



# VT Gravis UK Infrastructure Income Fund

## Background note

### Investment Philosophy

The VT Gravis UK Infrastructure Income Fund 'UKIIF' has capital preservation coupled with income as its primary target. The underlying investments of the fund are securities which invest in or own contracts where the free cash flow yield is derived from either long-term contracts with the public sector for the provision of core services or from commercial entities providing core services within highly regulated and quasi monopolistic frameworks.

### UKIIF Strategy Aims

- 5% yield after charges
- Capital preservation coupled with modest capital growth
- Low volatility and correlation to other asset classes
- Inflation protection with cash flows
- Sterling denominated listed UK Infrastructure sector holdings
- Low portfolio turnover

### Key Risk Parameters for the Strategy

- Minimum of 75% of the portfolio is supported by UK Government backed cash or regulated cash flows
- Minimum of 80% of portfolio invested in completed/operational assets
- 100% allocation to sterling denominated securities
- Minimum 80% 'availability' based (rather than 'demand' based) projects. 'Demand' based projects, such as toll roads generate revenues per user. 'Availability' based assets, such as hospitals, generate revenue based upon a statutory and often UK Government backed cash flow
- Minimum of 22 holdings. As at 31st August 2017 there were 27 holdings, creating total underlying exposure to over 1,000 separate underlying projects
- Majority of cash flows linked to inflation

### The Investment Process

Investments are selected for inclusion in the Fund based upon several key factors:

- Capital preservation
- Yield sustainability
- Size/liquidity
- Inflation hedging characteristics
- Sustainable valuation
- Low relative volatility

### Sales Contacts

**William MacLeod**, Director  
07836 695442  
william.macleod@graviscapital.com

**Ollie Matthews**, Sales Director  
07787 415151  
ollie.matthews@graviscapital.com

**Robin Shepherd**, Sales Director  
07971 836433  
robin.shepherd@graviscapital.com

#### Available on the following platforms

7IM	James Hay
Aegon	Novia
AJ Bell	Nucleus
Alex	Old Mutual (Skandia)
Allfunds	OM Wealth
Alliance Trust	Parmenion
Ascentric	Pershing
Aviva	Prudential*
Axa Elevate	Raymond James
Canada Life (Dublin)*	SEB International
Cofunds	Life (Dublin)*
FNZ	SEI
Fidelity	Standard Life
FundsNetwork	Stocktrade
Fusion	Transact
James Brearley	True Potential

\*Offshore Bond wrappers

#### Suitable for:

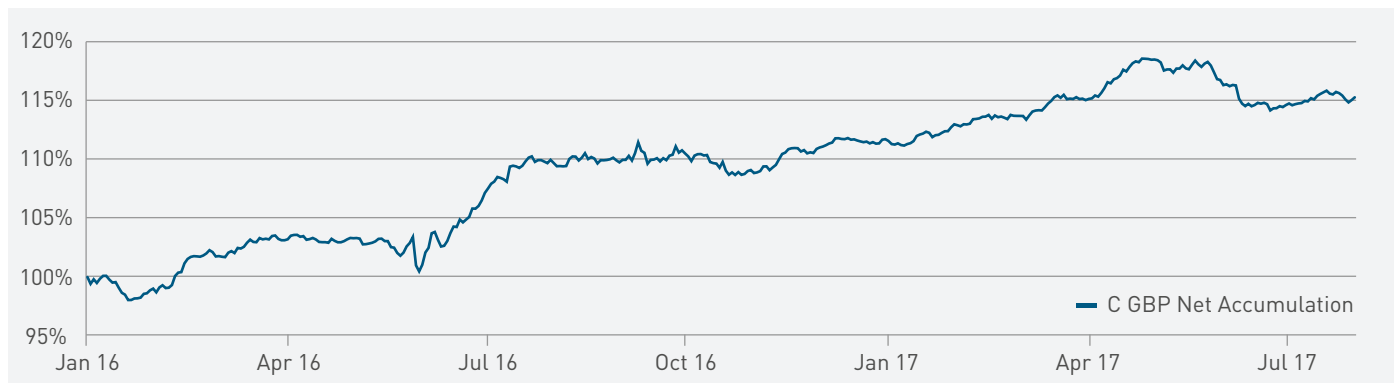
Direct investors	Offshore bonds
SIPPs	Companies
ISAs	QROPS
Charities	

# VT Gravis UK Infrastructure Income Fund

## Background Note

### UKIIF Financial Highlights – 25th January 2016 to 31st August 2017

- Assets under management of £m as at 31st August 2017
- UKIIF portfolio turnover to 31st August 2017 of 6.00%



### Dividends paid per £1,000 invested (after charges)

Dividends	May 16	Aug 16	Nov 16	Jan 17	Apr 17	Jul 17	Total Income	Total Return
UKIIF C GBP Income	£6.61	£10.99	£15.49	£12.85	£9.55	£17.35	£72.84	£1,157.47
UKIIF I GBP Income	£8.03	£11.47	£16.00	£13.33	£10.05	£17.85	£76.73	£1,158.91

### Returns indices

	Aug 17	3 Months	6 Months	12 Months	Since Inception
UKIIF*	0.58%	-2.73%	2.13%	5.44%	15.51%
MSCI UK	1.52%	0.00%	4.66%	13.93%	35.78%
MSCI World	2.46%	3.12%	4.11%	18.09%	47.57%
MSCI Global Infrastructure	2.65%	1.87%	3.05%	9.27%	35.05%
Gilts	1.50%	-0.51%	-0.12%	-4.14%	6.66%

### Correlation, Performance & Volatility Comparison

	Correlation	Return	Volatility	Yield
VT Gravis UK Infrastructure Income Fund (C GBP Acc)	—	15.5%	4.8%	5.0%
MSCI UK	0.40	35.8%	13.7%	3.9%
MSCI World	0.01	47.6%	12.2%	2.4%
MSCI Global Infrastructure	-0.02	35.1%	12.5%	3.9%
UK 10 Yr Gilts	-0.18	6.7%	6.9%	1.0%
MSCI World vs MSCI Global Infrastructure	0.82			

\* VT Gravis UK Infrastructure Income Fund GBP C Acc. Past performance is not necessarily a guide to future performance

# VT Gravis UK Infrastructure Income Fund

## Background Note

### Drawdowns

	Drawdown	Start	End	Fund During Drawdown
UKIIF*	-3.76%	25 May 17	24 Jul 17	—
MSCI UK	-8.81%	29 Jan 16	11 Feb 16	-1.84%
MSCI World	-7.54%	29 Jan 16	11 Feb 16	-1.84%
MSCI Global Infrastructure	-8.66%	17 Oct 16	14 Nov 16	-1.14%

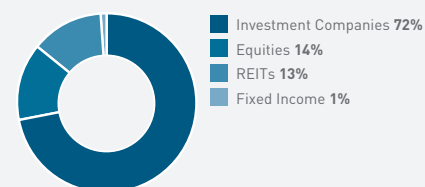
\* VT Gravis UK Infrastructure Income Fund GBP C Acc. Past performance is not necessarily a guide to future performance

### Top 10 holdings

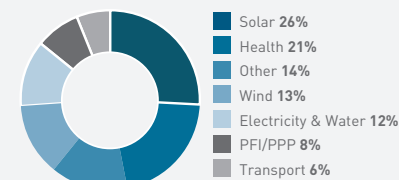
Company	%
Bluefield Solar Income Fund Ltd	9.00%
GCP Student Living PLC	2.93%
Foresight Solar Fund Limited	4.70%
GCP Asset Backed Income Fund Limited	4.03%
GCP Infrastructure Investments	8.79%
HICL Infrastructure Fund Limited	2.41%
John Laing Environmental Assets Group Limited	5.00%
John Laing Infrastructure Fund	3.08%
Medicx Fund Ltd	8.12%
NextEnergy Solar Fund Limited	4.73%

### Portfolio

#### Sectors



#### Underlying Project Exposure



# VT Gravis UK Infrastructure Income Fund

## Background Note

### UKIIF Fund Objectives

The performance objectives of the Fund are:

- to deliver a 5% income, via quarterly dividend payments;
- to preserve investors' capital throughout market cycles; and
- to offer the potential for capital growth and protection from inflation

The Fund seeks to achieve these objectives by investing in a portfolio of securities providing exposure to the UK listed infrastructure sector. The Fund invests in a range of security types, namely Closed End Investment Companies (exposed to both infrastructure and renewable energy assets), REITs, Bonds and Public Equities. In the latter case, the companies owned by the Fund are typically utilities or enterprises that provide similarly highly regulated services.

The Fund aims to achieve its objectives by investing in a diversified portfolio of holdings with a minimum of 22 underlying positions. At the end of June 2017 the Fund comprised of 29 holdings and this number ranged between 27 and 29 during the review period. Many of these holdings represent companies, which in turn are exposed to a diverse spread of infrastructure assets. This provides even greater portfolio diversification at a disaggregated level.

The Fund will typically seek to maintain a stable and consistent approach to portfolio construction. The Adviser believes that a properly constructed portfolio will perform throughout market cycles and that excessive levels of portfolio turnover will detract from performance.

### UKIIF Review H1 2017

This report is a review of the performance of the VT Gravis UK Infrastructure Income Fund (the "Fund") during the six-month period ending 30th June 2017.

The Fund's performance during the period was satisfactory and consistent with the Fund's objectives.

The C Accumulation Class shares were priced at 117.00p on 30th June 2017, which represents a positive return of 4.92% over the period. Dividends, announced in March and June, totalled 2.9376p per share for the Institutional Class and 2.8194p per share for the Clean Class.

It should be noted that dividends and coupons received from the Fund's underlying holdings do not occur in a uniform manner. Rather, payments are received in varying amounts and at varying frequencies throughout the course of the year. We anticipate higher total dividend and coupon receipts during the second half of 2017 and this underpins our confidence that the Fund will achieve its stated objective of delivering a 5% income yield for unit holders.

During the period under review portfolio turnover remained low at 3.69%.

The asset values of portfolio companies typically appreciated during the period, assisted in many cases by further reductions to the discount rate applied to future cash flows. This dynamic of steady incremental valuation uplifts is reflected in the relative price stability of the investment vehicles owned by the Fund. In turn, this supports the Fund in delivering on its objective to preserve and grow investors' capital.

The government's commitment to increasing infrastructure spend as part of a £500bn National Infrastructure and Construction Pipeline highlights the importance of the asset class to the UK economy and underpins a continued supply of investment opportunities within social and economic infrastructure. Meanwhile, returns being generated by existing assets remain attractive and the Adviser continues to perceive the market environment as being supportive of its objectives and strategy.

#### GCP Advisory Limited

Investment Adviser to the Fund

### Risks associated with investing in UK Infrastructure

**Inflation** – Infrastructure assets are expensive and are often paid for over an extended period of time, backed by public sector cashflows. Private sector infrastructure projects such as renewables are generally subsidised by Government backed subsidies. The long dated nature of these concessions exposes the recipient to the risk of inflation and to mitigate the impact, the cashflows are often linked to inflation. Government subsidies are reset annually in April, upwards only, to take account of RPI, meaning the cashflow arising increases to the equity owners. Additionally, the Net Asset Values of the equity owners inflate during periods of elevated inflation. For example, HICL assume the long term RPI rate to be 2.75% per annum. A divergence of 1% above or below will increase or decrease the Net Asset Value of the Company by 6% per annum.

Lenders to infrastructure projects benefit from 'principal indexation' using the annualised RPI or CPI figure as their benchmark. The principal of the loan can increase annually, above a pre agreed 'strike price'. The interest rate for the loan remains the same but the principal rises, ensuring the lender benefits in times of elevated inflation. These contracts are upwards only and for the life of the loan.

**Counterparty** – As with other asset classes, there is the possibility of a counterparty defaulting within an infrastructure project. However, as many projects are supported by the UK public sector, the risks are considered to be very low. Although such a default could adversely affect the income received by the fund and impact the value of the fund's assets, it is worth noting that since this form of financing was introduced in 1994, impairments and defaults have been very rare and the corresponding impact negligible.

**Regulatory** – In the UK, all projects built under the Private Finance Initiative (PFI), now called PF2, and all subsidies supporting the installation and operation of renewable energy projects are protected under the Infrastructure Act 2015. Since its introduction in the early 1990s PFI and PF2 have enjoyed the support of central Government. The Government could initiate new law amending previous Acts of Parliament, however, the Government has a stated target for expenditure of £500bn and it is anticipated that 2/3 will come from the private sector. It is considered unlikely that the Government would amend this legislation and for fear of deterring the private sector.



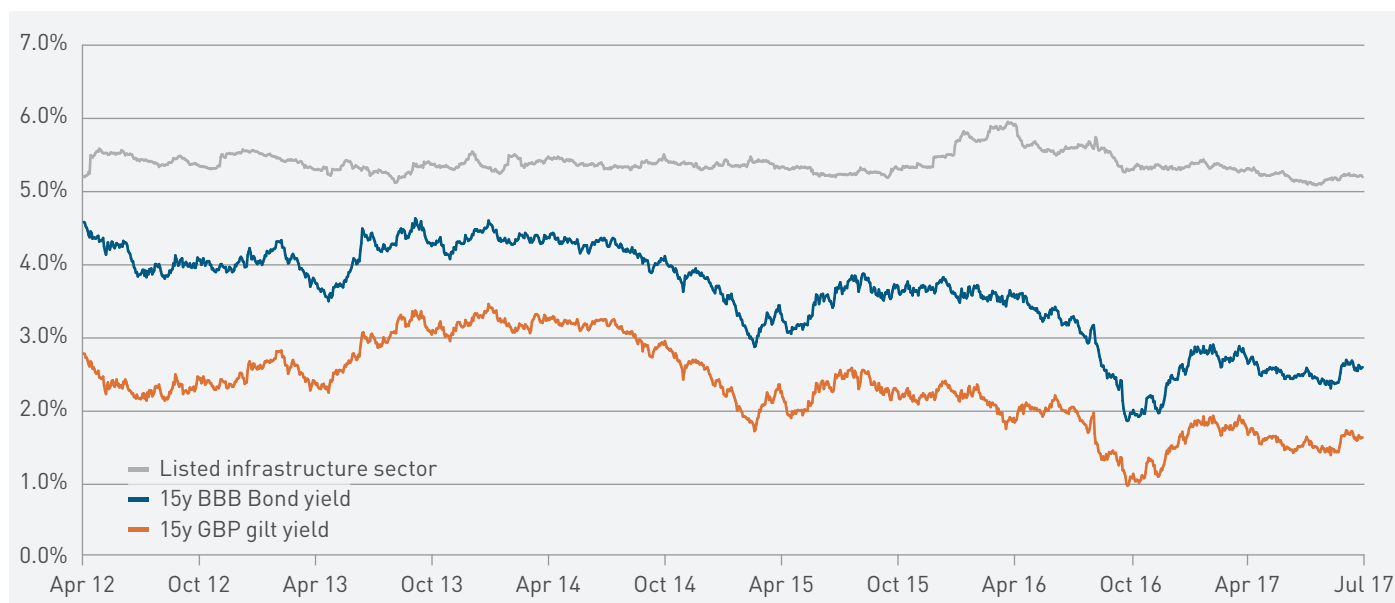
# VT Gravis UK Infrastructure Income Fund

## Background Note

### The impact of rising Government Bond Yields on the UK Infrastructure Sector

The graph below shows the historic movements of 15 year BBB GBP corporate bond yields, 15 year gilt yields and infrastructure sector yields. Whilst there is a correlation between the long dated credit markets and the infrastructure sector, there is a weaker relationship between the infrastructure sector and corporate bonds and a negative correlation to Gilts. It can be seen from the graph below that this is evident in both strengthening and weakening credit markets.

It is worth noting the current spread between gilts and infrastructure yields is high by historical standards, suggesting a 'buy signal' for the sector.



Source: Bloomberg

### Gravis Capital Management Ltd – hire of William Argent

Gravis Capital Management Ltd has strengthened the team advising the VT Gravis UK Infrastructure Income Fund with the hire of William Argent. William has been appointed Fund Advisor and brings with him 12 years' experience within the investment management industry, most recently at Tilney Group. William has a degree in mathematics from Exeter University and is a CFA charter holder.

At Tilney Group, his primary focus was the analysis and recommendation of direct equities and closed-end funds for private client portfolios. William has covered the UK-listed infrastructure universe since the asset class first emerged over 10 years ago and has supported a number of the vehicles/management teams owned within the VT Gravis UK Infrastructure Income Fund since launch in January 2016.

Stephen West, a director of Gravis Capital Management, said: **"The key to infrastructure investing lies in identifying holdings, purchasing their long dated cash flows at a competitive price and locking in for the long term. William joins a highly experienced team of infrastructure specialists who focus on the analysis, valuation & long term viability of infrastructure project cash flows, adding to their lengthy knowledge of the asset class."**

**"William's experience analysing the sector will give Gravis a wholly new perspective and we are delighted to welcome him to the company."**

\* Additional background information on Gravis Capital Management can be found on page 8.

# VT Gravis UK Infrastructure Income Fund

## Background Note

### Sector Premiums

	Price	NAV	Premiums
Bluefield Solar Income Fund Ltd	110.75	104.26	6.22%
GCP Student Living PLC	146.50	137.62	6.45%
Foresight Solar Fund Limited	109.50	104.60	4.68%
GCP Asset Backed Income Fund Limited	106.00	100.22	5.77%
GCP Infrastructure Investments	126.00	109.99	14.56%
HICL Infrastructure Fund Limited	162.60	149.00	9.13%
John Laing Environmental Assets Group Limited	107.25	100.00	7.25%
John Laing Infrastructure Fund	137.50	119.40	15.16%
Medicx Fund Ltd	89.50	73.90	21.11%
NextEnergy Solar Fund Limited	113.00	103.50	9.18%
SQN Asset Finance Income Fund Limited	98.50	98.83	-0.33%
Target Healthcare REIT Limited	119.25	101.90	17.03%
Renewables Infrastructure Group Limited	108.60	100.60	7.95%
Sequoia Economic Infrastructure Income Fund Ltd	113.75	100.11	13.63%
Greencoat UK WIND PLC	122.00	109.80	11.11%
Residential Secure Income PLC	101.25	100.00	1.25%
Average			9.38%
Portfolio Weighted Average			8.34%

### Capital Raising by UK Closed Ended Investment Companies

The VT Gravis UK Infrastructure Income Fund is managed to deliver a robust income (currently over 5% yield) and to preserve investors' capital throughout the cycle. The majority of the holdings in the Fund, and the sector, are closed ended investment companies, which collectively have experienced considerable growth over the last 2 years as a result of the issuance of new equity to fund investments and acquisitions. Since the Fund launched in January 2016, there has been c.£2.8bn of new capital attracted to the sector. In 2016, the closed ended companies in the sector raised £1.35bn and to the end of July 2017, a further £1.44bn has been raised. Invariably, this new equity is offered to investors at a discount to the prevailing price. The Fund has invested nearly £29m (over 10% of the assets under management) this way and in the process has saved investors 92bps relative to the cost of investment at the market price.

The universe in which the Fund invests is denominated in Sterling and was valued in mid-August 2017 at £109bn, down somewhat from mid-December 2016 at which point total market cap for the sector was £111bn. Notwithstanding the significant amount of issuance by the closed ended investment companies, it is the equities in the sector which have contributed the bulk of the decline, losing approximately £4.4bn of value since the middle of December 2016. Investments in equities make up 14% of the portfolio.

#### 2016

- The Fund invested £12.25m in 20 Placing Programmes, saving investors 56.9bps
- Companies in which the Fund invests raised a total of £1.35bn during the year

#### 2017

- The Fund has invested £16.32m to 31st August 2017 in Placing Programmes, saving investors 35.1bps
- Companies in which the Fund invests have raised a total of £1.44bn since the start of 2017

# VT Gravis UK Infrastructure Income Fund

## Background Note

### Price execution on capital raises

The VT Gravis UK Infrastructure Income Fund is designed and managed to deliver capital preservation and income and turnover is kept to a minimum. Many of the Companies in the sector have grown by issuing new equity at a discount to the prevailing price and the Fund has participated whenever the opportunity has arisen to add holdings at an advantageous price. Since inception, the Fund added to existing positions this way on over 30 occasions saving investors a combined 92.0 bps.

Trade Date	Stock	Price pre-announcement	Price Paid	Saving (£)	Saving (%)	Savings: bps vs closing price pre announcement	NAV on Trade Date	Premium
8 Feb 2016	DIGS	£1.38	£1.35	£0.03	2.35%	3.1	138.00	-2.17%
13 May 2016	UKWG	£1.10	£1.05	£0.05	4.33%	1.7	102.94	2.00%
17 May 2016	TRIG	£1.04	£1.01	£0.03	2.79%	1.8	96.79	4.35%
20 May 2016	DIGS	£1.37	£1.36	£0.00	0.29%	0.1	134.06	1.52%
26 May 2016	PRJC	£1.00	£1.00	£0.00	0.00%	0.0	100.00	0.00%
27 May 2016	JLEN	£1.01	£0.98	£0.04	3.58%	1.9	95.19	2.69%
8 July 2016	GCPI	£1.19	£1.17	£0.02	2.10%	3.4	106.66	9.23%
22 July 2016	NESF	£1.02	£1.00	£0.01	1.33%	0.3	98.77	1.65%
9 Sept 2016	NESF	£1.04	£1.03	£0.01	0.48%	0.2	99.07	4.22%
9 Sept 2016	FSFL	£1.04	£1.03	£0.02	1.68%	1.9	99.30	3.22%
22 Sept 2016	HICL	£1.78	£1.70	£0.08	4.71%	3.1	142.20	19.55%
23 Sept 2016	TRIG	£1.05	£1.01	£0.04	3.63%	3.9	96.06	5.14%
25 Oct 2016	FSFL	£1.05	£1.03	£0.02	1.90%	0.8	99.16	3.87%
7 Nov 2016	GABI	£1.09	£1.05	£0.04	3.69%	4.5	99.42	5.11%
18 Nov 2016	UKWG	£1.16	£1.10	£0.06	5.50%	1.9	105.72	4.05%
21 Nov 2016	NESF	£1.06	£1.05	£0.01	1.18%	0.9	100.42	4.06%
29 Nov 2016	GCPI	£1.33	£1.24	£0.09	6.79%	16.9	107.77	14.60%
5 Dec 2016	SEI	£1.08	£1.05	£0.03	2.55%	7.3	101.36	3.59%
7 Dec 2016	SQNC	£1.00	£1.00	£0.00	0.00%	0.0	100.00	0.00%
16 Dec 2016	DIGS	£1.46	£1.40	£0.06	4.27%	3.1	135.98	2.96%
8 Feb 2017	JLEN	£1.07	£1.01	£0.05	5.16%	8.7	98.47	2.57%
22 Feb 2017	DIGS	£1.43	£1.40	£0.03	2.10%	1.1	136.74	2.38%
17 Mar 2017	HICL	£1.66	£1.59	£0.07	4.33%	0.5	147.40	7.87%
27 Mar 2017	JLIF	£1.33	£1.33	£0.00	-0.06%	0.0	116.72	13.95%
29 Mar 2017	FSFL	£1.08	£1.08	£0.01	0.46%	0.7	105.60	2.04%
30 Mar 2017	TRIG	£1.07	£1.03	£0.03	3.29%	0.6	100.10	2.90%
26 May 2017	SEI	£1.12	£1.06	£0.06	5.59%	5.1	101.07	4.38%
5 June 2017	HICL	£1.74	£1.65	£0.09	5.39%	1.3	149.00	10.74%
21 June 2017	NESF	£1.15	£1.10	£0.05	4.03%	1.4	104.20	5.57%
5 July 2017	DIGS	£1.49	£1.42	£0.07	4.54%	5.6	137.00	3.65%
7 July 2017	JLEN	£1.10	£1.03	£0.07	6.58%	7.2	100.10	2.90%
14 July 2017	GCPI	£1.28	£1.24	£0.03	2.75%	3.0	110.30	12.42%
Total						92.0		

# VT Gravis UK Infrastructure Income Fund

## Background Note

### Background Information to Investment Adviser Gravis Capital Partners (GCP)

GCP Advisory Limited is owned by Gravis Capital Management Ltd, previously known as GCP LLP which was established in May 2008, as a specialist investor in infrastructure and now manages and advises over £2bn of assets in the UK, including the FTSE 250 company GCP Infrastructure Investments Limited, with market cap of over £1bn. The lead advisers are Stephen West and William Argent and the CEO of Gravis, Stephen Ellis. The company is authorised and regulated by the FCA. Gravis have won numerous awards for their alternative approach to long-term, secure, income-producing investments.

### Valu-Trac Investment Management

Valu-Trac Investment Management Limited was established as an authorised investment manager in 1989 and launched Valu-Trac Administration Services in 2010, to provide Authorised Corporate Director (ACD) and administration services to UK regulated funds and their delegated investment managers. Valu-Trac Investment Management Limited, as ACD, administers over £1.94bn of assets under management (as at 31/8/2017) and 28 staff in offices in the North of Scotland and London.

### Highland Capital Partners Ltd

Highland Capital Partners Limited ("Highland") was established in June 2009 and manages sales and marketing of the VT Gravis UK Infrastructure Income Fund. Highland has assisted in raising over £2.1bn since launch in 2009 identifying sources of new capital for IPOs, and further capital raising through C share offerings and Placing Programmes, UCIS Funds, UCITS funds, UK OEICs, VCTs and Private Equity. The company employs three distribution specialists with combined experience of over 50 years in the UK.

### Investing in UKIIF

Share Classes	Minimum		AMC & OCF	Currencies	ISINs
Clean	£1,000	Income	0.75%	£, €, \$	GB00BYVB3J98
		Accumulation	0.75%	£, €, \$	GB00BYVB3M28
Institutional	£5,000,000	Income	0.65%	£, €, \$	GB00BYVB3Q65
		Accumulation	0.65%	£, €, \$	GB00BYVB3T96

### Disclaimer

**WARNING:** The information in this report is presented by Valu-Trac Investment Management Limited using all reasonable skill, care and diligence and has been obtained from or is based on third party sources believed to be reliable but is not guaranteed as to its accuracy, completeness or timeliness, nor is it a complete statement or summary of any securities, markets or developments referred to. The information within this report should not be regarded by recipients as a substitute for the exercise of their own judgement.

The information in this report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient and is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. In the absence of detailed information about you, your circumstances or your investment portfolio, the information does not in any way constitute investment advice. If you have any doubt about any of the information presented, please consult your stockbroker, accountant, bank manager or other independent financial advisor.

Value of investments can fall as well as rise and you may not get back the amount you have invested. Income from an investment may fluctuate in money terms. If the investment involves exposure to a currency other than that in which acquisitions of the investments are invited, changes in the rates of exchange may cause the value of the investment to go up or down. Past performance is not necessarily a guide to future performance.

Any opinions expressed in this report are subject to change without notice and Valu-Trac Investment Management Limited is not under any obligation to update or keep current the information contained herein. Sources for all tables and graphs herein are Valu-Trac Investment Management unless otherwise indicated.

The information provided is "as is" without any express or implied warranty of any kind including warranties of merchantability, non-infringement of intellectual property, or fitness for any purpose. Because some jurisdictions prohibit the exclusion or limitation of liability for consequential or incidental damages, the above limitation may not apply to you.

Users are therefore warned not to rely exclusively on the comments or conclusions within the report but to carry out their own due diligence before making their own decisions.

Unless otherwise stated Equity Market price indices used within this publication are sourced or derived from data supplied by MSCI Inc 2017.

Valu-Trac Investment Management Limited and its affiliated companies, employees of Valu-Trac Investment Management Limited and its affiliated companies, or individuals connected to them, may have or have had interests of long or short positions in, and may at any time make purchases and/or sales as principal or agent in, the relevant securities or related financial instruments discussed in this report.

© 2017 Valu-Trac Investment Management Limited. Authorised and regulated by the Financial Conduct Authority (UK), registration number 145168. This status can be checked with the FCA on 0800 111 6768 or on the FCA website (UK). All rights reserved. No part of this report may be reproduced or distributed in any manner without the written permission of Valu-Trac Investment Management Limited. Valu-Trac™ is a registered trademark