

# LF ASI Income Focus Fund

An update on your investments

February 2020

# An update on the LF ASI Income Focus Fund (the "Fund")

As you will have been informed by Link Fund Solutions Limited, the Fund's authorised corporate director, we, Aberdeen Standard Investments ("ASI"), the Fund's investment manager, are delighted to confirm that following a period of carefully managing a transition to a more liquid and, in our view, sustainable portfolio to enable the Fund to meet its investment goals, the Fund will re-open on **Thursday 13th February**.

Ahead of the Fund's suspension being lifted, we would like to take the opportunity to provide an insight into how we intend to manage your investment in the Fund and outline the shape of the portfolio as it stands today.

## Investment Approach

We recognise the original attraction of the Fund as a highly focused, active income portfolio. Harnessing ASI's full investment resource, we have selected our highest conviction liquid income stocks, which we believe will drive sustainable income and capital growth, as well as an attractive dividend yield. The ability to deliver on these objectives is supported by four key elements:



### Focus

Our high conviction approach targets investment in 30 to 40 stocks, drawn from our best, liquid UK income ideas (i.e. the stocks which ASI considers to be best fit for the Fund and its investment objective)



### Sustainability

Driven by ongoing research and careful stock selection, the portfolio prioritises sustainable income and capital growth, as well as seeking an attractive dividend yield



### Capability

With a 16-strong UK equity team, live analyst coverage on every stock in the FTSE 350 and best-in-class corporate access, investors benefit from an investment process with a long track record of delivering outperformance



### Experience

Co-managed by Thomas Moore and Charles Luke, the portfolio benefits from the insight of two highly experienced and successful income fund managers, each with over 20 years of investment experience

## Portfolio

Since taking over management of the portfolio, we have initiated a transition programme to help ensure that the Fund is positioned to deliver its investment goals. In doing so, we have prioritised exposure to our highest conviction income ideas, improved the liquidity profile of the underlying holdings, increased the portfolio's sector diversification and sold down structurally challenged companies. While this process has taken some time, we are pleased to report that the process is now very close to completion and we are now confident that the portfolio is best placed to deliver the Fund's investment objective and add value for investors.

The income ideas generated by our 16 UK equity sector analysts provide the foundation for the portfolio with an explicit focus on large cap and mid cap companies. As a 'best ideas' fund, the bar to entry into the portfolio is naturally high, with candidate names those we expect to deliver a superior total return relative to the market over a three year time period. Diversification and portfolio balance are key considerations in the construction of this concentrated portfolio of 30-40 stocks. The managers will

emphasise stock specific opportunities, whilst minimising the risk that one economic scenario dominates returns. The size of holdings in any stock is informed by conviction, downside risk assessment, liquidity, broader portfolio dynamics and additional insights gathered via our on-desk risk tools.

Looking ahead, we see a range of well capitalised UK domestic stocks with the potential to perform strongly following a long period of subdued investor sentiment, including Close Brothers, SSE and Assura. Alongside these domestic holdings, which are now all held in the portfolio, we see potential for internationally exposed stocks with robust dividend prospects such as Coca-Cola Hellenic, TUI Group and Ashmore. Similarly, these three companies are now part of the repositioned portfolio. From an income perspective, and in line with previous communications, we are targeting the delivery of an attractive level of yield with good growth potential.

We look forward to updating you on the portfolio's progress over the coming months.

## Performance through the transition

The Fund underperformed the FTSE All Share by 4.00% over the course of January 2020. With its repositioning now substantially complete, the portfolio is, we believe, now strongly positioned to provide attractive total returns.

This underperformance was partly the result of the costs incurred via the necessary transition of the portfolio towards a liquid portfolio of strong income generating UK stocks. As anticipated, there were certain inherited stocks that proved relatively costly to dispose of. A particularly significant example, Honeycomb Investment Trust, was a drag on performance of circa 0.64%. This is a highly illiquid stock with a significant ongoing overhang from large shareholders perceived by the market to be likely sellers. As such, it was necessary to place the stock at a discount to the prevailing market price. However this did not reflect a distressed valuation for the asset by any means and allowed us to reinvest the proceeds in more liquid stocks in

which we see greater total return potential. The Fund was further hindered by the poor performance of certain other inherited holdings. Card Factory contributed circa 1.23% of underperformance as a result of a profit warning due to poor Christmas trading – a development which reinforced our conviction that this stock did not merit an ongoing place in the portfolio.

A number of the Fund's new holdings have already contributed positively to performance, including Convatec, Coca-Cola Hellenic and Countryside Properties. However the market's concerns in the latter part of January surrounding the economic impact of the Coronavirus resulted in certain new holdings, such as TUI Group and Inchcape, underperforming. We are confident however that the operating, and crucially income generating, fundamentals of these businesses are sound and will result in attractive future shareholder returns.

## Fees

Investors are reminded that ASI, LFS and Northern Trust Global Services SE (UK branch), the Fund's depository, have each decided to waive fees until 31 May 2020. The resulting savings to

the Fund will offset some of the costs associated with the repositioning of the portfolio, which was necessary to enable the Fund to re-open.

## Top ten holdings

National Express Group	3.77%	Close Brothers	3.60%
Mondi	3.74%	Onesavings Bank	3.49%
John Laing Group	3.66%	TUI	3.33%
British American Tobacco	3.63%	Babcock International Group	3.31%
Inchcape	3.61%	National Grid	3.30%

Source: Aberdeen Standard Investments as at 10 February 2020

## Sector breakdown

	Portfolio	FTSE All Share Index		Portfolio	FTSE All Share Index
Industrials	20.79%	12.03%	Consumer Staples	5.94%	13.70%
Financials	18.20%	23.73%	Real Estate	5.19%	2.97%
Consumer Discretionary	17.59%	8.44%	Energy	3.16%	10.96%
Materials	9.42%	8.98%	Information Technology	1.87%	2.04%
Health Care	8.01%	9.36%	Communication Services	1.74%	4.48%
Utilities	7.06%	3.30%	Telecommunication Services	—	0.01%

Source: Aberdeen Standard Investments as at 10 February 2020

## Performance

	31/01/2019 to 31/01/2020	31/01/2018 to 31/01/2019	31/01/2017 to 31/01/2018	31/01/2016 to 31/01/2017	31/01/2015 to 31/01/2016
LF ASI Income Focus Z Acc GBP in GB	-18.41	-11.04	—	—	—
Index : FTSE All Share TR in GB	10.67	-3.83	11.28	20.06	-4.63
Sector : IA UK Equity Income TR in GB	11.39	-5.09	10.25	13.66	-1.87

Source: FE Analytics; discrete annual performance as at 31st January 2020; Z Acc share class net of fees; TR; GBP  
Past performance is not a guide to future results.

## Fund managers



**Thomas Moore,**  
Senior Investment Director,  
UK Equities

- 21 years of equity investment experience, with 17 years spent at Aberdeen Standard Investments
- Manager of the ASI UK Income Unconstrained Equity Fund since 2009
- Manager of the Aberdeen Standard Equity Income Trust since 2011
- Sector research lead for: Financial Services



**Charles Luke,**  
Investment Director,  
UK Equities

- 21 years UK equity income investment experience, with 19 years spent at Aberdeen Standard Investments
- Manager of the Murray Income Trust since 2006
- Manager of the ASI UK Income Equity Fund since 2016
- Sector research lead for: Business Support Services, Gas & Electricity, Health Equipment & Services

“We recognise that investors in the Income Focus Fund have endured some frustration over recent months. Looking into 2020 and beyond, I believe the prospects are significantly brighter. Many investors are taking a fresh look at the UK equity market, which offers a breadth of compelling stock specific opportunities in both yield and total return potential. The analysis and insights of our stable, 16-strong UK equity team provide the Fund’s two experienced income managers with a strong platform to deliver highly attractive returns for investors.”

**Andrew Millington**  
Head of UK Equities

## Important information

### Investment Objective

The fund aims to provide a high level of income\* together with capital growth.

\*The fund manager will aim to achieve a yield higher than the average yield of the FTSE All Share Index over a 3 year rolling period. Investors should be aware that there is no guarantee that any specific level of dividend or yield will be achieved over any given time period.

### Investment policy

The fund will invest predominantly in shares of companies listed in the UK and overseas with a focus on investments that provide dividends. The fund will be invested in a concentrated portfolio of securities. Essential features of the fund:

- The fund has the discretion to invest in a range of investments as described above with no need to adhere to a particular benchmark.
- You can buy and sell shares in the fund every business day.
- Income from the fund will be added to the value of your investment.
- Derivatives may be used for investment purposes and to manage the risk profile of the fund.
- Recommendation: This fund may not be appropriate for investors who plan to withdraw their money in the shorter term (e.g. less than 3-5 years).

**The value of investments, and the income from them, can go down as well as up and an investor may get back less than the amount invested.**

Past performance is not a guide to future results.

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**Currency Risk:** As the fund invests in overseas securities, movements in exchange rates may, when not hedged, cause the value of your investment to increase or decrease.

- **Counterparty Risk:** As the fund may enter into derivative agreements there is a risk that other parties may fail to meet their obligations. This may lead to delays in receiving amounts due to the fund, receiving less than is due or receiving nothing.
- **Financial Techniques Impact:** The fund invests in derivatives. A relatively small movement in the value of the derivative's underlying investment may have a much larger impact, positive or negative, on the value of the fund than if the fund were to hold the underlying investment itself. Derivatives are also used to reduce risk by hedging against movements in the value of investments held by the fund.
- **Concentration Risk:** The fund will be invested in a concentrated number of stocks, which increases the possibility of the fund being more volatile over certain time periods than if it were invested in a more diversified portfolio.

For more information on the LF ASI Income Focus Fund, the risks applicable to it, and any respective benchmarks, please refer to the Key Investor Information Document or the Prospectus. These are available at <https://incomefocus.linkfundsolutions.co.uk/investor-documentation/>