Statement by the Authorised Fund Manager (AFM) to the unitholders of the VT Munro Smart-Beta Fund on the outcome of the AFM's assessment of the value provided to unitholders

For the year ended 31 January 2023

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.

Our assessment has been conducted against the seven factors outlined by the FCA and the Fund has been rated via a 'traffic light' system, where green (G) indicates receiving good value, amber (A) indicates receiving reasonable value and red (R) indicates not receiving good value.

The dashboard below shows the overall summary of this assessment, as at 31 January 2023:

	Quality of Service	Performance	AFM costs - general	Economies of scale	Comparable market rates	Comparable services	Classes of units	Overall
VT Munro Smart-Beta Fund	G	A	A	G	A	G	G	A
Class X Net Accumulation	G	A	A	G	A	G	G	A
Class X Net Income	G	A	A	G	A	G	G	A

The dashboard below shows the overall summary for the previous assessment i.e., carried out as at 31 January 2022:

	Quality of Service	Performance	AFM costs - general	Economies of scale	Comparable market rates	Comparable services	Classes of units	Overall
VT Munro Smart Beta Fund								
Class X Net Accumulation	G	A	A	G	G	G	G	A
Class X Net Income	G	A	A	G	G	G	G	A

The Fund was launched on 22 July 2007.

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. During the period, the Appointed Representative (AR) and Sponsor Smart-Beta Investments resigned. The sponsorship was taken over by Elston Consulting Limited, who continue to engage independently with Smart Beta Investments. Elston Consulting Limited were already acting as the index provider.

The objective of the VT Munro Smart-Beta UK Fund (the Fund) is to replicate the performance (before fund fees and expenses) of the Elston Smart-Beta UK Dividend Index.

The Fund will invest at least 80% in a portfolio of UK securities listed on the London Stock Exchange that as far as practically possible consist of the component securities of the Elston Smart-Beta UK Dividend Index (the Benchmark Index / the Comparator).

In seeking to achieve the objective the Fund intends to use sampling techniques (as opposed to fully replicating the Benchmark Index), and it is therefore not expected that the Fund will hold each and every underlying constituent of the Benchmark Index at all times or hold them in the same proportion as their weightings within the Benchmark Index. This could be down to construction constraints (i.e compliance with UK UCITS rules), turnover constraints (where the manager considers it is in the best interests of investors not to change the holdings of assets to track the index); and liquidity management considerations (which may mean that the Fund holds some cash which the Benchmark Index may not to ensure adequate liquidity).

As the Fund seeks to replicate the performance of the Benchmark Index (before fund fees and expenses) it is heavily influenced by the Benchmark Index with weightings of the Fund being continuously compared to the weightings of the Benchmark Index, and an annualised tracking error will be targeted of <3% when using consistent valuation points of the Fund and the Benchmark Index (12pm).

The Fund may also invest in money market instruments, cash and deposits. It is the ACD's intention that derivatives be used for hedging purposes using efficient portfolio management style techniques (although use of derivatives is expected to be limited). The Fund may invest in other collective investment schemes which may themselves use derivatives for investment purposes.

The Fund is passively managed.

The Fund will not have any particular industry or economic sector focus and as such weightings in these may vary as required.

The value of each share class at the end of the last five financial years are as follows:

At and for the year ended								
31-Jan-23 31-Jan-22 31-Jan-21 31-Jan-20 31-Jan-19								
Value of Fund								
Class X Net Accumulation	£17.73m	£1.97m	£1.57m	£1.77m	£2.14m			
Class X Net Income	£6.59m	£3.91m	£2.96m	£3.87m	£3.60m			

Source: Valu-Trac

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 unitholders by all parties involved commensurate to the amount paid by the Fund for those services. The AFM monitors the following operational services:

Depositary – NatWest Trustee and Depositary Services Limited

Custodian – RBC Investor Services Trust, UK branch (RBC)

The external audit is conducted by Frame Kennedy Ltd.

These services are essential in ensuring that the Fund operated efficiently and in the case of the Depositary and Custodian the service is supervised on an on-going daily basis by the AFM. As a unitholder 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 unitholders 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 the investment manager to coordinate any required investment communications.

The AFM has concluded that the unitholders within the Fund are receiving good value for the quality of services provided by each party (detailed analysis on how we have arrived at this conclusion can be provided on request).

2. Performance

The AFM has assessed performance of the Fund gross (before) of all the charges that are outlined in its prospectus. This is because the objective of the Fund is to perform in line with the benchmark before the deduction of charges.

The objective of the VT Munro Smart-Beta UK Fund is to replicate the performance of the Elston Smart-Beta UK Dividend Index (the benchmark), before the deduction of fees and expenses.

The Fund has no specified investment horizon, in the objective, but the target market outlines the Fund is suitable for investors with a medium to long term horizon. For the purposes of this analysis, the investment horizon has been assumed to be 3 years. Shorter periods are also reviewed to provide context for longer term performance.

To show investment return against the benchmark, the total returns, both before and after, on-going charges (OCF), generated by the share classes, are shown on the table below.

Total Return	2023 Performance	2023 Benchmark Performance	3-Year Performance (per year)	3-Year Benchmark Performance (per year)
Class X Gross Accumulation	9.41%	10.47%	6.74%	6.82%
Class X Net Accumulation	7.94%	10.47%	5.54%	6.82%
Class X Gross Income	9.51%	10.47%	6.61%	6.82%
Class X Net Income	8.04%	10.47%	5.41%	6.82%

Source: Morningstar / Valu-Trac

Owing to data restrictions relating to the mid-day priced series of the performance benchmark, the AFM has been unable to measure realised, annualised tracking error, as per the Fund description. We are now capturing this data and will be able to make the assessment in the future. However, the AFM has been able to assess tracking difference (the difference in the return of the share class and the benchmark). The AFM is comfortable that the level of tracking difference within the Fund is as we may reasonably expect for a passively managed fund of this type – for the accumulation units, which is the most reflective of the benchmark given dividends are reinvested into the Fund, the tracking difference is around 0.2% per year. A more detailed analysis or realised investment risk can be provided upon request.

The AFM has concluded that the unitholders within the Fund are receiving reasonable value in relation to performance.

3. AFM costs - general

The costs directly charged to the Fund, during the year ended 31 January 2023, were as follows:

	£	% of average fund value
Consulting fee	29,268	0.23%
ACD fee	23,452	0.19%
Depositary fee	19,479	0.16%
Audit fee	2,760	0.02%
FCA fee	55	0.00%
Safe custody fee	571	0.00%
Transaction charges (custodian)	10,691	0.09%
Other fees	52,709	0.42%
Total Costs	138,985	1.11%

Although the fees are relatively high for a 'passive' fund, the index tracked is a 'smart-beta' index and goes beyond a simple weighting methodology. It lies somewhere between a fully passive and fully active solution.

As of the end of the period (31 January 2023) the new fund sponsor (Elston) had implemented a formal OCF cap of 0.99%, and subsequently has lowered this on an informal basis (i.e., this could be removed without notice) to 0.79%.

For the period under assessment the AFM has concluded that the unitholders within the Fund are receiving reasonable value in relation to AFM costs and highlight the continued progress after the period end to continue to drive down costs.

4. Economies of scale

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 unitholders. An example of this is the depositary fees charged being on a sliding scale so reduce in cost as the Fund exceeds certain thresholds. As the AFM grows its total assets across all schemes it uses this purchasing power to benefit all schemes. We are also working with the sponsor and the index provider to restructure the index fees, investment management fees and the ACD fee to ensure each one tiers down as the Fund grows. These discussions are ongoing.

The AFM has therefore concluded that all unitholders within the Fund are receiving good value in terms of economies of scale.

5. Comparable market rates

The AFM has considered the costs charged to the Fund, by comparing the ongoing charges (OCF) of the share classes to the average OCF of the IA UK Equity Income Sector, retail classes where available, alongside the historical change for the Fund's share class. This is shown below:

OCF	31-Jan-23	31-Jan-22	31-Jan-21	31-Jan-20	31-Jan-19
Class X Net Accumulation	1.07%	1.36%	1.08%	0.96%	0.92%
Class X Net Income	1.07%	1.36%	1.08%	0.96%	0.92%
The IA UK Equity Income Sector Average	1.15%				

Source: Valu-Trac / Morningstar

Note these are the average OCF over the period, and do not reflect the OCF cap put in place towards the end of the financial year.

While an ongoing charge in excess of 0.30% may be considered excessive for a passively managed fund, within the context of the wider marketplace, and owing to the non-standard performance comparator benchmark which the Fund aims to follow, the AFM considers the current operating charge to be broadly reasonable. The current operating charge is lower than that of the IA UK Equity Income Sector average. It should also be noted that a new fee cap has been agreed with the Sponsor, informally limiting the operating charge to 0.79%; the effective date for this revised fee cap is February 2023. This informal arrangement has been put in place whilst the AFM works with the sponsor and index provider to put in a new fee structure with the aim of lowering costs, and ensuring these continue to scale down as the Fund grows.

The AFM has therefore concluded that all unitholders within the Fund are receiving reasonable value, with regard to market rates.

6. Comparable services

The services provided to this Fund and the costs are also comparable amongst other similar funds operated by the AFM with the same investment manager and index provider/sponsor and is aligned with its normal operating model.

The AFM concludes that unitholders in all share classes are receiving good value with regard to comparable services.

7. Classes of units

There is only type of share class in this Fund (with accumulation and income versions), therefore all unitholders of this Fund are treated equally in all respects, with the Fund distributed by the sponsor.

The AFM concludes that unitholders are receiving good value with regard to classes of units.

CONCLUSION

Our assessment has been conducted against the seven factors outlined by the FCA and the Fund has been rated via a 'traffic light' system, where green (G) indicates receiving good value, amber (A) indicates receiving reasonable value and red (R) indicates not receiving good value.

	Quality of Service	Performance	AFM costs - general	Economies of scale	Comparable market rates	Comparable services	Classes of units	Overall
VT Munro Smart-Beta Fund	G	A	A	G	A	G	G	A
Class X Net Accumulation	G	A	A	G	A	G	G	A
Class X Net Income	G	A	A	G	A	G	G	A

In taking all of these criteria into consideration, the AFM will conclude 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 unitholders.

The Fund description states that the performance and risk profile of the Fund ought to be assessed before fees, in the first instance. On this basis, the performance of the Fund is broadly similar to that of the benchmark, over a 3-year investment horizon. This observation also forms the basis of the AFM's assessment of tracking difference. The AFM is comfortable that the return and risk profile of the Fund is as we may reasonably expect for a passively managed fund of this type. The AFM notes that the performance of the Fund is below that of the benchmark, after fees. The AFM continues to gather data to ensure the tracking error (the variance in returns between the Fund and the benchmark) is within the prospectus limits.

Although both AFM costs and comparable market rates are reasonable when compared to the wider marketplace, as this is a 'passive' fund, we would expect the costs to be significantly lower than the market average. The sponsor has already taken action to lower the costs, and we continue to work with them to put in an updated cost structure to ensure the costs straddle the space between fully passive and fully active funds.

Overall, the AFM concludes that the unitholders of the VT Munro Smart-Beta Fund are receiving reasonable value.

16 May 2023