The INDEPENDENT

Never mind the economy, here's a fund that delivers the dividends

The Analyst

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I recently met Mark Slater for an update on his MFM Slater Income and MFM Slater Growth funds. The former has a considerably shorter track record than the latter, so it tends to receive less publicity. I therefore thought I would focus on the lesser-known fund in this week's column.

Since I last saw Mr Slater, last October, the income fund has grown by an impressive 16.6 per cent, with dividends reinvested, compared with 11.3 per cent for the FTSE All-Share index. And it has returned 87 per cent since its launch in September 2011, against 63.3 per cent for the index. Encouragingly, the fund has also tended to offer some resilience in a falling market, while almost keeping pace with a rising one, and has demonstrated lower volatility than the market (as well as the growth fund).

Mr Slater is first and foremost a stock picker; he spends little time focusing on wider economic issues. Private investors could learn a lesson here as they often spend too much time concerning themselves with the economic news in the financial press, where the doom and gloom tends to be laid on too thick.

The Income fund invests in three broad categories, which helps to minimise volatility. If companies in one group are going through a tougher time, the hope is that one or both of the other categories will be performing well.

FUND FACT BOX

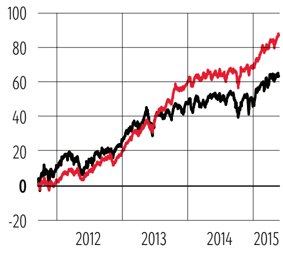
MFM SLATER INCOME
% GROWTH, YEARS

	1	3	5
MFM Slater Income	13.7	38.0	80.9
FTSE All Share	6.8	17.7	53.7

Initial charge 1.00%
Annual Charge 0.75%
Yield 3.60%
Fund size £65m

Managed by Mark Slater
Launch Date 26 September 2011

BEATING THE BENCHMARK
% GROWTH



SOURCE: HARGREAVES LANSDOWN

The first group consists of growth-oriented stocks that also offer a good yield. This portion of the fund includes companies such as Amino Technologies, the food wholesaler Booker Group and Provident Financial.

The second element comprises "dividend stalwarts" that tend to offer respectable yields and improving earnings. Here, real estate investment trusts (Reits) have stood out recently, along with companies including Standard Life, Laura Ashley and Phoenix Insurance.

Finally, there is the cyclical category containing more economically sensitive companies that may have experienced short-term difficulties, but where Mr Slater sees improvement on the horizon and is happy collecting decent dividends in the meantime. This includes housebuilders such as Bellway and Galliford Try.

Not everything in the portfolio has been a success, however. Over the past year, positions in Royal Dutch Shell and John Menzies have disappointed, for example.

After a strong run for the fund and the UK stock market, I asked Mr Slater if he is still able to find new opportunities. As a genuine stock picker, if he is not able to identify new ideas then it is often a sign of an overbought or an overvalued market. In his view, higher-yielding companies are currently trading on higher valuations than low-yielding stocks, which has historically not been the norm. This is perhaps unsurprising, given the near-zero interest rates available on cash, meaning some savers are turning to the market in search of alternative income opportunities.

According to the manager, this has also meant that many flotations of low-quality companies have been extremely popular simply because they offer a high yield – which is no good unless it is sustainable.

Mr Slater went on to say that the environment is not as easy as it once was for investing for income, but overall he remains reasonably upbeat and is still able to identify plenty of new opportunities.

Similar to the growth fund, his income fund invests in companies of all sizes, with a bias towards smaller companies, including AIM-listed stocks. We discussed AIM given that it has recently reached its 20th anniversary – and, interestingly, while the manager believes that the junior market contains some wonderful gems, it is largely an index full of "toxic waste".

Presently the fund is yielding 3.6 per cent on a historic basis, although Mr Slater anticipates its prospective yield is around 4.2 per cent, which looks good against most other competing assets. For those investors who have focused their income portfolios on the largest behemoths in the UK equity income sector, such as the CF Woodford Equity Income and Artemis Income funds, I believe that the MFM Slater Income fund could dovetail very well.

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