

Manager Commentary Philip Webster



The year started very strongly, as the usual positive January effect was accentuated by the reversal of some of the extreme pessimism that ended 2018. I said this wasn't a time to panic, or capitulate, and those that did will have missed out on some strong early-year returns. Having had a tough 2018, which I touched on last month, we outperformed in January, with the net asset value rising over 5%.

When looking at performance, it is good to see some of the stocks that were sold so aggressively in the fourth quarter, recover well in January. Of note is Cairn Homes, the Irish housebuilder, which suffered badly on the back of concerns over rising build costs and an irrational seller who wanted to exit their position before the year-end. We also saw ASOS and Just Eat rise by 45% and 19%, respectively. Both companies rebased their profit expectations last year, and while they still have work to do in 2019, it was clear that these businesses were oversold. Some of the more cyclically exposed companies also started the year well, including Bovis Homes, Berkeley Group and Wizz Air.

Having stepped away from the market given the volatility towards the year-end, we saw the opportunity to add to several positions. We added to Cairn Homes and Bovis, where we felt valuations were extreme. I'm not saying that housebuilders won't see their earnings slow, but in the case of Bovis, the dividend yield was higher than the P/E ratio, which we felt more than reflected those concerns. It also has a net cash balance sheet, so we feel comfortable that the dividend will be paid. We also added to British American Tobacco, which had a horrible 2018. We continue to feel the share price is discounting the company's issues, including the US menthol franchise. While there may be a negative outcome, the company is still delivering solid organic growth and cashflow, which leaves me comfortable with the medium-term outlook. To fund these positions, we exited a small position in National Grid after a rebound. Trading remains robust, but we felt the value on offer in these other companies was more compelling.

Key facts as at 31.01.2019

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: £121.7 million

Share price: 90.50p

NAV: 96.89p

Discount/Premium(-/+): -6.6%

Dividend payment dates: Feb, May, Aug, Nov

Net dividend yield †: 5.57%

Net gearing/Net cash*: 5.34%

Management fee rate:** 0.65%

Ongoing charges:** 0.93%

Year end: 31 March

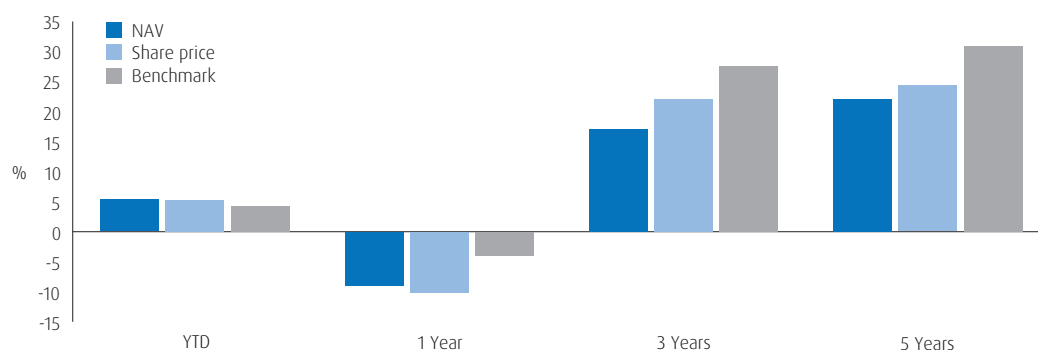
Sector: UK Equity Income

Currency: Sterling

Website: bmoukhighincome.com

** Ongoing charges calculated in accordance with AIC recommendations. Please refer to the latest annual report as to how the fee is structured.

Fund performance as at 31.01.2019



Cumulative performance (%) as at 31.01.2019

	1 Month	Year to date	1 Year	3 Years	5 Years
NAV	5.31	5.31	-8.97	17.04	22.07
Share price	5.23	5.23	-10.06	22.04	24.25
Benchmark	4.18	4.18	-3.99	27.48	30.84

Discrete annual performance (%) as at 31.01.2019

	2019/2018	2018/2017	2017/2016	2016/2015	2015/2014
NAV	-8.97	11.31	15.51	-3.80	8.42
Share price	-10.06	13.30	19.76	-3.36	5.35
Benchmark	-3.99	10.99	19.63	-4.39	7.35

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	6.15	3.30	2.85	Health Care
British American Tobacco	5.62	2.81	2.81	Consumer Goods
HSBC Holdings	5.60	5.88	-0.29	Financials
RELX	5.33	1.48	3.85	Consumer Services
Royal Dutch Shell	5.19	8.98	-3.79	Oil & Gas
Rio Tinto	5.09	2.17	2.93	Basic Materials
Prudential	4.23	1.76	2.47	Financials
Close Brothers Group	3.85	0.10	3.75	Financials
Compass Group	3.46	1.18	2.28	Consumer Services
BP	3.35	4.66	-1.30	Oil & Gas

All figures are subject to rounding.

Net dividend distributions pence per share (paid)					
	2015	2016	2017	2018	2019
February	1.11	1.14	1.17	1.21	1.25
May	1.15	1.18	1.21	1.25	
August	1.14	1.17	1.21	1.25	
November	1.14	1.17	1.21	1.25	
Total	4.54	4.66	4.80	4.96	1.25

All figures are subject to rounding.

Total summary		% assets
FTSE 100		53.96
FTSE 250		31.94
AIM		3.74
Non-Index		5.32
Overseas		3.89
Cash		1.15

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 31.01.2019 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. Views and opinions have been arrived at by BMO Global Asset Management and should not be considered to be a recommendation or solicitation to buy or sell any funds that may be mentioned. 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. (02/19).