# Statement by the Authorised Fund Manager (AFM) to the unitholders of the Discovery Balanced 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 Discovery Balanced 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
Discovery Balanced Fund	G	R	G	<b>G</b>	A	G	G	A
Class A Sterling Net Accumulation	G	R	R	G	R	G	R	R
Class A Sterling Net Income	G	R	R	G	R	G	R	R
Class B Sterling Net Accumulation	G	R	G	G	A	G	G	A
Class B Sterling Net Income	G	R	G	G	A	G	G	A
Class C Sterling Net Accumulation	G	R	G	G	G	G	G	A
Class C Sterling Net Income	G	R	G	G	G	<b>G</b>	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
Discovery Balanced Fund	G	A	G	<b>G</b>	G	G	G	A
Class A Sterling Net Accumulation	G	A	R	G	G	G	G	A
Class A Sterling Net Income	G	A	R	G	G	G	G	A
Class B Sterling Net Accumulation	G	A	G	G	G	G	G	A
Class B Sterling Net Income	G	A	G	G	G	G	G	A
Class C Sterling Net Accumulation	G	A	G	G	<b>G</b>	G	G	A
Class C Sterling Net Income	G	A	<b>G</b>	<b>G</b>	G	G	G	A

The Fund was launched on 21 March 2005.

The AFM is the Authorised Corporate Director (ACD) of the company, Valu-Trac Investment Management Limited (Valu-Trac). The Investment Manager is Hawksmoor Investment Management Limited. Hawksmoor Investment Management Limited were appointed in March 2022, replacing Wellian Investment Solutions. Both Hawksmoor and Wellian are part of Hurst Point Group.

The objective of the Fund is to provide returns through a combination of capital growth and income over a market cycle (5 years).

The Fund will primarily gain exposure indirectly via eligible collective investment schemes and other collective investment vehicles (for example, investment companies, exchange traded funds) to a range of eligible assets such as transferable securities (shares (including investment trusts), debentures, government and public securities, warrants or certificates representing certain securities), money market instruments, deposits, cash, property and commodities to provide diversification. The Fund may also invest directly in such eligible assets (excluding property and commodities). Derivatives will be used only for the purpose of Efficient Portfolio Management.

The Fund will be constructed based on the Investment Manager's assessment of the broader economic outlook as well as the absolute and relative attractiveness of different asset classes. This analysis, combined with the view on the potential risk profile and relative risk-adjusted returns of asset classes will determine the current asset allocation of the Fund.

Typically, the Fund is likely to have a balanced exposure to underlying equities and commodities, on the one hand, and underlying cash, fixed interest and property assets on the other.

The Investment Manager will use a wide range of assets and asset classes to provide a diversified investment approach and will actively alter the weights of the component parts where necessary with a view to achieving the investment objective. The Fund might have the ability to be fully invested in one class of asset, but in reality, due to creating a diversified investment solution, it will be exposed to numerous managers, geographies, asset classes and styles.

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 A Sterling Net Accumulation	£1.57m	£2.05m	£3.14m	£4.06m	£6.76m				
Class A Sterling Net Income	£0.66m	£0.92m	£1.00m	£1.14m	£1.54m				
Class B Sterling Net Accumulation	£2.43m	£3.11m	£5.94m	£6.32m	£6.52m				
Class B Sterling Net Income	£2.85m	£3.12m	£4.01m	£4.17m	£4.61m				
Class C Sterling Net Accumulation	£86.25m	£87.43m	£55.07m	£29.88m	£0.84m				
Class C Sterling Net Income	£0.84m	£0.91m	£0.10m	£0.12m	£0.00m				

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 Johnston Carmichael LLP.

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 operating 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 net (after) of all the charges that are outlined in its prospectus.

The objective of the Fund is to provide returns through a combination of capital growth and income over a market cycle (five years). The Fund is not managed to, nor constrained by, a specific benchmark; however, to aid comparison, fund performance may be compared to that of the IA Mixed Investment 40%-85% Shares Sector (the comparator).

As such the time horizon used to assess performance is five years, however shorter periods are also reviewed to provide context for longer term performance.

The change in capital value for each share class is shown below:

Change in NAV	12m to 31-Jan- 23	12m to 31-Jan- 22	12m to 31-Jan- 21	12m to 31-Jan- 20	12m to 31-Jan- 19	5 Years to 31-Jan- 23
Class A Sterling Net Accumulation	-7.52%	0.16%	-0.33%	5.89%	-9.22%	-11.87%
Class A Sterling Net Income	-7.66%	0.39%	-0.51%	5.90%	-9.07%	-11.19%
Class B Sterling Net Accumulation	-6.81%	0.92%	0.43%	6.77%	-8.50%	-8.13%
Class B Sterling Net Income	-6.96%	1.17%	0.24%	6.74%	-8.35%	-7.70%
Class C Sterling Net Accumulation	-6.41%	1.36%	0.87%	7.18%	-8.39%	-6.31%
Class C Sterling Net Income	-6.55%	1.58%	0.67%	7.07%	-8.01%	-5.87%

Change in NAV	12m to 31-Jan- 23	12m to 31-Jan- 22	12m to 31-Jan- 21	12m to 31-Jan- 20	12m to 31-Jan- 19	5 Years to 31-Jan- 23
Class A Sterling Net Accumulation	-5.09%	2.09%	1.80%	8.86%	-5.66%	1.31%
Class A Sterling Net Income	-7.66%	0.39%	-0.51%	5.90%	-9.07%	-11.19%
Class B Sterling Net Accumulation	-4.37%	2.86%	2.57%	9.68%	-4.95%	5.19%
Class B Sterling Net Income	-6.96%	1.17%	0.24%	6.74%	-8.35%	-7.70%
Class C Sterling Net Accumulation	-3.95%	3.30%	3.02%	10.02%	-4.74%	7.13%
Class C Sterling Net Income	-6.55%	1.58%	0.67%	7.07%	-8.01%	-5.87%

Source: Valu-Trac

The below table shows the annual income return, and the total income generated over the five-year time horizon (this assumes income is not reinvested). For accumulation share classes this is already reflected in the NAV return and for income share classes, this income return is in addition to any capital growth (or loss) as reflected by the change in NAV:

Dividend yield (Income Return)	12m to 31-Jan- 23	12m to 31-Jan- 22	12m to 31-Jan- 21	12m to 31-Jan- 20	12m to 31-Jan- 19	5 Years to 31-Jan- 23
Class A Sterling Net Accumulation	2.44%	1.94%	2.14%	2.97%	3.55%	13.17%
Class A Sterling Net Income	2.41%	1.93%	2.13%	2.91%	3.52%	12.37%
Class B Sterling Net Accumulation	2.44%	1.94%	2.14%	2.91%	3.55%	13.32%
Class B Sterling Net Income	2.42%	1.92%	2.12%	2.88%	3.51%	12.50%
Class C Sterling Net Accumulation	2.46%	1.94%	2.14%	2.85%	3.64%	13.44%
Class C Sterling Net Income	2.42%	1.93%	2.13%	2.86%	3.45%	12.52%

Source: Valu-Trac

Across all share classes a positive total return has been generated, this has been generated by a positive income return over the last five years, offset by a capital loss.

The net total returns for the share classes and the comparator (which assume dividends are reinvested for income share classes) generated are shown in the table below. This is after on-going charges (OCF). This includes the fee paid to the Investment Manager, and transaction costs, which vary depending on the class of shares.

Total Net Return	2023 Performance	2023 Comparator Performance	5-Year Performance (per year)	5-Year Comparator Performance (per year)
Class A Sterling Net Accumulation	-5.09%	-2.46%	0.17%	3.48%
Class A Sterling Net Income	-5.26%	-2.46%	0.17%	3.48%
Class B Sterling Net Accumulation	-4.38%	-2.46%	0.92%	3.48%
Class B Sterling Net Income	-4.55%	-2.46%	0.93%	3.48%
Class C Sterling Net Accumulation	-3.95%	-2.46%	1.29%	3.48%
Class C Sterling Net Income	-4.13%	-2.46%	1.31%	3.48%

Source: Morningstar

The AFM has referred to both internal and external data sources for performance statistics, where the AFM has felt this to be appropriate. Typically, statistics such as capital gain and historic yield, are not readily available via external data sources.

The AFM has also assessed the risk the Fund took to achieve the above performance and has concluded that the Fund has not taken excessive risk to achieve this performance (detailed analysis on how we have arrived at this conclusion can be provided on request).

After assessing the relative performance against the comparator and taking into account the capital losses over the five-year time period, the AFM has concluded that the unitholders within the Fund are not receiving good 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
Investment Manager fee	422,262	0.45%
Investment Manager rebate (C Class)	-83,118	-0.09%
ACD fee	27,103	0.03%
Depositary fee	34,188	0.03%
Audit fee	7,711	0.01%
FCA fee	46	0.00%
Safe custody fee	7,798	0.01%
Transaction charges (custodian)	1,959	0.00%
Other fees	12,526	0.01%
Total Costs	430,475	0.45%

Note that as at the date of this report the Investment Manager pays a rebate to the Fund such that the average ongoing charges for the C Class as a percentage does not exceed 0.80%, however this has been removed after the period end following an assessment of costs by the investment manager.

Each share class within the Fund has its own Annual Management Charge (AMC). The AMC of each share class within the Fund is shown in the table below. Note that the share class-specific AMCs may differ from the total costs % shown in the table above, as the total cost % figure is calculated at the level of the Fund rather than at the level of each share class.

	AMC
Class A Sterling Net Accumulation	1.45%
Class A Sterling Net Income	1.45%
Class B Sterling Net Accumulation	0.70%
Class B Sterling Net Income	0.70%
Class C Sterling Net Accumulation	0.40%
Class C Sterling Net Income	0.40%

For an actively managed fund of this type, an AMC of 1.45% appears high and the AFM has concluded that investors in the A share class are not receiving good value for AFM costs. In mitigation, it should be noted that a compulsory conversion of Class A shares into Class B shares has been put into effect, with an effective date of June 2023.

For the B & C share classes the charges appear reasonable, and the AFM has concluded investors in these share classes are receiving good value.

#### 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.

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 current ongoing charges (OCF) of the share classes to the average OCF of the IA Mixed Investment 40%-85% Shares Sector, retail classes where available, alongside the historical change for each share class. This is shown below:

OCF	31-Jan-23	31-Jan-22	31-Jan-21	31-Jan-20	31-Jan-19
Class A Sterling Net Accumulation	1.94%	1.99%	2.06%	2.00%	2.43%
Class A Sterling Net Income	1.94%	1.99%	2.06%	2.00%	2.43%
Class B Sterling Net Accumulation	1.19%	1.24%	1.31%	1.25%	1.68%
Class B Sterling Net Income	1.19%	1.24%	1.31%	1.25%	1.68%
Class C Sterling Net Accumulation	0.80%	0.80%	0.80%	0.95%	1.38%
Class C Sterling Net Income	0.80%	0.80%	0.80%	0.95%	1.38%
The IA Mixed Investment 40%-85% Shares Sector Average	1.11%				

Source - Morningstar

The ongoing charges for each share class includes the costs of underlying funds held, which is currently at 0.40%.

The AFM has concluded the costs for the Fund are generally reasonable.

However, the AFM notes that the ongoing charges for the Class A Shares, are among the most expensive (by decile) within the chosen peer group and investors in this share class are not receiving good value with regards to comparable market rates. As highlighted in the AFM cost section, actions have already been undertaken to address this.

Investors in the B class are paying ongoing charges slightly above the market average for similar funds, and as such the AFM concludes investors in this share class are receiving reasonable value with regards to comparable market rates, in particular we note the trend that the OCF has fallen over the past few years.

Investors in the C class are paying charges less than the market average for similar funds, and as such the AFM concludes investors in this share class are receiving good value.

## 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 is aligned with its normal operating model.

The AFM concludes that investors in all share classes are receiving good value for comparable services.

#### 7. Classes of units

The Investment Manager fee charged to the A Classes includes rebates and trail commissions paid out to third parties in these share classes which is not considered in the ongoing charges, while the C Classes are only available to investors with a separate arrangement with the Investment Manager.

The B share classes have a minimum investment amount of £3k, whereas the C share class has a higher minimum of £5m.

The AFM concludes that investors in the A share class are not receiving good value with regards to classes of units, because although some of the charges are rebated, we cannot be assured that in all cases this is being passed back to investors. As mentioned, this has already been addressed through the mandatory conversion of the A class (into the B class). Although the B & C share classes have different AMCs, the AFM concludes that investors in these share classes are receiving good value when comparing classes of units, as the different charges are driven by different minimum amounts. A larger minimum amount helps the overall fund scale quicker, and the servicing required per £ invested is generally lower.

## **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
Discovery Balanced Fund	G	R	G	G	A	G	G	A
Class A Sterling Net Accumulation	G	R	R	G	R	G	R	R
Class A Sterling Net Income	G	R	R	G	R	G	R	R
Class B Sterling Net Accumulation	G	R	G	G	A	G	G	A
Class B Sterling Net Income	G	R	G	G	A	<b>G</b>	G	A
Class C Sterling Net Accumulation	G	R	G	G	G	<b>G</b>	G	A
Class C Sterling Net Income	G	R	● G	G	G	● 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 performance of each Fund share class is markedly below that of the performance comparator, over the previous 12 months. Furthermore, fund performance is significantly below that of the performance comparator over the key investment horizon of five years.

The ongoing charges of the Class A Shares and Class B Shares are greater than that of the selected peer group average. The cost of the Class A Shares would appear to be among the most expensive within that peer group. In mitigation, it should be noted that a compulsory conversion of Class A shares into Class B shares has been put into effect, with an effective date of June 2023.

Overall, the AFM concludes that for the shareholders of the Discovery Balanced Fund are receiving reasonable value with holders of the A share class not receiving good value. Mitigating actions have been taken to address the high costs of the A class. The B class has costs marginally above the sector average and will continue to be monitored over the next 12 months to ensure it continues to fall towards the average. We will continue to monitor performance trends, and where appropriate will work with the investment manager to ensure the Fund is well positioned to perform in line with both its objectives and any performance comparator or benchmark.

16 May 2023