

## FE Trustnet News and Research

## Why high-income funds are “fatally flawed”



By [Thomas McMahon](#) 04 Sep 2012

**AWD Chase de Vere's Patrick Connolly says these funds' inability to compete in the capital growth stakes makes them unsuitable for the majority of long-term investors.**

Ten of the 11 highest-yielding UK Equity Income funds have lost money over five years for investors who always take dividends.

Of the funds in the sector yielding more than 5 per cent, only one – Elite Charteris Premium Income – has managed to break even over this period after income has been distributed, and this mustered only 0.36 per cent.

All but two have lost more than the average UK Equity Income fund, which is down 7.62 per cent since September 2007.

## Performance of top-yielding funds (income withdrawn)

Name	Yield	3-yr returns (%)	5-yr returns (%)
<a href="#">Elite - Charteris Premium Income</a>	7.63	11.86	0.36
<a href="#">UBS - UK Equity Income</a>	5	24.19	-6.66
<a href="#">IMA UK Equity Income</a>	5.97	24.6	-7.62
<a href="#">FF&amp;P - UK Equity Income</a>	5.35	4.33	-7.67
<a href="#">Santander - Equity Income</a>	6.56	10.85	-16.94
<a href="#">Premier - Income</a>	6.03	13.74	-19.92
<a href="#">Premier - Monthly Income</a>	5.9	13.76	-21.34
<a href="#">Newton - Higher Income</a>	5.58	4.53	-24.87
<a href="#">Premier - UK Alpha Income</a>	5.51	10.89	-25.19
<a href="#">PFS - Chelverton UK Equity Income</a>	5.22	29.32	-30.37
<a href="#">Liontrust - Income</a>	5.07	13.13	-34.18
<a href="#">Premier - ConBrio B.E.S.T Income</a>	6.56	-0.6	-38.81

Source: [FE Analytics](#)

With interest rates at all-time lows, high-yielding funds are in big demand; however, AWD Chase de Vere's Patrick Connolly thinks the vast majority fail to keep up in the total return stakes.

"Do not get sucked in by the highest yields unless you absolutely need the income," he warned.

"These funds can be appropriate if you need the higher level of income now, but if you may need it in the future then what you are looking for is overall total return. We don't currently use any of the highest payers."

Even when dividends are reinvested, the highest yielders underperform. Our data shows that only one fund out of the 11 appears in the top quartile over five years, while only two funds are in the second quartile.

Over three years the pattern is similar, with only one fund appearing in the top quartile for returns and one more in the second quartile.

Connolly commented: "Over the longer term you would expect those funds that pay the higher yields to underperform on a capital growth basis as they are focused solely on providing income."

"They will have a more restricted universe of companies they can invest in as they only select stocks with a higher yield."

"On the other hand you will find some stocks that yield nothing at all in an average equity income fund as they contribute to capital growth. You would expect if the manager is any good that those with a wider remit should outperform."

## Performance of top-yielding funds (income reinvested)

Name	Yield	3-yr returns (%)	5-yr returns (%)
<a href="#">Elite - Charteris Premium Income</a>	7.63	27.32	22.11
<a href="#">Premier - ConBrio B.E.S.T Income</a>	6.56	17.35	-15.14
<a href="#">Santander - Equity Income</a>	5.97	23.66	6.91
<a href="#">Premier - Monthly Income</a>	5.96	32.95	5.48
<a href="#">PFS - Chelverton UK Equity Income</a>	5.9	54.64	0.28
<a href="#">Newton - Higher Income</a>	5.58	26.33	6.11
<a href="#">Liontrust - Income</a>	5.51	31.49	-9.81
<a href="#">FF&amp;P - UK Equity Income</a>	5.35	19.67	20.02
<a href="#">Premier - Income</a>	5.18	30.72	5.03

<a href="#">Premier - UK Alpha Income</a>	5.03	27.35	-1.99
<a href="#">UBS - UK Equity Income</a>	5	21.84	-5.55
<a href="#">Invesco Perp Income</a>	3.69	38.83	18.62

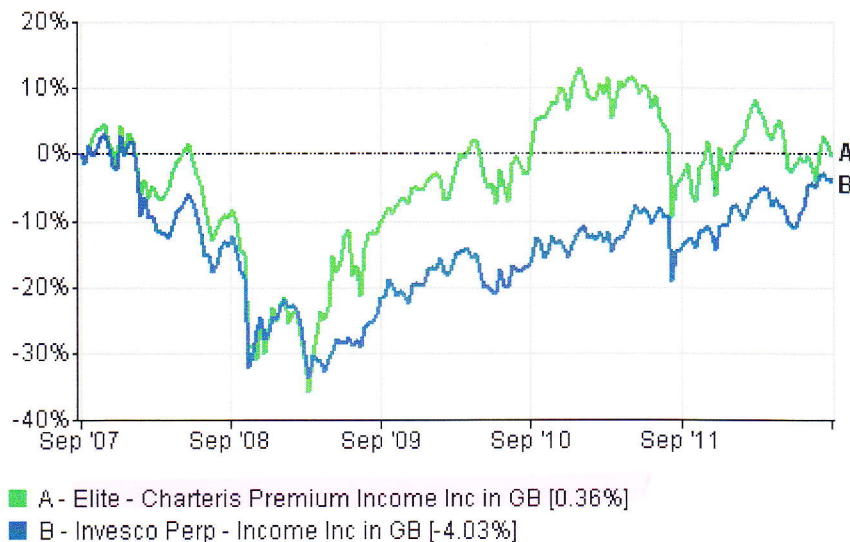
Source: [FE Analytics](#)

Some higher-yielding funds do compare well against their rivals. Elite Charteris Premium Income has a payout more than double that of FE Alpha Manager Neil Woodford's giant Invesco Perpetual Income fund - which yields just 3.69 per cent.

With dividends reinvested Invesco Perpetual Income has grown by 18.62 per cent in five years, and 38.83 per cent in three, while the higher-yielding fund has grown by 22.11 per cent in five and 27.32 per cent in three.

If dividends are not reinvested, the Elite Charteris fund beats Woodford's, gaining 0.36 per cent over five years while Invesco Perpetual Income lost 4.03 per cent.

**Performance of funds over 5-yrs**



03/09/2007 - 03/09/2012 Data from FE 2012

Source: [FE Analytics](#)

Elite Charteris Premium Income is worth only £27.6m, although it has experienced strong inflows over the past two years.

It has a minimum initial investment of £1,000 and a TER of 1.67 per cent. Investors can gain access to the £9.3bn Invesco Perpetual Income fund with just £500, while the TER is 1.68 per cent.