

# Half-year 2020 Income Study

**Sanlam UK** has published its half-yearly ***Income Study***, the definitive investor guide to the best and worst funds in the UK equity income sector.

The Study, which has been running for more than 30 years, is a quantitative assessment that reviews and monitors the performance of eligible funds in the Investment Association (IA) UK equity income sector over a six-month period. The study then categorises these funds into a White List, Grey List and Black List\*.

- **Liontrust Income Fund** comes out on top in the July 2020 edition, the same position as the July 2019 Study - restored after an 18-place fall at the end of 2019
- The **Santander Enhanced Income Fund** retains second place, followed by the **LF Milton UK Multi Cap Income Fund** which returns from the Grey List
- Consistent laggards in the Black List of the worst performers include the **HSBC Income Fund**, the **M&G Dividend Fund** and the **Janus Henderson UK Equity Income and Growth Fund**

## The White List

Some significant moves across the rankings in the White List have been driven by recent volatility. Six out of the first eight funds are new entrants.

The **Liontrust Income Fund** is placed at the top of the July 2020 study, the same position as in the July 2019 Study. This top spot has been restored since year-end by a rise of 18 places in the list of 59 eligible funds from the whole UK Equity Income sector. Key to its success has been consistency across the Study's criteria, which are volatility, income and performance.

Maintaining second spot is the **Santander Enhanced Income Fund**. After a tough period in 2016 the managers, Graham Ashby and Duncan Green, have recently proved their worth again. The fund has paid a good dividend recently when compared to peers.

The **LF Milton UK Multi Cap Income Fund**, another frequently appearing fund, achieved third place, after dropping into the Grey List at the previous review. It jumped 17 places, with strong volatility management a key attribute.

Two new entrants are the **BlackRock UK Income Fund** and the **ES R&M UK Equity Income Fund**, having jumped 33 and 24 places respectively. First quartile volatility outcomes over five years versus peers and good performance during the volatility of 2020 have helped to secure White List placings for both funds.

Another notably successful fund is the **Fidelity Enhanced Income Fund**, up 32 places since January.

## The Grey List

Funds rising from the Grey list to the White list replace others moving in the opposite direction which include the **Lazard MultiCap UK Income Fund**, the **Royal London UK Equity Income Fund** and the **Allianz UK Equity Income Fund**.

The **ASI UK Equity Income Fund** and the **Threadneedle UK Equity Income Fund** both appear near the top of the Grey List after jumping 16 and 21 places respectively. Near-term performance and managed volatility over the period under review are the main reasons for these improvements.

After a lengthy spell in the lower rankings of the Black List, the **UBS UK Equity Income Fund** has edged into the Grey List. Good income and historic performance levels have contributed to this move.

Several funds have fallen quite dramatically within the Grey List. The **Royal London UK Equity Income Fund** and **Allianz UK Equity Income Fund** have fallen by 17 and 19 places respectively. A mixture of recent performance, income return and volatility has caused these shifts. The **Unicorn UK Income Fund** has fallen by 18 places.

Narrowly avoiding a fall into the Black List is the **Premier Monthly Income Fund**, which dropped 38 places and now ranks at number 45. Volatility has been high, at just over 17%, and some periods of lacklustre and disappointing performance outweigh the high dividend income which the fund generates.

## The Black List

Constituents within the Black List remain relatively consistent. Familiar names include **Liontrust Macro Equity Income, HSBC Income, ASI UK High Income Equity, M&G Dividend, Janus Henderson UK Equity Income and Growth** and **ASI UK Income Unconstrained**.

The **Slater Income Fund** is a surprising entry, having fallen 25 places. Over the last few studies, the fund has slowly sunk from the White List, to the Grey List and now the Black List. Its style and small to mid-cap bias have hampered any recovery in the recently challenging market.

Premier Asset Management (now renamed Premier Miton Investors) has also been unable to match previous successes in the study. **Premier Income Fund** and **Premier Optimum Income Fund** have dropped substantially, continuing their fall since their White List presence in 2018. Falls of 35 and 34 places respectively reflect weak performance and volatility indicators.

### **Phillp Smeaton, Chief Investment Officer at Sanlam Private Wealth, commented:**

*“Long-term dividend growth has certainly benefitted income investors over the last decade, but the big question is whether these payments are sustainable.*

*“Most of the UK’s largest companies pay dividends, although a disproportionate volume are from just a handful of major industries. Pressure on cash flows has forced companies to slash payouts, in some cases for the first time ever. In many instances these have been accompanied by share price collapses, which have only added to the pain.*

*“Small-cap companies have generally faced the greatest challenge within the UK Equity Income sector. Compared with their large-cap counterparts, small-caps generally have a domestic bias and more narrowly focused business models. Consequently, they have been at the forefront of underperformance as consumers have stayed indoors and economic activity has generally slowed.”*

### **\*Methodology**

The study looks at funds in the UK Equity Income sector with a market cap of more than £20million. They are assessed based on seven criteria, including performance, volatility, and the income paid out, with the most recent period of performance receiving a greater weighting.

The **White List** is the select group of funds that have established their ability over five years to produce superior total returns.

The **Grey List** can be a temporary home for a manager with an out-of-favour style or an early warning signal for a fund in decline.

The **Black List** is for consistent underperformers and may indicate the need for remedial action.