



Annual Assessment of Value Statement as at 31 January 2024

VT Munro Smart Beta UK Fund

Fund Information

Investment Manager:	Valu-Trac Investment Management Limited (Valu-Trac)
Authorised Fund Manager:	Valu-Trac Investment Management Limited (Valu-Trac)
Investment Objective:	The objective of the VT Munro Smart-Beta UK Fund (the "Sub-fund") is to replicate the performance (before fund fees and expenses) of the Elston Smart-Beta UK Dividend Index.
Investment Policy:	<p>The Sub-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").</p> <p>In seeking to achieve the objective the Sub-fund intends to use sampling techniques (as opposed to fully replicating the Benchmark Index), and it is therefore not expected that the Sub-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 Sub-fund holds some cash which the Benchmark Index may not to ensure adequate liquidity).</p> <p>As the Sub-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 Sub-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 Sub-fund and the Benchmark Index (12pm).</p> <p>The Sub-fund may also invest in money market instruments, cash and deposits.</p> <p>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 Sub-fund may invest in other collective investment schemes which may themselves use derivatives for investment purposes.</p> <p>The Sub-fund is passively managed.</p> <p>The Sub-fund will not have any particular industry or</p>

	economic sector focus and as such weightings in these may vary as required.
AUM (£):	£47.4m
Fund Launch Date:	22/07/2007

Our assessment has been conducted against the seven criteria outlined by the FCA and the fund has been rated via the “traffic light” system. Where a fund may have more than one unit class, the rating shown for each of these seven criteria, at a total fund level, may be thought of as being as being an average rating, based upon the rating for each unit class, and according to the relative split of fund assets, between unit classes. The overall rating for the fund will generally be a simple average of these seven criteria, taken at the total fund level. This has been summarised within the table, below:

VT Munro Smart Beta UK 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	A	G	G	G
X Net Accumulation	72.2%	G	G	G	G	A	G	G	G
X Net Income	27.8%	G	G	G	G	A	G	G	G

The table below shows the overall summary for the previous assessment i.e. carried out as at 31 January 2023:

VT Munro Smart Beta UK 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	A	A	G	A	G	G	A
X Net Accumulation	84.3%	G	A	A	G	A	G	G	A
X Net Income	15.7%	G	A	A	G	A	G	G	A

The 2023 assessment used previous criteria that has since been updated as described above, and therefore the results for 2023 are not directly comparable with the updated 2024 assessment.

Previous Remedial Actions

- Performance
 - Assessed as Amber
 - 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.
- AFM Costs – General
 - Assessed as Amber
 - Although AFM costs 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.
- Comparable Market Rates
 - Assessed as Amber
 - Although 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.

New Remedial Actions

- None

Detailed Assessment

Quality of Service

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

- Investment Management services: Valu-Trac Investment Management Limited (Valu-Trac)
- Depositary services: NatWest Trustee and Depositary Services Limited
- Custodian services: CACEIS Investor Services
- External audit: Frame Kennedy Limited

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 expect.

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

Performance

Objective:

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

Constraining Benchmark:

none

Comparator Benchmark:

none

Target Benchmark:

The Elston Smart-Beta UK Dividend Index NR

Peer Group:

IA UK Equity Income Sector

Minimum Recommended Holding Period:

3 Years

Management Approach:

Smart Beta

The net total return and peer ranking (where available) for each available unit 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)	3 years Peer Rank
Benchmark	0.1%	11.4%	-
X Gross Accumulation	0.9%	11.1%	-
X Net Accumulation	-0.1%	9.8%	Highest 17%
X Gross Income	0.9%	11.1%	-
X Net Income	-0.1%	9.8%	Highest 16%

*To 31 January 2024

Total return is the actual rate of return of an investment over a period. Total return includes interest, capital gains, dividends, and realised distributions (where appropriate).

The Gross fund returns shown have been derived from the Net fund returns and have been calculated to show performance before fund fees and expenses.

Source: Morningstar / Valu-Trac

Conclusion:

 Green

The Gross total return of each unit class within the fund, is broadly in keeping with that of the target benchmark, over the minimum recommended holding period. This is also in keeping with the expectation set for customers.

The net total return of each unit class within the fund is below that of its target benchmark, over the minimum recommended holding period. In mitigation, the Smart Beta UK Dividend strategy which the fund follows, and which is exemplified by the target benchmark, has led the fund to be ranked favourably against peers, over the minimum recommended holding period.

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 a Fund of this type (further details on how the AFM arrived at this conclusion may be provided upon request).

The Munro fund is designed to closely track the Elston Smart Beta UK Dividend Index. This index is designed to allow a rules-based implementation of an active investment approach. This is often described as 'smart beta' and straddles elements of pure passive management and active management. As such both performance comparisons should lie somewhere between a pure passive (such as a FTSE 100 tracker) and an unconstrained active fund. We have made our performance assessment and selected the peer group accordingly. We have undertaken analysis to compare to other 'smart-beta' products, but view on balance a comparison to the entirety of the market, represented by the IA UK Equity sector to remain appropriate.

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

AFM Costs - General

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

The current AMC of each unit 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	0.82%	-
X Net Accumulation	0.24%	Lowest 10%
X Net Income	0.24%	Lowest 10%

Source: Valu-Trac / Morningstar

Conclusion:

 Green

The Investment Management Fee and 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; this is the threshold above which, we generally consider it 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 Ongoing 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)	2022	2023	Current	
				Peer Rank
Peer Group			0.89%	-
X Net Accumulation	1.36%	1.07%	0.79%	Lowest 40%
X Net Income	1.36%	1.07%	0.79%	Lowest 40%

Source: Morningstar

Although the fees may be viewed as relatively high for a 'passive' fund, the index tracked goes beyond a simple weighting methodology and straightforward passive style. The index is designed to allow a rules-based implementation of an active investment approach. This is often described as 'smart beta' and straddles elements of pure passive management and active management. As such cost comparisons should lie somewhere between a pure passive (such as a FTSE 100 tracker) and an unconstrained active fund.

An index licencing fee of 0.60% is payable to the sponsor Elston Consulting and is included in the Ongoing Charges Figure (OCF). This accounts for a substantial proportion of the OCF, however the AFM takes a lower fee than the headline 0.50% Annual Management Charge (in practice this has been around 0.24% based on average assets under management during the period) and unitholders benefit from lower costs overall on this basis.

We have made our performance assessment and selected the peer group accordingly. We have undertaken analysis to compare to other 'smart-beta' products, but view on balance a comparison to the entirety of the market, represented by the IA UK Equity sector to remain appropriate.

Conclusion

 Amber

Unitholders are currently paying an OCF lower than the market average for similar funds. The current OCF is subject to a recently introduced fee cap. The Fund Sponsor Elston Consulting has supported a voluntary OCF cap of 0.99% to 31 January 2023, after which date they then further supported the OCF cap down to 0.79%. Investors should note that the Fund Sponsor can remove OCF cap support without notice.

Although the OCF is lower than the market average for similar funds, the index licencing fee of 0.60% accounts for a substantial proportion of the OCF and therefore it is higher against peers that otherwise would be the case. However, the AFM takes a lower fee than the headline 0.50% Annual Management Charge (in practice this has been around 0.24% based on average assets under management during the period) and unitholders benefit from lower costs overall on this basis.

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

Comparable Services

Valu-Trac act as AFM for three funds for which Elston Consulting Limited are the index provider and sponsor. 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 a single asset class fund. Differences between such funds, in terms of their management approach anticipated risk profile, notwithstanding, this fund is priced consistently with other funds within that 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 unit class in this fund (albeit having an Accumulation and Income variant) and all investors are offered the same level of service; therefore, all unitholders 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

 Green

The Munro fund is designed to closely track the Elston Smart Beta UK Dividend Index. This index is designed to allow a rules-based implementation of an active investment approach. This is often described as 'smart beta' and straddles elements of pure passive management and active management. As such both performance and cost comparisons should lie somewhere between a pure passive (such as a FTSE 100 tracker) and an unconstrained active fund.

The Elston Smart Beta UK Dividend Index is constructed using a combination of active investment decisions, namely a committee composed of members of Elston Consulting is responsible for decisions regarding the composition of the index. The decision making process of this committee follows the following steps:

1. Start with all UK based stocks as defined by a passive index
2. Remove stocks for certain technical reasons (liquidity, size etc)
3. Select universe and weights based on forward looking systematic model forecasting dividends

The weights are then adjusted accordingly to ensure compliance with the regulatory rules, such as the UCITS spread rules.

This process is undertaken each month.

Therefore we view the index construction as analogous to an active fund. We have undertaken analysis to compare to other 'smart-beta' products, but view on balance a comparison to the entirety of the market, represented by the IA UK Equity sector to remain appropriate.

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

The AFM has concluded that the unitholders within the VT Munro Smart Beta UK Fund are receiving good value, overall.

01/07/2024