

Manager Commentary Philip Webster



The UK market and the Trust had a weak August, driven by ongoing fears surrounding Brexit and a UK recession. In the previous month's factsheet, we eluded to expectations of rising volatility as the Brexit deadline approached, and that's exactly what's transpired through August. We don't profess to have a crystal ball; that said, when we look at the fundamental qualities of the businesses we own, coupled with the protection we get from strong balance sheet and cash-flow valuation anomalies clearly exist. As ever, we can be wrong in the short-term, but quality businesses tend to stand the test

of time. Investors are obviously fearful of the next quarter, what will or won't happen, but taking a three-to-five-year view, the UK market is – in our humble opinion – very unloved.

The opportunities are also very stock-specific, so it's hard to draw too many 'big picture' sectoral calls. Housebuilder Berkeley Group is a great example of a business that takes a long-term outlook, projecting £280m of annual shareholder returns out to 2025. The recent trading update highlighted a stable pricing environment and forward sales of £1.8bn. UK housebuilders sit firmly in the 'avoid' bucket because of Brexit but, with nearly £1bn of cash on the balance sheet underpinning returns over the next few years, this is the type of opportunity we seek. We also own two European housebuilders, Cairn Homes in Ireland and Neinor Homes in Spain, that are still ramping up, but with valuations that are now significantly below book value.

We have consistently said that you need to be 'sitting somewhere uncomfortable' in the short-term if you're going to make returns over the medium-term. Businesses like Close Brothers, Melrose or Brewin Dolphin are unloved as they're in a slower growth environment, but again we see this as an opportunity. In our view, these are quality assets so we're happy to wait until they are back in favour.

There has been minimal activity this month, which reflects our comfort in the portfolio positioning. Gearing has been reduced post the sale of Sage, which we have yet to deploy. Should the right opportunity materialise, we would be happy to take the modest level of gearing higher.

Key facts as at 30.08.2019

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: £125.7 million

Share price: 92.00p

NAV: 100.75p

Discount/Premium(-/+): -8.7%

Dividend payment dates: Feb, May, Aug, Nov

Net dividend yield[†]: 5.66%

Net gearing/Net cash^{}:** 2.05%

Management fee rate^{}:** 0.65%

Ongoing charges^{}:** 0.98%

Year end: 31 March

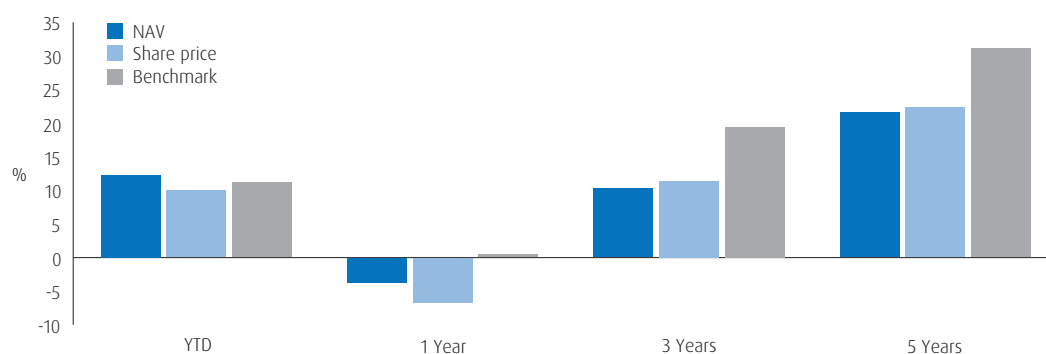
Sector: UK Equity Income

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 30.08.2019



Cumulative performance (%) as at 30.08.2019

	1 Month	Year to date	1 Year	3 Years	5 Years
NAV	-4.49	12.22	-3.58	10.24	21.55
Share price	-6.12	9.94	-6.61	11.31	22.23
Benchmark	-3.57	11.12	0.44	19.34	31.06

Discrete annual performance (%) as at 30.08.2019

	2019/2018	2018/2017	2017/2016	2016/2015	2015/2014
NAV	-3.58	2.47	11.58	13.58	-2.93
Share price	-6.61	4.97	13.55	9.26	0.50
Benchmark	0.44	4.11	14.13	11.72	-1.70

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	7.11	3.74	3.37	Health Care
British American Tobacco	6.62	2.93	3.69	Consumer Goods
RELX	6.20	1.65	4.55	Consumer Services
Compass Group	4.42	1.47	2.94	Consumer Services
Close Brothers Group	3.95	0.09	3.86	Financials
Prudential	3.89	1.59	2.30	Financials
Royal Dutch Shell	3.79	8.23	-4.44	Oil & Gas
Kerry Group	3.74	--	3.74	Consumer Goods
Intermediate Capital Group	3.38	0.17	3.21	Financials
Cairn Homes	3.34	--	3.34	Consumer Goods

All figures are subject to rounding. Not all holdings are in the FTSE All-Share Index.

Net dividend distributions pence per share (paid)/(declared)					
	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	1.29
August	1.14	1.17	1.21	1.25	1.29
November	1.14	1.17	1.21	1.25	
Total	4.54	4.66	4.80	4.96	3.83

All figures are subject to rounding.

Total summary		% assets
FTSE 100		46.80
FTSE 250		34.63
Non-Index		6.78
Overseas		5.25
AIM		2.50
Cash		4.04

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 30.08.2019 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 intended distributions for the company's financial year to 31 March 2020 and the closing share price and exchange rate as at the end of the relevant month. In the absence of unforeseen circumstances, the company intends that the aggregate distributions for the financial year to 31 March 2020 will be 5.21 pence per share. *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 2019. 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. (09/19).