

Keep calm and carry on investing

BREXIT HAS CAST A LONG SHADOW OVER UK MARKETS SINCE THE 2016 REFERENDUM. WITH A RESOLUTION (MAYBE) FINALLY IN SIGHT, **LAWRENCE GOSLING** LOOKS FOR INVESTMENTS THAT WILL DELIVER WHETHER WE ARE 'IN' OR 'OUT'

Whatever your stance on Brexit there is no doubt it is not helping the performance of any investors' portfolio with the increased uncertainty, reflected in the share price of many companies listed on the London Stock Exchange (LSE).

So is it possible to find companies and funds which can 'weather' the Brexit storm? We believe it is; and we have tried to gather a selection over the next couple of pages using a variety of qualitative judgements.

The most subjective of those is what professional fund managers often talk about as 'defensive' characteristics which roughly means the business tends to perform very steadily whatever the general outlook for the stockmarket or the economy is.

Equally fund managers will look for dividends as an example of the quality and robustness of a company. The thinking being simply: good companies manage their cash flow better

and understand the need to consistently reward shareholders with solid and rising dividend payments.

A number of the companies we have in this feature fulfil both these criteria, in our opinion; and then we have added in some very interesting investment trusts and real estate investment trusts to add a bit of 'flavour.'

There is no doubt property and real estate can be great long term assets if managed well and the investment companies we have highlighted have demonstrated good track records over a decent period of time.

And for investors who like something a bit more adventurous in unusual markets and sectors, still accessed through the LSE, we have come up with a couple more ideas.

I hope you find it useful and look forward to any feedback. ■



Civitas REIT



Social housing is a relatively 'new' investment opportunity for private investors with the first dedicated investment trust giving exposure, Civitas REIT, just coming up to its third anniversary in November.

The sector has begun to feature in broader diversified infrastructure investment trusts, such as GCP Infrastructure (see below), but Civitas offers a 'pure' approach which can offer investors a high expected dividend yield and an attractive

total return if looked at against other so-called income generating investments.

Civitas has a net initial yield on its portfolio of 5.5-6%, but by using a modest amount of borrowing it can increase this figure to 7-7.5%, from which it can take its management fee of around 1% creating an expected dividend yield of 6-6.5%.

It believes the inflation linked nature of the underlying leases can add another 2.5-3% growth, delivering an overall total return in the region of 8.5% plus.

In the close to three years since the company floated, it would suggest this business model is working well.

Civitas has a portfolio of nearly 600 properties across 157 local authorities in England and Wales representing over 4,000 tenancies and an annualised rent roll of £45m.

The trust has grown steadily since its flotation in November 2016, and in its first full financial year to the 31 March 2018 it paid shareholders a dividend of 3.0p per share from a rent roll of only £28m.

For the nine months to 31 December 2018 the rent roll had increased to £40m annually off the back of over £200m of acquisitions in the period the dividend had risen to 3.75p per share.

The supported housing sector, like the broader affordable housing market, faces what Civitas calls a "chronic" shortage, and demand continues to be supported by government policy.

The average person in a Civitas property is 36 years old and needs multi-decade, if not whole of life, stable housing. These include people with learning and physical disabilities, mental health issues, autism and victims of domestic abuse or homelessness.

Civitas estimates its own market share could amount to an annual rent roll of £1.4bn pa, compared to its current £45m, rising to £55m, against a wider backdrop of over 4.5 million

people on waiting lists for social housing of one description or another.

It sees the opportunity to take what it currently does in England and Wales to Northern Ireland and Scotland as it builds up diversification.

It says specialist supported housing (SSH) represents a more cost-effective solution for those with complex needs than traditional options such as hospitals or registered care.

To put it into context keeping someone in a hospital will cost in the region of £3,500 weekly, while registered care is £1,750, and SSH £1,569.

Civitas has a very strong and experienced management team in the sector with CEO and joint founder Paul Bridge formerly being CEO for Homes for Haringe in North London, where he was responsible for 21,000 homes and 800 staff.

His co-founder Andrew Dawber has been in the social housing sector since 2012 and was founder of PFI Infrastructure plc, the UK's first publicly traded infrastructure fund.

Civitas also works alongside four leading charities in the sector: Crisis, the homeless organisation; The House of St. Barnabas in London, a not-for-profit to create employment opportunities for those previously homeless; The Choir with No Name, to provide a musical community for those affected by homelessness; and WISH, to help with women with mental health issues.

As an investment, Civitas Social Housing plc requires a different thought process from other so-called infrastructure investments.

It has a healthy and growing dividend, a reasonable opportunity for inflation protection and capital growth of the underlying leases when looked at compared to other property-type investments.

The difference comes from the nature of the underlying tenants, who are all from the most vulnerable parts of society. For

investors not familiar with the experiences of these members of communities it may look as though the trust is capitalising on their situations.

The reality is that Civitas and other investment trusts are providing higher quality solutions using private money than local authorities are able to do with taxpayers' money; and it is subject to a high level of regulatory oversight, which should ensure no repetition of the type of scandals that have afflicted independent care homes for the elderly.

Government policy – by both Conservative and Labour administrations – will continue to support the growth of the broader social housing sector, which essentially traces its roots back to the Care in the Community policy launched in 1996.

And this is a sector which is Brexit-proof because it is not reliant on the UK's membership of the European Union, just the underlying demographics of a country which has seen the population grow from 56 million in 1980 to 65 million in 2017; while the supply of social housing stock has fallen from 7 million to 4.5 million in the same period.