

VT Teviot UK Smaller Companies Fund

Monthly Fact Sheet – September 2022



Key Facts		
Launch Date: 29.08.17	Fund Size: £64m	
Price at 30.09.22 (12:00)	Accumulation 159.1919p	Income 146.1950p
Sedol	BF6X212	BF6X223
ISIN	GB00BF6X2124	GB00BF6X2231
Annual Management Fee	0.75%	
Ongoing Charges	0.85%	
Minimum Investment	£1,000	
Dilution Levy: (effective 1 October 2022)	Purchases: 1.62% Redemptions: 1.28%	
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 83%
- ❖ Bottom up driven with an asset allocation overview

Objectives and Investment Policy

The investment objective of the VT Teviot UK Smaller Companies Fund is to achieve a total return (of growth and income, after fees) greater than the Benchmark Index over the long term. The Benchmark Index is the Numis Smaller Companies Index (including AIM but excluding investment companies).

The Fund will seek to achieve its investment objective by investing in a diversified portfolio of companies which shall primarily consist of small UK quoted companies. Small companies are those having a market capitalisation, at the time of purchase, equal to or lower than the largest company in the Numis Smaller Companies Index (including AIM but excluding investment companies).

The Manager actively manages the portfolio in order to achieve the objective and will not be restricted in respect of investments by industrial sectors.

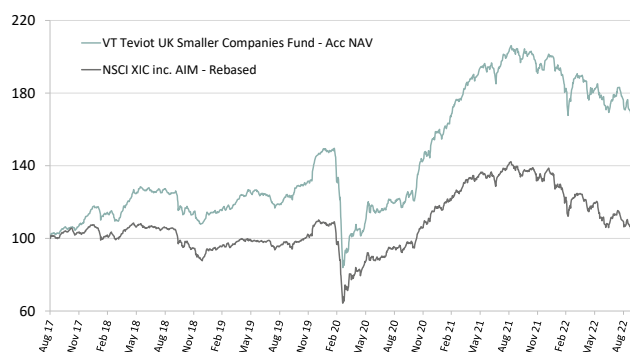
In addition to equities, the asset classes in which the Fund may invest includes transferable securities, units in collective investment schemes, money-market instruments, cash and near cash and deposits

The Fund will not invest in any immovable property or tangible movable property. The Fund may hold derivatives for efficient portfolio management purposes. It is not intended that the use of derivatives for efficient portfolio management purposes will increase the risk profile of the Sub-Fund. The Fund's base currency is Pounds Sterling.

If you hold income shares any income from the Fund may be paid out to you. If you hold accumulation shares, any income from the Fund will be re-invested to grow the value of your investment. You can buy and sell shares on any business day.

As indicated above, the Fund aims to achieve a total return over the longer term. Nevertheless capital is in fact at risk and there is no guarantee that a total return will be achieved over that specific, or any, time period. For full investment objectives and policy details, please refer to the Prospectus.

Performance



Returns (%)	1 m	3 m	6 m	1 Year	3 Years	Since Launch
The Fund	-8.3%	-8.4%	-15.7%	-21.5%	+29.0%	+59.2%
NSCI (XIC) incl. AIM	-7.7%	-7.1%	-18.5%	-26.9%	+3.5%	+0.6%

12 months Discrete Returns (%) – To End Q3

	2022	2021	2020	2019	2018
The Fund	-21.5%	+70.3%	-3.5%	-1.3%	+20.4%
NSCI (XIC) incl. AIM	-26.9%	+45.7%	-2.8%	-7.3%	+3.0%

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.

Quarterly Manager Commentary

Stock market volatility showed no sign of relenting in Q3. In addition to the unsettling global backdrop (Ukraine war, energy price rises, inflation, rising interest rates and expectations of recession), UK political instability added further downward pressure. The late-September “mini-budget” served to weaken Sterling and drive up gilt yields, as the deteriorating fiscal position called into question the Government’s economic competence. It is to be hoped that this proves cathartic – the subsequent backtrack by the Chancellor has at least provided an early-October rally in both Sterling and the stock market.

Against this background, there were falls in both the Fund and its NSCI index benchmark (the Numis Smaller Companies Index plus AIM, excluding Investment Companies) during this period. A rally in July was given back in August, followed by a larger fall in September. In aggregate the Fund was down 8.4%, underperforming the Index which fell 7.1%. However, after 9 months of 2022 the Fund is materially out-performing the Index (-20.2% versus -27.0%) which provides some comfort.

Clearly, investor sentiment remains weak. UK large caps have fallen less than small caps, illustrating a reduced risk appetite as well as the more defensive exposures of large caps (Tobacco, Pharma, Utilities etc) and exposure to the “megacap” Energy stocks. In contrast, small caps are generally more cyclical and domestic-oriented, particularly to the UK consumer. In many cases however, valuations are discounting a severe reduction in earnings.

Our focus continues to be on investing in companies with robust franchises that are resilient given the economic uncertainty. We are avoiding stocks with high financial leverage and those that do not have the pricing power to offset inflationary pressures (whether from input costs, wages or energy bills). Our “value” bias should keep serving us well in a world of rising interest rates, as “growth” companies struggle to justify their high multiples and need to adjust their strategies in order to generate cash. In a world where national security and energy security will remain high on the agenda, our exposures to energy producers, power generators and defence stocks should serve us well. However, given that we prioritise liquidity at all times, we are seeking to take advantage of oversold situations (perhaps caused by other funds having to sell due to redemptions), and will be seeking - selectively - to rotate our capital into cyclical recovery as the outlook stops deteriorating. As the impact of the Covid pandemic recedes, we are at least seeing improvements in global supply chains which will hasten recovery when it comes.

History shows us that bear markets in UK small caps can be followed by rapid recoveries. Recent examples would be 2002-06 and 2008-10. In 2002 our NSCI benchmark fell 24%. It then rose 43% in 2003, 21% in 2004, 25% in 2005 and 22% in 2006. In 2008, the Global Financial Crisis led to the Index falling 48%. It then rallied a remarkable 61% in 2009 and then rose another 32% in 2010. We would expect to see a resumption of small cap outperformance of large caps in the coming years.

Key contributors to the Fund’s performance in Q3 were holdings in RPS, Serica Energy, Energean and Wilmington. RPS Group generated a return of 120% after it received 2 recommended takeover approaches. Serica and Energean continued to benefit from selling gas at elevated prices, whilst business data, information and training provider Wilmington maintained its track record of strong results and earnings upgrades. Relative to the Index the Fund benefited from not owning Hilton Foods (-48%), Mitchells & Butlers (-38%) and Alliance Pharma (-51%), all of whom suffered profit warnings. In contrast, the Fund’s performance was hindered by the falls in Sabre Insurance (-52%) and Atalaya Mining (-40%) – both suffered earnings downgrades – and by not owning Micro Focus (takeover approach, +90%) and Network International (reassuring results and buybacks, +60%).

Sectorally, the Fund benefited most from its overweight exposure to Support Services, but was hurt by its overweight in Industrials. The underweights in Financials and Technology were also detrimental.

Finally, we were delighted that in July we won Investment Week’s “Fund Manager of the Year Award 2022” in the UK Smaller Companies category. Then in August the fund passed its five-year anniversary – generating a total return for our investors of +76% in that period - and is ranked very highly in the performance table versus its peer group UK Small Cap funds over that time. The team is looking forward to the next five years!

VT Teviot UK Smaller Companies Fund			Market Cap Breakdown		
Top 10 Holdings as at 30/09/22			% of Portfolio No. of Stocks		
Rank	Holding	Sector	% of Portfolio	No. of Stocks	
1.	Drax	Electricity Provider	2.9	13	Above £1bn
2.	Energean	Oil & Gas Producer	2.7	12	£500m - £1bn
3.	Mears Group	Property Management & Maintenance	2.3	24	£250m - £500m
4.	RPS Group	Support Services	2.1	30	£100m - £250m
5.	Renewi	Waste Services	2.1	18	Below £100m
6.	Serica Energy	North Sea Oil & Gas Producer	2.0	3.2	Cash
7.	Wilmington	Information, Training & Education Solutions	1.9		
8.	EMIS Group	Software	1.9		
9.	Rathbones Group	Wealth Manager	1.8		
10.	Capricorn Energy	Oil & Gas Producer	1.7		
Total			21.4		Total
			Total		
			100.0		
			97		
Listing		%			
Main		66.4			
Aim		30.4			
Cash		3.2			

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

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Platforms

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

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Fund Managers



Barney Randle,
Partner

Barney has a strong c.5 year performance record managing the VT Teviot UK Smaller Companies Fund since launch in August 2017. UK Smaller Companies has been his area of focus for 27 years, initially advising investors and corporates on the sell side where he specialised in original and rigorous investment analysis, and where he developed a deep understanding of the implications of liquidity in an illiquid asset class.



Dan Vaughan,
Partner

After graduating from Oxford University, Dan specialised in UK Smaller Companies in the mid-1990s at Aviva. He then spent 13 years managing UK Smaller Companies pension and life funds at Colombia Threadneedle, of which the final 7 years were as Head of Team. Dan joined Teviot in May 2021 and acceded to Partner in January 2022.

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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