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For retail investors

BMO UK High Income Trust plc

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BMO Global Asset Management

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Investment 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.

The value of your investment is dependent on the supply and demand for the shares of the Investment Trust rather than its underlying assets. The value of your investment will not be the same as the value of the Investment Trust's underlying assets.

A fund investing in a specific country carries a greater risk than a fund diversified across a range of countries.

If markets fall, gearing can magnify the negative impact on performance.

Strategy and relevance

- Active vs Passive management – ongoing shift to passive?
- Asset allocators, that I am speaking to have already bought into this polarised view
- The Equity Income peer group look very similar, especially when it comes to ownership of the UK mega-caps
- We have built a differentiated and focused strategy that allows us to take a unique position in the market
- Relevance, if you haven't got a track record (3 years) of running a stock-picking strategy it is difficult to attract capital (this is a medium-term story)

The performance and the message are gaining traction but this will take time as we built the Trust's awareness

Source: BMO Global Asset Management as at 31-May-19.

Shape of the equity portfolio today

- Inherited 53 names, 80% FTSE 100, 20% FTSE 250 (Year-end 2016)
- **Today we have 34 names; 54% FTSE 100, 33% FTSE 250, 6% Non-index, 4% Overseas, 3% AIM**
- From March 2017 to 2018 we have introduced 18 new names and exited 34, to March 2019 that fell to 5 introduced and 6 exited.
- There are now only 3 positions held below benchmark weight – BP, HSBC and Royal Dutch Shell (we will continue to reduce these opportunistically)
- Whilst we have moved down the market cap spectrum this is purely driven by quality of the investment thesis.
- Concentrating the portfolio is not the main risk, it’s investing in poor quality companies with weak balance sheets

Source: BMO Global Asset Management as at 28-Jun-19.

Top 10 Relative Equity positions (March 2017)

Company	Relative weight %
British American Tobacco	2.6
BBA Aviation	2.0
Compass Group	1.9
LondonMetric Property	1.7
GlaxoSmithKline	1.6
Ibstock	1.5
Daily Mail & General Trust	1.5
BAE Systems	1.3
Smiths Group	1.3
Halfords Group	1.3
Total	**16.7**

Source: BMO Global Asset Management as at as at 31-Mar-17. Benchmark is FTSE All Share Index. For the purpose of illustration only and should not be construed as a recommendation to buy or sell the mentioned security. Note: Portfolio holdings are subject to change.

Top 10 Relative Equity positions (June 2019)

Company	Relative weight %
RELX	4.1
Cairn Homes	3.6
Kerry Group	3.3
Close Brothers Group	3.3
Jupiter Fund Management	3.2
British American Tobacco	3.2
Intermediate Capital Group	3.1
Lenzing	2.9
Phoenix Group Holdings	2.9
GlaxoSmithKline	2.7
Total	**32.3**

Source: BMO Global Asset Management as at 30-Jun-19. Benchmark: FTSE ALL-Share Index. For the purpose of illustration only and should not be construed as a recommendation to buy or sell the mentioned security. Note: Portfolio holdings are subject to change.

What have we been buying?

Focus of the buying has been a mixture of rebalancing the portfolio to growth, diversifying the income and increasing the moat (competitive dynamics stronger)

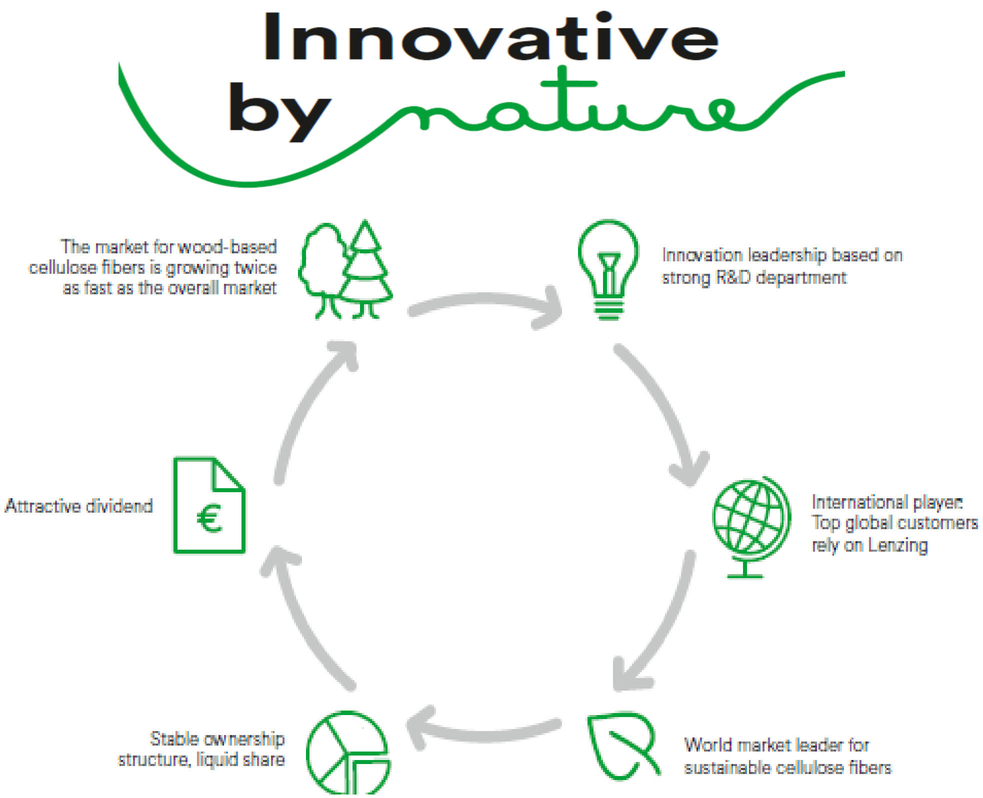
BUY

- **Wizz Air** – market leading low-cost carrier in Eastern Europe. Initiated post the share price decline
- **Brewin Dolphin Holdings** - well positioned in attractive UK wealth management market. Business growth beginning to come through.
- **Close Brothers** - unique and high quality business model that is currently out of favour as their cycle reaches the floor.
- **Lenzing** - Global no.1 in high value speciality, sustainable textiles with very attractive valuation (this is a 2-3 year plan as they deliver new facilities)

Source: BMO Global Asset Management as at 31-Aug-18. Transactions between 01-Jan-18 and 31-Aug-18. Alphabetically ordered, ICT Launch 28-Feb-07. For the purpose of illustration only and should not be construed as a recommendation to buy or sell the mentioned security. Note: Portfolio holdings are subject to change.

Stock example: Lenzing AG

- The Lenzing Group is the world market leader for the production of wood-based cellulose fibres with a market share of 17 percent in 2017
- Lenzing expects the demand for wood-based cellulose fibers will rise by 5 to 6 percent each year to 2020
- Lenzing have very high market shares in speciality viscose products (Tencel™ and Modal®) which command a price premium
- Lenzing are investing in additional capacity in speciality products and internally supplied dissolving wood pulp, improving the mix and reducing input costs
- Well-known global brand product retailers and international consumer goods chains are increasingly using Lenzing's environmentally-friendly products



Source: Lenzing 2017 Annual Report

Source: BMO Global Asset Management. For the purpose of illustration only and should not be construed as a recommendation to buy or sell the mentioned security. Note: Portfolio holdings are subject to change.

Lenzing: A leader in sustainability

- As consumers, our awareness of production process of our goods is increasing
  - As a quality company and manufacturer of sustainable fibres, Lenzing has meaningful sustainable business practices which enables them to spot trends early and nurture innovative leadership
  - Lenzing's cellulose fibres are made from Dissolving Wood Pulp (DWP), which is derived from low-energy, fast-growing, and sustainable-sourced trees
  - Lenzing's drive for sustainable solutions has resulted in the developing of Refibra™, a revolutionary technology which allows the recycling of cotton and scraps into specialty fibres
  - Lenzing educate their customers to address real sustainability problems and options

And they are listening:

M&S has nominated Lenzing Modal® and Tencel™ as "Plan A" fibres along with organic cotton and recycled polyester and are aiming to increase their use.

H&M uses recycled polyester, organic cotton and Tencel™ in their "Conscious" collection.

Inditex's "Join Life" uses Tencel™, organic and recycled cotton and other recycled fibres like polyester and polyamide.

IKEA aims to switch 30% of their cotton fibre usage into more sustainable fibres, and Tencel™ is their preferred fibre.

Source: Logos, Wikimedia Commons

Source: BMO Global Asset Management. For the purpose of illustration only and should not be construed as a recommendation to buy or sell the mentioned security. Note: Portfolio holdings are subject to change.

What have we been selling?

Focus of the sales has been on downside risk, be that thesis drift, valuation or balance sheet

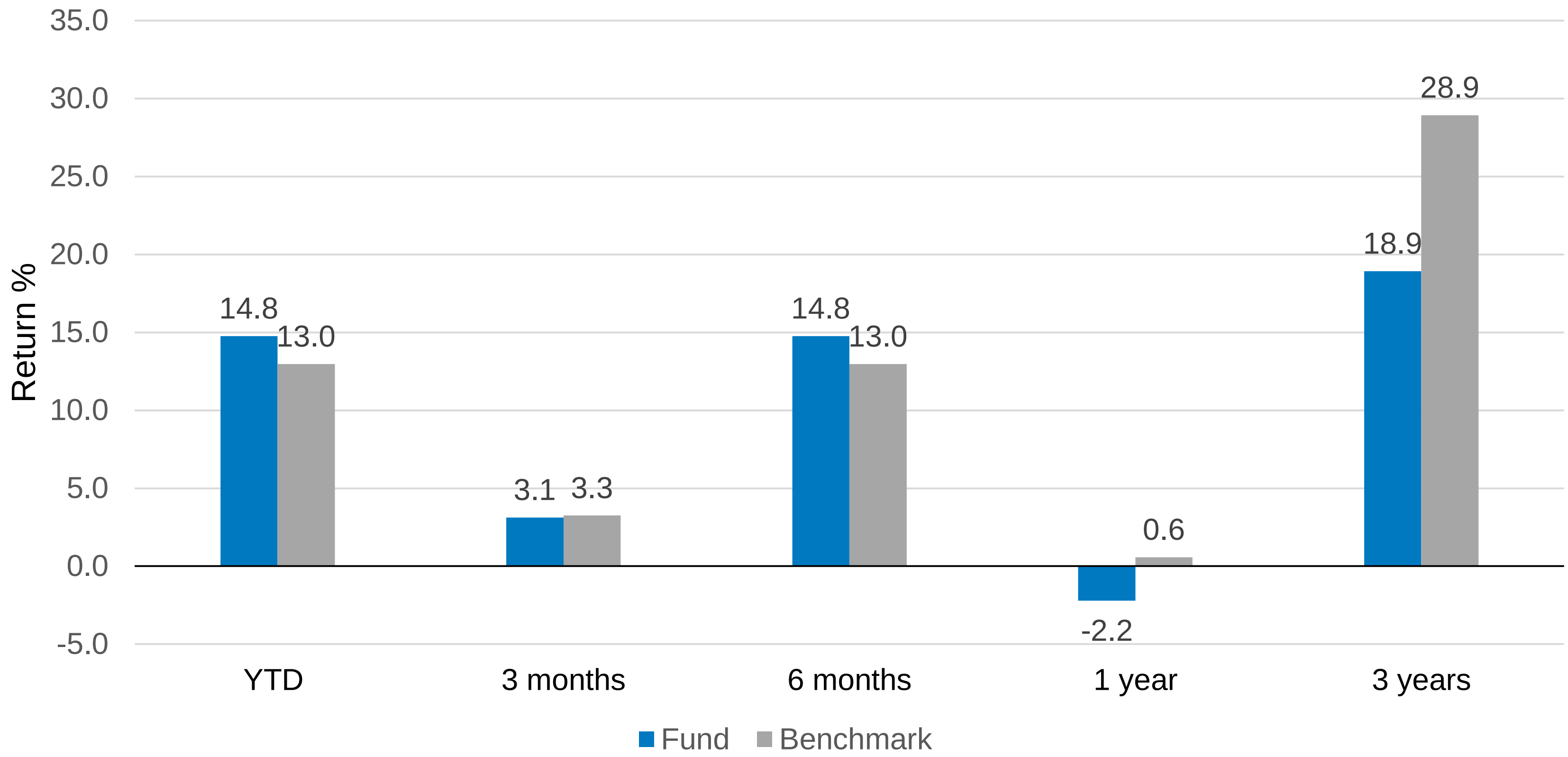
SELL

- **National Grid –** reducing our exposure to the Utilities space which had performed well
- **Daily Mail & General Trust** - newspapers in secular decline; low conviction in remainder of the business model
- **Diageo** – quality business model with attractive assets but the valuation has been inflated by it's safe-haven status. In the short-term this looks like a poorly timed trade but 25x P/E is the wrong-price
- **Greencore** – this should have been a steady compounder given the nature of their end markets but M&A and poor communication

Source: BMO Global Asset Management as at 30-Apr-19. Transactions between 01-Apr-2018 and 30-Apr-19. Alphabetically ordered. ICT Launch 28-Feb-07. P/E = price earnings. FB = Facebook. For the purpose of illustration only and should not be construed as a recommendation to buy or sell the mentioned security. Note: Portfolio holdings are subject to change.

Performance

Cumulative performance (NAV) vs benchmark (GBP net of fees)



Past performance should not be seen as an indication of future performance.

Source: BMO Global Asset Management as at 30-Jun-19. Benchmark is FTSE All-Share Index. Basis: Percentage growth, total return, bid to bid price with net income reinvested in sterling.

Performance

Discrete performance (GBP net of fees)

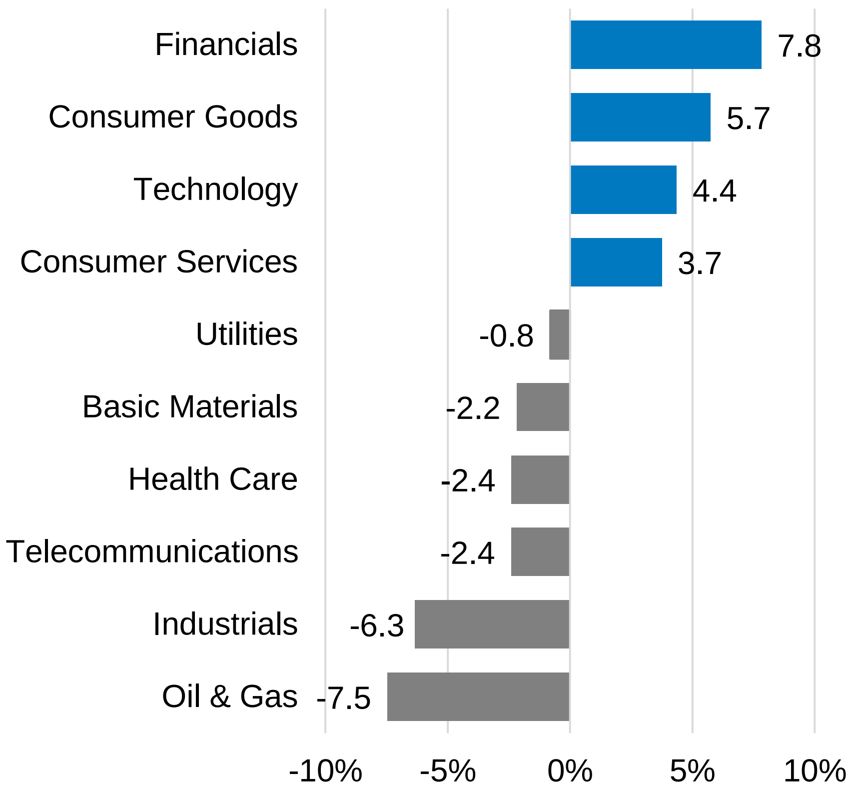
Percentage growth %	June 18- June 19	June 17- June 18	June 16 – June 17	June 15 – June 16	June 14 – June 15
NAV	-2.21	4.59	16.28	4.83	1.20
Share price	-2.34	-0.02	23.38	0.80	2.61
FTSE All Share	0.58	8.27	18.41	1.93	3.17

Past performance should not be seen as an indication of future performance.

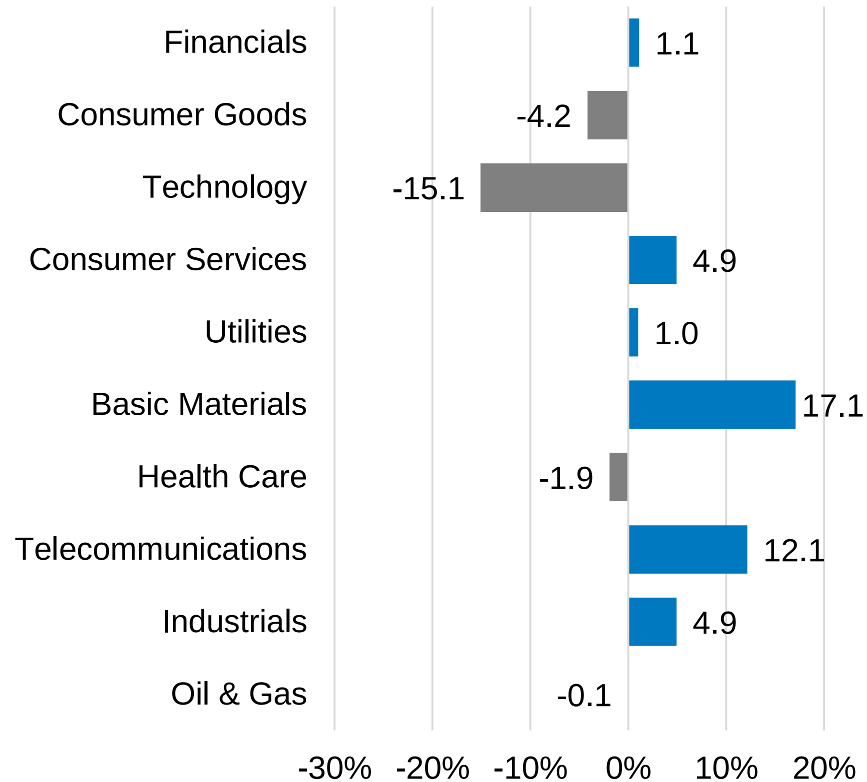
Source: BMO Global Asset Management as at 30-Jun-19. The discrete annual performance table refers to 12 month periods, ending at the date shown. Benchmark = FTSE All Share.

Benchmark agnostic…..

Sector allocation (relative to benchmark)



Sector (performance relative to benchmark)



Source: BMO Global Asset Management as at 30-Jun-19. Benchmark is FTSE All Share TR Index. Sector allocation excludes Cash. Note: Portfolio holdings are subject to change.

Value vs growth – relative price performance

Past performance should not be seen as an indication of future performance.

Source: Morgan Stanley as at 30-Jun-19.

Dividend

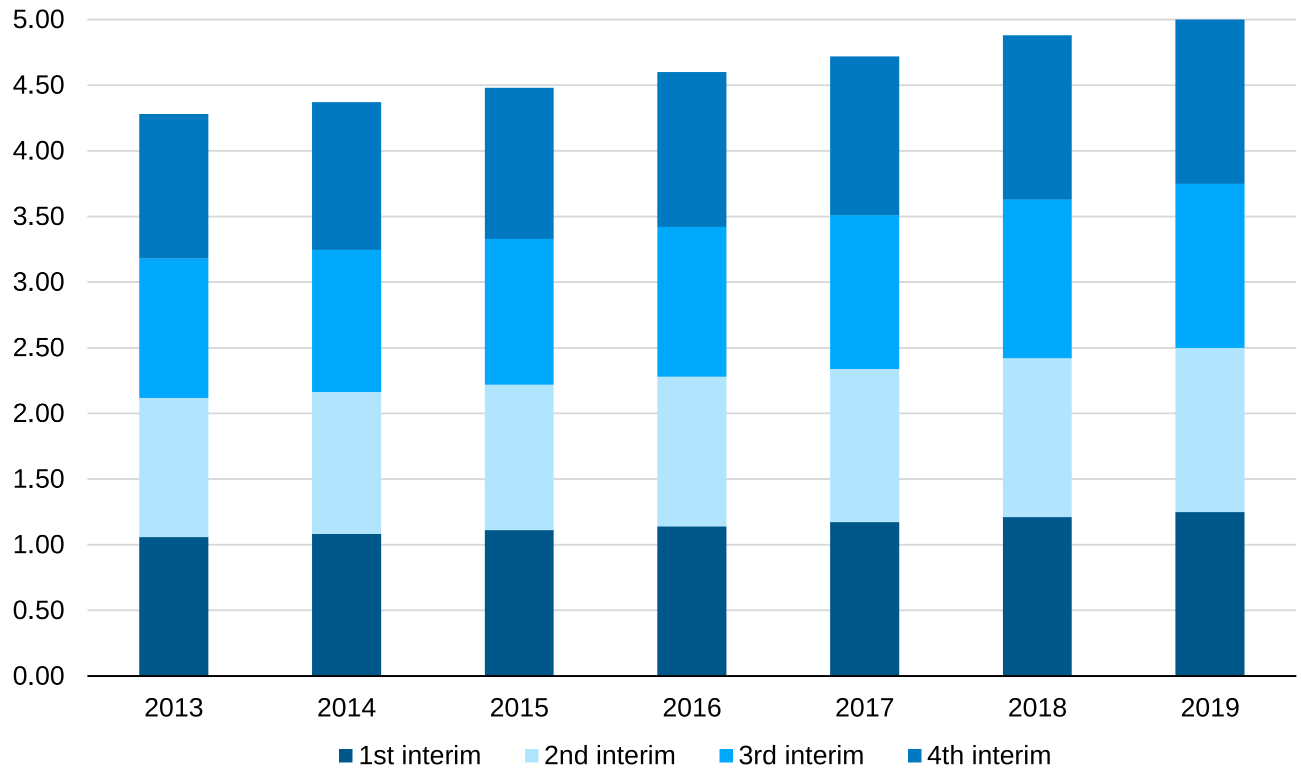
- The core of the portfolio changes are supportive of the dividend – quality, moat, CF and balance sheet
- Several of the positions exited have proven this to be correct – Vodafone and Centrica are both high-yielders that have suffered from weak earnings, leveraged balance sheets and dividend cuts
- Improve the balance of companies delivering lower yields, but more dividend growth
- Need to be mindful of the USD strength which has benefitted the revenue growth. I have moved very underweight the USD, relatively, by selling down the mega-caps
- Revenue reserves are above one year so we retain some very good coverage
- The board have a progressive dividend policy. The starting yield of 5.4% is a significant premium to the index

Past performance should not be seen as an indication of future performance.

Source: BMO Global Asset Management. CF = Cash Flow. Revenue reserve = The portion of a business' profits retained by the company for investment in future growth, and are not redistributed to the shareholders through regular or special dividends.

Dividend progression

Dividend / Capital repayments – by financial year

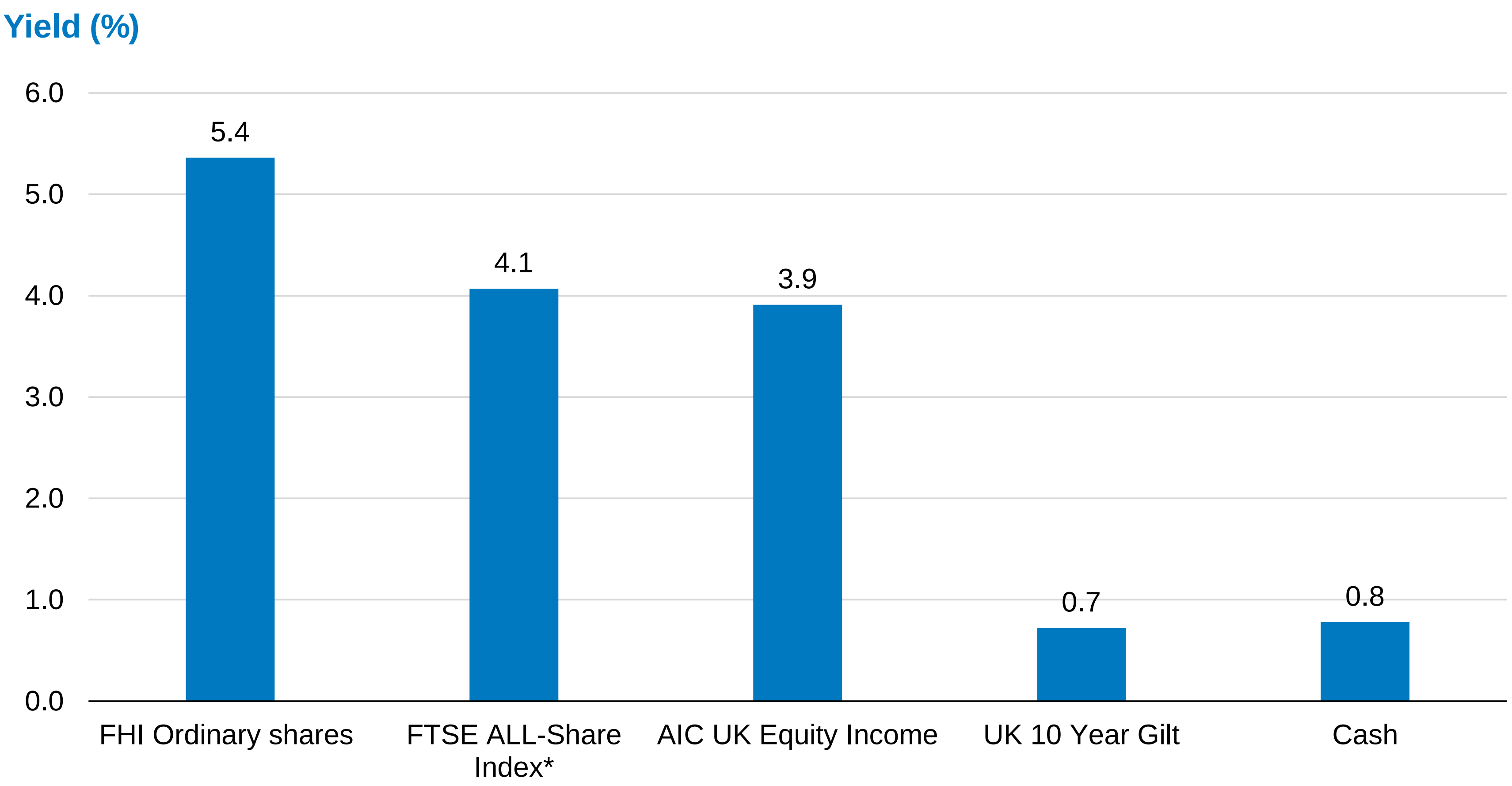


FY	Annual rate (p)	Y-O-Y Increase %
2014	4.37	2.1%
2015	4.48	2.5%
2016	4.60	2.7%
2017	4.72	2.6%
2018	4.88	3.4%
2019	5.04	3.3%

Past performance should not be seen as an indication of future performance.

Source: Global Asset Management as at 30-Jun-19. YOY = year on year.

Dividend yield



Past performance should not be seen as an indication of future performance. The level of any income earned by the fund will fluctuate.

Source: BMO Global Asset Management, Datastream, Bloomberg as at 30-Jun-19, ICT Launch 28-Feb-07, *Yields shown net, Cash Libor (3M).

Current market view

- Risk pressures are building:
  - Cheap funding continues to support elevated corporate leverage and unsecured consumer debt
  - Political uncertainty continues through Brexit and/or trade “wars”
  - Behavioural biases are creating “bubbles” in particular areas of the market
  - Valuations are polarised

- Focus on the knowable, businesses exhibiting:
  - Strong balance sheets
  - Consistent cash generation
  - Sustainable excess returns – ROIC > WACC
  - Attractive valuations – discounts to a conservative assessment of intrinsic value
  - Businesses that have strong dividend cover and will pay their dividend in a weaker environment

Glossary

- **All-Cap:** A Fund that invests in equities without regard to whether a company is characterised as small, medium or large
- **Bond:** A form of loan paying a generally agreed rate of interest over a fixed term, with the principal paid at maturity. Bonds may be issued by governments or companies. Bonds can generally be traded on the stock market and therefore may trade above or below their issue price
- **Discount:** When the share price is lower than the Net Asset Value (NAV), it is referred to as trading at a discount. The discount is expressed as a percentage of the Net Asset Value
- **Dividend:** Income paid to shareholders by the company they invest in
- **Equities:** Shares in a company listed on a stock exchange. Shareholders are effectively the owners of the company and typically have the right to vote on company matters
- **Liquidity:** The ability to quickly convert an investment portfolio to cash with little or no loss in value
- **Revenue reserve:** The portion of a business' profits retained by the company for investment in future growth, and are not redistributed to the shareholders through regular or special dividends
- **Yield:** The annual dividend or income on an investment expressed as a percentage of the purchase price

Disclaimer

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 products that may be mentioned.

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