

Trojan grows income without volatility

The Analyst



By Mark Dampier

Predicting where interest rates will be in a year's time is fraught with difficulty. However, I remain steadfast in my view that interest rates will stay lower for longer than most people think. Even the money markets get it wrong. Only a few months ago they appeared to be factoring in three rate hikes during the course of 2011, but this has now changed to a single rise of 0.25 per cent in a year's time.

This will hardly please savers, who continue to see very low rates of return on cash deposits. Unfortunately there is little that can be done about the situation, and some will have no choice but to increasingly eat into capital, or else take on more risk in the hope of generating a better return.

Realising that returns on cash are set to be low for an extended period, many people have been going for the latter option. Corporate bond and equity income funds have both been popular with investors seeking income. However, it is important not to get carried away. It is always wise to keep a reasonable amount of cash, for two reasons. First, everyone needs a rainy day fund for those unexpected events in life; and second, as part of your investment portfolio cash gives you the option of investing more at a future point – perhaps when you have had a chance to mull over an investment, or to top up your holdings during a market setback.

Of course, if you are looking to invest rather than hold cash, you have no choice but to accept a higher degree of risk. Risk is a concept that can easily be misunderstood. It means different things to different people. One person's "high risk" is another's "cautious" depending on (among other things) age, resources and personal objectives. However, the

FUND FACT BOX

Troy CF Trojan Income

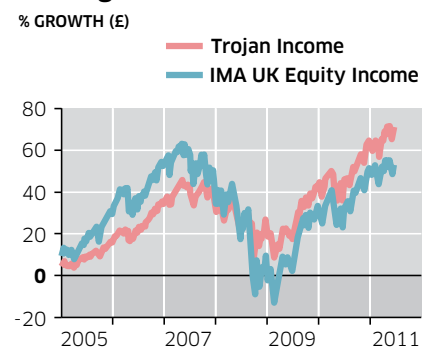
	% GROWTH		
	1 YRS	3 YRS	5 YRS
Trojan Income	24%	36%	42%
IMA UK Equity Income	23%	22%	12%

Initial charge	0%	Yield	4.30%
Annual charge	1.50%	Fund size	£154m

Managed by: Francis Brooke
Launch Date: 30/09/2004

Source: Hargreaves Lansdown

Beating the benchmark



Graphic: Sam Dodge

acid test for everyone is the same: if you make the investment, will you be able to sleep at night? If the answer is no, then you have made the wrong investment.

With this in mind, one fund that might appeal to a number of investors is the Trojan Income Fund, run by Troy Asset Management and managed by Francis Brooke. Like any stock market investment it carries risk, but interestingly the fund has the lowest volatility in the IMA UK equity income sector since its launch in 2004, as well as an unbroken record of growing income payments. This year looks set to be no different, with Brooke expecting a 3 per cent to 4 per cent increase.

Backed by Lord Weinstock, Troy Asset Management was set up in 2000 with the philosophy of wealth preservation at its heart. The Troy way of thinking is that if you minimise losses during market downturns, you don't have to regain as much when they recover, and it is something that both this fund and the multi-asset Troy Trojan Fund (which I have highlighted previously) have demonstrated extremely well over recent years.

The Trojan Income Fund currently yields 4.3 per cent, and tends to be invested in well-known blue-chip compa-

nies such as GlaxoSmithKline, Vodafone, Centrica and Tesco. Among the holdings there are some overseas companies too, with Nestlé presently the largest. This is all fairly typical of funds in the equity income sector, but what is more unusual is the manager's active use of cash. The fund currently has 9 per cent here, a significant position, and Brooke has had larger amounts when he felt it appropriate. Interestingly, he is somewhat cautious of stock markets at the moment, believing that the debt crisis in the West will cause problems later on, providing a good buying opportunity.

The decision to move heavily into cash is not an easy one for a fund manager. If he is wrong, he can be left behind with the market rising. However, Trojan's track record here is actually very good, so for investors wanting an equity fund that aims to take some risk off the table at appropriate times it is certainly one to consider.

Mark Dampier is head of research at Hargreaves Lansdown, the asset manager, financial adviser and stockbroker. For more details about the funds included in this column, visit www.h-l.co.uk/independent