

FE Trustnet News and Research

## Top funds you've never heard of: UK Equity Income



By Joshua Ausden 28 Aug 2012

**While this sector is one of the most popular among investors, it still contains some hidden gems for those who know where to look.**

With cash yielding next to nothing and inflation still hovering above the Bank of England's 2 per cent target, it is of little surprise that equity income is among the most popular asset classes with investors.

The [UK Equity Income](#) sector is one of only two IMA sectors dedicated to the asset class and is by far the biggest, offering investors the choice of 101 portfolios.

However, as with the [UK All Companies](#) sector, the vast majority of assets are invested in just a handful of funds.

[Neil Woodford's](#) £9.3bn [Invesco Perpetual Income](#) and £12bn [Invesco Perpetual High Income](#) portfolios account for 38 per cent of the total assets under management (AUM) in the sector and the five biggest portfolios account for more than half.

While these multi-billion pound portfolios should by no means be overlooked, there are a number of smaller, more nimble funds in the sector with a similar – if not better – track record.

Here are three that investors may wish to consider for their portfolios:

### Unicorn UK Income

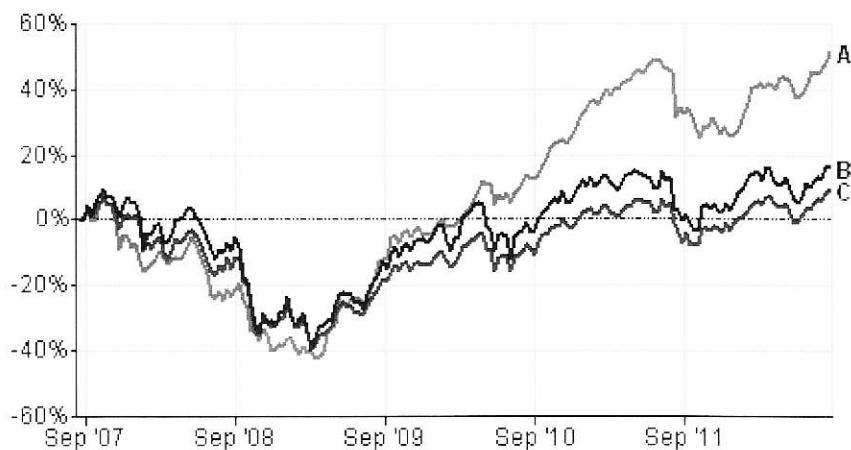
Many of the smaller funds in the sector with a strong track record are less reliant on blue-chip stocks compared with the likes of Invesco Perpetual Income and [Artemis Income](#).

Recent *FE Trustnet* studies have highlighted both [single-stock risk](#) and [dividend risk](#) among many UK equity income portfolios, as a result of the increasing popularity of mega-cap companies such as GlaxoSmithKline, Vodafone and Shell.

While there is a strong case for these large cap-focused funds, a smaller cap-focus could act as a good diversifier in an equity income portfolio.

FE Alpha Manager [John McClure's](#) Unicorn UK Income fund is one option. The £45m portfolio has no FTSE 100 companies in its top-10, instead focusing on those in the FTSE 250 and FTSE Small Cap. Plant-hire business VP and property company Mucklow Group are among its top-five holdings.

### Performance of fund vs sector and index over 5-yrs



- A - Unicorn - UK Income A TR in GB [51.41%]
- B - FTSE All Share TR in GB [16.01%]
- C - IMA UK Equity Income TR in GB [9.68%]

20/08/2007 - 20/08/2012 Data from FE 2012

Source: [FE Analytics](#)

McClure's five crown-rated fund is number-one in the sector over both three and five years, with returns of 73.94 and 51.41 per cent respectively. In spite of the fund's small and mid cap bias, it is only slightly more volatile than the FTSE over five years and lost just 2.83 per cent more in 2008.

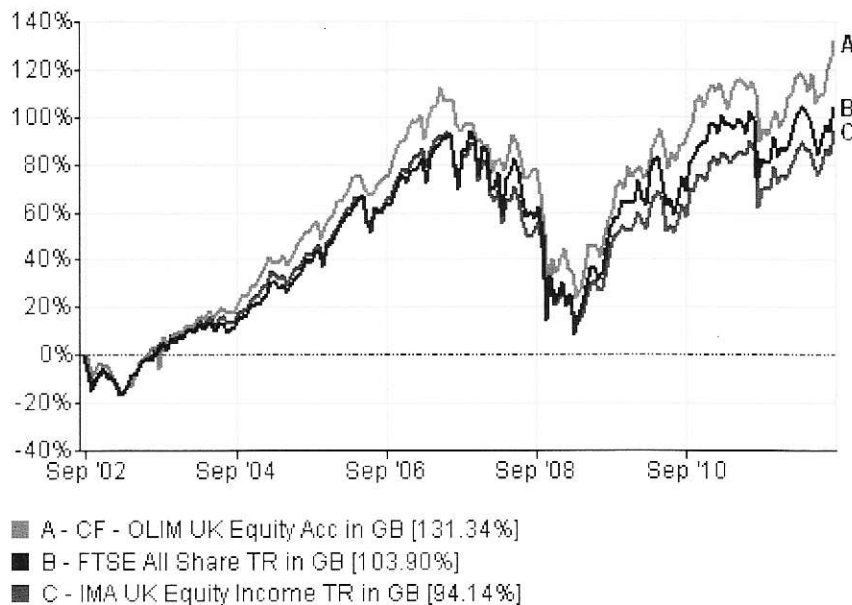
Unicorn UK Income has a total expense ratio (TER) of 1.59 per cent and a minimum investment of £1,000. It is currently yielding 4.23 per cent, which is around average for a UK Equity Income fund. McClure has headed up the portfolio since its launch in May 2004.

### CF Olim UK Equity

With such a long and established track record, it is surprising this fund's assets under management (AUM) stand at just 9.4 per cent. A possible reason for this is its absence from many of the major platforms, although it is available on the James Hay Wrap, or direct for a minimum investment of £1,000.

CF Olim UK Equity is a top-five performer in the highly competitive UK Equity Income sector over 10 years, with returns of 131.34 per cent. This compares with 103.9 per cent from the FTSE All Share and 94.14 per cent from its sector average.

#### Performance of fund vs sector and index over 10-ys



20/08/2002 - 20/08/2012 Data from FE 2012

Source: [FE Analytics](#)

The fund is also a top-quartile performer over one and three years, but slips down to the second quartile over five. It has outperformed the average UK Equity Income fund in seven of the last 10 years, including 2008, when it lost 3.21 per cent less.

[Angela Lascelles](#) has headed up the portfolio since its launch in July 2002 and has since been joined by co-managers [Simon Jaffe](#) and [Andrew Impey](#). They run a multi-cap portfolio, investing all the way across the FTSE All Share index.

Their top-10 includes FTSE 100 favourites such as Glaxo and Vodafone, as well as smaller companies Rotork, Informa and Spectris – its biggest holding.

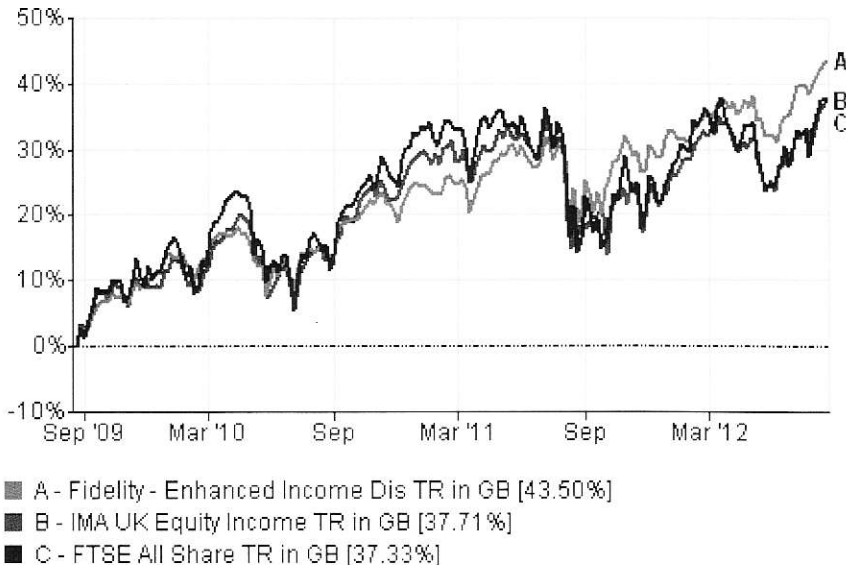
It has a TER of 1.5 per cent, four FE crowns and is currently yielding 4.2 per cent.

### Fidelity Enhanced Income

A newer fund that has yet to attract the mass inflows that it perhaps deserves is the £59m Fidelity Enhanced Income fund, headed up by [David Jehan](#) and FE Alpha Manager [Michael Clark](#). The fact it has only recently achieved its three-year track record is partly why it is so small, but this is likely to change if it builds on its good start.

According to FE data, it has returned 43.5 per cent over three years, outperforming both its sector and benchmark with significantly less volatility. It has also beaten both over one year.

#### Performance of fund vs sector and index over 10-ys



20/08/2009 - 20/08/2012 Data from FE 2012

Source: [FE Analytics](#)

One of the fund's biggest draws is its very high yield – currently at 7.23 per cent, according to FE data. Only two funds – Insight UK Equity Income Booster and [Elite Charteris Premium Income](#) – pay out more.

Clark and Jehan's plus-5 per cent exposure to large cap dividend-payers such as Glaxo, AstraZeneca and Vodafone ensures the yield stays in line with their income target.

Unlike Clark's [Fidelity Moneybuilder Dividend](#) fund, the Enhanced Income portfolio has the ability to overwrite, meaning that it can enhance its yield by taking out options on certain stocks.

The five crown-rated fund has a minimum investment of £1,000 and a TER of 1.76 per cent.