

# Statement by the Authorised Fund Manager (AFM) to the shareholders of Discovery Managed Growth 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 Managed Growth 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 share classes, and the USD and EUR Net Accumulation share classes. The C Accumulation share class was launched on 5 February 2016.

The objective of the Fund is to provide capital growth 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>2</sup>	31 Jan 2019 <sup>2</sup>	31 Jan 2018 <sup>2</sup>	31 Jan 2017 <sup>2</sup>	31 Jan 2016 <sup>2</sup>
<b>Value of fund</b>					
A Sterling Net Accumulation	£427k	£634k	£891k	£836k	£1,204k
B Sterling Net Accumulation	£2,218k	£2,135k	£2,251k	£1,629k	£914k
C Sterling Net Accumulation <sup>1</sup>	£2,201k	£40k	£99k	£1k	N/A
USD Net Accumulation	\$28k	\$26k	\$30k	\$52k	\$52k
EUR Net Accumulation <sup>3</sup>	N/A	N/A	€20k	€155k	€428k
<b>Shares outstanding</b>					
A Sterling Net Accumulation	270k	444k	584k	622k	1,034k
B Sterling Net Accumulation	1,247k	1,341k	1,333k	1,105k	725k
C Sterling Net Accumulation <sup>1</sup>	1,534k	31k	73k	1k	N/A
USD Net Accumulation	15k	15k	15k	33k	33k
EUR Net Accumulation	N/A	N/A	11k	102k	282k
<b>NAV per share</b>					
A Sterling Net Accumulation	158.22p	142.67p	152.55p	134.34p	116.45p
B Sterling Net Accumulation	177.85p	159.16p	168.87p	147.38p	126.01p
C Sterling Net Accumulation <sup>1</sup>	143.50p	128.03p	136.35p	118.60p	N/A
USD Net Accumulation	192.93c	174.16c	201.48c	158.99c	157.79c
EUR Net Accumulation	N/A	N/A	173.77c	152.09c	151.52c

**Dividend per share**

A Sterling Net Accumulation	0.00p	0.00p	0.00p	0.00p	0.00p
B Sterling Net Accumulation	0.00p	0.19p	0.27p	0.41p	0.74p
C Sterling Net Accumulation <sup>1</sup>	0.38p	0.30p	0.66p	0.42p	N/A
USD Net Accumulation	0.00c	0.00c	0.00c	0.00c	0.00c
EUR Net Accumulation	N/A	N/A	0.00c	0.09c	0.10c

**Net gains/(losses)**

Capital gain/(losses)	£410k	(£182k)	£394k	£389k
Total Net gain/(losses)	£474k	(£140k)	£433k	£427k

*1 Share class launched 5 February 2016*

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

*3 Share class currently inactive*

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**

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**Increase in NAV per share**

A Sterling Net Accumulation	31.25%
B Sterling Net Accumulation	38.17%
C Sterling Net Accumulation (since 5 February 2016)	43.50%
USD Net Accumulation	15.55%
EUR Net Accumulation	N/A

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. As a result of the transition to Valu-Trac Investment Management Limited, the fund's custodian moved to RBC from Northern Trust.

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 of capital growth and should be considered against its benchmark. 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 adviser, 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	10.90%	5.50%
B Sterling Net Accumulation	11.74%	6.49%
C Sterling Net Accumulation (since 5/2/16)	12.08%	9.50%
USD Net Accumulation	10.78%	2.90%
EUR Net Accumulation	N/A	N/A

## 3. AFM costs - general

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

Authorised Corporate Director	25,718 (VAT exempt)
Investment Management fee	25,098 (VAT exempt)
Other Expenses and transaction fees	8,300 (VAT exempt)
Depository fee	16,582 (VAT inclusive)
Audit fee	7,456 (VAT inclusive)
FCA fee	185 (VAT exempt)
Safe custody	282 (VAT exempt)
<b>Total costs</b>	<b>83,621</b>

Income for the year (capital and revenue) less costs was £390,280 after tax of £Nil, but included a rebate from the Investment Adviser of £34,776.

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 depositary 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 Depositary 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 4 share classes (both income and accumulation for the Sterling Class A, B and C shares, together with the USD 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.

	<b>At and for the year ended</b>				
	<b>31 Jan 2020</b>	<b>31 Jan 2019</b>	<b>31 Jan 2018</b>	<b>31 Jan 2017</b>	<b>31 Jan 2016</b>
<b>Operating charges</b>					
A Sterling Net Accumulation	2.48%	2.85%	2.85%	2.85%	2.85%
B Sterling Net Accumulation	1.73%	2.10%	2.10%	2.10%	2.10%
C Sterling Net Accumulation	1.43%	1.80%	1.80%	1.80%	N/A
USD Net Accumulation	2.58%	2.95%	2.95%	2.95%	2.95%
EUR Net Accumulation	N/A	N/A	2.95%	2.95%	2.95%

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 USD and EUR Class 1.55%. The A class shares are the advised share class and include the adviser charges.

## **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 Managed Growth Fund are receiving good value.

29 May 2020