

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 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, at unit class level, for the year ending 31 March 2021, using the seven criteria set by the FCA is set out below:

Criteria	Income & Accumulation Units	XL Institutional Units
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:

-  On balance, the Board believes the Trust is delivering value to unitholders, with no material issues noted.
-  On balance, the Board believes the Trust is delivering value to unitholders, but may require some action.
-  On balance, the Board believes the Trust has not delivered value to unitholders and significant remedial action is now being undertaken by the Board.

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 Trust has delivered value, and if not, where improvements need to be made.

In carrying out the assessment, the SWFAL AVC has separately considered 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 Trust 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 Trust performed, including whether it met targets and objectives, kept to relevant policy, followed relevant principles, kept to reasonable timescales;
- (3) AFM costs - the fairness and value of the Trust'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 Trust compare with others in the marketplace;
- (6) Comparable services - how the charges applied to the Trust compare with those of other funds administered by SWFAL;
- (7) Classes of units - the appropriateness of the classes of units in the Trust for investors.

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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; the maintenance of scheme documentation (such as prospectuses and key investor information documents ('KIIDs')); the pricing and valuation of units; the calculation of income and distribution payments; the maintenance of accounting and other records the preparation of annual audited and half-yearly Report & Accounts; the review of tax provisions and submission of tax computations to HMRC; the maintenance of the register of unitholders; and the dealing and settlement arrangements. 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 delegate's 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 ('Church House'), where consideration was given to, amongst other things, the delegate's controls around the Trust's liquidity management.

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. In addition, SWFAL has performed its own independent analysis, using automated software, of the Trust's liquidity. The Board concluded that SWFAL had 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, against its benchmarks, 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 had been taken.

Investment Objective

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

As AFM, SWFAL is required to explain in a Trust'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 for the Trust are ICE BofAML 7-10 Years AA Sterling Corporate & Collateralised Index and IA £ Corporate Bond sector, 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 on the next page.

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2. Performance (continued)

Benchmark (continued)

Performance Charts

Cumulative Performance

Cumulative Performance as at 28/02/2021

Instrument	Currency	1 year	3 years	5 years	28/02/2011 to 28/02/2021
IA £ Corporate Bond sector TR in GB	GBP	1.98%	13.46%	28.28%	64.98%
ICE BofAML 7-10 Years AA Sterling Corporate & Collateralised Index TR in GB	GBP	0.92%	12.15%	21.23%	70.68%
SVS Church House Investment Grade Fixed Interest Acc in GB	GBX	3.14%	8.86%	17.12%	47.67%
SVS Church House Investment Grade Fixed Interest XL Institutional Inc TR in GB*	GBX	3.28%	-	-	-

Fund data provided by FE fundinfo. Care has been taken to ensure that the information is correct but FE fundinfo neither warrants, represents nor guarantees the contents of the information, nor does FE fundinfo accept any responsibility for errors, inaccuracies, omissions or any inconsistencies herein.

Performance is calculated net of fees.

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

* unit class launched 23 July 2018.

Yield Information relating to the ordinary class.

Year	Historic Yield %
2016	1.97
2017	2.07
2018	2.03
2019	2.16
2020	2.09

What was the outcome of the assessment?

The Board initially noted the Trust's underperformance against both comparator benchmarks as well as the Trust's inability to secure a high level of income for unitholders over recent years.

SWFAL, in seeking to understand more fully the relative performance, undertook further analysis on IA £ Corporate Bond sector benchmark which evidenced that over recent years the top performing funds typically have had a far greater exposure to bonds with a lower credit rating than the Trust itself had. These high yield/junk bonds have generally outperformed those with a higher credit rating over the last five to ten years. Moreover, the Trust has been more heavily invested in shorter dated instruments than the top ranked funds in IA £ Corporate Bond sector and the performance of these has been inferior to longer dated instruments over a similar period.

The ICE BofAML 7-10 Years AA Sterling Corporate & Collateralised Index benchmark, on the other hand, is the one that best reflects the asset allocation of the Trust and where the Board noted that the Trust had underperformed over the three, five and ten year periods. However, further analysis looking at the four months succeeding the reference date up to end-June 2021, showed that the shortfall evident over the three and five year periods had narrowed significantly.

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

2. Performance (continued)

Benchmark (continued)

Separately, the Board recognised the Trust's low volatility compared to that of both the benchmarks; favourable risk adjusted returns versus that of the sector average; and focus on high quality issuance with no exposure to sub-investment grade holdings, as key characteristics which upholds Church House's ethos of capital preservation and which differentiates it from other funds in the marketplace.

Once all was taken into consideration, the Board were of the opinion that despite the Trust's inability to deliver a higher yield together with its modest overall performance, it had, for the reasons stated above, still been of value to unitholders.

That said, the Board were still mindful that the principal objective of securing a high level of income had not been met and for that reason an Amber rating was given for this section. The Board found that the Trust is investing in the asset classes permitted by the investment policy and that there have been no breaches of the policy in the last twelve months.

Were there any follow up actions?

SWFAL has engaged with Church House with a view to clarifying the Trust's objective and policy. This is expected to be completed by the end of 2021.

3. AFM Costs

What was assessed in this section?

The Board reviewed each separate charge to ensure that they were reasonable and reflected the services provided. This includes investment management fees, annual management charge ('AMC'), Trustee/Custodian 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 received and considered information about each of the Trust's costs, and 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 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 SWFAL's business grows some fees may be negotiated onto better terms with any cost reductions achieved being passed on for the benefit of unitholders.

The AMC on the ordinary class is tiered meaning that there are opportunities for further savings to be achieved in the future should this class grow in size. Additionally, the ancillary costs of the Trust which represent 4 basis points¹ may fall as the size of the Trust grows and could offer some further savings.

However, the AMC on the XL class is fixed with an embedded AFM tier within it, meaning that if this class was to grow the result would be that the delegated investment manager would receive a greater proportion of the XL class' OCF. This mechanism therefore prevents investors from participating in any possible savings that could be achieved if the XL class was to grow in the future.

Accordingly, the Board were of the opinion that the current fee structure within the XL class was not in investors' best interests and as such they concluded that further action should be taken along with Church House in order to establish a model that was better suited to achieving a more favourable investor outcome.

This section has therefore been marked as Amber in respect of the XL class.

Were there any follow up actions?

SWFAL are in discussion with Church House with a view to addressing the issue on the XL class.

^[1] One basis point is equal to 1/100th of 1%, or 0.01%

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5. Comparable Market Rates

What was assessed in this section?

The OCF is 0.83% for the ordinary unit class and 0.64% for the XL Institutional unit class².

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.

The OCF of the Trust was compared against the 'market rate' of similar external funds.

What was the outcome of the assessment?

The charges of all unit classes were found to compare favourably with those of similar externally managed funds.

Note 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 compared the Trust's OCF with those of other funds administered by SWFAL having regard to size, investment objectives and policies.

What was the outcome of the assessment?

There were too few SWFAL administered funds displaying the same characteristics as the SVS Church House Investment Grade Fixed Interest Fund against which to form a meaningful conclusion.

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?

There are two unit classes within the Trust. SWAFL conducted a review of all unitholders on the register where upon it was found that all unitholders were indeed invested in the appropriate class.

Were there any follow up actions?

There were no follow-up actions required.

^[2] Figures at interim report 30 September 2020

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

Overall Assessment of Value

The Board noted the failure of the Trust to provide the level of income committed to within the objective and acknowledged the action currently being taken to clarify the wording within the Trust's documentation.

The Board were also mindful of the issue concerning the XL class where the current fee arrangement is not suited to benefit the investors in the Trust should it grow in size.

Notwithstanding both these issues, the Board concluded that both classes of the SVS Church House Investment Grade Fixed Interest Fund had still provided value to the unitholders.

Dean Buckley

Chairman of the Board of Smith & Williamson Fund Administration Limited

28 July 2021

Consumer Feedback

On reviewing this Assessment of Value report, we would welcome invaluable feedback from investors via our short questionnaire which can be found online:

<https://smithandwilliamson.com/en/services/fund-administration/assessment-of-value/>

Investors views are invaluable to the development and delivery of this report.

Should you be unable to access the questionnaire online please contact us directly on 0141 222 1151 and we will provide you with a paper copy of the questionnaire.