike. He believes certain sectors are fully valued especially dotcom companies like ASOS and BooHoo but there are opportunities elsewhere. BT, ITV and L&G are all examples of unloved companies that the fund has invested in, and has done well from.

Morrisons is another company he likes and believes is changing, he also believes this will be a benefit to consumers by having more money to spend. He also stressed that he will not take undue risk and therefore with the predicted volatility in coming weeks there are companies he is slowly building positions in and using volatility to pick up the shares at cheaper prices. These include the likes of Centrica, GSK, RSA and Pearson.

He believes his approach has been vindicated time and time again. He points to his holdings in Astra and Glaxo which many were negative about however his view was that they were good undervalued businesses and the re-rating of the share price has helped the fund.

In summary Richard continues to run a well-managed income fund delivering above index performance. It is an income fund which could be considered either for its income, or to work alongside a more volatile pure growth fund.

Fund performance

Performance over the last five years is shown below:

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015* |
|---|-------------|-------------|-------------|-------------|-------------|--------------|
| Threadneedle UK Equity Income Fund | 16.65% | 1.00% | 16.58% | 28.96% | 6.20% | 3.93% |
| iShares UK Dividend | 13.34% | -6.62% | 17.46% | 24.15% | 6.54% | 4.69% |

***1 January to 31 January 2015**

| | 1 year | 3 Years | 5 Years |
|---|---------------|----------------|----------------|
| Threadneedle UK Equity Income Fund | 11.70% | 61.88% | 100.05% |
| iShares UK Dividend | 14.54% | 55.29% | 75.74% |

You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise. The total return reflects performance without sales charges or the effects of taxation, but is adjusted to reflect all on-going fund expenses and assumes reinvestment of dividends and capital gains. If adjusted for sales charges and the effects of taxation, the performance quoted would be reduced.

The source of information in this note has been provided by Threadneedle and is correct as at February 2015. These are notes from meeting the fund manager or representative and should not be seen as a recommendation to purchase any fund mentioned. Any reference to shares is not a recommendation to buy or sell. Should you wish to make a decision based on these notes we cannot take responsibility for this and you should carry out your own research before making a decision. You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well rise.