

Statement by the Authorised Fund Manager (AFM) to the shareholders of VT Munro Smart-Beta 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 the VT Munro Smart-Beta 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 Manager is also Valu-Trac Investment Management Limited.

The fund was launched on 22 July 2007. There are currently 4 share classes held. These are Class A Net Income and Net Accumulation and Class X Net Income and Net Accumulation.

The objective of the VT Munro Smart-Beta UK Fund (the "fund") is to maximize the overall return by seeking to replicate the performance of the Freedom Smart-Beta UK Dividend Index.

The fund will invest mainly in UK securities listed on the London Stock Exchange. The fund will be constructed on the basis of the underlying fundamental financial attributes of the companies listed on the London Stock Exchange rather on their market capitalisation. The weight of each company in the fund will be determined by the proportion that its forecast total dividend will be expected to make of the total income of all the companies held in the fund.

	At and for the year ended				
	31 Jan 2020¹	31 Jan 2019¹	31 Jan 2018¹	31 Jan 2017¹	31 Jan 2016¹
Value of fund					
A Net Income	£27k	£27k	£30k	£28k	£31k
A Net Accumulation	£105k	£122k	£185k	£232k	£204k
X Net Income	£3,865k	£3,599k	£4,117k	£3,862k	£1,831k
X Net Accumulation	£1,769k	£2,139k	£2,319k	£2,150k	£3,304k
Shares outstanding					
A Net Income	32k	32k	32k	32k	43k
A Net Accumulation	78k	96k	138k	189k	209k
X Net Income	4,237k	3,981k	4,135k	4,108k	2,358k
X Net Accumulation	1,186k	1,529k	1,582k	1,622k	3,163k
NAV per share					
A Net Income	82.47p	82.50p	91.71p	87.47p	72.75p
A Net Accumulation	134.26p	127.07p	134.51p	122.79p	97.46p
X Net Income	91.22p	90.40p	99.55p	94.03p	77.64p
X Net Accumulation	149.22p	139.89	146.66p	132.55p	104.46p
Dividend per share					
A Net Income	4.65p	4.13p	3.97p	3.78p	3.72p
A Net Accumulation	7.34p	6.46p	5.67p	4.87p	4.84p
X Net Income	5.11p	4.70p	4.28p	3.91p	3.91p
X Net Accumulation	8.10p	6.75p	6.11p	5.38p	5.17p

Net gains/(losses)					
Capital gain/(losses)	£126k	(£533k)	£438k	£1,144k	(870k)
Total Net gain/(losses)	£452k	(£228k)	£734k	£1,404k	(614k)

1 Source of data is Valu-Trac Administration Services

The fund follows the Freedom Smart-Beta UK Dividend Index in order to determine the asset allocation it has, so it is appropriate to consider the fund's performance against it (see 2. Performance below)

The table below shows the increase/(decrease) in the value of the shares over the past 5 years whilst in the Performance section below, a further table considers the total return position of the share classes.

	<u>Cumulative gain to 31 Jan 2020</u>
	<u>5 years</u>
Increase/(decrease) in NAV per share	
A Net Income (dividends not added back)	(5%)
A Net Accumulation	21%
X Net Income (dividends not added back)	0%
X Net Accumulation	27%

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 FKF Accounting Limited

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 AFM had in fact changed the fund's custodian to RBC following a review of custody providers and comparing the quality of the services provided in addition to costs. Such items as recovery of withholding tax and efficiency of opening new investment markets were considered.

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. 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 two-fold; long-term capital growth and rising level of income, and should be considered in the longer term (5+ years) so the performance for 2020 is presented below along with the results of the previous four years.

To show long-term capital growth, the total returns generated are shown on the table below this is before fees and charges to properly compare performance to the benchmark.

	2020 performance	Annualised 5-year performance	Benchmark Index 5-year Performance ¹
A Net Income	7.56%	5.3%	5.7%
A Net Accumulation	7.62%	5.8%	5.7%
X Net Income	7.52%	5.4%	5.7%
X Net Accumulation	7.63%	5.9%	5.7%

Total return basis has distributions added back in for the Income share classes.

1. The Freedom Smart-Beta UK Dividend Index is a total return index which includes the effect of dividend reinvestment. As such the Accumulation share classes more closely reflect the return of this index. The Income share classes distribute the income received which can result in an underperformance where the index is generally rising (you're not reinvesting the dividend to get a compounded additional growth), and a slight outperformance when the index is falling (you're not reinvesting the dividend to a compounded addition drop)

There has been a rising level of income as can be seen to have been achieved by looking at the increase in the dividends paid over the past 5 years.

	2019/2020 Distribution	Percentage Increase/(Decrease)	2015/2016 Distribution
A Income	4.65p	25%	3.72p
A Accumulation	7.34p	51%	4.84p
B Income	5.11p	31%	3.91p
B Accumulation	8.10p	56%	5.17p

3. AFM costs - general

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

Authorised Fund Manager fee	30,816 (VAT exempt)
Depository fee	18,020 (VAT inclusive)
Audit fee	2,675 (VAT inclusive)
FCA fee	59 (VAT exempt)
Safe custody and transaction fees	8,614 (VAT exempt)
Total costs	60,184

Income for the year (capital and revenue) less costs was £391,475; there was no taxation.

There were no preliminary charges, redemption charges or dilution levies paid by shareholders during the year.

It should be noted that the prospectus does allow for a dilution levy charged on transactions into or out of the fund if a) 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, or b) there is a large transaction, being 5% or over of the Net Asset Value of the Fund.

4. Economies of scale

Some fees, such as the ACD element of the IM fee, are charged as a fixed amount (see Classes of units section below). This methodology could result in savings that are made as a result of the increased growth of the fund and AFM.

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.

5. 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.

6. Classes of units

As detailed below there are 4 share classes (income and accumulation for the Class A and Class X shares), available figures are given below. Each class of shares has its own rate for investment manager charges, as detailed below, with 2019 having the lowest percentage of operating charges so far.

	At and for the year ended				
	31 Jan 2020	31 Jan 2019	31 Jan 2018	31 Jan 2017	31 Jan 2016
Operating charges					
A Class	1.96%	1.92%	2.11%	2.07%	2.16%
X Class	0.96%	0.92%	1.11%	1.07%	1.06%

The A Class shares were designed for investors receiving advice through an IFA, whilst the X class shares are for those investors investing direct. The A class shares have an investment manager charge of 1.5%, whilst the X class shares have an investment management charge of 0.5% of the net asset value of those share classes.

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 VT Munro Smart-Beta UK Fund X are receiving good value. Investors in the VT Munro Smart-Beta UK Fund A would receive better value within the X share class and we have instigated steps to ensure those investors are switched.

29 May 2020