

Manager Commentary Philip Webster



Markets had a volatile month, and after rising over 5% in December, they have given it all (and more) back through the early part of the year. There has been plenty of speculation and noise surrounding 'why' we have seen such a sell-off – but when you step back, it shouldn't really come as much of a surprise. We have had years of cheap credit and rising markets, so I personally feel it's the most rational thing that markets have done in a long time.

Of more relevance is the fundamentals that haven't really changed at all when you speak to management teams. Reporting season to date has been positive and the UK backdrop isn't quite as weak as the daily Brexit updates would like you to believe.

In terms of activity, the main decision we took was to exit AstraZeneca. The last 12 months have seen some extraordinary volatility, especially after the 'Mystic' announcement, which sent the share price plummeting. I've always failed to have much conviction in pharmaceutical companies as I genuinely feel my value-add against a backdrop of 38 analysts is pretty minimal. The only argument that keeps getting thrown around is that it's cheap and that the pipeline

looks interesting. We debated this as a team and I felt the Trust already owned better-quality businesses with higher yields that I was looking to build up; Close Brothers and Berkeley Group to name two.

We also initiated a new holding in Burford Capital. This is a business I have followed for some time and one where the business model is compelling. Burford provide financing for litigation, mainly in the US where they have seen significant success since arrival on the market. The business today has limited liability in the funding they provide lawyers to fight a small selection of cases, which are settled out of court 90% of the time. The returns that they generate are unlimited, especially the few that do end up going to court. The business has strong customer relationships and a limited number of competitors in what is a vast market.

Key facts as at 31.01.2018

Trust aims: To provide an attractive return to shareholders each year in the form of dividends and/or capital returns, together with prospects for capital growth. In pursuit of this objective, the Company invests predominantly in UK equities and equity-related securities of companies across the market capitalisation spectrum.

Benchmark: FTSE All-Share Capped 5% Index

Fund type: Investment Trust

Launch date: 1 March 2007

Total assets: £139.1 million

Share price: 106.00p

NAV: 111.65p

Discount/Premium(-/+): -5.1%

Dividend payment dates: Feb, May, Aug, Nov

Net dividend yield †: 4.53%

Net gearing/Net cash[‡]: 4.06%/0.00%

Management fee rate^{}:** 0.75%

Ongoing charges^{}:** 1.11%

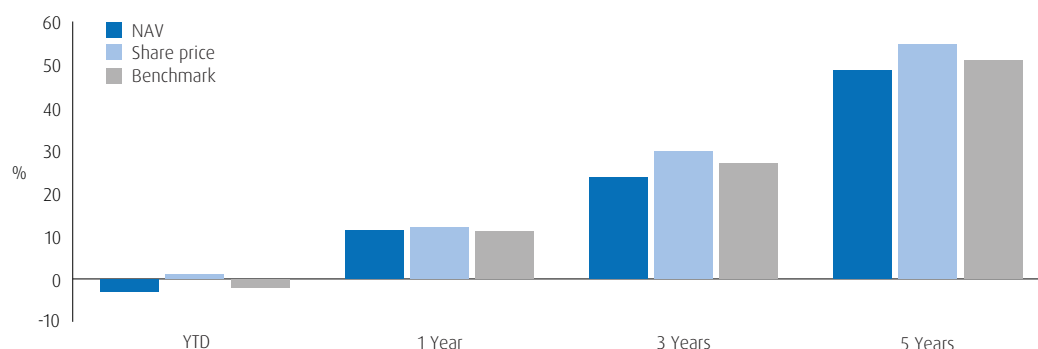
Year end: 31 March

Sector: UK Equity Income

Currency: Sterling

Website: www.fandcukhit.co.uk

Fund performance as at 31.01.2018



Cumulative performance (%) as at 31.01.2018

	1 Month	Year to date	1 Year	3 Years	5 Years
NAV	-2.97	-2.97	11.31	23.69	48.71
Share price	2.12	2.12	13.30	31.12	56.47
Benchmark	-1.98	-1.98	10.99	26.94	50.92

Discrete annual performance (%) as at 31.01.2018

	2018/2017	2017/2016	2016/2015	2015/2014	2014/2013
NAV	11.31	15.51	-3.80	8.42	10.89
Share price	13.30	19.76	-3.36	5.35	13.27
Benchmark	10.99	19.63	-4.39	7.35	10.75

Key risks

Stock market movements may cause the value of investments and the income from them to fall as well as rise and investors may not get back the amount originally invested. A fund investing in a specific country carries a greater risk than a fund diversified across a range of countries. Changes in rates of exchange may have an adverse effect on the value, price or income of investments. If markets fall, gearing can magnify the negative impact on performance.

Past performance is not a guide to future performance.

Source: Lipper and F&C. Basis: Percentage growth, total return, bid to bid price with net income reinvested in sterling. The discrete performance table refers to 12 month periods, ending at the date shown.

^{**} Ongoing charges and management fee as at the end of 31 March 2017. Please refer to the latest annual report as to how the fee is structured. Ongoing charges are calculated in accordance with AIC recommendations.

Lines may be recorded

Trust codes		
Stock exchange code	Sedol	
F&C UK High Income	FHI	B1N4G29
F&C UK High Income B	FHIB	B1N4H59
F&C UK High Income Units	FHIU	B1N4H93

Top 10 holdings (%)				
	Equities Portfolio Weight %	Benchmark Weight %	Difference %	Sector
British American Tobacco	7.23	4.78	2.44	Consumer Goods
HSBC Holdings	5.31	5.06	0.25	Financials
GlaxoSmithKline	4.82	2.77	2.05	Health Care
Royal Dutch Shell	4.80	5.16	-0.37	Oil & Gas
RELX	4.29	0.72	3.57	Consumer Services
Rio Tinto	4.18	2.02	2.16	Basic Materials
Prudential	4.13	2.14	1.99	Financials
Close Brothers Group	3.58	0.10	3.48	Financials
Diageo	3.35	2.72	0.63	Consumer Goods
National Grid	3.27	1.18	2.09	Utilities

Net dividend distributions pence per share (paid)					
	2013	2014	2015	2016	2017
February	1.06	1.0825	1.11	1.14	1.17
May	1.10	1.1225	1.15	1.18	1.21
August	1.0825	1.11	1.14	1.17	1.21
November	1.0825	1.11	1.14	1.17	1.21
Total	4.325	4.425	4.54	4.66	4.80

Total summary		% assets
FTSE 100		55.73
FTSE 250		32.24
Non-Index		6.58
Overseas		3.90
Cash		1.55

All figures are subject to rounding.

Glossary	
Bid price	Investment trust shares are sold via the stock exchange at the bid price. This price is determined by supply and demand.
Dividend	Income paid to shareholders by the company they invest in.
Net asset value	A key measure of the value of a company or trust – the total value of assets less liabilities, divided by the number of shares.

All data as at 31.01.2018 unless otherwise stated.

All information is sourced from F&C, unless otherwise stated. All percentages are based on gross assets, unless stated otherwise. † The yield is calculated using the actual dividends declared for the company's current financial year and the closing share price and exchange rate as at the end of the relevant month. *Net gearing is total assets less cash and cash equivalents divided by shareholders' funds and expressed as a percentage. Net cash is net exposure to cash and cash equivalents expressed as a percentage of shareholders funds after any offset against gearing. **Ongoing charges and management fee as at the end of 31 March 2017. Please refer to the latest annual report as to how the fee is structured. Ongoing charges are calculated in accordance with AIC recommendations. The share price may either be below (at a discount) or above (at a premium) the NAV. Discounts and premiums vary continuously. The fact sheet is issued and approved by F&C Management Limited. Authorised and regulated in the UK by the Financial Conduct Authority. Registered office: Exchange House, Primrose Street, London EC2A 2NY. Registered in England No 517895. (02/18).