PRESENTER: Mark, to start with income solutions are a regular topic of conversation with advisers and also their clients. So in your view what is driving the demand for income based solutions? MARK RIMMER: Well, Mike, I think the real problem is that we're all living longer. So, if you look at the slide in terms of life expectancy, at the moment at birth the expectancy for females and males is 86 years and 83 years; back in 1961 those numbers were 74 years and 68 years. So over the last 57-odd years or so life expectancy has gone up by 12 to 15 years. So we're living longer. You can see on the next bars the number of people aged over 65 is going to go up by about six million over the next 23 years or so. And again over the next 23 years the number of people aged over 85 is going to double to around 3.2 million. So this ageing population needs income. We're moving from the accumulation to the decumulation phase, and we think this problem is going to be with us for years to come. PRESENTER: So, on that basis then, what are your favoured asset classes for delivering income and why is that? MARK RIMMER: Well the chart here shows the assets that traditionally provide income. So the blue bars show the current yields and the orange line shows the average over the last 10 years. And you can see that in most cases first of all yields are quite low and secondly that yields are well below average. So for example we know why gilt yields are low, because the Bank of England has bought a third of the gilt market with their quantitative easing programme. Base rates of course we know are very low, we've had one increase back in November, and it's only really equities that are giving a decent level of income and that are close to their long-term average. PRESENTER: So, in your view then, what are the perceived issues when investing in equities for income? MARK RIMMER: Well as you can see here the chart is showing first of all the yields on the FTSE All Share, which you can see are at a reasonably consistent level shown by the blue bars, but we also show the level of the FTSE 100 Index by the orange line, and you can see that there had been some nasty drawdowns over the last few years. So of course we had the dotcom boom and then bust 2001/2002; we had the credit crisis of course in 2008 and early 2009; and then more recently of course we've had the selloff in February and March, although we did of course see a good recovery in April. So these drawdowns of course do scare investors not surprisingly. So the problem really is you could have low income or a better level of income but with volatility. PRESENTER: So you said at outset that clients are living longer, so obviously as an objective you need to provide long-term sustainable income, how do you go about delivering that? MARK RIMMER: Well, Mike, what we're really trying to do is provide a reliable high and stable income stream, often with a progressive income policy. We're trying to achieve an approach with less volatility than pure equities. We have a very experienced investment team. We have a very highly diversified approach with over 50 holdings in our two income funds. And of course we have a very active approach the way we manage our portfolios. PRESENTER: So can you give an example of this in one of the Premier multi-asset funds, and should income investors be concerned with the volatility of capital? MARK RIMMER: Well sure Mike, the chart here shows the income from the Multi-Asset Distribution Fund since its launch back in 1995. So the blue bars show the growing level of income. So that's a nice consistent level of income that's being provided. And the orange line shows the price of the fund. But I think the key is that we're not paying income out of capital. So a £100,000 investment back in 1995 would have paid out £109,000 in income, plus over £42,000 in capital growth. So we're not paying income out of capital, unlike some of our peers. And incidentally £100,000 with income reinvested would be worth £368,000. So we're delivering a consistent level of income with some capital volatility, but as we can see that then recovers. I think the second thing to note is that if we look at the risk return characteristics of the two income funds compared to the FTSE All Share Index on this chart here, you can see that the returns from both the multi-asset distribution fund and the monthly income fund are very similar to UK equities, to the All Share index, but with less than half the level of volatility. So we're trying to achieve a much smoother ride than equities, so a better risk-adjusted return or a better sharp ratio if you like. PRESENTER: OK, Mark, so you've just talked about delivering similar returns to the equity markets with less volatility, how do you go about actually achieving that? MARK RIMMER: Well we're very strong believers in diversification in terms of by asset class and by the number of holdings, so we're trying to achieve very diversified sources of income, and you can see the sources of income for both the funds here, for the Distribution Fund and the Monthly Income Fund. So the left-hand side looking at the Distribution Fund, we're getting a lot of the income of course from UK equities where there's a very strong dividend culture and a good level of dividends being achieved, but also a decent amount from overseas equities. Now of course we've always had overseas equities in the fund, but we think that overseas equity income opportunities are even better than they were previously. We're getting a lot of income of course from bonds, despite the lower yield environment. And we have a category called specialist bonds, which we term as non-traditional funds, such as infrastructure debt or real estate loans or asset-backed securities. And we're also getting income from commercial property. We have much less commercial property than we used to have, and some income also from alternatives. Similar profile for the monthly income fund, we're getting a bit more income from UK equities as we're investing in a couple of UK equity funds there that are producing a particularly high level of income. So a very diversified approach that's really helping us to achieve this. PRESENTER: Thanks Mark, so turning to the multi-asset, multi-manager concept, how do you believe that you can add value for the end investor in that type of environment? MARK RIMMER: Well firstly we're very much focused on buying attractively valued income producing assets. So everything in the funds has to have an income, has to have a yield. We often take a contrarian approach to our asset allocation, so it's a case of what sectors we own, but also that we don't own, that we're avoiding. We're often willing to own smaller less well known funds, which have served the funds very well, avoiding the larger funds, so we often say we prefer the more nimble funds. Thorough due diligence of the holdings, we have over 400 meetings with our fund managers every year. We take advantage of opportunities that may be thrown up by big dislocations, such as the credit crisis or Brexit that created unexpected opportunities if you like. We're not adverse to selling winners if there's a good reason to do so, recycling into other opportunities. Fund selection of course is very important and how we blend those. And again a very active approach, top slicing funds that have done well, adding those that might have lagged. So it's a number of different approaches Mike. PRESENTER: So I'm interested in the contrarian approach that you refer to, can you give us some examples of what that means, and also how you've applied that within the portfolios that the multi-asset team manage? MARK RIMMER: Well what it means is often looking for asset classes or funds that are out of favour if you like, that are unloved. So a good example of that is our approach to commercial property. We increased the allocation for both the income funds back in Q3 2013, as we thought they had an attractive level of income: yields in the region of 5 to 6%. They lagged the recovery in equities. Again the sector was out of favour. We thought there was the potential for capital gain. So we used a range of open-ended and closed-ended funds to increase our exposure, but particularly in open-ended bricks and mortar funds. And you can see from the chart on the right hand side we've shown a selection of open-ended and closed-ended funds, which performed very well over this period from 2013 to early 2016, outperforming both gilts and equities. But we always said that we'd monitor other asset classes, and if income became more attractive from other sectors then we'd reassess that position. And indeed in August 2015 there had been significant yield compression from a lot of these property funds to yields of 2½-3%. Flows into the sector were improving and the valuation gap to equities had reduced. And importantly we had a big selloff in equities on the Chinese currency devaluation back in August 2015, so we started to switch some of our property funds back into UK equities for example, into convertible bonds etc., so taking profit essentially. But also we'd become less comfortable with the valuations on some of these property funds. A second example is emerging market debt. So back in 2013 the market was performing quite well in emerging market debt, but we avoided the sector as we didn't like the quality of the assets. We didn't like the valuations, we thought they were attractive. And also we thought it was a crowded trade. There was perhaps you might say hot money going into the sector, which can often be a warning sign to us. Subsequently the market did fall very sharply, and there were also some liquidity issues in terms of people trying to get out of the funds. Going forward in time to late 2015 early 2016, we thought that the valuations were better than they were. It was very much an out-of-favour sector, and we liked the fundamentals. So we made an allocation to emerging market debt, and subsequently the market has performed very well, plus delivering a very good level of income. PRESENTER: Thanks Mark, so as well as asset allocation you mentioned the importance of identifying fund managers who you believe are the best in class within their asset class. So how do you actually go about doing that? MARK RIMMER: Well fund selection is obviously a very important part of the process, and we have a very thorough approach here. So there will often be a specific need for a fund. There might be a new asset allocation that we've made, or a change to the blend of the funds we're trying to achieve, or a new idea or a better fund has come to the market. And we take an approach of a quant scan as opposed to a screen. For us industry knowledge is really important, and we do have a very experienced team of fund managers. So knowing the fund managers, knowing the team that we're going to be investing into is obviously important. Of course we grill the fund managers that we're investing the fund into in terms of their process, their style, their biases: do they have a growth style or a value style? But also things, if they've had periods of underperformance: why has that been, what have they done about it? And what their capacity is in terms of the fund sizes. And the final check is weighing up the options, looking at due diligence of course is important, completing a questionnaire and RFP. But also particularly for new funds negotiating fees down, that could be an important part of the process. And of course how they blend with our other funds is always going to be important. PRESENTER: So, Mark, can you just give us some examples of funds that you have bought? MARK RIMMER: Yes sure Mike, well one example is Montanaro UK Equity Income. They have a very strong income discipline in mid and small cap at UK equities. They have one of the largest teams, research teams in Europe actually. So they favour healthy dividend payments, but they do all their own research. So they don't rely on banks or brokers for any of their research, so we think that's interesting. We supported the fund from an early stage, and we're often prepared to do that. And you can see the rise, the income stream that they produced on the bottom right, and again their performance on the top right, outperforming the All Share Index and indeed the equity income sector. A second example is another boutique fund management company: Coupland Cardiff, investing in Japanese equities. Now Japan might not be an obvious source of income, but in Japan they're adopting a much better dividend paying culture of around 2% now. Better corporate governance in Japanese companies; pension funds putting more money into equities in Japan. And this particular fund takes very much a bottom-up approach. Given their yield-focused approach they tend to have value characteristics. And again you can see the growing income stream on the bottom right, and outperforming the Japanese sector and the index, and indeed the UK Equity Index as well on the top right. Lastly Prusik Asian Equity Income, another good example of a fund we became involved in at a very early stage when the fund was quite small, as we bought it around a year after its launch. The fund manager here is very focused on dividend growing quality companies. He's a very active fund manager. But also we weigh up cost versus value. So it is one of our more expensive funds if you like, but you can see on the right-hand side that performance, he's outperformed both the sector and the index by almost three times, which is an incredible achievement. So it is one of our more expensive funds. And one of the reasons for that is they have strict controls on the size of the fund. And in fact this fund, because it's grown so much in size is actually now soft closed. But we'd much rather a fund manager close their fund to protect existing investors, so we think that's the right approach. And again you can see the rising income stream on the bottom right. PRESENTER: Mark, you've just discussed and explained how you go about buying a fund. But you could argue that actually the more difficult decision is when do you sell a fund? And it would be interesting to understand how you go about that decision-making process, and to also explore some examples of decisions that you've made recently. MARK RIMMER: Well sure Mike, well obviously we're constantly monitoring the performance of the funds, and also the activity within the funds. So we meet our existing fund managers at least twice a year, often more, and constantly monitoring their performance. But I think what's important to note is that we're not averse selling funds that have been performing well if we think that the opportunity going ahead is more limited. So we try and be early in if we need to and early out as well in terms of asset class, but also particular funds. So an example here is a UK small companies fund. Now they've performed very well since our original investment back in 1995, so we've held this fund for over two decades. So we're not afraid to hold a fund for a long period of time if it's performing well in line with our expectations. Back towards the end of 2017 we were taking some profits in small companies, in UK small companies, as they'd had a very good year. But also this fund had seen the departure of some experienced personnel, which is always going to be a warning flag for us. So we decided to sell out of the fund back in November of 2017, and we reinvested some of the fund into a smaller more nimble fund from Downing's. So this is the Downing Monthly Income Fund. A team that we know quite well as we actually hold an investment trust from them in one of our other growth funds. So we knew the team well, we liked their approach. As I say it's a smaller fund that we think will have a better income approach and be much more nimble. So better opportunity we think going ahead, particularly in small companies. Another example is a multi-cap income fund, which we sold in spite of excellent performance. So we'd bought this back in 2013, and actually it was the best performing fund in the equity income sector since we'd bought it. So a lot of people would say well why are you selling the best performing fund in the sector? Well the reason is that we take capacity issues very seriously, and we were concerned over the size of this fund and strategy given the liquidity of the holdings in the small cap and AIM stocks, where a large fund is going to make it more difficult to generate that performance. So that was one issue. The other thing is that the fund was increasing in popularity in terms of the marketplace, so we didn't see that situation changing any time soon. So it was becoming far bigger than they'd originally stated that was their capacity, and becoming much more popular. Again those are warning signs. So we did sell out of the fund. Again it was too big, becoming too popular, but again we'd rather sell a fund on a happy note if you like. It had served us very well, rather than an unhappy note if you like. One further example is one of our commercial property funds. Now this is a closed-ended fund, which had been one of our best performing holdings. The reason is partly they had good exposure to industrials, which has been a very strong performing sector in the commercial property market. But also the share price performance had led to significant yield compression to below 4%. So this is a closed-ended fund. So the shares were trading at a premium to the NAV, to the net asset value, having been trading at quite a sharp discount previously. So there had been a significant rerating. So it was yield compression and it was valuation which made us decide to sell out of this particular holding. PRESENTER: You've just mentioned that capacity is part of your process, so how important is capacity, and how do you go about assessing capacity? MARK RIMMER: Well Mike that is a good question. It's something that is discussed with the fund manager when we initially buy their fund. And obviously we quiz them about what they think their capacity is, and it's something that we do closely monitor. Now the reason for that is that there are certain markets where capacity issues are more important than others. So particularly for example UK small and mid-cap stocks, where if a fund becomes too large then it's fairly obvious that it's going to be more difficult for the fund manager to generate that kind of performance. Another example is on Asia, sometimes a smaller fund again can be more nimble particularly again in the small and mid-cap space. I think what's interesting is that when a fund approaches their capacity or reaches their capacity, often fund groups will say that their capacity has changed. Either marketplace has changed, or the team may have grown, so that's something that needs to be taken into consideration for sure. But we would rather that the fund is closed or soft closed in some shape or form if we do think that that's going to limit the ability of the fund to outperform. PRESENTER: You've already mentioned that back in 2013 you had significant exposure to property and that has now reduced significantly from where it was, so can you just explain what your current views are on property and why, and what you're doing within the portfolios to meet your views? MARK RIMMER: Sure, Mike, well I think the first thing to say is the reduction in property was out of the open-ended daily dealt funds. So we don't have any open-ended up daily dealt funds in the portfolios anymore. We do have one open-ended fund, but it's a monthly dealing fund. So in terms of where we're focused at the moment, it's very much into specialist niche type funds. So things like student accommodation, so GCP student property, which is mainly focused in the South East, just quite a small number of properties. We also have Empiric Student Accommodation, which has a much more diversified approach. We also have some healthcare funds, such as MedicX which invests in GP surgeries, or Target Healthcare which invests in care homes. So we're approaching the demographics, the very young and the very old if you like. And we'd rather be in closed-ended funds, which we think is a more appropriate capital structure if you like. These funds are giving a good level of income at 4½-5%, and a lot of these funds have underlying inflation linkage. So that contributes to the progressive income policy, the rise in income policy the fund is able to achieve. PRESENTER: So, from an income perspective then, I mean clearly there's a lot of difference between closed-ended vehicles and open-ended vehicles, could you just expand on why you're using more of the closed-ended from an income perspective? MARK RIMMER: Well we do think that as I said the capital structure is better suited to closed-ended funds. The one phrase that people use is beds and sheds. So the beds being student accommodation or healthcare; sheds being things like warehouse funds. So we don't have any at the moment, but we have in the past owned warehouse funds such as Tritax. So we think that they're able to generate a better level of income; whereas the open-ended funds are having to have quite a high level of cash of up to 20%. So that's producing very much a cash drag effect. So they need that high level of cash in case there are these redemptions. So that really is holding the income down for those open-ended funds. So that's one reason why we're avoiding them. PRESENTER: OK. And just looking at, you mentioned progressive income, so what it is about the student accommodation and the healthcare long-term care type solutions that are enabling you to get that progressive income? MARK RIMMER: Well in their rental agreements basically they have this inflation linkage to a high degree. So that will enable them to obviously increase rents in line with or even above the level of inflation. So, even though inflation is quite low at the moment at around 2½%, that's still giving you a nice level of progressive income. PRESENTER: OK. So just looking at your income portfolios as a whole, you have a sizeable weighting to UK equities, and as a result of that you seem to own a number of different funds within the portfolio. So how do you go about ensuring that the UK element of your portfolio is actually well diversified? MARK RIMMER: Well I think Mike it's important to realise that not all funds are going to be performing well at any point in time. So for us it's about blending by style, so growth versus value. We tend to have more value characteristics I think you can probably see because of the need for income, but also by capital structure, so investing in large caps, mid-caps and small caps. An example for example is Schroder Income. Now they take very much a value approach, which has been suffering. But UK value has actually recovered over the last little while, so we kept faith in Schroder income, even though it had been having a tough time. But we knew why because value had been suffering. But as I said it's performed better from around the middle of last year as a lot of their mining companies such as Anglo American did much better. So you can see the dark blue line on the right-hand side is Schroder Income, and that's been one of our best performing funds recently. So understanding why a fund might be underperforming is important, but also we look at how our funds are correlated to each other. We don't want them to be too correlated; we want them to take different approaches. PRESENTER: So again looking at the income portfolios, there's clearly one major market that's missing, which is the US.

So what's the rationale behind this decision, and has it worked? MARK RIMMER: Well we certainly have been underweight US equities, which to be fair has held us back a little bit. Despite that performance has been very strong as well as providing a very good level of income. But yes we have had a lack of US equities. But the main reason is unfavourable valuations, Mike, and that's what really drives the whole process. So the price/earnings ratio in the US is still quite high around 18 times earnings. If you look at the cyclically adjusted price earnings ratio, so the called CAPE, the US market's only been this expensive twice before, 1929 and 2000, which is a big warning sign to us. Obviously we had big falls in equities after that time. But also the US equity market is a low dividend paying market at around 2%, so that makes it less attractive. It's also harder to identify outperforming managers. So the chart on the right-hand side shows the relative performance of the US market in the blue line, again the All World Index at the bottom; whereas the green line shows the average fund, the sector if you like. So you can see first of all the blue line outperforming, the US outperforming, so the reason for that of course is the high exposure to tech and growth type stocks. And active fund managers have typically been underweight, so that's why they underperform from around 2015. I think what's interesting is you can see that that outperformance of the US does seem to be lessening somewhere in terms of the absolute numbers, and in terms of the underperformance of active fund managers seems to be coming to a close. So yes it has held us back a little bit, but performance has been very strong nonetheless. PRESENTER: Mark, just moving to fixed interest and specialist bonds. That's another area of the market that you have a sizeable weighting. And it's an asset class that is discussed a lot within the marketplace, so what's your current view on the fixed interest specialist bond area, and why? MARK RIMMER: Well we certainly very much prefer shorter duration funds, so we have a duration of around about three years for both the Distribution and Monthly Income funds. So the chart here shows the performance of certain sectors, the high yield strategic bond and corporate bond sector, compared to conventional and index-linked gilts. So I think what's interesting is that gilts traditionally are seen as the safest type of bonds. But what you can see here is that the red line and the orange line are conventional index-linked gilts. First of all are much more volatile, but also are underperforming things like corporate bonds. And indeed if you look at the table on the bottom right you can see that gilts are giving you volatility of around about twice as much as corporate bonds, and index-linked gilts are providing around four or five times the volatility, which is what we're trying to avoid. So we think gilts are giving you this volatility, lack of return, so we'd rather be in high yield investment grade, or indeed in specialist bond funds that have a much lower duration approach. That all said we don't see a massive bond blow up, because we still think we're in a low inflation environment with ageing population, high levels of debt etc., but we'd still rather keep duration at a fairly low level. PRESENTER: So give those views, what type of bond funds are you favouring at present and why? MARK RIMMER: Well if we look on this page, we've picked out a couple of the funds that we own. Essentially what we're trying to do is achieve a superior level of income, but again without too much interest rate risk. So TwentyFour Dynamic Bond is a fund that has reasonable exposure to high yield. Angel Oak Multi-Strategy Income has some asset-backed securities, and again quite a low level of duration. That's in our specialist bond category with other things such as real estate loans, infrastructure debt as mentioned earlier. And again Henderson Preference Bond Fund, which is a fund that we bought out of one of the property funds, has quite high exposure to financials. So they're all trying to do something a little bit different. And you can see that they've sharply outperformed gilts, but also they're delivering a much better level of income around between 4 and 5%, which we think gives them a quite decent protection certainly compared to gilts. PRESENTER: Mark, thank you for discussing your views and process for delivering sustainable income. And it would be great to hear from you to sum up your views on the outlook for income generation as a whole. MARK RIMMER: Sure Mike, well we certainly think that cash is not a viable option for the foreseeable future. And of course we've only had one interest rate rise in the UK back in

November. We didn’t get the rate hike that some people had been expecting at some point, and the market’s now only saying around a 50/50 chance of a rate hike by the end of the year. So rates are going to stay low. Traditional fixed interest providing poor yields, so we’d rather look to other areas, if you like, and we think total returns will be pretty disappointing in traditional bonds. The straight equity bond hybrid products have done well in the past, but that’s no guide to the future. So we think equities will give you a reliable income stream, but we think capital volatility is inevitable, and we’ve seen that recently, and this could be a more uncomfortable ride for investors we think going ahead. But essentially we think that the distribution fund and the monthly income fund are very well positioned to continue to provide a robust and reliable income stream from many different sources, but also with the ability to grow capital. PRESENTER: Mark, once again thank you very much for your time, it’s much appreciated. If you require any further information on Premier’s range of multi-asset funds, please call or visit our website, details of which are shown on the screen. Thank you for listening.