



Valu-Trac Administration Services

Annual Assessment of Value Statement as at 31 March 2023

VT Downing Small & Mid Cap Income Fund

Fund Information

Investment Manager:	Downing LLP
Authorised Fund Manager:	Valu-Trac Investment Management Limited (Valu-Trac)
Investment Objective:	The investment objective of the Fund is to achieve a quarterly income, together with capital growth over the long term (5 years).
Investment Policy:	The Fund aims to meet its objective by investing at least 80% in shares of small (those with a market capitalisation of less than £1 billion) and medium sized (those with a market capitalisation of less than £5 billion) companies which are domiciled in, have their head office located in, or (which if not established in the UK) exercise the significant part of their business in the UK and which the Manager considers to have the ability to increase returns over time. The Fund may also invest in other transferable securities (for example, without limitation, of non-small and medium sized companies and/or international equities) (including investment trusts), collective investment schemes, money market instruments, deposits, cash and near cash. Derivatives may be used for the purposes of efficient portfolio management (although it is expected that use of derivatives will be limited). The Fund is actively managed. No more than 10% of the Scheme Property of the Fund will be invested in other collective investment schemes (although such collective investment schemes could include those managed and/or operated by the ACD or Investment Manager). The Fund will not have any particular industry or economic sector focus and as such weightings in these may vary as required.
AUM (£):	£42.0m
Fund Launch Date:	14/06/2010

Our assessment has been conducted against the seven criteria outlined by the FCA and the fund has been rated via the “traffic light” system. This has been summarised within the table, below:

VT Downing Small & Mid Cap Income Fund	AUM (%)	Quality of Service	Performance	AFM costs - general	Economies of scale	Comparable market rates	Comparable services	Classes of units	Overall
Overall	100.0%	● G	● R	● G	● G	● G	● G	● G	● A
Accumulation	2.5%	● G	● R	● G	● G	● G	● G	● G	● A
Income	97.5%	● G	● R	● G	● G	● G	● G	● G	● A

The table below shows the overall summary for the previous assessment i.e. carried out as at 31 March 2022:

VT Downing Small & Mid Cap Income Fund	AUM (%)	Quality of Service	Performance	AFM costs - general	Economies of scale	Comparable market rates	Comparable services	Classes of units	Overall
Overall	100.0%	 G	 G	 G	 G	 G	 G	 G	 G
Accumulation	2.9%	 G	 G	 G	 G	 G	 G	 G	 G
Income	97.1%	 G	 G	 G	 G	 G	 G	 G	 G

A new methodology for determining an overall fund rating has recently been implemented. This updated methodology looks to arrive at a notional, average rating, considering the individual ratings for each of the discrete assessment criteria. This approach may differ from the approach taken previously.

Previous Remedial Actions

- None

New Remedial Actions

- Performance:
 - Assessed as Red
 - The AFM will discuss the drivers of long-term performance, and trends in long term performance, at the next scheduled Investment Manager meeting.

Detailed Assessment

Quality of Service

The AFM has chosen to outsource the following services to third party providers:

- Investment Management services: Downing LLP
- Depositary services: NatWest Trustee and Depositary Services Limited
- Custodian services: RBC Investor Services Trust, UK branch (RBC)
- External audit: Johnston Carmichael LLP

Other functions such as fund administration, fund accounting and transfer agency are undertaken by Valu-Trac, and all outsourced services are subject to continuous oversight.

As part of our assessment of service providers, no systemic issues have been identified as part of our ongoing due diligence, including an assessment of investment breaches, pricing errors, complaints, fund liquidity and ongoing adherence to the investment policy.

Conclusion:

 Green

The AFM has concluded that all services being provided in relation to the on-going management and administration of the fund, including those provided directly and those currently being provided by third parties, are operating as unitholders may reasonably expect.

The AFM has concluded that unitholders are receiving good value, in relation to Quality of Service.

Performance

Objective:

The investment objective of the Fund is to achieve a quarterly income, together with capital growth over the long term (5 years).

Constraining Benchmark:

None

Comparator Benchmark:

IA UK Equity Income Sector Average

Target Benchmark:

None

Peer Group:

IA UK Equity Income Sector

Minimum Recommended Holding Period:

5 years

Management Approach:

Active

The income generated (percentage yield) by each available share class within the fund, is shown below:

Yield	1 year to Mar-2023	1 year to Mar-2022	1 year to Mar-2021	1 year to Mar-2020	1 year to Mar-2019	5 years to Mar-2023 (avg. per-year)
Benchmark	4.6%	-	-	-	-	-
Accumulation	4.0%	4.6%	5.1%	4.8%	4.5%	3.9%
Income	3.9%	4.5%	5.0%	4.7%	4.4%	3.5%

Source: Valu-Trac

The change in capital value for each available share class within the fund, is shown below:

Change in Fund Value	1 year to Mar-2023	1 year to Mar-2022	1 year to Mar-2021	1 year to Mar-2020	1 year to Mar-2019	5 years to Mar-2023
Accumulation	-10.8%	6.6%	30.8%	-27.0%	-12.9%	-8.9%
Income	-10.8%	6.7%	30.2%	-25.6%	-12.5%	-7.8%

Source: Valu-Trac

The net total return and peer ranking (where available) for each available share class within the fund, together with the return of the relevant benchmark, is shown below:

Net Total Return*	1 year	3 years (avg. return per-year)	5 years (avg. return per-year)	5 years Peer Rank
Benchmark	-0.3%	13.5%	3.7%	-
Accumulation	-6.9%	11.8%	-0.2%	Lowest 5%
Income	-6.9%	11.8%	-0.2%	Lowest 4%

*To 31 March 2023

Source: Morningstar

The AFM has referred to both internal and external data sources for performance statistics, where the AFM has deemed this to be appropriate.

Conclusion:

 Red

Both share classes within the fund have generated income over the minimum recommended holding period. The yield generated over the most recent 12-month period is below that of the comparator benchmark.

Both share classes within the fund have failed to generate capital growth over the minimum recommended holding period.

Both share classes within the fund have under-performed the comparator benchmark, on a total return basis, over the minimum recommended holding period.

The AFM will discuss the drivers of long-term performance, and trends in long term performance, at the next scheduled Investment Manager meeting.

The AFM has also assessed the investment risk within the Fund and has concluded that the level of investment risk taken is not out of keeping, for an actively managed Fund of this type (further details on how the AFM arrived at this conclusion may be provided upon request).

The AFM has concluded that unitholders are not receiving good value, in relation to Performance.

AFM Costs - General

Each share class within the Fund has its own Annual Management Charge (AMC). The AMC may be thought of as being the amount deducted from a share class's average net assets to pay for the investment management of that share class; this charge will typically include a proportionate allocation from the Investment Management Fee, ACD fee and other, ancillary fees.

The current AMC of each share class, together with the current, average AMC for the relevant, selected peer group, is shown within the table below:

Annual Management Charge (AMC)	Current	
		Peer Rank
Peer Group	0.85%	-
Accumulation	0.75%	Lowest 33%
Income	0.75%	Lowest 33%

Source: Valu-Trac / Morningstar

Conclusion:

 Green

The Investment Management Fee is proposed by Downing LLP. Owing to the limitations of the host ACD model which the AFM operates, the AFM is unable to comment upon the specific profit margin this fee may generate for Downing LLP; instead, the AFM will focus upon ensuring that this fee appears reasonable, in the context of the overall AMC.

The AFM fee is payable to Valu-Trac to cover the services undertaken by Valu-Trac as outlined in the Quality of Service section. The AFM will set fees based on the overall cost of operating the business. Most of the AFM's costs are fixed (such as staff and property costs), and the AFM will set its fees in such a way that ensures the costs are apportioned fairly across the range of funds which it operates. The AFM reviews its fee model via various means, such as through external independent consultancy and market benchmarking reviews against similar firms in the market. The results of these reviews are incorporated into the AFM's governance arrangements, up to Board level.

Other notable, ancillary fees may include the depositary, custodian, and auditor fees. The AFM regularly reviews these fees compared to other funds operated by the AFM and, where the information is available, other funds within the wider marketplace, to ensure that they remain competitive.

Unitholders are currently paying an AMC lower than the market average for similar funds.

The AFM has concluded that unitholders are receiving good value, in relation to AFM Costs - General.

Economies of Scale

The fund currently has assets under management (AUM) of less than £250m, which is the threshold we consider reasonable to consider if economies of scale have been passed on to investors.

The fund has a tiered depositary fee, subject to a minimum amount, alongside other fixed fees, such as audit fees. Therefore, as the fund AUM grows, the proportion of such costs, relative to overall fund size, will decline, in percentage terms.

Conclusion:

 Green

The AFM has concluded that unitholders are receiving good value, in relation to Economies of Scale.

Comparable Market Rates

The current and historic On-going Charges Figure (OCF) for each unit class within the fund, together with the current, average OCF for the relevant, selected peer group, is shown within the table, below:

On-Going Charges Figure (OCF)	2020	2021	2022	Current	
					Peer Rank
Peer Group	-	-	-	0.96%	-
Accumulation	1.00%	0.95%	1.07%	0.94%	Lowest 49%
Income	1.00%	0.95%	1.07%	0.94%	Lowest 49%

Source: Morningstar

Conclusion

 Green

The OCF includes the costs of underlying funds held. This is currently estimated at 0.04% but can change as the underlying investments made change.

Unitholders are currently paying an OCF lower than the market average for similar funds.

The AFM has concluded that unitholders are receiving good value, in relation to Comparable Market Rates.

Comparable Services

Valu-Trac act as AFM for seven funds, for which Downing LLP are the Investment Manager. Some funds are what may be termed multi-asset funds and others are what may be termed single asset class funds. This fund may be considered to be a single asset class, equity fund. Differences between these single asset class funds, in terms of their market focus, notwithstanding, this fund is priced consistently with other funds within the range.

The services provided in respect to this fund are also aligned with the AFM's normal operating model.

Conclusion

 Green

The AFM has concluded that unitholders are receiving good value, in relation to Comparable Services.

Classes of Units

There is only one type of share class in this fund (albeit with an accumulation and income variant) and all investors are offered the same level of service; therefore, all shareholders of this fund are treated equally in all respects.

Conclusion

 Green

The AFM has concluded that unitholders are receiving good value, in relation to Classes of Units.

Overall Assessment

 Amber

The AFM has concluded that unitholders are receiving good value in respect to six of the seven, discrete criteria assessed above i.e. each have been assessed as green.

The AFM has concluded that unitholders are not receiving good value, in relation to Performance. The AFM will discuss the drivers of long-term performance, and trends in long term performance, at the next scheduled Investment Manager meeting.

The AFM has concluded that the unitholders within the VT Downing Small & Mid Cap Income Fund are receiving reasonable value, overall.

01/08/2023