

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

For the period ended 31 January 2020

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

The AFM is the Authorised Corporate Director of the fund, Valu-Trac Investment Management Limited (Valu-Trac). The Investment Adviser is Wellian Investment Solutions Limited.

The fund was launched on 27 March 2019 with both Sterling C Net Accumulation and Net Income share classes.

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.

	<b>At and for the period ended</b>
	<b>31 Jan 2020</b>
<b>Value of fund</b>	
C Sterling Net Income <sup>1</sup>	£457k
C Sterling Net Accumulation <sup>2</sup>	17,329k
<b>Shares outstanding</b>	
C Sterling Net Income	434k
C Sterling Net Accumulation	16,282k
<b>NAV per share</b>	
C Sterling Net Income	105.34p
C Sterling Net Accumulation	106.43p
<b>Dividend per share</b>	
C Sterling Net Income	1.99p
C Sterling Net Accumulation	2.06p
<b>Net gains</b>	
Capital gain	£416k
Total Net gain	£617k

*1 Share class launched 14 May 2019*

*2 Share class launched 27 March 2019*

*Source of data is Valu-Trac Administration Services*

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

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.

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 whilst being managed so as to remain, over a market cycle, within a defined volatility range. The performance for 2020 is presented below.

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 manager, 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>2020 Dividends</b>
C Sterling Net Income	7.33%	1.99p
C Sterling Net Accumulation	6.43%	2.06p

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

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

Authorised Corporate Director	21,227 (VAT exempt)
Investment Manager fee	22,349 (VAT exempt)
Other Expenses and transaction fees	4,468 (VAT exempt)
Depository fee	15,283 (VAT inclusive)
Audit fee	8,100 (VAT inclusive)
FCA fee	127 (VAT exempt)
Safe custody	452 (VAT exempt)
<b>Total costs</b>	<b>72,006</b>

Income for the period (capital and revenue) less costs was £538,701 after tax of £6,439, but includes an Investment Adviser rebate of £38,581.

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 2 share classes (both income and accumulation for the Sterling Class C shares), available figures are given below.

	<b>At and for the period ended</b>
	<b>31 Jan 2020</b>
<b>Operating charges</b>	
C Sterling Net Income	0.88%
C Sterling Net Accumulation	0.88%

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 this share class is 0.40%.

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

29 May 2020