VT Teviot UK Smaller Companies Fund

Monthly Fact Sheet – **March 2020**

TEVIOT PARTNERS
investment managers

Key Facts

Launch Date: 29.08.17 | **Fund Size:** £59m

	Accumulation	**Income**
Price at 31.03.20 (12:00)	94.4965p	89.7934p
Sedol	BF6X212	BF6X223
ISIN	GB00BF6X2124	GB00BF6X2231

Annual Management Fee	0.75%
Ongoing Charges	0.88%
Minimum Investment	£1,000
Dilution Levy: *(effective 1 April 2020)*	Purchases: 2.09% Redemptions: 1.81%

Dilution levy is updated monthly. For more information visit www.teviotpartners.com

Summary Investment Objective

The objective of the fund is to achieve a total return (of growth and income, after fees) greater than the Numis Smaller Companies Index (including AIM but excluding Investment Companies).

Fund Attributes

- A value investment style
- Small unit size of investment confers a significant advantage in an illiquid asset class
- Broad and diverse investment universe
- Invest in circa 1 in 9 companies of the available universe
- Active Share 88%
- Bottom up driven with an asset allocation overview

Monthly Manager Commentary

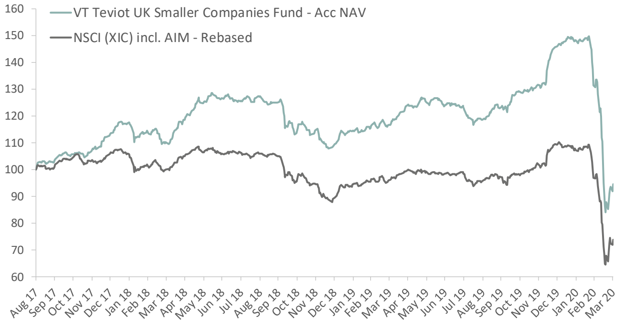
As governments sequentially moved into lockdown to counter the spread of coronavirus, global capital markets wrestled with the economic implications. For the majority of companies, the outlook has materially changed as we work hard to understand the duration and consequences of the lockdown.

For UK smaller companies as an asset class, it was a particularly difficult month with the NSCI (XIC+AIM) falling by 23.9% and 32.7% in the year to date. The underperformance of small companies relative to larger companies is typical during periods of risk aversion. Small companies tend to carry a higher domestic focus, with less access to capital and sterling weakness providing a further headwind. The severity of the correction should be put into some historical context. Over the 65 year history of the NSCI, only two years have recorded falls of greater magnitude: 1974 -49.9% and 2008 -45.6%. The rapid spread of coronavirus is unprecedented. It is widely assumed that we will overcome the virus but the principal question surrounds the timeframe. The crisis brings varying degrees of demand, supply and financial challenge depending on company and sector.

The Fund has underperformed the benchmark index over the month and the year to date. There are some clear themes to explain the relative performance. The Fund performed strongly until the end of January, positioned for improving UK economic sentiment following the decisive election result; optimism that is now more challenged. The most significant theme has been the decision of the majority of companies to suspend dividend payments. For most companies this is a sensible and pragmatic decision in a world that, in the short term, has become impossible to forecast. By preserving cash they improve their chances of emerging on the other side. At the end of January 2020, Teviot estimated that approximately 21% of its portfolio was nil yielding. By the end of March, we are expecting the majority of companies to be nil yielding in the current year but would expect dividends to resume swiftly as companies regain visibility of their prospects. Income as a reliable gauge of value has been temporally suspended.

continued/

Performance



Returns (%)	1 m	3 m	6 m	YTD	12 m	Since Launch
The Fund	-28.0%	-35.3%	-23.4%	-35.3%	-18.9%	-5.5%
NSCI (XIC) incl. AIM	-23.9%	-32.7%	-24.2%	-32.7%	-23.2%	-26.4%

Yearly Discrete Returns (%) - To End Q1	2019	2018
The Fund	-18.9%	5.9%
NSCI (XIC) incl. AIM	-23.2%	-4.1%

Past performance is not necessarily a guide to future performance.
Fund launched on 29 August 2017.
Fund performance is illustrated by the Accumulation Share Class NAV.
Discrete performance is updated on a calendar quarter basis and reflects all available discrete periods since launch.

Monthly Manager Commentary (continued)

As in 2008, The Market was quick to target the vulnerability of companies with high leverage. Some of our biggest losers over the month fell into this category; among them Mothercare and Countrywide. Teviot's analysis estimates that approximately 36.8% of the portfolio has net cash at 31 March 2020 and only 8.5% of the portfolio had debt:ebitda(19) in excess of two times, most with significant asset backing. The outlook for 2020 Ebitda is uncertain and some investee companies will move to strengthen their balance sheets through this period. The experience of 2009 suggests this is not insurmountable and after the share price falls it will create opportunities.

The NSCI publishes data on style returns illustrating the divergence between value and growth, with value underperforming by an unprecedented 1380bps over the month. The methodology is single factor rather than multi factor but nonetheless illustrates a significant polarization, arguably capitulation. Size positioning also worked against us during March with the NSCI estimating that the smaller constituents underperformed larger constituents by 800bps. Much of the volatility in the market is played out in more liquid mid-cap names within our universe. It serves to widen the value gaps and a resumption of corporate activity feels only a matter of time.

We are fortunate that being relatively small we can adjust the portfolio to the new challenges. We moved to reduce some more leveraged holdings early in the correction. Our stronger performing holdings were companies that were able to confirm little discernable impact from coronavirus, the relative winners being Future and Ergomed. The Fund has run with a higher than normal level of liquidity during this period to retain flexibility and be in a position to take opportunities. Cash at the month end was 7.9%.

Teviot has to calibrate risk and reward, to construct a portfolio that captures the best opportunities looking forward. Much hinges on the duration of the lockdown and associated economic disruption. The temptation can sometimes be to construct the portfolio that would have served us well eight weeks ago, reflecting the risk averse consensus. Without being reckless, we should be looking beyond the short term, targeting good companies trading materially below their long-term intrinsic value.

VT Teviot UK Smaller Companies Fund

Top 10 Holdings as at 31/03/20

Holding	*Sector*	*% of portfolio*
1. Future	Digital Media	3.2
2. Eurocell	Building Materials	2.3
3. Drax Group	Electricity Provider	2.2
4. Randall & Quilter	Non-Life Insurance	2.2
5. Ergomed	Pharmaceutical Services	2.1
6. Studio Retail Group	Online Retail	2.0
7. IG Design Group	Giftware Manufacturer & Designer	1.9
8. Caretech Holdings	Specialist Care Services	1.9
9. Renewi	Waste Services	1.8
10. Anglo Pacific Group	Mining Royalties	1.8
Total		21.4

Market Cap Breakdown

	% of Portfolio	*No. of Stocks*
Above £1bn	1.1	1
£500m - £1bn	19.1	13
£250m - £500m	20.8	16
£100m - £250m	32.2	26
Below £100m	18.9	28
Cash	7.9	
Total	100.0	84

Listing	%
Main	57.6
Aim	34.5
Cash	7.9

How to Invest

Details of how to invest in the VT Teviot UK Smaller Companies Fund are available from our website: www.teviotpartners.com

Application forms and other supporting documents are also available at:
www.valu-trac.com/teviot
+44 (0)1343 880344

Platforms

AJ Bell
Allfunds
Aviva
Hargreaves Lansdown
Interactive Investor
Pershing
Transact
7IM

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Fund Managers

Andy Bamford
Andy has a 27-year track record of investing in UK smaller companies, running large and prestigious mandates.

He is a trained accountant who worked with General Accident and Edinburgh Fund Managers before joining Aberforth Partners in 2001 where he became a partner. Aberforth is a respected value investor and Andy had a successful 15-year career with the firm. Passionate about investing in small companies, Andy set up Teviot Partners in November 2016.

Barney Randle
Barney has a 24-year career working for a variety of investment banks including Merrill Lynch, JP Morgan and latterly Arden Partners.

He has always specialised in UK smaller companies and enjoys a strong reputation for original and rigorous investment analysis. His non-consensual and value orientated approach was well received by some of the largest and most successful investors in the asset class.

Important Information / Risk Warnings

This fund invests in smaller companies and carries a higher degree of risk than funds investing in larger companies. The shares of smaller companies may be less liquid and their performance more volatile over shorter time periods. The fund can also invest in smaller companies listed on the Alternative Investment Market (AIM) which also carry the risk described above.
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The Fund is subject to normal stock market fluctuations and other risks inherent in such investments.
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