

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 the Authorised Fund Manager (AFM), has carried out an Assessment of Value for the SVS Church House Balanced Equity Income Fund ('the Fund'). Furthermore, the rules require that SWFAL publishes these assessments.

A high-level summary of the outcome of SWFAL's rigorous review of the Fund 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 have 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 to finally communicate 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 fund, 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 compares with others in the marketplace;

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(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.

1. Quality of Service

What was assessed in this section?

Internal Factors

SWFAL, as AFM, has overall responsibility for the Fund. The Board assessed, amongst other things; the day-to-day administration of the Fund; 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 delegate the investment management of the Fund 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 benefitted and should continue to benefit the Fund 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 Fund, 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 Fund's investment objective, policy and strategy. The Board also considered whether an appropriate level of market risk has been taken.

Investment Objectives

Provide investors with medium to long-term capital growth, with income, through investment in a portfolio of UK equities.

Benchmarks

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.

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2. Performance (continued)

Benchmarks (continued)

The benchmarks that have been agreed for the Fund are the FTSE 350 Higher Yield Index and the IA Mixed Investment 40-85% Shares 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 Fund 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.

Cumulative returns to 28 February 2020

Unit Classes	YTD	1 Year	3 Year	5 Year	10 Year	Since 30.06.14
SVS Church House Balanced Equity Income Fund A units accumulation	-9.1%	-2.5%	6.1%	17.0%	92.8%	25.3%
SVS Church House Balanced Equity Income Fund A units income	-9.1%	-2.5%	6.1%	17.0%	93.1%	25.4%
SVS Church House Balanced Equity Income Fund B units accumulation*	-9.0%	-1.9%	8.1%	21.0%	-	29.3%
SVS Church House Balanced Equity Income Fund B units income*	-9.0%	-1.9%	8.1%	19.4%	-	25.1%
FTSE 350 Higher Yield Index	-13.7%	-7.0%	-2.3%	11.2%	75.2%	13.9%
IA Mixed Investment 40%-85% Shares sector.	-4.9%	5.2%	10.8%	27.4%	87.0%	37.5%

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

Performance has been calculated net of fees.

Source: Morningstar

* B Classes launched in June 2014.

Discrete returns

Unit Classes	2019	2018	2017	2016	2015
SVS Church House Balanced Equity Income Fund A units accumulation	14.2%	-3.6%	8.3%	10.3%	2.4%
SVS Church House Balanced Equity Income Fund A units income	14.2%	-3.6%	8.2%	10.3%	2.4%
SVS Church House Balanced Equity Income Fund B units accumulation	15.0%	-3.0%	9.0%	10.9%	3.2%
SVS Church House Balanced Equity Income Fund B units income	14.9%	-3.0%	9.0%	11.0%	1.8%
FTSE 350 Higher Yield Index	14.3%	-9.2%	10.4%	25.2%	-5.5%
IA Mixed Investment 40%-85% Shares sector.	15.9%	-6.1%	10.0%	13.3%	2.8%

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

Performance has been calculated net of fees.

Source: Morningstar

What was the outcome of the assessment?

The Board found that the Fund's investment objective was being met and that the Fund is investing in the asset classes permitted by the investment policy. There have been no breaches of the policy in the last 12 months.

The Board noted that the Fund had performed well against the primary benchmark, the FTSE 350 Higher Yield Index, over the periods under observation whilst at the same time providing a reasonable level of income. It was also noted that the Fund's cumulative returns had been adversely affected by the impact of Covid-19 during the early part of 2020. The discrete returns table, however, evidences more clearly the Fund's performance over recent years less the impact of Covid-19. When all was taken into account the Board concluded that the Fund had provided value to unitholders.

Were there any follow up actions?

There were no follow-up actions required.

3. Authorised Fund Manager 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.

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3. Authorised Fund Manager Costs (continued)

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 it was the Board's opinion that each of the Fund's costs 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 Fund to examine the effect on the Fund to potential and existing investors should the Fund increase or decrease in value.

What was the outcome of the assessment?

As the Fund's AUM grows, investors pay proportionally less for the fixed costs of running the Fund 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 there the current charging structure in place meant that there were minimal opportunities for further savings going forward.

There were no follow-up actions required.

5. Comparable Market Rates

What was assessed in this section?

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

Every component within the ongoing charges figure ('OCF'), 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 Fund was compared against the external 'market rate' of equivalent funds.

What was the outcome of the assessment?

The Fund's charges 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 Fund.

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 Fund 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 Fund was compared against all other funds administered by SWFAL, 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.

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7. Classes of Units

What was assessed in this section?

The Board reviewed the Fund 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, in order to ensure unitholders were invested in the correct unit classes, SWFAL conducted a review of named investors on the 'A' unit class register. At the time of the review all unitholders were in the appropriate unit class.

However, as SWFAL is unaware of the specific investment terms for any unit holder who invests directly through an Independent Financial Advisor (IFA) or an investment platform SWFAL was unable to determine if there were any other unitholders that would be eligible for a move to the cheaper 'B' unit class.

If you are in any doubt as to which class of unit you hold and, additionally, if that holding is eligible to be moved to a cheaper unit class then please contact your IFA or investment platform.

Were there any follow up actions?

There were no follow-up actions required.

Overall Assessment of Value

The Board concluded that the SVS Church House Balanced Equity Income Fund had provided value to unitholders.

Kevin Stopps

Chairman of the board of Smith & Williamson Fund Administration Limited

18 September 2020