

Manager Commentary Philip Webster



Trade tensions between the world's two largest economies; challenging Brexit negotiations and the threat of a possible 'hard Brexit'; a mixed bag of economic conditions; higher crude oil prices; rising bond yields; and political uncertainty in Italy and Spain all cast a shadow over European equities in September. The UK equity market posted a gain, albeit small, in the last month of the third quarter, beating many of its European counterparts. Resource-sensitive sectors, such as energy and materials, were the primary contributors to the market's monthly gains.

While many of our holdings fared well during the month, the trust ended the period in negative territory and underperformed the benchmark. Limiting the drawdown was the trust's exposure to resource companies, such as Rio Tinto and Royal Dutch Shell, which both added to their tallies.

Meanwhile, the holding in Intermediate Capital Group contributed to performance. The private equity firm has benefited from a rise in assets under management and its dividend yield has also been sought out by investors. Food caterer Compass Group also performed well in September on the back of stronger growth prospects and sustainable margin advantage.

Specialty textile manufacturer Lenzing and investment company Melrose Industries detracted from the trust's performance. Lenzing's stock price fell following news of rising costs for both materials and labour, as well as tariff uncertainties, which forced the company to abandon plans of an expansion project in the US.

During the month, we added to online food delivery group Just Eat and communication company RELX Group, while we trimmed our holding in food ingredients provider Kerry Group. We initiated a position in discount airline Wizz Air given its strong, sustainable long-term characteristics and good margin of safety. We funded the purchase through the sale of alcohol giant Diageo following strong performance and a demanding valuation.

Key facts as at 28.09.2018

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: £134.8 million

Share price: 101.00p

NAV: 107.94p

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

Dividend payment dates: Feb, May, Aug, Nov

Net dividend yield †: 4.83%

Net gearing/Net cash*: 4.05%

Management fee rate:** 0.65%

Ongoing charges:** 0.93%

Year end: 31 March

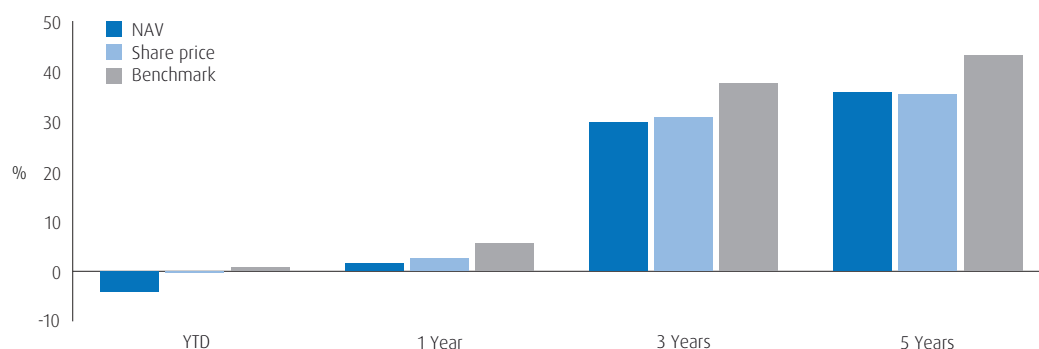
Sector: UK Equity Income

Currency: Sterling

Website: www.fandcukhit.co.uk

** 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 28.09.2018



Cumulative performance (%) as at 28.09.2018

	1 Month	Year to date	1 Year	3 Years	5 Years
NAV	-1.71	-4.06	1.41	29.70	35.68
Share price	-2.88	-0.21	2.43	30.71	35.17
Benchmark	0.70	0.65	5.46	37.37	43.15

Discrete annual performance (%) as at 28.09.2018

	2018/2017	2017/2016	2016/2015	2015/2014	2014/2013
NAV	1.41	8.96	17.39	-1.81	6.53
Share price	2.43	10.70	15.27	-1.74	5.24
Benchmark	5.46	11.60	16.72	-1.66	5.97

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 F&C. 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	
F&C UK High Income	FHI	B1N4G29
F&C UK High Income B	FHIB	B1N4H59
F&C UK High Income Units	FHIU	B1N4H93

Top 10 holdings (%)^{*}

	Portfolio Weight %	Benchmark Weight %	Difference %	Sector
British American Tobacco	6.03	3.36	2.67	Consumer Goods
GlaxoSmithKline	5.82	3.08	2.74	Health Care
Royal Dutch Shell	5.36	9.13	-3.77	Oil & Gas
HSBC Holdings	5.34	5.53	-0.20	Financials
RELX	4.64	1.27	3.37	Consumer Services
Prudential	4.55	1.87	2.68	Financials
Rio Tinto	4.29	1.84	2.45	Basic Materials
Close Brothers Group	3.73	0.10	3.63	Financials
BP	3.46	4.73	-1.27	Oil & Gas
National Grid	3.33	1.10	2.23	Utilities

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	
Total	4.43	4.54	4.66	4.80	3.71

All figures are subject to rounding.

Total summary

	% assets
FTSE 100	54.57
FTSE 250	29.11
AIM	4.14
Non-Index	3.09
Overseas	7.35
Cash	1.74

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 28.09.2018 unless otherwise stated.

All information is sourced from F&C, 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 fact sheet is issued and approved by F&C 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. (10/18).