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Six income funds for 2010

Advisers are backing more 'nimble' funds to provide income in a difficult economic environment where dividends are under pressure. They expect income to be more popular than growth strategies this year as investors look for less volatility. Managers who can quickly take advantage of opportunities to generate income are more likely to succeed, according to advisers, who are also branching away from traditional sources of income into other asset classes. Fit for the chase Hugh Doxat-Pratt (pictured), Alpha Financial Consultants' financial planning director said this year investors would need to be more flexible in their approach to generating income given his concerns about companies actually being able to increase dividends. He said smaller offerings were able to provide this, and highlighted the Â£15.9 million Neptune Quarterly Income fund run by Robin Geffen. 'I like the Neptune fund and have some clients in that,' Doxat-Pratt said. 'It's quite niche and he does some bold calls, which I like, plus it's a smaller fund so it will be more flexible and more able to chase opportunities quickly.' Last year Geffen returned 25.24% versus the IMA UK Equity Income sector average of 24.02%. But Doxat-Pratt said he is still backing large funds like Neil Woodford's Invesco Perpetual Income and High Income. Woodford had a comparatively poor year in 2009, with the Income fund returning 11.08% and the High Income portfolio achieving 10.36%. Doxat-Pratt said Woodford's decision to stay more defensive had hurt his performance, meaning he lagged funds which played the cyclical sectors more aggressively. But he said Woodford very rarely had two bad years in a row, and his more defensive stance may come through this year. Further support for Woodford's funds Woodford's funds also received a buy recommendation from the Principal Investment Management income study last week. The firm noted his year of underperformance, but said it was important not too become excessively diverted by short-term performance. Michael Lally (pictured), the chief investment officer at Thesis Asset Management, agreed that the search for income could prove difficult this year. 'It will be a tough year for income funds what with potential dividend cuts from companies,' Lally said. 'Previously there was a drive into bigger, more defensive funds, but small funds can invest with more flexibility.' Henry Chamberlayne, investment manager at the firm, highlighted funds like the Rensburg UK Equity Income Trust, run by Colin Morton, and the Â£57 million Walker Crips Equity Income fund as two picks to generate income this year. The Walker Cripps fund run by Stephen Bailey and Jan Luthman, which sits in the IMA UK Equity Income & Growth sector, returned 31.23% last year. The Â£238.3 million Rensburg fund returned just 16.51% last year, but Chamberlayne said in a less growth-oriented environment it was likely to do better. 'We are now looking at more defensive value focused funds and Morton has demonstrated his fund can perform in all markets,' he said. Multi-asset approach As well as traditional equity income funds, Doxat-Pratt said using a multi-asset approach which looked for income from different sources other than equities was a good strategy in the current environment. 'We need to be more flexible in our approach to getting income, and we use the Thames River Distribution fund for income as there is diversification there and they are very varied about where they get their income from,' he said. But Dennis Hall (pictured), the founder of London-based Yellowtail Financial Planning said he was not overly concerned about the prospect of dividend cuts. He said: 'I'm not expecting a further round of cuts although there will be some, but we use a broad-based approach via trackers as our main strategy.' Hall uses trackers to provide income, and said that as these provide exposure across the market, they lessened the impact of any one dividend cut.