The search for worldwide income

by Andy Parsons, Advice team manager

With interest rates at record lows over the last year, you may need to be more adventurous in your hunt for supplementary income. We looked at the opportunities afforded by Corporate Bonds in our January edition of The Fundholder but have you considered the opportunities afforded through equity-backed funds? And if so, how far afield are you prepared to look? Are you prepared to look outside the UK?

Historically investors have been reluctant to seek income from regions and areas they are unfamiliar with, preferring to stick to blue chip defensive shares from such companies as BAT, National Grid, United Utilities, Vodafone and Glaxo. Such investment decisions may be based on reputation and brand but may also be impacted by the belief that these companies are solidly rooted in the UK. However, the reality is that the largest FTSE 100 yielding companies generate significant amounts of their profits from overseas. With that thought in mind, it may not be such a leap to extend your investment horizons. Come with us on a journey.

UK is where we start our search for worldwide income. If you are looking for income from the UK collective arena, you have a lot of choice between suitable UK-based funds. However, the vast majority of these funds will hold very similar companies given their need to deliver a yield. If you are prepared to diversify your portfolio and accept a slightly higher level of risk, you could consider other geographical regions that offer as attractive levels of income as on offer in the UK alongside the potential for growth. Our featured UK fund is the Investec Monthly High Yield fund, which at the time of writing has a yield of 8.88%.

Europe can offer you exposure to companies such as Roche (known for its Tamiflu vaccine), Deutsche Telekom, BNP Paribas, Total, Nestle and Credit Suisse. Despite its geographical size and economic importance, Europe has only realised the importance of dividend payments to its shareholders over the last decade. Our featured European fund is the Newton European Higher Income fund, which at the time of writing has a yield of 4.61%.

Asia, more commonly seen as a growth investment arena, now also offers income potential. The choice of companies is fairly limited but the yields on offer can be attractive when compared to those of general mainstream UK income funds. Investment opportunities include China Steel, Telstra Corporation, Macquarie Airports and National Australia Bank. Our featured Asian fund is the Newton Asian Income fund, which at the time of writing has a yield of 5.02%.

America is the final stop on our worldwide income-seeking tour. Again this is a region more widely known for its growth potential, however, many of the familiar global brands such as Goldman Sachs, Microsoft, Chevron and Proctor & Gamble do pay dividends. Our featured American fund is the Jupiter North American Income fund, which at the time of writing has a yield of 1.60%.

Note that all the yields quoted in this article are historical; they are not a guarantee of future yield.

When investing in these funds, remember that past performance is not a reliable indicator of future performance and that the value of investments and the income from them can go down as well as up.

UK – Investec Monthly High Income Fund Managers: Chris O'Hare and Kieran Roane

0% initial charge see page 3

Our risk rating: L3 | Fund size: £142m at 31 August 2009 | Yield: 8.88%

Aim: To provide investors with a high income, paid monthly, primarily through investment in highly rated and/or high-yield bonds from around the world. The portfolio will be managed to minimise any currency risk in sterling.

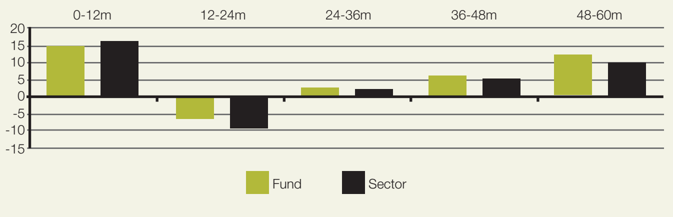
Opinion: Chris O'Hare and Kieran Roane take a top-down approach to managing the fund, meaning that their investment decisions predominantly consider economic factors such as interest rate movements and inflation pressure. This process is then overlaid with a bottom-up approach, whereby they examine the volatility, valuation and price behaviour of individual shares. In the current climate, such a full and thorough credit analysis is important to understand the financial, business and management risks inherent with any investment. In terms of risk, we rate this fund at the higher end of those investing in corporate and government debt.

This fund is suitable for investors who require a regular, monthly income. The fund invests worldwide and is therefore potentially exposed to the risks associated with politics and currency movements. In addition, it is exposed to high-yield debt which may in the current climate suffer from potential default.

Discrete quarter-end performance to 30 September 2009

	0-12m	12-24m	24-36m	36-48m	48-60m
Fund (%)	14.53	-6.42	2.62	6.11	12.34
Sterling High Yield (%)	16.23	-9.11	2.32	5.26	10.00

Performance chart



Europe – Newton European Higher Income Fund
Manager: Raj Shant

0% initial charge see page 3

Our risk rating: M6 | Fund size: £62.8m at 31 August 2009 | Yield: 4.61%

Aim: To achieve income together with long-term capital growth predominantly through investments in European Securities (excluding UK). The Sub fund may also invest in collective investment schemes.

Opinion: Corporate governance changes in Europe are resulting in more directors of European companies being encouraged to stake a personal financial commitment in the company and therefore be remunerated for improved performance by growing dividend returns. This fund aims to deliver an income yield in excess of 'benchmark'; that is an income yield of at least 15% higher than that of the FTSE Europe ex-UK Index.

Raj Shant heads a European team of three, who support him with research and ideas. This is an actively managed fund that invests in approximately 50-60 shares with companies picked on a thematic basis rather than on anticipated prevailing economic conditions.

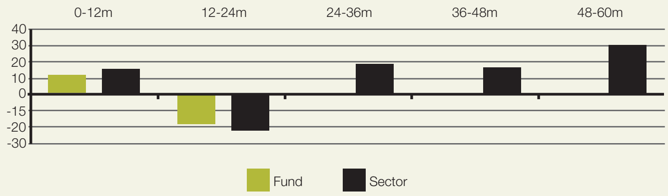
Newton Income funds focus on strong dividend growth. In addition, where a dividend yield falls below a prescribed level the company's shares are sold, thereby reducing the downside risk of the portfolio to some degree.

This fund is suitable for income seekers who are looking for European exposure.

Discrete quarter-end performance to 30 September 2009

	0-12m	12-24m	24-36m	36-48m	48-60m
Fund (%)	11.53	17.84	–	–	–
Europe exc.UK (%)	16.07	-22.09	18.26	16.56	30.39

Performance chart



Asia – Newton Asian Income Fund
Manager: Jason Pidcock

0% initial charge see page 3

Our risk rating: H8 | Fund size: £242m at 31 August 2009 | Yield: 5.02%

Aim: To achieve income together with long-term capital growth predominantly through investments in securities in the Asia Pacific ex. Japan (including Australia & New Zealand) region.

Opinion: This fund aims to deliver an income yield in excess of its benchmark; that is an income yield at least 35% higher than that of the FTSE AW Asia Pacific ex-Japan Index.

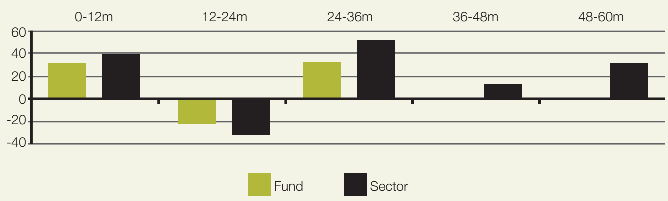
Jason Pidcock heads an Asian team of 18, who support him with research and ideas, providing good coverage of the region. The fund invests in approximately 45-55 shares with companies picked on a thematic basis rather than on anticipated prevailing economic conditions.

Newton Income funds focus on strong dividend growth. In addition, where a dividend yield falls below a prescribed level the company's shares are sold, thereby reducing the downside risk of the portfolio to some degree. The majority of fund houses still believe that emerging markets are not mature enough to provide long-term income returns. Newton fund managers beg to differ. This fund is suitable for income seekers wishing to spice-up their portfolios.

Discrete quarter-end performance to 30 September 2009

	0-12m	12-24m	24-36m	36-48m	48-60m
Fund (%)	32.05	-21.77	31.85	–	–
Asia Pacific Exc. Japan (%)	39.9	-31.76	51.95	13.12	31.23

Performance chart



US – Jupiter North American Income Fund
Manager: Sebastian Radcliffe

0% initial charge see page 3

Our risk rating: M7 | Fund size: £185m at 31 July 2009 | Yield: 1.60%

Aim: To achieve long-term capital growth and income by investing primarily in North American securities. The fund's investment policy is to invest primarily in North American 'blue chip' companies.

Opinion: With its ability to innovate, access investment capital and distribute products, services and innovations on a global scale, North America remains one of the most competitive regions of the world. Under President Obama, we expect 'brand America' to pick up from the lull of recent years following the financial crisis.

This fund was launched in 1998 as a growth fund but was reconstructed in May 2007 to provide investors with the option for an income stream. It is currently managed by Sebastian Radcliffe who is supported by Rupert Corfield. They primarily invest in US blue chip companies. The majority of investments are held for 5 years only. The emphasis of the portfolio weightings changes to reflect the manager's view of prevailing economic conditions and investment decisions are supported by company specific research and computer-based models.

This fund is suitable for investors who want access to large-cap US companies that provide income and long-term capital growth.

Discrete quarter-end performance to 30 September 2009

	0-12m	12-24m	24-36m	36-48m	48-60m
Fund (%)	8.89	-6.77	12.69	0.83	17.77
North America (%)	9.42	-16.66	7.89	2.14	15.34

Performance chart