

Income Study

January 2019



Record payouts forecast for dividend investors in the UK

In this review we explore the drivers of high dividends forecast from UK companies and the potential rewards for long-term investors in funds.

Equity market volatility has increased recently and investors experienced a far 'bumpier ride' in 2018 than in the previous year. However, regular dividend payments provide comfort to investors when the value of their investments fluctuates as a result of stock market volatility.

Despite current macro-economic concerns and Brexit uncertainties, company fundamentals are generally strong and many UK companies have reported increased profits which have enabled them to raise dividends.

In 2018 the increase in UK dividend payouts exceeded market expectations, attributable in part to a particularly strong showing by companies in the financials and mining sectors. In addition, a small boost from a weakening pound resulted in increased sterling values of dividends declared in dollars and euros. Shareholders of BP enjoyed the first dividend increase in four years.

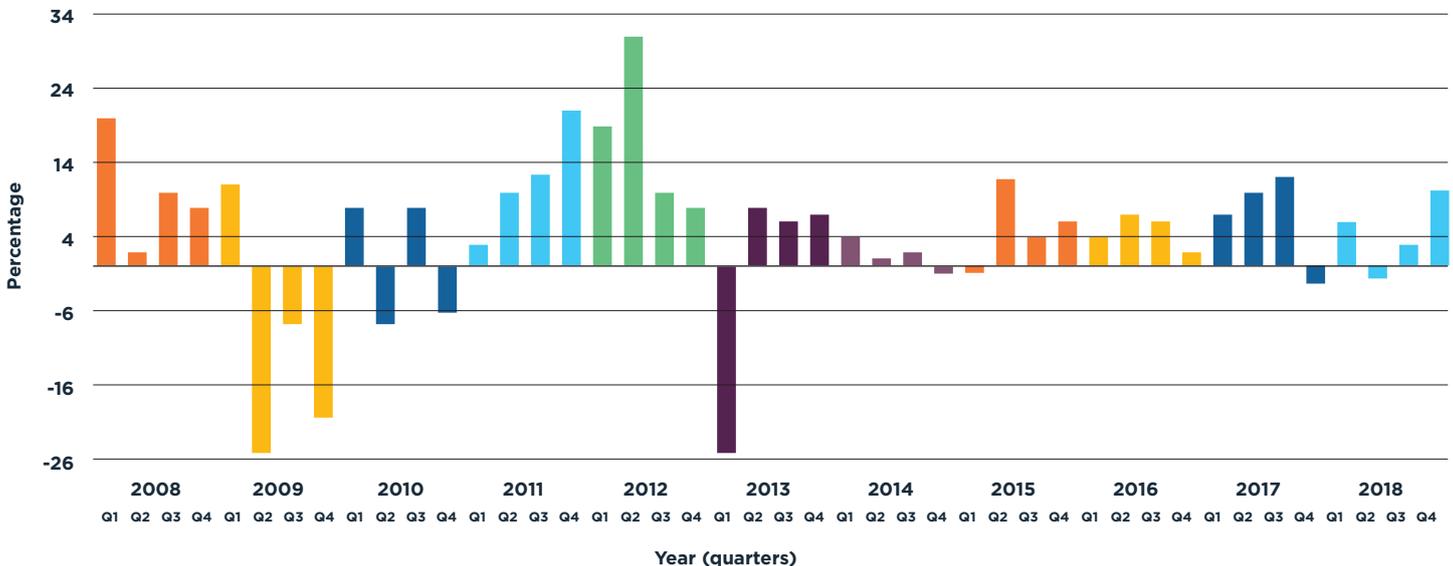
Mining companies contributed most to the dividend growth. The last of the big commodities groups to report, Glencore, restored its payout to full strength by releasing 43% of its earnings as dividend. In the banking sector, sharply higher profits enabled Barclays to raise its interim payout by 150%, and its final dividend, when

declared, is likely to jump too. HSBC once again made no increase but Lloyds continued its winning streak, raising its payout by 10%. In general, dividends from financial companies were strong across the board.

Retail stood out as a weak spot. The much-publicised difficulties on the high street have squeezed profits hard, putting pressure on dividends. Most retailers, including M&S and Dixons Carphone, simply maintained their dividends; others, such as Sainsbury's, made very modest increases. However, payments fell in total, mainly due to a big cut at Next, which did not pay its perennial special dividend last year. Also, Debenhams' dividend was halved when it last reported.

Overall, sectors that contain mature, low-growth but stable companies, such as telecoms and utilities, tend to have the highest dividend yields. By contrast, companies in sectors such as information technology, may seize opportunities to reinvest their profit for growth, rather than return it to shareholders as dividends.

Growth in quarterly dividends, year on year (FTSE All-Share)



Dividends by sector (FTSE All-Share)

Sector £m	2017 Q3	2018 Q3	Change year on year
Industrial Goods & Support	£53	£14	-74%
Healthcare & Pharmaceuticals	£1,618	£691	-57%
Beverage & Food Producers	£951	£754	-21%
Industrial Chemicals	£1,641	£1,602	-2%
Information Technology	£3,348	£3,275	-2%
Property	£1,911	£1,894	-1%
Domestic Utilities	£3,517	£3,531	0%
Consumer Goods & Housebuilding	£4,534	£4,688	3%
General & Life Insurance	£266	£275	3%
General Financials	£4,062	£4,278	5%
Motor Manufacturing & Parts	£2,036	£2,131	5%
Building Materials & Construction	£779	£826	6%
Food & General Retailing	£142	£153	8%
Media	£1,163	£1,277	10%
Oil, Gas & Energy	£488	£544	11%
Banks	£1,018	£1,354	33%
Mining	£3,336	£4,703	41%
Telecoms	£161	£263	63%
Airlines, Leisure & Travel	£58	£96	66%

Source: www.linkassetsservices.com

How can investors in funds profit from the dividend bonanza?

Over the past year dividend payments have helped the FTSE 100 index outperform the other UK indices. The FTSE 100 currently supports a dividend yield approaching 5%, while the more broadly based FTSE 250 index yields around 3.9%. The UK equity income sector offers funds that focus on the FTSE 100, as well as those with a bias towards the wider market.

Managers of funds appearing in the White List have produced the leading performances in our analysis which is based on measurements of income, growth and volatility over a 5-year period.

Because of sector concentration, traditional equity income funds that have tended to allocate disproportionately to sectors with the highest dividend yields may contain a hidden risk for investors. Most of the managers of funds appearing in the White List have the ability to vary the size of their underlying positions according to where they see the best opportunities. A flexible approach enables managers to respond to prevailing market conditions over the short to medium term.

By selecting funds from the White List investors are able to enjoy a high level of dividend income as well as the satisfaction of investing in funds that have demonstrated superiority over five years in our six-monthly analysis.

Important Information

All performance figures used in this document are provided by Morningstar and are quoted on a bid price to bid price basis (mid to mid for OEICs) ie ignoring initial charges, with income (dividends) reinvested. Past performance is not a reliable indicator of future results.

The value of unit trusts/OEICs, and the income from them, can go down as well as up. You may not get back all that you originally invested, particularly in the case of early withdrawal. Investors may be subject to an initial charge.

Any tax reliefs referred to are those currently available. Their value depends on the individual circumstances of the investor. Levels and bases of, and reliefs from, taxation may change.

The value of investments may also rise and fall purely as a result of exchange rate changes.

In accordance with Financial Conduct Authority rule requirements, we have published a policy which sets out how we manage conflicts of interest. This policy is available on request from our Head of Compliance, or may be viewed on the Conditions section of our website: sanlam.co.uk.

This newsletter is based on information that we believe to be reliable, but is not guaranteed as to accuracy and completeness by Sanlam Private Investments (UK) Ltd. Information on individual funds is given without taking into account readers' specific circumstances and requirements and does not constitute investment advice under the Financial Services and Markets Act.

Remember, the Income Study is not personal advice based on your circumstances or a recommendation. If you are unsure about the suitability of an investment for your circumstances please contact an FCA authorised financial adviser.

Notes:

(a) Funds are ranked using seven different criteria based on performance, volatility and the income distributed, with the most recent period of performance receiving a greater weighting.

(b) All funds are in the IA UK Equity Income sector.

(c) Performance data is provided by Morningstar on a bid-to-bid basis with income reinvested. Volatility is annualised.

(d) Yields sourced from Morningstar, FT and fund providers and represent the estimated annual payout.

(e) Funds with a value of less than £20m are excluded.

The White List: specials

The White List has seen some changes in the January 2019 Income Study. The majority of the highest-ranking funds have remained, with six of the lower ranking funds moving out of the White List.

The **Troy Trojan Income Fund**, run by Francis Brooke, made a strong come-back to the top of the Study, after a challenging 2017, mainly due to some stock-specific issues. The fund jumped an impressive 37 positions to reach the top position that was previously held by the **Slater Income Fund**, which has dropped into the Grey List after a more difficult 2018 and a pickup in volatility over the period reviewed.

The **AXA Framlington Monthly Income Fund**, run by George Luckraft, has maintained its second place and has performed strongly since joining the White List in January 2017. The high-ranking dividend yield versus peers, consistent performance and moderate volatility have strongly contributed to its performance. The **Miton UK Multi Cap Income Fund** also appears in an unchanged position, having remained consistently in the top three funds for several years.

In fourth place, the **Franklin UK Equity Income Fund**, has made a strong reappearance, bouncing up from the Grey List. The **Artemis Income Fund**, run by Adrian Frost, with a good combination of performance, dividend paid and low volatility over the period under review, dropped one place to fifth.

It is worth mentioning Michael Clark's Fidelity **MoneyBuilder Dividend Fund** which ranks in the top eight, after dropping to the bottom of the Grey List in the previous Study. Since the last

review, the fund has continued to deliver on its mandate, being cautiously positioned and, despite not having the highest dividend income paid or the lowest volatility, the fund has managed to perform consistently in all other years reviewed, in particular over the last Study period. This has resulted in its eighth position, moving up 37 places.

Of the other new entrants to the White List, the **Santander Equity Income Fund** and the **Santander Enhanced Income Fund** have made impressive appearances after being in the middle of the Grey List for a few previous studies. Consistency of calendar performance numbers, with limited volatility and good dividend income paid from both funds have helped them to secure positions in the White List. This is quite remarkable given that the Equity Income version was in the Black List in January 2017, while the Enhanced Income fund was at the bottom of the Grey List at the same time.

The **Man GLG UK Income Fund** remains in the White List, as well as the **Miton Income Fund** which entered the list as recently as July 2018, from the Grey list. Finally, the **Insight Equity Income Booster Fund** and the **RBS Equity Income Fund** have both made appearances at the bottom of the White List. Both funds benefited from a good set of numbers, a high dividend income paid over the period under review, and a lower standard deviation compared to peers.

The White List Top fourteen funds by overall merit	Dividend yield 31/12/2018	Income 5 years to 31/12/18 (Based on £100 investment)	Total return – capital growth and income reinvested					Volatility
			01/01/2018 to 31/12/2018	01/01/2017 to 31/12/2017	01/01/2016 to 31/12/2016	01/01/2015 to 31/12/2015	01/01/2014 to 31/12/2014	01/01/2014 to 31/12/2018
Fund	%	£	%	%	%	%	%	
Troy Trojan Income	4.4	30.3	-7.6	5.7	9.7	10.2	9.4	8.8
AXA Framlington Monthly Income	4.9	22.9	-10.2	16.0	9.7	4.1	6.6	8.1
LF Miton UK Multi Cap Income	4.8	21.7	-8.4	14.8	2.4	18.0	3.5	7.9
Franklin UK Equity Income	4.8	22.1	-9.8	10.9	14.3	4.7	6.1	9.4
Artemis Income	4.8	24.8	-10.5	11.8	9.7	4.4	3.5	9.1
FP Miton Income	5.4	27.4	-11.0	9.6	7.2	10.9	4.2	9.2
Man GLG UK Income	4.6	22.9	-8.1	26.8	4.8	11.9	3.1	10.5
Fidelity MoneyBuilder Dividend	5.3	24.8	-9.9	4.5	6.7	7.1	6.9	9.0
Santander Equity Income	5.5	25.8	-10.9	11.0	4.9	12.5	4.8	9.5
Royal London UK Equity Income	4.8	21.6	-10.2	12.1	10.3	4.8	6.3	9.4
Santander Enhanced Income	7.0	32.2	-11.5	12.8	3.9	8.4	2.8	9.4
Insight Equity Income Booster	8.8	45.9	-12.0	10.9	14.4	-1.4	1.8	9.0
RBS Equity Income	4.9	23.2	-11.5	11.7	10.1	6.2	2.0	8.8
Fidelity Enhanced Income	7.8	42.3	-9.5	4.3	3.5	5.0	4.3	8.3
White List Average	5.6	27.7	-10.1	11.6	8.0	7.6	4.7	9.0

Past performance is not a reliable indicator of future results.

The Grey List

The **Marlborough Multi Cap Income Fund**, managed by Siddarth Lall, has moved out of the White List. This fund had a poor 2018 period in terms of calendar performance, ranking 23 out of the peers within the Study. Kevin Murphy and Nick KIRRAGE's **Schroder Income Fund** has dropped 24 positions, despite being ranked first in terms of performance in 2018, but high volatility and total dividend income for the period adversely impacted the fund in our review.

The **Schroder Income Maximiser Fund** has also dropped into the Grey List for similar reasons, specifically the high standard deviation generated over the period of five years to the end of December 2018. This pattern of high volatility has been a general headwind for some Grey List funds. And it is volatility which is also responsible for the **Majedie UK Income Fund**, the **SLI UK Equity Income**

Unconstrained Fund and the **Rathbone Income Fund** falling 20, 19 and 10 places respectively.

The **JOHCM UK Equity Income Fund's** positioning also worsened over the period under review. Run by James Lowen and Clive Beagles, this fund has dropped 28 places into the Grey List, predominantly due to disappointing performance over the last period reviewed, and is now ranked 44 out of 59 funds in the Study.

Other large movers were the **Liontrust Macro Equity Income Fund**, managed by Stephen Bailey and Jamie Clark. This fund dropped 10 positions on the back of poor numbers for the past couple of calendar years. The situation was similar for Chris White whose fund, the **Premier Income Fund**, had poor numbers in 2018, with higher volatility than peers over the period covered in the Study.

The Grey List	Dividend yield 31/12/2018	Income 5 years to 31/12/18 (Based on £100 investment)	Total return - capital growth and income reinvested					Volatility
			01/01/2018 to 31/12/2018	01/01/2017 to 31/12/2017	01/01/2016 to 31/12/2016	01/01/2015 to 31/12/2015	01/01/2014 to 31/12/2014	01/01/2014 to 31/12/2018
Fund	%	£	%	%	%	%	%	
BMO Responsible UK Income	4.5	16.3	-8.9	13.5	3.5	10.4	2.3	8.7
Schroder Income Maximiser	8.1	40.3	-2.4	7.7	20.0	-6.9	2.6	10.2
Threadneedle UK Equity Alpha Income	4.8	25.3	-6.0	2.3	13.2	2.0	5.6	9.8
Newton UK Income	4.4	21.4	-7.5	9.7	8.4	6.0	5.5	9.8
BlackRock UK Income	4.7	21.9	-10.9	9.9	8.2	9.1	7.2	10.0
Slater Income	5.3	30.5	-12.9	12.1	-1.3	14.0	6.8	10.7
Lazard Multicap UK Income	5.1	22.8	-12.2	12.4	11.1	4.7	1.9	9.0
Aviva Investors UK Equity Income	4.2	22.7	-10.9	11.3	9.6	5.7	2.2	9.2
Marlborough Multi Cap Income	5.2	31.6	-14.2	18.0	-3.9	13.4	4.5	10.3
Rathbone Income	4.5	24.3	-9.2	7.4	7.6	8.5	6.1	10.5
Threadneedle UK Equity Income	4.4	20.5	-7.1	6.6	12.9	3.6	5.7	9.6
Neptune Income	4.1	21.5	-4.2	10.7	13.4	5.5	1.2	10.0
Threadneedle UK Monthly Income	5.3	24.6	-10.9	3.5	6.6	6.9	5.5	9.2
Premier Optimum Income	8.7	43.4	-16.1	13.0	8.4	7.9	2.5	10.1
Majedie UK Income	4.7	20.5	-6.2	11.1	5.6	4.5	10.3	11.0
Insight Equity Income	4.9	22.3	-9.4	10.8	14.1	-0.3	2.6	9.9
River & Mercantile UK Equity Income	4.8	22.4	-11.5	11.9	11.2	3.7	0.2	9.1
Schroder Income	3.9	18.0	-1.7	8.6	24.3	-7.3	4.2	10.1
Castlefield BEST Sustainable Income General	4.8	24.5	-12.1	3.7	3.3	7.0	5.5	8.7
Kames UK Equity Income	5.4	24.6	-13.3	10.8	8.0	9.4	1.6	9.6
NFU Mutual UK Equity Income	4.3	18.2	-7.9	8.8	11.2	5.9	0.4	9.5
Scottish Widows UK Equity Income	4.9	22.8	-8.7	11.0	13.3	1.0	-1.4	9.9
Premier Income	5.3	26.3	-16.1	10.9	7.5	9.2	1.7	9.4
JPM UK Higher Income	5.1	24.4	-14.0	14.7	5.7	6.1	0.6	9.3
Liontrust Macro Equity Income	6.0	30.3	-12.7	9.2	6.3	4.8	3.0	9.6
JOHCM UK Equity income	5.6	24.8	-13.6	17.7	16.2	0.5	0.7	10.5
Premier Monthly Income	5.4	26.6	-16.3	11.1	7.7	8.7	2.4	10.2
Allianz UK Equity Income	5.3	19.3	-10.0	14.6	7.5	3.1	-0.3	9.3
SLI UK Equity Income Unconstrained	4.7	22.0	-14.2	17.5	-4.6	11.4	6.4	11.7
Invesco Income & Growth UK	4.3	20.3	-9.2	7.5	6.0	5.1	3.9	9.5
Schroder UK Alpha Income	5.7	26.2	-16.4	11.7	6.8	4.2	1.2	8.9
Grey List Average	5.3	22.6	-10.6	10.3	8.6	5.0	3.4	9.8

Past performance is not a reliable indicator of future results.

The Black List

As with the top scorers, there has not been a wide divergence among the bottom ranks. The Black List continues to have many of the same disappointments as in previous Studies, with a few funds joining the section.

The biggest mover was the **Chelverton UK Equity Income Fund** which dropped 39 places from the White List to the Black List, after being in the White List since January 2017. The fund, managed by David Taylor and David Horner, suffered from stock-specific issues in the small and mid-cap space, hurting the most recent performance and leading to the worst standard deviation over five years (59 out of 59) which left the fund at the bottom of the peer group over the period reviewed.

Another large mover was the **Merian UK Equity Income Fund** (formerly Old Mutual) which dropped 28 places from near the top of the Grey List to the Black List. The fund had a difficult year in 2018 which damaged the overall performance of the strategy,

despite a conservative standard deviation level and a good income paid during the period under review.

The **Ardevora UK Income Fund** dropped into the Black List for this Study, after previously having a solid position near the top of the Grey List, in July 2017. Performance was the key driver for the 33-position fall, as both 2016 and 2017 were challenging versus peers. The **MI Downing Monthly Income Fund** had a similar situation, dropping 27 positions after delivering disappointing performance numbers versus peers over the period reviewed (2018 in particular).

Laggards that continue to find themselves near the bottom of the Black List include the **Unicorn UK Income Fund**, the **M&G Dividend Fund**, the **HSBC Income Fund** and the **Aberdeen UK Equity Income Fund**.

The Black List	Dividend yield 31/12/2018	Income 5 years to 31/12/18 (Based on £100 investment)	Total return – capital growth and income reinvested					Volatility
			01/01/2018 to 31/12/2018	01/01/2017 to 31/12/2017	01/01/2016 to 31/12/2016	01/01/2015 to 31/12/2015	01/01/2014 to 31/12/2014	01/01/2014 to 31/12/2018
Fund	%	£	%	%	%	%	%	
AXA Framlington Blue Chip Equity Income	4.8	23.4	-12.1	7.9	9.0	4.8	2.8	9.8
SLI UK Equity High Income	5.4	24.3	-15.3	13.8	1.3	8.3	2.9	9.8
Merian UK Equity Income	5.2	24.9	-14.8	11.6	5.4	3.4	4.7	9.8
MI Chelverton UK Equity Income	5.6	24.9	-14.9	23.4	2.2	16.0	0.3	12.0
BMO UK Equity Income	5.1	21.9	-12.4	9.8	13.2	2.2	0.2	9.1
Aberdeen UK Equity Income	4.3	22.0	-9.1	7.5	13.6	-3.6	-1.5	10.0
Ardevora UK Income	4.6	21.8	-10.6	7.5	2.9	15.8	0.6	10.1
MI Downing Monthly Income	6.1	27.6	-18.4	17.0	7.6	0.8	1.8	10.5
L&G UK Equity Income	5.5	25.9	-16.0	10.7	7.9	6.3	-2.5	10.2
Unicorn UK Income	4.8	23.4	-15.9	20.5	-0.2	13.3	-2.4	10.8
Janus Henderson UK Equity Inc & Growth	4.4	20.6	-12.8	8.8	9.5	3.0	0.7	9.2
M&G Dividend	5.4	26.4	-14.9	9.0	7.4	7.3	0.5	10.7
HSBC Income	4.6	23.5	-12.3	7.9	7.3	1.7	0.5	9.5
UBS UK Equity Income	5.1	21.9	-13.9	11.4	34.5	-5.0	-2.8	11.1
Black List Average	5.1	23.8	-14.0	12.2	8.7	5.4	0.2	10.2

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Don't forget your ISA!

As opportunities to reduce your tax bill become increasingly scarce, it becomes ever more important to utilise your ISA allowance each year.

For the current 2018-19 tax year, all investors can subscribe up to £20,000 in a stocks and shares ISA.

Dividend income within an ISA is tax-free.

The upper rate of capital gains remains at 20%, but investments held within an ISA wrapper remain exempt. An added benefit is the freedom to switch the funds held in your ISA at any time, which gives you the opportunity to follow future Income Study analysis.

Investing in the White list

Investing in the White List Portfolio ISA is the simplest way to invest in the White List funds. This portfolio, which is actively managed by SPW, holds a selection of the best UK equity income funds which have featured in the White List. Once you have filled in the application form there is no more paperwork to complete. We collect all the dividends for you and can pay them to your bank account.

However, many of our clients prefer to use the Income Study to assist in the selection of their own funds.

So, if you want to take out an ISA or invest in an individual fund, please call us on 01225 460010

We offer a personal service and do not have a call centre.

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