Marlborough Fund Managers

Siddarth Chand Lall's UK Income Market Update

September 2019

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"Our view is that deep value can be found in pockets of the UK market, despite the uncertain backdrop."

Siddarth Chand Lall

Siddarth Chand Lall is the Investment Manager of the **Marlborough Multi Cap Income Fund**.

Concerns over slowing global growth have seen 'safe haven' assets perform well over the past six months. Such is the demand for these assets that around 30% of the bonds issued by governments and companies worldwide, almost £14 trillion worth[1], are now trading on negative yields.

This has made gold, which offers no income, look relatively attractive as a store of value. But the price has already had a strong run this year, up 17.5%[2] at the time of writing, and some investors will be wary about buying at these levels.

Meanwhile, as a result of Brexit uncertainty, UK equities now trade at a significant discount to both historic averages and comparable developed markets. This is particularly true of smaller companies, which are often viewed as more domestically focused. However, many UK-orientated companies continue to trade well and grow their dividends. Examples include hard landscaping products manufacturer Marshalls and self-storage company Big Yellow.

The significant devaluation of sterling has provided a boost for global FTSE 100 companies with a high proportion of overseas earnings. However, there are plenty of strong, international businesses further down the market cap spectrum, where valuations are more attractive. One example is Bloomsbury Publishing, which generates revenues in the US, Europe, Australia and Asia.

Given the combination of low valuations and sterling weakness, UK companies have increasingly become targets for merger & acquisition activity. Acquirers are foreign companies and also cash-rich private equity houses. Our fund has seen a number of takeover bids across various sectors since the referendum, with the pace accelerating recently. The list includes Manx Telecom, RPC and Dairy Crest, with Sanderson and BCA being the most recent. This can push up valuations on other stocks in the same sectors that may be trading on discounted multiples. It reinforces our view that deep value can be found in pockets of the UK market, despite the uncertain backdrop.

We continue to focus on cash-generative companies with strong balance sheets paying sustainable dividends. Given the

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low returns available from bonds, we see a diversified portfolio of such equities, yielding more than 4.5%[3], as an attractive proposition for those seeking steady income.

Siddarth Chand Lall is the Investment Manager of the Marlborough Multi Cap Income Fund, which holds some or all of the stocks mentioned. The views expressed are for general information purposes only and should not be construed as investment advice.

Source 1: Financial Times 09/09/19, FTfm supplement, P.6

Source 2: Bloomberg 09/09/19

Source 3:Marlborough Fund Managers website, yield on Marlborough Multi Cap Income Fund's P class income units is 4.92% as at 12/09/19

Risk Warnings

Capital is at risk. The value and income from investments can go down as well as up and are not guaranteed. An investor may get back significantly less than they invest. Past performance is not a reliable indicator of current or future performance and should not be the sole factor considered when selecting funds. Our funds invest for the long-term and may not be appropriate for investors who plan to take money out within five years. The fund will be exposed to stock markets. Stock Market prices can move irrationally and be affected unpredictably by diverse factors, including political and economic events. The fund invests in the shares of smaller companies which are generally more volatile over shorter time periods. The fund invests mainly in the UK therefore investments will be vulnerable to sentiment in that market which may strongly affect the value of the fund. In certain market conditions some assets in the fund may be less liquid and therefore more difficult to sell at their true value or in a timely manner. All or part of the fees and expenses may be charged to the capital of the fund rather than being deducted from income. Future capital growth may be constrained as a result of this. Data is as at 09/09/19.

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