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April 2021

Thoughts from a Fund Manager

ASI UK Income Equity Fund

Charles Luke
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"The COVID-19 vaccine rollout continued to support investor sentiment, despite concerns over global supply and a slow roll out across Europe."

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What happened in the markets?

Like other developed nation stock markets, the UK market performed well in March ending the month around 4% higher.

Rising optimism around a global economic recovery and President Biden signing a US$1.9 trillion stimulus package into law drove stocks upwards. Meanwhile, the COVID-19 vaccine rollout continued to support investor sentiment, despite concerns over global supply and a slow roll out across Europe.

Commodity prices fell over the month. Notably, oil prices fell sharply mid-month over concerns that Europe's slow vaccination programme could stunt travel and economic growth. Although the blockage of the Suez Canal by a grounded container ship threatened to disrupt global oil supply, both Brent Crude and West Texas Intermediate finished lower over March. From a size perspective, the large-cap FTSE 100 Index performed better than mid-cap UK shares, although smaller companies outperformed overall.

Gilt prices fell over the month. Bonds sold off after the UK Government announced plans to issue close to £300 billion worth of government bonds in the upcoming financial year. Elsewhere, Chancellor Sunak extended the furlough programme until the end of September in his Budget. Meanwhile, there was some optimism around the economy, as the Office for Budget Responsibility revised up its UK growth forecasts for 2022. Furthermore, consumer confidence rose to a 12-month high in March. The Bank of England kept interest rates and its bond-buying programme unchanged, but is more hopeful about the UK's economic outlook.

How has the Fund performed?

Although the fund performed well on an absolute basis, it underperformed its benchmark by approximately 0.8% in March.

At a sector level, the fund's higher exposure to the real estate sector than the benchmark contributed negatively to performance.

At a stock level, not owning **London Stock Exchange Group**, which suffered downgrades due to additional costs for its merger with Refinitiv, and being overweight in **M&G**, which announced strong results, benefited relative performance. On the other hand, the holdings in Weir, which experienced some profit-taking following a strong share price performance, and Euromoney, where delays to the return of its exhibitions business continue, had a negative impact on relative performance.

"Oil continued its ascent, as Brent crude rose to over US$55 per barrel and West Texas Intermediate finished the month above US$50 per barrel."

AberdeenStandard Investments

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What have we been buying and selling?

During March, we introduced a modest holding in **Vistry**. We believe that the housebuilder has significant potential to grow its partnerships business, which in our view is not reflected in the share price.

In addition, we took profits in the holdings in **Aveva**, **LondonMetric** and **Assura**, and topped up **OneSavings Bank**, **Direct Line** and **Sanne**. We continued to write options to gently increase the income available to the fund, with calls in **Mondi**, **Close Brothers**, **Countryside Properties** and **Roche**.

Where next for the UK market and the Fund?

The trajectory of economic recovery continues to be uncertain, and particularly in Europe and Latin America second or third waves of COVID-19 are expected to create headwind in the short term.

However, with the rollout of vaccines taking place in earnest, there at least seems to be a route out of the pandemic.

It appears likely that following a sharp recovery, the post-COVID-19 environment for the UK will be characterised by a long period of low interest rates, modest economic growth, pressure on company profits and high corporate debt. In these circumstances we believe that companies with attractive dividend yields, sound growth prospects and strong balance sheets are likely to be prized highly. Therefore, it seems eminently sensible to maintain our careful and measured approach to investing in high-quality companies that should be able to thrive in this challenging environment and emerge over time in a stronger competitive position.

Discrete annual returns - year to 31/03

	2021	2020	2019	2018	2017
Fund (net) (%)	23.75	-10.68	7.36	-5.49	20.91
Performance target (%)	29.71	-15.45	9.36	4.25	24.95

Performance Data: Share Class A Acc. Benchmark history: Performance comparator/Portfolio constraining benchmark – FTSE All Share. Source: Lipper. Basis: Total Return, NAV to NAV, UK Net Income Reinvested. "Fund (Net)" refers to the actual unit price performance of the shareclass shown; "Fund(Gross)" adds back charges such as the annual management charge to present performance on the same basis as the performance target / performance comparator / portfolio constraining benchmark. These figures do not include the initial charge; if this is paid it will reduce performance from that shown.

Past performance is not a guide to future returns and future returns are not guaranteed.

Fund Objective: To generate growth over the long term (5 years or more) by investing in UK equities (company shares).

Performance Target: To achieve the return of the FTSE All-Share Index plus 3% per annum over three years (before charges). The Performance Target is the level of performance that the management team hopes to achieve for the fund. There is however no certainty or promise that they will achieve the Performance Target. The ACD believes this is an appropriate target for the fund based on the investment policy of the fund and the constituents of the index.

Find out more about the Fund

Click here for performance and access to fund manager documents such as Key Investor Information Documents (KIIDS).

Contact us on:
Investor Services 0345 113 69 66

Important Information

Past performance is no guarantee of future results.

Equity securities of micro, small and mid-cap companies carry greater risk, and more volatility than equity securities of larger, more established companies.

Key risks:

- The value of investments and the income from them can fall and investors may get back less than the amount invested.
- The fund invests in equity and equity related securities. These are sensitive to variations in the stock markets which can be volatile and change substantially in short periods of time.
- A concentrated portfolio may be more volatile and less liquid than a more broadly diversified one. The funds investments are concentrated in a particular country or sector.
- The fund invests in securities which are subject to the risk that the issuer may default on interest or capital payments
- The fund price can go up or down daily for a variety of reasons including changes in interest rates, inflation expectations or the perceived credit quality of individual countries or securities.
- The use of derivatives carries the risk of reduced liquidity, substantial loss and increased volatility in adverse market conditions, such as a failure amongst market participants. The use of derivatives may result in the fund being leveraged (where market exposure and thus the potential for loss by the fund exceeds the amount it has invested) and in these market conditions the effect of leverage will be to magnify losses.

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