

Assessment of Value - SVS Church House Balanced Equity Income 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 Balanced Equity Income 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	A Units	B 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 actions.
-  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.

Assessment of Value - SVS Church House Balanced Equity Income 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; 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 benefitted 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 Objectives

The aim of the Trust is to provide income and capital growth over the long term (at least five years).

Benchmarks

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 Trust in the absence of a benchmark.

The benchmarks for the Trust are the FTSE 350 Higher Yield Index and the IA Mixed Investment 40%-85% Shares sector, which are both comparators. A 'comparator' benchmark is an index or similar factor against which an investment manager invites investors to compare a Trust's performance. Details of how the Trust has performed against its comparator benchmarks over various timescales can be found on the next page.

Assessment of Value - SVS Church House Balanced Equity Income Fund (continued)

2. Performance (continued)

Benchmarks (continued)

Cumulative Performance (%)

Cumulative Performance as at 28 February 2021

	Currency	1 Year	3 Years	5 Years	28/02/2011 to 28/02/2021
FTSE 350 Higher Yield Index	GBP	0.41	(4.07)	25.36	56.60
IA Mixed Investment 40%-85% Shares sector	GBP	10.74	16.23	45.23	82.87
SVS Church House Balanced Equity Income Fund A accum	GBX	1.95	5.77	24.22	69.21
SVS Church House Balanced Equity Income Fund B Accum	GBX	2.63	7.83	28.25	76.79

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 shown is representative of all unit classes.

Performance is calculated net of fees.

Past performance is not a guide to future performance.

What was the outcome of the assessment?

The Board noted the existence of the Trust's two comparator benchmarks and in particular the considerable divergence between them both over the periods under observation.

Consideration was initially given to the Trust's performance against the IA Mixed Investment 40%-85% Shares sector benchmark where it was clear that returns had significantly underperformed those of the benchmark, particularly over the 3 and 5 year periods. However, further analysis undertaken by SWFAL evidenced that the constituent funds within that sector typically have a relatively high weighting to overseas equity markets, particularly the US, and therefore a lower weighting to the UK equity market. By contrast, the Trust has in excess of 70% in UK equities and cannot invest in overseas equities.

Next, the Board observed that the Trust had performed well against the FTSE 350 Higher Yield Index, over the periods under observation, however they were mindful that the Trust had significant exposure to asset classes not represented within the index.

Instead, SWFAL sought to establish a composite index that accounted for the Trust's holdings in, amongst other things, infrastructure and fixed interest securities. On completion of this exercise, it was evident to the Board that there was a far greater correlation between the Trust and the in-house composite than there was between the Trust and either of the two comparator benchmarks. This gave the Board the confidence that the Trust was performing well when compared against a more representative index and further allowed them to come to the conclusion that it was meeting its objective of combined income and capital growth.

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?

There were no follow-up actions required.

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 observed that Church House 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 the A class on a like-for-like basis with other similarly run funds. On completion of this, it was the Board's opinion that the costs associated with both the A and B class were fair, reasonable and provided on a competitive basis.

Were there any follow up actions?

There were no follow-up actions required.

Assessment of Value - SVS Church House Balanced Equity Income Fund (continued)

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?

Both the A class and B class have a fixed AMC with an embedded AFM tier within them, meaning that if the Trust was to grow, the result would be that the delegated investment manager would receive a greater proportion of the Trust's OCF. This mechanism therefore prevents investors from participating in any possible savings that could be achieved if the Trust was to grow in the future.

Accordingly, the Board were of the opinion that the current fee structure within the Trust 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 both the A and B class.

Were there any follow up actions?

SWFAL will enter into discussion with Church House with a view to establishing a more satisfactory outcome for investors.

5. Comparable Market Rates

What was assessed in this section?

The OCF is 1.75%^[1] for the 'A' unit class, 1.13%^[1] for the 'B' unit class.

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

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

What was the outcome of the assessment?

Once an allowance had been made for the fact that Church House do not charge a separate in-house portfolio management fee or internal platform fee for clients invested in their own trusts, the analysis showed that the cost of the A units was in line with the externally managed peer group. The Board also gave consideration to a recent regulatory change in cost disclosures that requires the underlying cost of holding closed ended investment vehicles be added to the Trust's overall cost. This has been accounted for within the A units but it was inconclusive as to whether the funds in the Trust's peer group had adopted a similar stance.

That being the case, the Board were comfortable that the A units were priced at a level not out of line with similar externally managed funds.

The B units, on the other hand, are not offered to Church House's in-house clients and as such do not attract the same portfolio management fee that the As do. No adjustment is therefore made when comparing them against similarly externally managed funds. Again, SWFAL found these to be in line with the Trust's peer group and with the added uncertainty surrounding whether funds in the marketplace had accounted for the cost of holding closed ended vehicles, the Board were comfortable that the B class were aligned with equivalent externally managed funds.

Please 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 was no further action required.

[1] Figures at interim report 30 September 2020. A change in cost disclosure now requires that the underlying cost of holding closed ended investment vehicles be included within the overall cost of holding the Fund which will impact the OCF.

Assessment of Value - SVS Church House Balanced Equity Income Fund (continued)

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 similar characteristics against which to make a meaningful comparison.

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 in 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.

Overall Assessment of Value

The SWFAL Board concluded that, notwithstanding the issue surrounding the fee structure on both the A and B class, SVS Church House Balanced Equity Income Fund had nevertheless provided value to unitholders.

Dean Buckley

Chairman of the Board of Smith & Williamson Fund Administration Limited

30 July 2021

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.