# VT Downing Monthly Income Fund

Fund launched

2010

James Lynch became sole fund manager in 2016

Ever since Britain voted to leave the European Union in June 2016, investor sentiment towards UK equities turned somewhat negative. Set against a background of sustained political uncertainty and volatile markets, many investors have preferred to look elsewhere in their search for income producing stocks.

After a 12 month transition period, June 2016 also marked the month in which James Lynch took over sole management of the VT Downing Monthly Income Fund.

We spoke to the manager about why UK smaller companies remain an attractive hunting ground for income and what makes this fund different to its larger cap peers.

## A small cap route to income

In an environment in which interest rates remain at all-time lows, James says the hunt for income remains a concern for investors.

"While equity markets in general are a good place to search for income, the equity income space itself is dominated by more traditional blue-chip funds," he says. "This means the majority of assets in the whole sector are invested in the top 50 income producing stocks in the UK market."[1]

Holdings in the portfolio:
c50

While this itself is not necessarily a problem, James says it does miss a huge opportunity. Instead the VT Downing Monthly Income Fund adopts a multi-cap, bottom-up approach, that applies the group's small-cap expertise across a range of UK market capitalisations and sectors.

"There are about 10 times more companies in the UK market as a whole[2], and what we are trying to do is access some of the smaller companies that can provide a distribution, as well as diversification of income away from those blue-chip companies," he says. "We have no FTSE 100 companies in the portfolio, instead our focus is the most inefficient part of the market where we can generate an informational advantage."

1 Factset
2 LSE and Factset

## Harvesting growth

James says another attractive feature of investing in small caps is that they have significantly outperformed their larger counterparts over time.

"What we try to do is not only capture the income, but also the growth that can be found in smaller companies," he says. "In large caps you would typically expect each of these companies to achieve a yield of about 4%, with inflation-like growth along the way. In this fund, we are able to look at companies that perhaps have a slightly lower starting yield, but have much more room to grow this distribution over time."

Size of the fund:
£46m
as at 31 January 2021

Within his portfolio construction, James says he is able to provide something different to traditional equity income funds; he targets companies that can provide both high income and growth, supplemented by what he refers to as 'dividend incubators', which are those companies that can grow earnings and dividends at an elevated rate.

"The cherry on the cake is finding those companies that have a high starting yield, but can also grow their distributions quickly," he adds.

## A best ideas approach

Putting this all together, the fund adopts a high conviction approach to income investing in a concentrated portfolio of c.50 companies listed on the UK stock exchange.

However, James says the 'best ideas' approach at Downing is more than just the number of underlying companies he holds in the portfolio.

"It's the whole philosophy of portfolio construction and investment management," he says. ""For me, what really matters is that our research indicates that this strategy has the best chance of outperformance over the long term."[1]

He adds: "We are passionate about finding great companies that have been overlooked by the wider market and building a portfolio out of these."

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1 FE Analytics (31/12/1999 to 31/07/2020)

Key Themes:

- Small cap focus
- Income & growth approach
- Private equity process

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