

Statement by the Authorised Fund Manager (AFM) to the shareholders of VT Garraway Diversified Fixed Interest Fund (Sub-fund of VT Garraway Investment Fund Series II) on the outcome of the AFM's assessment of the value provided to shareholders

For the year ended 30 September 2019

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This assessment is to establish what VT Garraway Diversified Fixed Interest Fund (sub-fund) has delivered to you in return for the price you have had to pay.

From 25 March 2019 the AFM is the Authorised Corporate Director of the sub-fund, Valu-Trac Investment Management Limited (Valu-Trac). Prior to 25 March 2019 the AFM/ Authorised Corporate Director was City Financial Investment Company Limited.

From 25 March 2019 the Investment Manager is Garraway Capital Management LLP. Prior to 25 March 2019 the Investment Manager was City Financial Investment Company Limited.

The objective of the sub-fund is to provide a high level of income, primarily through investment in a concentrated portfolio of fixed interest securities. Although the main objective is to provide a high level of income, consideration will also be given to capital return.

At present there are four share classes in the sub-fund, A Income, A Accumulation, R Income and R Accumulation. The charges against these share classes are as follows:

	A Income	A Accum	R Income	R Accum
Management charge	0.95%	0.95%	0.45%	0.45%
Fixed Expenses	0.35%	0.35%	0.35%	0.35%

These are the charges that were in place ahead of the scheme of arrangement which changed the ACD/ Investment Manager on 25 March 2019. On interrogation of the current provisions of the scheme following the transition it appeared to us that there was no clear reason for the different management charge between the A and R Classes. We applied for and have recently received approval from the Financial Conduct Authority (FCA) to provide us with the power to mandatorily convert the shares of the investors in the A Classes to shares in the R Classes so that these investors will then pay a lower management charge than they did as shareholders of the A Classes. Once converted we will then close the A Classes.

At present, in addition to the annual management charge, a fixed fee of 0.35% per annum (with a minimum of £40,000) of the value of the Fund is charged to the Fund to cover certain other costs such as the depositary fee, auditor's fee and certain administrative costs (the "Fixed Expense Charge"). However following a review, given the size of the Fund we believe it is in the interests of investors (i.e. it will be cheaper) for the Fixed Expense charge to be removed and for each individual element which currently falls within the Fixed Expense Charge to be borne separately. We have updated the prospectus accordingly and have recently received approval from the FCA to implement this. It should be noted that in the interim where it would not have been in the best interests of investors the £40,000 minimum has not been effected.

The table below demonstrates that this has been achieved overall.

	<b>At and for the year ended</b>		
	<b>30 Sept 2019</b>	<b>30 Sept 2018</b>	<b>30 Sept 2017</b>
<b>Value of sub-fund</b>	£10.9m	£15.5m	£19.0m
<b>Shares outstanding</b>			
R Income	4,576,979	8,266,106	9,374,359
R Accumulation	1,452,221	2,013,129	2,688,780
A Income	325,924	461,515	512,080
A Accumulation	4,511,756	4,936,822	5,333,874
<b>NAV per share</b> <i>(mid price)</i>			
R Income	75.36p	79.84p	87.46p
R Accumulation	175.78p	171.06p	175.63p
A Income	82.20p	87.48p	96.32p
A Net Income	104.27p	101.98p	105.32p
<b>Dividend per share</b>			
R Income	6.58p	5.11p	5.42p
R Accumulation	14.52p	10.51p	9.88p
A Income	7.70p	5.61p	5.98p
A Accumulation	8.65p	6.31p	5.95p
<b>Ongoing charges</b>			
R Income	1.57%	1.24%	1.19%
R Accumulation	1.57%	1.24%	1.19%
A Income	2.07%	1.74%	1.69%
A Accumulation	2.07%	1.74%	1.69%

The sub-fund does not have a performance fee charge.

The sub-fund does not have a specific benchmark. The performance of the Fund can be measured by considering whether the objective is achieved (i.e. whether a high level of income has been provided).

**Notes**

*The ongoing charges ratio is based on the actual charges and the average NAV during the period.*

*From 25 March 2019 the source of all data is Valu-Trac Administration Services unless otherwise stated*

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

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

From 25 March 2019 the AFM considers that other than the management charge to the A Classes which has been addressed a good level of service was provided to shareholders by all parties involved commensurate to the amount paid by the sub-fund for those services.

As from 25 March 2019 the AFM's monitored the following operational services:

Depository – Prior to 13 November 2019 – BNY Mellon Trust & Depository (UK) Limited

From 13 November 2019 - NatWest Trustee and Depository Services Limited

Custodian – Prior to 13 November 2019 – The Bank of New York Mellon SA/NV and/or The Bank of New York Mellon

From 13 November 2019 - RBC Investor Services Trust, UK branch (RBC)

Auditor - From 28 May 2019 - Johnston Carmichael LLP

We can confirm that from 25 March 2019 –

These services are essential in ensuring that the sub-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 sub-fund's units will always be carried out exactly as set out in the documentation. For example the AFM had recently changed the sub-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 sub-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 arranges delivery of mailings such as the contract notes, dividend vouchers and financial statements on a timely and clear basis, sending electronically where email details are provided. The AFM ensures that shareholder queries are responded to fully and promptly. Reporting is provided directly to the shareholder.

### **2. Performance**

The AFM has assessed performance of the sub-fund net of all the charges that are outlined in its prospectus. The total return for the share classes for the year under review was as follows:

R Income	gain of 2.63% (Includes income paid of 8.24%)
R Accumulation	gain of 2.76% (Includes income accumulated of 8.49%)
A Income	gain of 2.76% (Includes income paid of 8.12%)
A Accumulation	gain of 2.25% (Includes income accumulated of 8.48%)

This is after operating costs including the fee paid to the investment manager of 1.57% for the R classes and 2.07% for the A classes and transaction costs of 0.04%.

It is relevant here to consider the objective of the fund in that its focus is on delivering a high income with consideration of the capital impact.

### 3. AFM costs - general

The costs (in £000's) incurred during the year ended 30 September 2019 were as follows:

Annual management charge	82 (VAT exempt)
Fixed fees	54 (VAT exempt)
Transaction costs (capital)	1 (VAT exempt)
Total costs	<b>137</b>

Income for the year (capital and revenue) was a gain of £591k before taxation of £nil.

Per the prospectus the sub-fund does not charge for redemption (other than dilution charges) where the investment was made for greater than 3 months. If the investor's holding was held for less than 3 months then the sub-fund can apply a 5% charge at the discretion of the ACD.

### 4. Economies of scale

At present the sub-fund is operating a percentage charge basis for fixed expenses in addition to the investment manager fee which is also charged on a percentage basis. As stated above the current AFM is in the process of changing this to charging the sub-fund for the actual fixed expense costs. Future Projections indicate that the actual fixed expenses going forward are less than the current percentage of 0.35%.

Once this fixed expense methodology has been put in place the AFM believes that this sub-fund will be receiving the same cost savings in a similar way to that of other schemes that it operates.

For the AFM's other schemes, the AFM has assessed to what extent it has been able to achieve any savings as a result of economies of scale. Where any such savings have been made this has in every case been passed on to the shareholders. An example of this is the reduction in the custodian element of the depositary fees as a result of a review of custody providers. The main part of the depositary fee has a minimum fixed fee until the fund reaches a size whereby it exceeds this and is then charged on a sliding scale (see section 13.3 in the prospectus). The calculation method of the depositary fee and the fixed fee nature of the ACD provides for cost efficiency as the assets of the sub-funds grow.

In the case of this sub-fund the assets have been in decline over the three years presented above. Given the change of the parties above, in particular the investment manager, it is the belief that this trend will now change. When the assets of this sub-fund increase it is envisaged that the ongoing charges will decrease.

As the AFM grows its total assets across all schemes it uses this purchasing power to benefit all schemes. The successful growth of the AFM has already facilitated this for both depositary and custody fees.

## **5. Comparable market rates**

The AFM has compared the charges of this sub-fund with that of comparable funds. The AFM believes that the shareholders of the sub-fund will achieve efficient market rates as a whole once the above mentioned changes are applied. 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**

As stated above the R share classes currently pay a 0.45% Investment Management fee and the A share classes currently pay a 0.95% Investment Management fee. All other fund costs are shared equally by all shareholders. The current services provided to this sub-fund are also comparable amongst other similar companies operated by the AFM.

## **7. Classes of units**

Apart from the Investment Management fee difference noted at point 6 above all shareholders of this sub-fund are treated equally.

## **CONCLUSION**

The AFM can only comment in relation to the period that it has been in place. 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 concluded that every shareholder of VT Garraway Diversified Fixed Interest Fund is receiving good value. It was assessed that A Class shareholders could be receiving better value and this has been addressed and will be implemented shortly following a period of shareholder notification.

..... David Fraser FCCA, Executive Manager

..... Douglas J Halley Independent Non Executive Director