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02 PROFILES & ANALYSIS

Fund manager profile Blake Hutchins, *Troy Asset Management*

'FROM HERE WE EXPECT MORE BREADTH IN THE MARKET. VERY CYCLICAL COMPANIES ARE TRADING AT PEAK ENTERPRISE VALUES ONCE AGAIN'

MATCH READY

As Blake Hutchins takes over lead management on the Trojan Income Fund, investors should expect 'an evolution of what's come before' rather than a radical overhaul of the portfolio, as Hutchins is confident the quality income style chimes perfectly with the times

Sebastian Cheek

Blake Hutchins is gearing up to take over lead management duties on the Trojan Income Fund in January from Francis Brooke, but the fact his predecessor is remaining in a business role at Troy Asset Management (TAM) means Hutchins won't have to go far for advice or guidance.

Brooke has been lead manager of the fund for best part of 17 years but will step down to take on the role of TAM's executive vice-chairman in the new year. The decision to bring Hutchins on board in October 2019 from Investec Asset Management was done with succession in mind and he says it was a carefully considered handover.

"Troy thought very carefully about who the right person was, and I thought carefully about where I wanted to be for the future of my investment career," says Hutchins. "Joining a specialist boutique that invests the way that I do, that has such a clear DNA and culture chimes perfectly with the way I want to invest. It was a perfect match for me."

Indeed, when news of Brooke stepping down was announced in February, fund buyers praised Troy for the decent amount of lead time it had given before Hutchins took the reins. Hutchins says working at a small, owner-managed business helped with succession planning because there is alignment of each team member's aspirations for both the company and the success of the funds.

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"I think that's quite different from other succession planning where perhaps a manager leaves and the new manager has to redefine the strategy in its entirety and there's a huge churn in the investor base.

"The nice thing about Trojan Income is it's so clear what we're trying to achieve, and the kind of businesses that we're going to invest in, we always have invested in and will continue to do so."

Hutchins says Brooke moving into a business management role is ideal, given his in-depth knowledge of the company (he was second on the staff roster after founder Sebastian Lyon). It also means Brooke will never be far away if Hutchins wants someone to throw ideas around with.

"It's the best of both worlds because we're still getting the support and the expertise of Francis from the business point of view should I want to pick his brains on anything," he says. "But he's not going to backseat drive. His only interest is in my future success and the future success of the fund and the business."

The next chapter

Indeed, this is Hutchins' time to shine and he is excited to take charge of Trojan Income for the next chapter of its life, although he says investors should expect "an evolution of what's come before" rather than a radical overhaul of the portfolio.

Hutchins says news of him taking over Trojan Income has been well received by investors, but the £2.9bn fund suffered hefty outflows of around £320m in March as a few clients decided to pull mandates.

Hutchins is sanguine about it, however, saying he is "comfortable and confident" it was nothing to do with the succession planning and more a symptom of investors reacting to shifting market dynamics.

He explains: "If you look at our net flows over the past two or three years, we've gained quite a bit of market share in the UK income space. It's not a secret that it's been a tricky place to be and there have been net outflows from the sector, but we haven't seen any over the past three years.

"In the past year we were getting inflows on the back of pretty defensive returns, and when quality and more defensive companies were all the rage. It's always the way that money follows performance."

According to Hutchins, the cash leaving the fund in March was pulled by "a handful" of investors who perhaps had too much of a quality or growth tilt and concluded too much of their portfolio was exposed to Trojan Income's style.

But Hutchins says he's experienced the ebb and flow of different investment styles before and at such times it is vital to adhere strictly to the fund's process, despite the temptation to follow the trend.

"I think investors appreciate that we stick to our knitting, and that leaves them to manage their own asset allocation pie chart," he says.

According to FE Fundinfo, Trojan Income has trailed the IA UK Equity Income sector average over one and five years, while beating it on a three-year horizon. It has returned 20.9% over five years, 6% over three and 9% over one year, compared with the sector's respective 30.5%, 4.8% and 29.1%.

On a shorter timeframe, the fund has delivered 6.3% and 9.7% over six and three months, respectively, compared with the sector's 16.2% and 10.2%.

Better prospects ahead

Reflecting on the fund's performance last year, Hutchins describes the arrival of a vaccine in November as the "starting gun" for a more procyclical market that does not fit Trojan Income's quality approach.

"The vaccine news was such an important event for taking away the worst-case scenario and actually taking away a lot of downside risk for companies. It also gave investors that tangible point where you could be very confident certain companies were going to stop burning cash or eating into equity value."

Hutchins says even with the fund's relatively cautious quality approach, during the recovery he has become more bullish towards certain "quality cyclical" companies that have better prospects ahead.

During the past six months, he has added to positions in companies including hotel chain Intercontinental Hotels Group (IHG) and Diploma, which supplies technical products such as bespoke seals and wiring, as well as medical equipment. Diploma accounts for about 2% of the portfolio.

On Diploma, Hutchins says: "It doesn't just distribute white label products or make a small margin and depend on volume, the added value comes from the servicing and the consultancy work Diploma does around that. There are nice margins, it is very cash generative and it has an amazing market position in the US."

Diploma fits into a wider theme Hutchins likes at the moment, which is high-quality engineering, industrial and chemical stocks. Aside

from Diploma, the portfolio contains Croda, Intertek and Victrex, while Halma is owned in the closed-ended Troy Income and Growth Trust, on which Hutchins is a co-manager with Hugo Ure.

Hutchins says there are other companies that play to this theme on the fund's watchlist. "I could really see that being a portion of the UK market that the fund is more exposed to in the future."

He describes IHG and the fund's top holding Diageo as "world-class" franchises that are impossible to replicate and their prospects are looking far better having suffered a torrid time during lockdown. As such, Hutchins has added to these holdings so that combined they account for roughly 9% of the fund.

The team has also felt more at ease with the portfolio holding the likes of Compass Group, WHSmith, Next and certain financial stocks.

However, he points out the importance of staying true to the investment process and, as such, the team will never play in the most cyclical parts of the market that contain those companies most positively affected by the removal of tail risk.

"We don't wish to take our investors on a very pedestrian return journey as we have on a relative basis over the past six months, but it is inevitable as you have seen such a big bounce-back from companies we just don't play in.

"We don't think about the makeup of the UK market. As we all know the market-cap weighted nature of it is such that it is very procyclical and capital intensive, and that is why you can see a divergence in relative returns between Trojan Income and the market."

But Hutchins does not think the rotation into cyclical stocks will last forever and he sees a broadening of returns ahead that some investors might not be fully prepared for.

"Every man and his dog knows we are recovering from the pandemic and every newspaper is talking about an economic boom," he says. "I was in a taxi just two days ago and the driver was telling me we're about to have an economic boom.

"I would just caution that from here we expect more breadth in the market. These very cyclical companies have justifiably done well but are now trading at peak enterprise values once again."

Trojan Income Fund performance

%

	1m	3m	6m	1yr	3yr	5yr	10yr
Trojan Income	0.39	9.06	5.43	6.08	5.99	19.96	100.27
FTSE All Share	1.11	9.64	15.20	23.13	5.92	40.50	84.35
IA UK Equity Income	2.14	10.68	16.88	27.31	6.06	31.06	91.21

Source: FE Fundinfo (as at 1 Jun '21)

Trojan Income top 10 holdings

%

Diageo	6.3
Reckitt Benckiser	5.6
Experian	5.5
Unilever	5.4
Relx	5
Paychex	3.6
Compass Group	3.5
Nestlé	3.5
Glaxosmithkline	3.4
Croda International	3.4

Source: Factsheet

Trojan Income asset allocation

%

Consumer staples	28
Industrials	15
Financials	14
Consmer discretionary	14
Healthcare	10
IT	6
Real estate	5
Materials	5
Utilities	2
Cash	1

Source: Factsheet

Quality defence

The fund must invest at least 80% of its assets in UK equities, which leaves 20% for overseas exposure and, at present, about 15% of the fund is in international stocks.

According to Hutchins, the fund has international exposure because the team has a genuine competency at it. The Troy investment teams work closely, which means Hutchins, Brooke and Ure sit near the likes of Sebastian Lyon and James Harries, who are global investors, as well as the firm's analysts.

In addition, several of the UK companies in the portfolio have significant international exposure and are diversified from a product and geographic standpoint, although Hutchins singles out the US as a fertile hunting ground.

"When we look around the world, obviously there is fantastic growth coming out of certain markets such as such as China, but within developed markets, the US really does stand out as a great place to do business if you have a strong business. Diageo and IHG are great examples of companies that have genuine leading businesses in the US."

Time will tell whether Hutchins can really make his mark on the Trojan Income portfolio, although he has already made several changes since joining the company almost 18 months ago.

The big question is whether returns broaden out once the vaccine euphoria dies down and the fund's quality and defensive companies help the fund outperform in weaker market environments such as in 2020. **LW**

'INVESTORS APPRECIATE THAT WE STICK TO OUR KNITTING, AND THAT LEAVES THEM TO MANAGE THEIR OWN ASSET ALLOCATION PIE CHART'