

# CORE SELECTION SPOTLIGHT

## MAN GLG UK INCOME

ELITE RATED BY FUNDCALIBRE

**Henry Dixon**  
Fund manager, Man GLG  
UK Income



**Man GLG UK Income fund is managed by me, Henry Dixon, with the support of two analysts: Alice Owen and James Houlden. Collectively, we have nearly 30 years' experience in the UK stock market.**

This fund invests predominantly in UK-based companies. We aim to deliver both income and growth. Our income target is to deliver a dividend yield greater than that of the FTSE All-Share Total Return index\*, which is now paid monthly. Our second focus is on increasing our customers' initial investments, as we believe this is a good means of ensuring a steadily appreciating dividend stream over time.

### Our approach to investing for income and growth

We employ a three pronged approach. Firstly, we include those stocks uncovered by a strict value process, which places an emphasis

on cash generative, self-sustaining companies in a strong financial positions – but whose assets or profit streams, in our view, have not been adequately valued by the market. We adhere to a number of rules to reach this point, such as price-to-replacement cost (the price of replacing a company asset – like a building – at the same or equal value) and net returns on invested capital. These ensure that the companies that are in the fund provide better value than the market as a whole and have the tools and potential to recover. The stocks must also exhibit a dividend yield of at least that of the market.

The second strand focuses on companies with materially stronger balance sheets than the market (as defined by net cash), and a superior free cash flow yield. This metric measures the difference between cash generated and cash used, divided by the company's market capitalisation. By focussing on these metrics the hope is that dividend growth will be better than expected and will lead to an increase in share price.

The third element in our investment approach is somewhat unique: we have the ability to allocate a proportion of our portfolio to debt instruments such as corporate bonds. Where the team has established positive equity value for a company, further

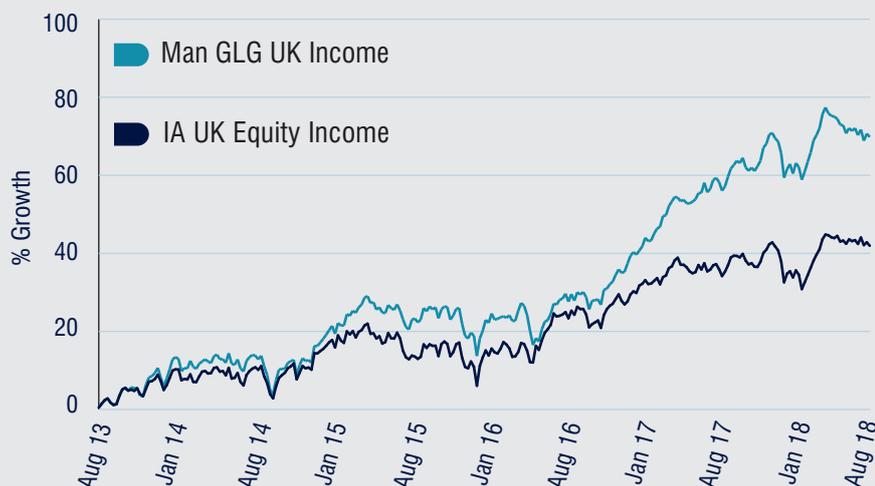
analysis can occasionally expose attractive income opportunities in the capital structure. For example, concerns regarding Italy and further US interest rate rises caused some of the bonds in Prudential Plc to fall to a c20% discount to their issue price. While the bond is a 'perpetual', meaning it has no maturity date and is generally not redeemable, it did have the option to be redeemed in 2021 at the same value as it was issued, which made it look attractive. Furthermore, the running yield was just shy of 6%. This typifies the combination of attractive yield and capital growth that we try to isolate.

### Uncertainty: frustrations and opportunities

Brexit and trade wars present us with uncertainty. This is frustrating but, given the market's dislike of uncertainty, it is unsurprising that UK companies are currently out of favour. The resulting share price decline has provided an opportunity to buy at a lower price. This value opportunity is complimented by extremely modest expectations and, looking back through history, there has been a strong correlation of positive returns with low expectations. As a result, we feel there are a number of instances where we can find companies that are both good value and are improving earnings as identified by our value process. Furthermore, as we look at the other strands of the process we see an increased ability to deploy capital. This has allowed us to construct a portfolio that we believe is good value. As ever it is this starting point that gives us confidence in the prospects for the rest of the year.

\* The FTSE All-Share Index represents the performance of all eligible companies listed on the London Stock Exchange's (LSE) main market, which pass screening for size and liquidity. The index captures 98% of the UK's market capitalisation.

### Man GLG UK Income - five years



Source: FEAnalytics 30/08/2013-31/08/2018

## THE CHELSEA VIEW

This fund has a unique and disciplined investment process. We particularly like the fund's ability to invest in companies of all sizes and even bonds if they are deemed to offer better value. The fund has been the top performer in the IA UK Equity Income sector since Henry assumed control in late 2013.