

Statement by the Authorised Fund Manager (AFM) to the shareholders of VT Garraway Multi Asset Growth Fund (Sub-fund of VT Garraway Investment Fund Series III) 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 Multi Asset Growth 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 investment objective of the sub-fund is to achieve consistent long term capital growth by investing across a global portfolio of assets.

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

|                   | R Net<br>Inc | R Net<br>Acc | A Net<br>Inc | A Net<br>Acc | IA Net<br>Inc | IA Net<br>Acc | I Net<br>Inc | I Net<br>Acc |
|-------------------|--------------|--------------|--------------|--------------|---------------|---------------|--------------|--------------|
| Management charge | 0.75%        | 0.75%        | 1.50%        | 1.50%        | 0.55%         | 0.55%         | 0.75%        | 0.75%        |
| Fixed expenses    | 0.35%        | 0.35%        | 0.35%        | 0.35%        | 0.19%         | 0.19%         | 0.19%        | 0.19%        |

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 are in the process of preparing an application to 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 for the R and A Classes and 0.19% per annum for the IA and I Classes (All with a minimum of £40,000) of the value of the Fund is charged to the Fund to cover certain other costs such as 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 plan to obtain approval from the FCA to implement this change in the prospectus. 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>                | £17.0m                           | £23.8m              | £30.7m              |
| <b>Shares outstanding</b>               |                                  |                     |                     |
| R Net Income                            | 144,681                          | 172,842             | 247,145             |
| R Net Accumulation                      | 2,444,987                        | 3,255,938           | 4,007,021           |
| A Net Income                            | 220,238                          | 222,659             | 227,648             |
| A Net Accumulation                      | 2,554,657                        | 3,290,024           | 4,146,983           |
| IA Net Income                           | -                                | 500                 | 500                 |
| IA Net Accumulation                     | 511,522                          | 1,303,908           | 2,032,801           |
| I Net Income                            | 8,759                            | 32,740              | 31,950              |
| I Net Accumulation                      | 561,428                          | 436,447             | 1,123,175           |
| <b>NAV per share</b> <i>(mid price)</i> |                                  |                     |                     |
| R Net Income                            | 105.77p                          | 115.92p             | 116.33p             |
| R Net Accumulation                      | 115.13p                          | 122.43p             | 121.06p             |
| A Net Income                            | 413.98p                          | 455.19p             | 456.73p             |
| A Net Accumulation                      | 465.68p                          | 498.86p             | 497.00p             |
| IA Net Income                           | 107.96p                          | 116.94p             | 117.40p             |
| IA Net Accumulation                     | 118.12p                          | 125.15p             | 123.31p             |
| I Net Income                            | 105.77p                          | 115.92p             | 116.34p             |
| I Net Accumulation                      | 116.28p                          | 123.44p             | 121.85p             |
| <b>Dividend per share</b>               |                                  |                     |                     |
| R Net Income                            | 3.21p                            | 1.66p               | 1.58p               |
| R Net Accumulation                      | 0.75p                            | 1.73p               | 1.63p               |
| A Net Income                            | 9.46p                            | 3.06p               | 2.79p               |
| A Net Accumulation                      | 10.37p                           | 3.32p               | 3.01p               |
| IA Net Income                           | -                                | 2.09p               | 2.03p               |
| IA Net Accumulation                     | 3.92p                            | 2.21p               | 2.10p               |
| I Net Income                            | 3.40p                            | 1.84p               | 1.77p               |
| I Net Accumulation                      | 3.63p                            | 1.93p               | 1.83p               |
| <b>Ongoing charges</b>                  |                                  |                     |                     |
| R Net Income                            | 1.91%                            | 1.74%               | 1.87%               |
| R Net Accumulation                      | 1.91%                            | 1.74%               | 1.87%               |
| A Net Income                            | 2.66%                            | 2.49%               | 2.62%               |
| A Net Accumulation                      | 2.66%                            | 2.49%               | 2.62%               |
| IA Net Income                           | 1.55%                            | 1.38%               | 1.51%               |
| IA Net Accumulation                     | 1.55%                            | 1.38%               | 1.51%               |
| I Net Income                            | 1.75%                            | 1.58%               | 1.71%               |
| I Net Accumulation                      | 1.75%                            | 1.58%               | 1.71%               |

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 consistent long term returns are 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:

**I. Quality of service**

From 25 March 2019 the AFM considers that other than the management charge to the A Classes which is being assessed 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. During the period under review the AFM had in fact 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 Net Income  | loss of 5.99% (Includes income paid of 2.77%)        |
| R Net Accum   | loss of 5.96% (Includes income accumulated 0.61%)    |
| A Net Income  | loss of 6.97% (Includes income paid of 2.08%)        |
| A Net Accum   | loss of 6.65% (includes income accumulated of 2.08%) |
| IA Net Income | loss of 7.68% (Includes Nil income distribution)     |
| IA Net Accum  | loss of 5.62% (Includes income accumulated of 3.13%) |
| I Net Income  | loss of 5.82% (Includes income paid of 2.93%)        |
| I Net Accum   | loss of 5.80% (Includes income accumulated of 2.94%) |

This is after operating costs including the fee paid to the investment manager of 1.91% for the R classes, 2.66% for the A classes, 1.55% for the IA classes and 1.75% for the I classes and transaction costs of 0.01%.

It is relevant here to consider the objective of the fund in that its focus is on delivering consistent long term returns. The share prices at 30 September 2019 compared to launch price and date are as follows:

|               |                                    |                       |         |
|---------------|------------------------------------|-----------------------|---------|
| R Net Income  | launched on 08 Nov 2013 at 100p    | Price at 30 Sept 2019 | 105.77p |
| R Net Accum   | launched on 08 Nov 2013 at 100p    | Price at 30 Sept 2019 | 115.13p |
| A Net Income  | launched on 08 Nov 2013 at 394.77p | Price at 30 Sept 2019 | 413.98p |
| A Net Accum   | launched on 08 Nov 2013 at 422.88p | Price at 30 Sept 2019 | 465.68p |
| IA Net Income | launched on 28 Nov 2013 at 100p    | Price at 30 Sept 2019 | 107.96p |
| IA Net Accum  | launched on 28 Nov 2013 at 100p    | Price at 30 Sept 2019 | 118.12p |
| I Net Income  | launched on 08 Nov 2013 at 100p    | Price at 30 Sept 2019 | 105.77p |
| I Net Accum   | launched on 08 Nov 2013 at 100p    | Price at 30 Sept 2019 | 116.28p |

## 3. AFM costs - general

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

|                             |                  |
|-----------------------------|------------------|
| Annual management charge    | 291 (VAT exempt) |
| Fixed fees                  | 38 (VAT exempt)  |
| Transaction costs (capital) | 6 (VAT exempt)   |
| Total costs                 | <b>335</b>       |

Income for the year (capital and revenue) was a loss of £1,317k 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 percentages of 0.35% and 0.19%.

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 7.2 in the prospectus). The calculation method of the depositary fee and the fixed fee nature of the Authorised Corporate Director 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 in the prospectus. 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 and I share classes currently pay a 0.75% Investment Management fee and the A share classes currently pay a 1.50% Investment Management fee. The IA share class has a minimum investment criteria of £25m and therefore has an Investment Management fee of 0.55% and fixed expense fee of 0.19%. The fixed expenses charged to the R and A share classes is 0.35% and to the I share classes is 0.19%. 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 Multi Asset Growth Fund is receiving good value. It is currently being assessed that A Class shareholders could be receiving better value and this is being addressed with a view to implement following application to and approval by the FCA.

..... David Fraser FCCA Executive Manager

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