

Statement by the Authorised Fund Manager (AFM) to the shareholders of VT Seneca Diversified Income Fund on the outcome of the AFM's assessment of the value provided to shareholders

For the year ended 31 March 2020

This assessment is to establish what VT Seneca Diversified Income 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 Seneca Investment Managers Limited.

The Fund was launched on 5 October 2004.

The investment objective of VT Seneca Diversified Income Fund is to provide a high level of growing income by investing in a balanced and well diversified portfolio of UK and International equities, fixed interest securities including government and corporate bonds. Investments will also be made in regulated collective investment schemes, money markets and cash deposits to provide further diversification to the Sub-fund in accordance with applicable regulations.

	At and for the year ended¹				
	31 March 2020	31 March 2019	31 March 2018	31 March 2017	31 March 2016
Value of fund					
A Income	£29,451k	£34,100k	£33,819k	£36,581k	£36,632k
B Income	£105,183k	£94,723k	£74,639k	£64,436k	£61,831k
N Income	£502k	£543k	£385k	£273k	£275k
I Income ²	-	£5,243k	-	-	-
B Accumulation ³	£879k	-	-	-	-
Shares outstanding					
A Income	41,364k	36,641k	37,023k	39,053k	42,474k
B Income	121,590k	84,304k	68,038k	57,577k	60,321k
N Income	592k	491k	356k	247k	271k
I Income	-	5,166k	-	-	-
B Accumulation	1,107k	-	-	-	-
NAV per share					
A Income	71.20p	93.07p	91.34p	93.67p	86.25p
B Income	86.51p	112.36p	109.70p	111.91p	102.50p
N Income	84.90p	110.53p	108.13p	110.53p	101.44p
I Income	-	101.49p	-	-	-
B Accumulation	79.39p	-	-	-	-
Dividend per share					
A Income	4.52p	4.60p	4.61p	4.55p	4.65p
B Income	5.48p	5.54p	5.52p	5.42p	5.51p
N Income	5.38p	5.46p	5.44p	5.36p	2.58p
I Income	2.91p	2.94p	-	-	-
B Accumulation	1.93p	-	-	-	-

Net gains/(losses)

Capital gains/(losses)	(£41,467k)	£3,584k	(£1,627k)	£15,403k	(£6,664k)
Total Net gains/(losses)	(£33,126k)	£10,240k	£4,101k	£19,611k	£3,038k

1 Sources of data is Valu-Trac Administration Services, Link Fund Solution Limited and Capita Financial Managers Limited

2 Share class launched 3 August 2018 and redeemed 4 November 2019

3 Share class launched 28 October 2019

The Fund does not have a specific benchmark. However, an indication of the performance of the Fund can be assessed by considering what has been achieved in the past 5 years by reference to the various tables below.

	Cumulative loss in 5 years to 31 March 2020
Increase (decrease) in NAV per share	
A Income	(21.50%)
B Income	(19.40%)
N Income	(20.20%)

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 works closely with Seneca Investment Managers 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 growing income.

To show dividend income growth, the table below shows the dividend income achieved this year and the average income over the past 5 years.

	2020 income per share	Averaged 5 year performance
A Income	4.52p	4.59p
B Income	5.48p	5.49p
N Income	5.38p	4.85p
B Accumulation	1.93p	-

The relatively poor performance in 2020 was caused in part by the cancellation of proposed dividends in late March, which cost an average of 0.05p per share. The table on p1 shows the dividends per share being consistently over 5.42p (B Income), which was at a minimum return of 4.9%, which is a very good consistent return over the 5 year period, and although not rising regularly, had it not been for the late cancellation of dividends, 2020 would have been the highest level of dividend for the B Income shares.

3. AFM costs - general

The costs (in £'000) charged during the year ended 31 March 2020 were as follows:

Investment manager's fee	1,419 (VAT exempt)
ACD fee (Valu-Trac only)	27 (VAT exempt)
Depositary fee	65 (VAT inclusive)
Audit fee	8 (VAT inclusive)
FCA fee	- (VAT exempt)
Safe custody and transaction fees	39 (VAT inclusive)
Total costs	1,558k

Loss for the year (capital and revenue) including costs was £34,930k; including taxation of 246k.

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

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; on a Sub-fund experiencing large levels of net purchases relative to its size; on "large deals" (typically being a purchase or redemption of Shares to a size exceeding 5% of the Net Asset Value of the relevant Sub-fund); 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

The Seneca funds moved over Valu-Trac Investment Management Limited on 24 May 2020. As well as offering a bespoke service to the Seneca funds, the funds can also take immediate advantage of the rates Valu-Trac has agreed with its suppliers such as its Custodian and Depositary services, which as the funds and AFM grow could see further reductions in the costs of such items.

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

The operating charges for the classes of shares over the past 3 years is as noted below.

	At and for the year ended		
	31 March 2020	31 March 2019	31 March 2018
Operating charges A class	1.77%	1.82%	1.81%
Operating charges B class	1.12%	1.17%	1.16%
Operating charges N class	1.37%	1.42%	1.41%

The IM fee is currently at 1.40% for the A class shares, 0.75% for the B class shares and 1.00% for the N class. Class A has a minimum initial investment of 3,000 and top-up of £2,500, whilst class B has a minimum investment level of £100,000 and a top up of £10,000. Class N has minimum investment and top up of £1,000. Class N shares are only available to direct investors.

(No holdings are currently held in the institutional class (I shares), but these have a minimum investment and holding of £50,000,000, and IM fee of 0.50%).

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; it is considered that the shareholders are receiving good value.

31 July 2020