

Manager Commentary Philip Webster



2018 was a very tough year to be transitioning the Trust to a more concentrated and balanced entity, from an earnings and dividend growth perspective. I'm not going to make excuses: the underperformance was disappointing and two-fold, due to what I didn't own – mostly defensive mega-caps – coupled with stock selection. The market doesn't see the value, or isn't willing to take a medium-term view, which leaves us out of favour for the time being. This isn't a contrarian stance – it's just the view we have on the 33 names we hold in the Trust.

I've said several times before that this isn't about building a fund to deliver on Brexit, or the short term; this is about

a differentiated, concentrated strategy for the long term that offers our clients a unique proposition in the income space. This will take time, and, as said in the interim report, the shape of the portfolio is still evolving, having been in place for less than a year.

It hasn't all been negative; we have exited holdings such as Centrica, Vodafone, Land Securities and Micro Focus International, all of which sold off sharply. We did, of course, get some things wrong, which hurt performance over the year. Profit warnings are never welcome, but of greater importance is whether these are structural or cyclical – and, in my opinion, these very much feel like the latter. All the companies we own are going to have tough years, which has been the case for Just Eat, Sophos and Asos. Technology names are largely out of favour, but they have all had stock-specific issues to deal with throughout 2018. The question now remains: are we going to buy more or capitulate at the bottom? I'm very much being opportunistic in adding to my positions, and I feel that the short-term challenges these businesses have faced are just that: short term.

Our European exposure also hurt in the short term, as we see attractive medium-term valuation opportunities. Irish and Spanish housebuilders Cairn Homes and Neinor have been weak. The former has been hit alongside the UK housebuilders given the noise around Brexit, despite being at the start of the cycle and in a ramp-up phase. Neinor has faced challenges gaining building permits from the local authorities. This is not terminal, but it has, however, led to some delays and volumes being pushed out, thereby causing some near-term volume downgrades. In our view, none of these issues have changed the value inherent in these businesses, but in the short term, the market seems to have lost faith. The other name we initiated is Lenzing, which is all about the medium-term strategy of transitioning the business towards speciality chemicals and their sustainable products; this is resonating with their customers.

Over December, we made no changes to the portfolio, which reflects the comfort we have with our positioning.

Key facts as at 31.12.2018

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 Index (Pre 05/07/2018 FTSE All-Share Capped 5% Index).

Fund type: Investment Trust

Launch date: 1 March 2007

Total assets: £117.4 million

Share price: 87.25p

NAV: 93.19p

Discount/Premium(-/+): -6.4%

Dividend payment dates: Feb, May, Aug, Nov

Net dividend yield †: 5.68%

Net gearing/Net cash:** 5.63%

Management fee rate:** 0.65%

Ongoing charges:** 0.93%

Year end: 31 March

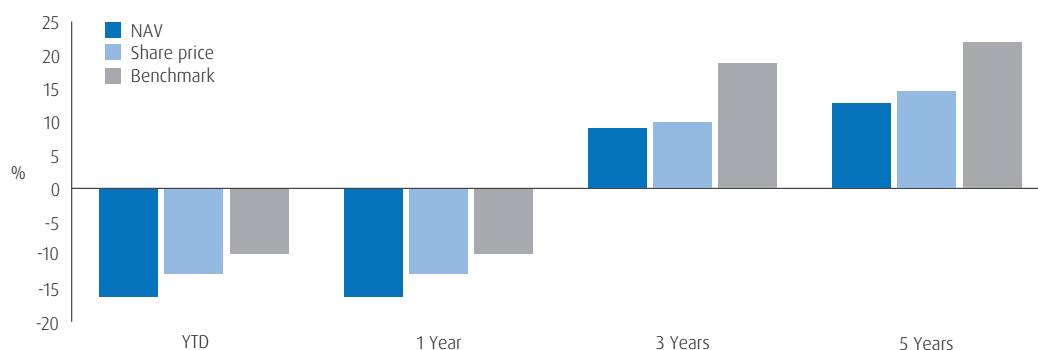
Sector: UK Equity Income

Currency: Sterling

Website: bmoukhighincome.com

** Ongoing charges and management fee as at the end of 31 March 2018. Please refer to the latest annual report as to how the fee is structured. Ongoing charges are calculated in accordance with AIC recommendations.

Fund performance as at 31.12.2018



Cumulative performance (%) as at 31.12.2018

	1 Month	Year to date	1 Year	3 Years	5 Years
NAV	-4.88	-16.14	-16.14	8.87	12.59
Share price	-5.16	-12.72	-12.72	9.81	14.48
Benchmark	-3.75	-9.67	-9.67	18.60	21.79

Discrete annual performance (%) as at 31.12.2018

	2018/2017	2017/2016	2016/2015	2015/2014	2014/2013
NAV	-16.14	13.22	14.66	0.87	2.53
Share price	-12.72	10.04	14.33	2.19	2.01
Benchmark	-9.67	12.97	16.21	1.41	1.27

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 BMO. 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.



Trust codes		
Stock exchange code	Sedol	
BMO UK High Income	BHI	B1N4G29
BMO UK High Income B	BHIB	B1N4H59
BMO UK High Income Units	BHIU	B1N4H93

Top 10 holdings (%)*				
	Portfolio Weight %	Benchmark Weight %	Difference %	Sector
GlaxoSmithKline	6.44	3.46	2.97	Health Care
HSBC Holdings	5.88	6.20	-0.32	Financials
Royal Dutch Shell	5.31	9.17	-3.86	Oil & Gas
RELX	5.29	1.47	3.82	Consumer Services
British American Tobacco	4.80	2.72	2.08	Consumer Goods
Rio Tinto	4.70	2.01	2.70	Basic Materials
Prudential	4.14	1.73	2.41	Financials
Close Brothers Group	3.87	0.10	3.77	Financials
Compass Group	3.63	1.24	2.39	Consumer Services
BP	3.32	4.62	-1.30	Oil & Gas

All figures are subject to rounding.

Net dividend distributions pence per share (paid)					
	2014	2015	2016	2017	2018
February	1.08	1.11	1.14	1.17	1.21
May	1.12	1.15	1.18	1.21	1.25
August	1.11	1.14	1.17	1.21	1.25
November	1.11	1.14	1.17	1.21	1.25
Total	4.43	4.54	4.66	4.80	4.96

All figures are subject to rounding.

Total summary		% assets
FTSE 100		55.40
FTSE 250		31.31
AIM		3.20
Non-Index		4.83
Overseas		4.14
Cash		1.12

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 31.12.2018 unless otherwise stated.

All information is sourced from BMO, 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 2018. 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 factsheet is issued and approved by BMO, a trading name of BMO Asset 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. (01/19).