

## Fund Update - Invesco High Income and Income Funds



Mark Barnett – Fund Manager

We have taken a decision today to recommend the sale of all investors in the Invesco High Income and Income funds managed by Mark Barnett. There are several reasons for this recommendation and the catalyst today is the announcement by the board of the £1.3bn Edinburgh Investment Trust (also run by Mark Barnett) to sack Barnett as manager of the trust, following a period of under-performance. Over the last 3 years, the Investment Trust has lost **1.50%** against its sector, the AIC UK Equity Income sector, which has had a **19.37%** gain. Over the past year, the trust is up **4.00%** against the sector's **12.00%** rise.

Another of the Investment Trust's Barnett runs, the Perpetual Income & Growth Trust, has also under-performed, gaining **0.68%** over 3 years against the AIC UK Equity Income sector's **19.37%**.

Most of the capital that Mark Barnett runs sit in Open Ended (OEIC) funds, namely the Invesco High Income and Income funds, one or both of which you own. The Invesco High Income and Income funds have been managed in line with the Edinburgh Investment Trust, with Barnett's 'value style' investing approach. Barnett had anticipated that the UK economy would perform better than it has post the UK Referendum in June 2016, and that his 'value style' investment process would outperform. However, over this period, momentum has continued to favour quality growth stocks, and this has led to continuing under-performance for Barnett against his peers.

While we have seen some evidence since September this year of a shift towards value and away from quality, in our view, there is an additional risk in continuing to hold the High Income and Income funds.

Mark Barnett worked with Neil Woodford at Invesco and took over the management of the High Income and Income funds when Woodford left Invesco in 2014. Both managers share the same 'value' based and contrarian investment style, which has been so out of favour the last couple of years. Woodford has clearly featured heavily in the news this year and had to shut down his investment company in October after many investors wished to redeem their investments.



As well as sharing an investment style with Woodford, Barnett has some exposure in his funds to unlisted stocks (less than 5%). Exposure to illiquid stocks was the primary reason why Neil Woodford had to close his fund, following a period of heavy redemptions out of his fund. Woodford's exposure to unlisted and illiquid stocks was nearer 20% at the time his fund closed.

Over the last 2 years, investors have withdrawn £4.8bn from the Invesco High Income and £2.2bn out of the Invesco Income funds. The tables below show the relative cumulative performance of the High Income and Income funds, Z share class Accumulation shares, provided by independent fund data organisation Financial Express.

### Invesco High Income

Performance		5 Year Analysis - Cumulative Performance			
			1 Yr	3 Yrs	5 Yrs
<b>Absolute return</b>	15.63%	<b>Fund</b>	-0.09%	-1.82%	7.69%
<b>Citywire rating</b>	Not rated	<b>Sector</b>	14.48%	19.74%	37.01%
<b>Morningstar rating</b>	**	<b>Rank Within Sector</b>	250/253	238/242	222/226
<b>Rosan Helmsley Opinion</b>	<b>Sell</b>	<b>Quartile</b>	4	4	4

#### Notes

- Absolute return is from the date Mark Barnett took responsibility for the fund on 1st March 2014, until 10th December 2019.
- Morningstar provides investors with fund analysis and commentary. Their UK operation [www.morningstar.co.uk](http://www.morningstar.co.uk) offers access to and objective information on more than 9,000 funds available to individual investors in the UK and 42,000 stocks worldwide.
- Performance data sourced from Financial Express on 11th December 2019.

### Invesco Income

Performance		5 Year Analysis - Cumulative Performance			
			1 Yr	3 Yrs	5 Yrs
<b>Absolute return</b>	14.65%	<b>Fund</b>	0.88%	-1.12%	7.26%
<b>Citywire rating</b>	Not rated	<b>Sector</b>	14.48%	19.74%	37.01%
<b>Morningstar rating</b>	**	<b>Rank Within Sector</b>	248/253	236/242	223/226
<b>Rosan Helmsley Opinion</b>	<b>Sell</b>	<b>Quartile</b>	4	4	4

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## **Our View**

It is important to recognise that we don't suddenly consider Mark Barnett to be a poor investor, indeed his long-term investment record remains robust. It is primarily his investment style that has led to underperformance, though there have been some poor individual stock picks too. We are however, concerned about investor redemptions gathering pace and putting further pressure on the manager. This may lead to an increase in the relative value of the unlisted holdings within the fund, which may in time lead to liquidity problems.

We have therefore concluded that investors should sell their holdings in both the Invesco High Income and Income funds. This decision has been made in light of the continuing under-performance against each fund's peer group, the unknown timing of the rotation from quality to value, the liquidity issues that may arise, and the continuing unsupportive media focus on Barnett following the Woodford controversy.

We would seek to place investors into alternative UK equity funds as we are supportive of UK equities over the next 1-5 years, which remain relatively under-valued on a historical basis.

**If you wish to take our advice and sell your exposure to these funds, please respond by email confirming your decision and we will contact you to propose an alternative UK fund.**