

# Statement by the Authorised Fund Manager (AFM) to the shareholders of Discovery Balanced Fund on the outcome of the AFM's assessment of the value provided to shareholders

For the year ended 31 January 2020

This assessment is to establish what Discovery Balanced Fund (the fund) has delivered to you in return for the price you have had to pay.

From 15 March 2019, the AFM is the Authorised Corporate Director of the fund, Valu-Trac Investment Management Limited (Valu-Trac), who replaced T. Bailey Fund Services on that date. The Investment Adviser is Wellian Investment Solutions Limited.

The fund was launched on 23 October 2006 with two Sterling A and B Net Income share classes, two Sterling A and B Net Accumulation share classes, together with the EUR Net Accumulation share class. The C Sterling Net Income and Net Accumulation classes were launched on 5 February 2016.

The objective of the Fund is to provide returns through a combination of capital growth and income whilst being managed, so as to remain, over a market cycle, within a defined volatility range.

In order to meet its objective, the Fund will primarily gain exposure indirectly via eligible collective investment schemes and other collective investment vehicles (for example, investment companies, exchange traded funds) to a range of eligible assets such as transferable securities (shares (including investment trusts), debentures, government and public securities, warrants or certificates representing certain securities), money market instruments, deposits, cash, property and commodities to provide diversification. The Fund may also invest directly in such eligible assets (excluding property and commodities). Derivatives will be used only for the purpose of Efficient Portfolio Management.

	At and for the year ended				
	31 Jan 2020 <sup>3</sup>	31 Jan 2019 <sup>3</sup>	31 Jan 2018 <sup>3</sup>	31 Jan 2017 <sup>3</sup>	31 Jan 2016 <sup>3</sup>
<b>Value of fund</b>					
A Sterling Net Accumulation	£4.1m	£6.8m	£9.3m	£9.6m	£10.8m
A Sterling Net Income	£1.1m	£1.5m	£2.3m	£2.6m	£3.2m
B Sterling Net Accumulation	£6.3m	£6.5m	£6.7m	£6.2m	£5.5m
B Sterling Net Income	£4.2m	£4.6m	£5.4m	£5.6m	£4.8m
C Sterling Net Accumulation <sup>1</sup>	£29.9m	£0.8m	£4.0m	£0.004m	N/A
C Sterling Net Income <sup>2</sup>	£0.1m	£0.003m	£0.001m	£0.001m	N/A
EUR Net Accumulation	€0.03m	€0.03m	€0.04m	€0.04m	€0.1m
<b>Shares outstanding</b>					
A Sterling Net Accumulation	2.0m	3.6m	4.7m	5.2m	6.6m
A Sterling Net Income	1.0m	1.4m	1.8m	2.2m	2.9m
B Sterling Net Accumulation	4.0m	4.6m	4.5m	4.6m	4.5m
B Sterling Net Income	3.3m	3.9m	4.2m	4.6m	4.4m
C Sterling Net Accumulation <sup>1</sup>	22.5m	0.7m	3.1m	0.003m	N/A
C Sterling Net Income <sup>2</sup>	0.1m	0.003m	0.001m	0.001m	N/A
EUR Net Accumulation	0.01m	0.01m	0.02m	0.02m	0.06m
<b>NAV per share</b>					
A Sterling Net Accumulation	205.03p	188.34p	199.65p	183.72p	162.66p
A Sterling Net Income	118.00p	111.43p	122.54p	116.61p	106.83p

B Sterling Net Accumulation	156.33p	142.53p	149.95p	136.94p	120.31p
B Sterling Net Income	125.56p	117.63p	128.35p	121.23p	110.17p
C Sterling Net Accumulation	132.58p	120.50p	126.50p	115.08p	N/A
C Sterling Net Income	117.11p	109.38p	118.90p	111.80p	N/A
EUR Net Accumulation	239.10c	210.87c	222.65c	210.11c	209.27c

#### **Dividend per share**

A Sterling Net Accumulation	5.60p	7.09p	6.52p	5.98p	4.99p
A Sterling Net Income	3.24p	4.31p	4.10p	3.88p	3.35p
B Sterling Net Accumulation	4.15p	5.33p	4.88p	4.42p	3.63p
B Sterling Net Income	3.39p	4.50p	4.28p	3.99p	3.40p
C Sterling Net Accumulation <sup>1</sup>	3.43p	4.61p	4.27p	3.19p	N/A
C Sterling Net Income <sup>2</sup>	3.13p	4.10p	3.91p	3.17p	N/A
EUR Net Accumulation	6.11c	7.99c	7.58c	7.05c	6.44c

#### **Net gains/(losses)**

Capital gain/(losses)	£1,914k	(£1,764k)	£1,663k	£2,482k
Total Net gain/(losses)	£2,657k	(£882k)	£2,578k	£3,360k

*1 C Net Accumulation shares launched 5 February 2016*

*2 C Net Income shares launched 5 February 2016*

*3 Source of data is Valu-Trac Administration Services for 2020 and 2019 and T Bailey Fund Services for 2018, 2017 and 2016*

The Fund is not managed to or constrained by a benchmark, and nor does the ACD use a benchmark in order to assess performance.

#### **Cumulative gain to 31 Jan 2020**

**5 yrs**

#### **Increase in NAV per share**

A Sterling Net Accumulation	22.46%
A Sterling Net Income	4.17%
B Sterling Net Accumulation	27.14%
B Sterling Net Income	8.27%
C Sterling Net Accumulation	32.58%
C Sterling Net Income	17.11%
EUR Net Accumulation	9.34%

In carrying out the assessment of value the following criteria were considered:

#### **1. Quality of service**

The AFM considers that a good level of service was provided to shareholders by all parties involved commensurate to the amount paid by the fund for those services. The AFM monitors the following operational services:

Depository – NatWest Trustee and Depository Services Limited

Custodian – RBC Investor Services Trust, UK branch (RBC)

The external audit is conducted by Johnston Carmichael LLP.

These services are essential in ensuring that the fund operated efficiently and in the case of the Depository and Custodian the service is supervised on an on-going daily basis by the AFM. As a shareholder this means that you can be certain that your requests such as investment and redemption of the fund's units will always be carried out exactly as set out in the documentation. During the period under review the fund's custodian changed to RBC from Northern trust following the transition to Valu-Trac Administration Services.

Valu-Trac does not delegate any of the core functions of the fund such as fund administration, fund accounting and transfer agency. This means that the AFM directly employs and supervises the individuals who are carrying out this work and that those undertaking the work are appropriately qualified and experienced. Due to this high level of supervision and control of these functions the AFM believes that the shareholders can be certain that their instructions will be carried out efficiently and that the reporting they receive is timely and focused. The AFM has worked closely with Wellian Investment Solutions Limited to coordinate mailings such as annual letters with dividend vouchers and financial reports to avoid excessive correspondence whilst providing all required reporting on a timely and clear basis. This also has ensured that the AFM has responded to any enquiries from shareholders fully and promptly.

## **2. Performance**

The AFM has assessed performance of the fund net of all the charges that are outlined in its prospectus. The objective of the fund is to provide returns through a combination of capital growth and income within a volatility range. The performance for 2020 is presented below along with the results of the fund over the last 5 years.

To show long-term capital growth, the total returns generated are shown on the table below this is after operating costs, including the fee paid to the investment advisor, and transaction costs which vary depending on the class of shares, this is discussed more in the Classes of Units section below.

	<b>2020 performance</b>	<b>Annualised 5 year performance</b>
A Sterling Net Accumulation	8.86%	4.12%
A Sterling Net Income	8.80%	4.10%
B Sterling Net Accumulation	9.68%	4.91%
B Sterling Net Income	9.62%	4.90%
C Sterling Net Accumulation (since 5/2/16)	10.02%	7.25%
C Sterling Net Income (since 5/2/16)	9.93%	6.80%
EUR Net Accumulation	13.39%	2.20%

Dividends have ranged from a minimum of 3.13p per share (C Sterling Net income in 2020), to a maximum of 7.09p per share (A Sterling Net Accumulation for 2019)

## **3. AFM costs - general**

The costs (in £) charged during the year ended 31 January 2020 were as follows:

Authorised Corporate Director	25,032 (VAT exempt)
Investment management fee	212,744 (VAT exempt)
Other Expenses and transaction fees	14,939 (VAT exempt)
Depository fee	16,879 (VAT inclusive)
Audit fee	7,456 (VAT inclusive)
FCA fee	185 (VAT exempt)
Safe custody	1,543 (VAT exempt)
<b>Total costs</b>	<b>278,778</b>

Income for the year (capital and revenue) less costs was £2,378,489 after tax of £Nil.

The prospectus does allow for a dilution levy charge. The ACD's policy is that it may require a dilution levy on the purchase and redemption of Shares if, in its opinion, the existing Shareholders (for purchases) or remaining Shareholders (for redemptions) might otherwise be adversely affected. For example, the dilution levy may be charged in the following circumstances: where the Scheme Property of a Sub-fund is in continual decline; in respect of deals where the net issues or net redemptions of shares in a Fund at a particular dealing point has a total value of greater than £500,000 or 5% of the relevant Fund, whichever is lower; in any case where the ACD is of the opinion that the interests of existing or remaining Shareholders require the imposition of a dilution levy.

#### 4. Economies of scale

Some fees are charged as a fixed amount, whilst other fees (such as the depository fee) have a sliding scale of rates which decrease as the fund reaches certain sizes. This methodology could result in savings that are made as a result of the increased growth of the fund and AFM, such as reduced Depository fees being passed on to the investors.

#### 5. Comparable market rates

The AFM has compared the charges of this fund with that of comparable funds. The AFM believes that the shareholders of the fund are achieving efficient market rates as a whole. As the AFM assets grow in total it continues to strive for extra efficiencies wherever this can be achieved for all of its schemes.

#### 6. Comparable services

The services provided to this fund and the costs are also comparable amongst other similar funds operated by the AFM and is aligned with its normal operating model.

#### 7. Classes of units

As detailed below there are 7 share classes (both income and accumulation for the Sterling Class A, B and C shares, together with the EUR Accumulation share class), available figures are given below. Each class of shares has its own rates for charges as detailed in the table below, with 2020 having the lowest percentage of operating charges thus far.

	At and for the year ended				
	31 Jan 2020	31 Jan 2019	31 Jan 2018	31 Jan 2017	31 Jan 2016
<b>Operating charges</b>					
A Sterling Net Accumulation	2.00%	2.43%	2.43%	2.43%	2.43%

A Sterling Net Income	2.00%	2.43%	2.43%	2.43%	2.43%
B Sterling Net Accumulation	1.25%	1.68%	1.68%	1.68%	1.68%
B Sterling Net Income	1.25%	1.68%	1.68%	1.68%	1.68%
C Sterling Net Accumulation	0.95%	1.38%	1.38%	1.38%	N/A
C Sterling Net Income	0.95%	1.38%	1.38%	1.38%	N/A
EUR Net Accumulation	2.10%	2.53%	2.53%	2.53%	2.53%

The Class C shares are only available to investors with a separate arrangement with the ACD or the Investment Manager, and the Investment management charges made to each share class is as follows: A Class 1.45%, B Class 0.70%, C Class 0.40% and EUR Class 1.55%. The A share classes are the advised shared classes and include the adviser charge therein

## CONCLUSION

In taking all of these criteria into consideration the AFM concludes that in assessing whether the payments out of the scheme property as set out in the prospectus are justified in the context of the overall value delivered to shareholders and that the shareholders of Discovery Balanced Fund are receiving good value.

29 May 2020