

Q and A: Francis Brooke

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Francis Brooke is a director of Troy Asset Management and manager of its income fund, which has outperformed almost all its competitors, on both an absolute and risk-adjusted basis, since its launch in 2004.

How do you see the equity and bond markets at the moment?

It is hard to see a great deal of value in equity markets with the FTSE All Share Index yielding just under 3%, although earnings growth has lowered the p/e to about 12x and there is the prospect of dividend growth in 2011 for the first time in three years. We much prefer equities to conventional gilts. The only bonds that we hold are index-linked, as we remain concerned about the medium term consequences of money printing by central banks, and not just the short term impact of tax changes, commodity price rises and currency movements.

Are brokers and advisors right to be as bullish about 2011 as they seem to be?

I'm not brave enough to be bullish about 2011 as there seems to be instability in geopolitical, commodity, banking and currency markets and we are seeing what is the weakest US and UK economic recovery on record following a recession. We expect 2011 to be a volatile year.

Have you made any major changes in portfolio balance recently?

Not many changes have been made to the portfolio in recent months. The fund is over 90% invested in equities, as this is an equity fund and the income penalty for holding cash with interest rates at close to zero is substantial. Cash is currently about 8%. New cash flow has been allocated to existing holdings rather than purchasing new holdings.

What opportunities do you see? Are there any striking valuation anomalies?

We still regard equities as more attractive than bonds, and large cap equities as more attractive than mid and small cap equities. However equity valuations now range from expensive, to no better than fair value.

Can you give some examples of stocks you have been buying and why?

Vodafone remains an attractive income investment. It yields 5% with a growing dividend, which is soon to be supported by dividends from Verizon, which makes this stock a core holding.



Primary Health Properties is a small property company specialising in the management of large GP surgeries in the UK. The tenant is the National Health Service and the company has increased its dividend consistently. The company continues to grow assets and the growing yield of 5.5% is very attractive.



Nestle is one of our favourite international companies with an admirable commitment to capital discipline and the development of top quality brands. The recent 15% increase in the annual dividend was a powerful indication of the company's strength.



What would you avoid (or go short of) and why?

We are still unwilling to own shares in taxpayer-supported UK banks which we believe will require more capital. We also have very limited exposure to the UK domestic economy, which we expect to remain weak. An area of the market which we regard as very expensive is the Mid 250 index which currently yields 2.4% and stands on a p/e of 18x.

Why have income funds generally done so poorly recently - and why will that change/what's different about your fund?

Many equity income funds were over dependent on financials, particularly bank shares, for income, and so the fallout from the credit crunch was the cause of widespread underperformance. There was too much focus on high yields without enough focus on the ability of companies to maintain and grow their dividends. That was a trap that many managers fell in to, and we managed to avoid.

The Trojan Income Fund has by contrast grown its dividend every year since launch and avoided 'yield traps'. It has also been the least volatile fund in the IMA UK Equity Income Sector since launch in 2004 as measured by the standard deviation of monthly returns.

What are your thoughts on gold and other commodities?

As a house we like gold and see it as the best way to protect investors' purchasing power in a world where most currencies are being gradually debased by excessive printing. We regard gold as a currency and it performs a valuable role in multi asset portfolios. It is less attractive in equity income funds as it generates no income.

How are you positioning your portfolios in currency terms? Do you favour/dislike any currencies in particular?

Over 80% of the portfolio is in UK equities and the 9% in overseas equities is currently unhedged. We expect sterling to be a weak currency.

QR Code

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