



Finding opportunity in UNCERTAINTY

Only the brave would attempt to predict how Brexit negotiations between the UK and the European Union will play out.

Capital at risk: All financial investments involve an element of risk. Therefore, the value of your investment and any income from it will vary and your initial investment amount cannot be guaranteed.

In fact, the only factor on which most people agree is the uncertainty the process has generated about the future. Unfortunately, stock markets do not like uncertainty and the majority of companies biased towards the domestic UK economy have fallen. On the face of it this seems logical; if investors cannot predict the UK's political and economic future how can they back British companies?

Yet it is illogical to collectively downgrade all UK companies. Brexit will be detrimental to some business but there are plenty of companies that will do well, irrespective of the future UK/EU relationship.

For stock-picking managers with a close eye on company fundamentals, this rush to de-rate all UK companies based on macropolitical factors presents genuine opportunities to find good value, high-quality stocks.

The key is to look for companies with strong management teams that are closely aligned with shareholders. Next is to find companies capable of generating high levels of free cash flow that can be returned to shareholders or reinvested in the business to deliver long-term growth. Increasingly, we have a bias towards those companies with low levels of borrowing. Those that have taken advantage of the cheap borrowing conditions

since the financial crisis could well be penalised for not improving their balance sheets as interest rates start to rise.

For example, the Trust invested in Next, the High Street clothes retailer, and Derwent London, a property developer. These are quite different businesses yet both performed well for the Trust this year because they shared crucial characteristics: robust management, cash generative with strong balance sheets. Reference to these specific companies is to explain the investment strategy and should not be taken as investment advice or investment recommendation of those companies.

Critically, businesses must have pricing power and be able to withstand price rises. The UK is entering its first significant return to inflation for a decade and successful companies need to be able to absorb rising costs such as labour and energy. Investors should therefore look to companies with unique technology, products or services that allow them to price ahead of inflation and remain resilient to competition.

Brexit has brought uncertainty to markets and will undoubtedly prove problematic for some UK businesses. It is also true that the future will look different to the past. Yet not all businesses will respond in the same way and macropolitical events should not drive stock-picking decisions. Investors need to look for companies that have the key ingredients for success that can weather short-term change and thrive in the long run. ■

For more information on this Trust and how to access the opportunities presented by the income and growth sector, please visit: www.blackrock.com/uk/brig.



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Mr Avigdori's service with the firm dates back to 2001, including his years with Merrill Lynch Investment Managers (MLIM), which merged with BlackRock in 2006.

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