

Sanlam UK's latest Income Study reveals best and worst of UK Equity Income funds

Sanlam UK has today 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 58 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*.

In the January 2021 study:

- Topping the White List is the **Santander Enhanced Income Fund** which has moved up from the second place slot secured in July 2020, swapping places with the **Liontrust Income Fund**.
- Laggards in the Black List include the **Liontrust Macro Equity Fund**, the **Schroder Income Fund**, **Janus Henderson UK Equity Income and Growth**, the **ASI UK Income Unconstrained** fund, **HSBC Income** and the **L&G UK Equity Income** fund.

The White List

The **Santander Enhanced Income Fund** comes top of the White List in this first 2021 study, having moved up from second in July 2020 due to its managers delivering alpha against peers in 2020 following a good return profile in 2019.

The **Liontrust Income Fund**, run by Robin Geffen, has fallen to second place in this study but continues to deliver decent performance returns, including during recent volatility. It is consistently first and second quartile across volatility, income and performance criteria.

Continuing its climb up the rankings is the **ASI UK Equity Income Fund**, which finishes in third position after jumping 13 places in this study due to top decile performance and low volatility. It previously rose 16 places in the July 2020 study.

The funds which have retained White List status include the **ES R&M UK Equity Income Fund**, the **Artemis Income Fund**, the **Franklin UK Equity Income Fund**, the **NFU Mutual UK Equity Income Fund**, the **Aviva UK listed Equity Income**, the **Blackrock UK Equity Income**, the **Santander Equity Income** and the **Troy Trojan Income Fund**.

The **Threadneedle UK Equity Income Fund**, **Lazard Multi-Cap UK Income Fund**, and the **Allianz UK Equity Income Fund** have all re-entered the White List after falling into the Grey List in the last study.

The Grey List

The **Fidelity Enhanced Income**, the **Fidelity Money Builder Dividend**, the **Man GLG UK Income** and the **Premier Milton UK Multi Cap Income** have all fallen from the White List and into the Grey List in this study.

Three funds made an astounding recovery and moved up to the Grey List after a prolonged period in the Black List. The **JOHCM UK Equity Income Fund**, the **VT Downing Monthly Income Fund** and the **Merlan UK Equity Income** Fund have struggled in the rankings for several studies, however in this review they have improved respectively by 15, 20 and 12 places due to good performance and income paid.

The **Janus Henderson UK Responsible Income**, the **Axa Framlington UK Monthly Income Fund**, the **Threadneedle UK Monthly Income Fund** moved upwards respectively by three, seven, and one places.

At the bottom of the Grey List are **Chelverton UK Income Fund** and the **Unicorn UK Income Fund**. Both funds suffered from the high standard deviation over the period analysed and disappointing returns in a market that has been exceptionally volatile.

The Black List

The Black List has remained relatively consistent. However, there are two anomalies that stand out.

The **Slater Income Fund** has not improved its position in this study due to its poor performance and fourth quartile volatility versus peers. Over the last few studies, the fund has dropped slowly from the White List into the Grey List and is now in the Black List for the second study in a row.

The second anomaly is the **Marlborough UK Multi Cap Income** fund. The fund has fallen 10 places - the third study in a row in which it has dropped position. This was mainly driven by poor selection in small and mid-cap equities detracting from performance and increasing volatility. A similar path can also be observed with **Canlife UK Equity Income** which dropped 15 places.

Both the **Premier Milton Income Fund** and **Premier Milton Optimum Income Fund** have remained at the bottom of the list in the most recent study. These two funds have had a disappointing two and half years, having fallen out of the White List mid-2018 and continued to fall down the rankings.

Laggards that continue find themselves in the Black List since the previous study include the **Liontrust Macro Equity Income Fund**, the **Schroder Income Fund**, the **M&G Dividend Fund**, the **UBS Equity Income Fund**, the **HSBC Income Fund**, the **ASI UK High Income Fund**, the **L&G UK Equity Income**, the **Janus Henderson UK Equity Income and Growth** and the **ASI UK Income Unconstrained**.

Phillip Smeaton, Chief Investment Officer, Sanlam Private Wealth, said: “The so-called ‘hunt for yield’ was already proving difficult for investors prior to 2020, but these troubles have been dramatically amplified in the wake of the global Covid-19 outbreak. Reduced revenues and profits as a result of the pandemic led to a significant number of dividend cuts by UK and European companies, while government lockdowns severely impacted businesses in leisure, tourism, air travel, retail, and construction. For equity income investors, this has meant some funds have offered substantially reduced yields to investors during 2020 as underlying company holdings focused on rebuilding payments from 2021 onwards.

“However, the pandemic marked out a highly unusual year and in efforts to avoid perpetuating a short-term approach to investment the Sanlam Income Study judges funds over a five-year period. We have three new entrants to our prestigious White List in this first 2021 study, and interesting moves across the rest of the list driven by the high volatility we have experienced in the UK in recent years.”

*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.