

Assessment of Value - SVS Church House Investment Grade Fixed Interest Fund

In line with the provisions contained within COLL 6.6.20R, the Board of Smith & Williamson Fund Administration Limited ('SWFAL') as the Authorised Fund Manager (AFM), has carried out an Assessment of Value for SVS Church House Investment Grade Fixed Interest Fund ('the Trust'). Furthermore, the rules require that SWFAL publishes these assessments.

A high-level summary of the outcome of SWFAL's rigorous review of the Trust for the year ending 31 March 2020, using the seven criteria set by the FCA is set out below:

1. Quality of Service	
2. Performance	
3. AFM Costs	
4. Economies of Scale	
5. Comparable Market Rates	
6. Comparable Services	
7. Classes of Units	
Overall Rating	

SWFAL has adopted a traffic light system to show how it rated the funds:

-  Fund provides good value.
-  Fund provides value but merits some action or further monitoring.
-  Fund does not provide good value.

How SWFAL assessed each of the seven criteria and the rating arrived at are discussed in greater detail on the following pages.

SWFAL has created an Assessment of Value Committee ('AVC'), for the review, challenge and approval of all the funds' Assessments of Value. Ultimately the assessment will be subject to scrutiny by the SWFAL Board (which includes independent directors) to ensure the outcomes of the assessments are clear and fair, before final sign-off by the chair of the SWFAL Board prior to communicating to investors if the fund has delivered value, and if not, where improvements need to be made.

In carrying out the assessment, the SWFAL AVC has separately considered, for each class of units within the trust, the following seven criteria stipulated by the FCA. The Committee may also have considered other issues where it was deemed appropriate.

SWFAL believes the Assessment of Value can make it easier for investors to both evaluate whether the fund is providing them with value for money and make more informed decisions when choosing investments.

The seven criteria are:

- (1) Quality of service - the quality of every aspect of the service provided, including, for example, accounting, administration, customer services and communications;
- (2) Performance - how the fund performed, including whether it met targets and objectives, kept to relevant policy, followed relevant principles, kept to reasonable timescales;
- (3) Fund manager costs - the fairness and value of the fund's costs, including entry and exit fees, early redemption fees, administration charges;
- (4) Economies of scale - how costs have been or can be reduced as a result of increased Assets under Management ('AUM'), and whether or not those savings have been passed on to investors;
- (5) Comparable market rates - how the costs of the fund compare with others in the marketplace;
- (6) Comparable services - how the charges applied to the fund compare with those of other funds administered by SWFAL;
- (7) Classes of units - the appropriateness of the classes of units in the fund for investors.

Assessment of Value - SVS Church House Investment Grade Fixed Interest Fund (continued)

1. Quality of Service

What was assessed in this section?

Internal Factors

SWFAL, as AFM, has overall responsibility for the Trust. The Board assessed, amongst other things; the day-to-day administration of the Trust; maintenance of scheme documentation (such as prospectuses and key investor information documents (KIIDs)), valuing and pricing units, calculating income and distribution payments, maintaining accounting and other records, preparing annual audited and half-yearly Report & Accounts, performing a review of tax provisions and submitting tax computations to HMRC, maintaining a register of unitholders, dealing and settlement. SWFAL delegates the investment management of the Trust to an Investment Management firm.

The Board reviewed information provided by SWFAL's control functions on the adequacy of its internal services, including governance, operations and monitoring. Elements important to the client experience such as the timely payment of settlement and distribution monies were also reviewed. Over the past year, SWFAL has been audited by internal and external auditors, the Trustee and various SWFAL delegated investment managers.

External Factors

The SWFAL Board assessed the skills, processes, experience, level of breaches and complaints. Also considered were any results from service review meetings as well as the annual due diligence performed by SWFAL on the delegated Investment Manager, Church House Investments Limited.

The Board also considered the nature, extent and quality of administrative and unitholder services performed under separate agreements covering trustee services, custodians, as well as services provided with regard to both audit and legal functions.

What was the outcome of the assessment?

Internal Factors

The Board recognised that all distribution and settlement monies were paid in a timely manner and that there were no significant findings as a result of the various audits performed on SWFAL during the year. The Board concluded that SWFAL carried out its duties diligently.

External Factors

The Board concluded that the nature, extent and quality of the services provided by the external parties have benefited and should continue to benefit the Trust and its unitholders.

Were there any follow up actions?

There were no follow-up actions required.

2. Performance

What was assessed in this section?

The Board reviewed the performance of the Trust, after the deduction of all payments out of the scheme property as set out in the Prospectus. Performance is considered over appropriate timescales having regard to the Trust's investment objective, policy and strategy. The Board also considered whether an appropriate level of market risk has been taken.

Investment Objectives

The objective of the Trust is to secure a high level of income through investment principally in investment grade corporate bonds, United Kingdom Government Gilts and supra-national issues.

Benchmark

The FCA introduced significant changes in relation to benchmarks in August 2019.

As AFM, SWFAL were required to explain in a fund's scheme documentation why a benchmark is being used or alternatively explain how investors should assess performance of a fund in the absence of a benchmark.

The benchmarks that have been agreed for the Trust are the ICE BofAML Sterling Corporate & Collateralised (7-10Y) and the IA £ Corporate Bond, both of which are comparators. A 'comparator' benchmark is an index or similar factor against which an investment manager invites investors to compare a fund's performance. Details of how the Trust has performed against its comparator benchmarks over various time periods can be found below. The comparator benchmarks were introduced during 2019 and have been backdated for illustrative purposes.

Assessment of Value - SVS Church House Investment Grade Fixed Interest Fund (continued)

2. Performance (continued)

Benchmark (continued)

Cumulative Returns to 28 February 2020

Unit Classes	YTD	1 Year	3 Year	5 Year	10 Year
SVS Church House Investment Grade Fixed Interest Fund Accumulation	0.5%	4.9%	6.7%	13.1%	57.9%
SVS Church House Investment Grade Fixed Interest Fund Income Units	0.5%	4.9%	6.8%	13.2%	57.9%
SVS Church House Investment Grade Fixed Interest Fund XL Income Units*	0.0%	4.9%	n/a	n/a	n/a
ICE BofAML Sterling Corporate & Collateralised (7-10Y)(AA)	2.3%	7.6%	10.4%	24.0%	78.8%
IA £ Corporate Bond	2.2%	9.9%	13.4%	24.1%	80.6%

You should be aware that past performance is not a guide to future performance.

Performance has been calculated net of fees.

Source: Morningstar/Smith & Williamson

* XL Class launched in July 2018.

What was the outcome of the assessment?

The Board observed that the Trust's performance was below that of its comparator benchmarks over all time periods under consideration, however, once consideration was given to; the risk adjusted returns versus that of the sector average; the low volatility of the Trust, the consistent, albeit low, level of income disbursed; and Church House's focus on high quality investments, the Board were of the opinion that the performance of the Trust did not give cause for concern at this stage.

However, in spite of delivering a consistent level of income, the Board found that the Trust's investment objective to secure 'a high level of income' was not being met and as a result this section has been Amber rated.

Were there any follow up actions?

SWFAL have engaged with Church House with a view to ensuring that the prospectus wording more accurately reflects the level of income capable of being generated by the Trust.

3. AFM Costs

What was assessed in this section?

The Board reviewed each separate charge to ensure that they were reasonable and reflect the services provided. This includes investment management fees, annual management charge ('AMC'), Trustee/Custodian fees, legal fees and audit fees.

The charges should be transparent and understandable to the investor, with no hidden costs.

What was the outcome of the assessment?

The Board observed that Church House Investments Limited do not charge a separate in-house portfolio management fee or internal platform fee for clients invested in their own trusts. Instead, the cost of these services is included within the trusts themselves which SWFAL have then taken into consideration when comparing them on a like-for-like basis with other similarly run funds. Once this had been done the Board concluded that they were fair, reasonable and provided on a competitive basis.

Were there any follow up actions?

There were no follow-up actions required.

4. Economies of Scale

What was assessed in this section?

The Board reviewed each separate fee structure and the assets under management (AUM) of the Trust to examine the effect on the Trust to potential and existing investors should the Trust increase or decrease in value.

What was the outcome of the assessment?

As the Trust's AUM grows, investors pay proportionally less for the fixed costs of running the Trust as SWFAL is able to negotiate better terms with its service providers. Similarly, as SWFAL's business grows and costs are distributed across more investors, the costs to each investor reduces. The Board continues to review the ongoing charges figure ('OCF') of all funds to ensure they are appropriate.

The Board noted that the tiered AMC structure in place allowed for further savings to be achieved in the future should the Trust grow in size.

Were there any follow up actions?

There were no follow-up actions required.

Assessment of Value - SVS Church House Investment Grade Fixed Interest Fund (continued)

5. Comparable Market Rates

What was assessed in this section?

The Board reviewed the ongoing charges of the Trust, and how those charges affect the returns of the Trust. Funds with lower fees may offer better value than those with higher fees.

Every component within the ongoing charges figure, AMC, event-based fees such as entry or exit fees, early redemption fees, performance fees and charges that relate to other ancillary services provided to the Trust was compared against the external 'market rate' of equivalent funds.

What was the outcome of the assessment?

The costs associated with the Trust were found to be in line with those of similar externally managed funds.

Note that there is not a performance fee and that SWFAL has not charged an entry fee, exit fee or any other event-based fees on this Trust.

Were there any follow up actions?

There were no follow-up actions required.

6. Comparable Services

What was assessed in this section?

The Board reviewed the OCF applied to the Trust with those of other funds administered by SWFAL having regard to size, investment objectives and policies.

What was the outcome of the assessment?

When the Trust was compared against all other SWFAL administered funds no meaningful conclusions could be drawn owing to a lack of commonality in characteristics.

Were there any follow up actions?

There were no follow-up actions required.

7. Classes of Units

What was assessed in this section?

The Board reviewed the Trust's set up to ensure that where there are multiple unit classes, unitholders are in the correct unit class given the size of their holding.

What was the outcome of the assessment?

In September 2019, SWFAL conducted a review of all unitholders on the 'Ordinary' unit class register to ensure they were invested in the correct unit class. On completion of the review it was found that all unitholders were invested in the appropriate unit class.

Were there any follow up actions?

There were no follow-up actions required.

Overall Assessment of Value

The Board noted the failure of the Trust to provide the level of income committed to within the objective but notwithstanding this concluded that SVS Church House Investment Grade Fixed Interest Fund had provided value to unitholders.

Kevin Stopps

Chairman of the Board of Smith and Williamson Fund Administration Limited

28 September 2020