GRAVIS UK INFRA

BACKGROUND NOTE 31 DECEMBER 2018

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 typically 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

- Preserve capital and protect against inflation
- Target regular income of 5% per annum after charges
- Provide low correlation with other traditional asset classes
- Capped fund charges of 0.75% (Clean) and 0.65% (Institutional) with no additional Ongoing Charges[1]

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
- Maximum 20% 'demand' based (rather than 'availability' 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, cashflow.
- Minimum of 22 holdings. As at 31st December 2018 there were 24 holdings, creating total underlying exposure to over 1,200 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:

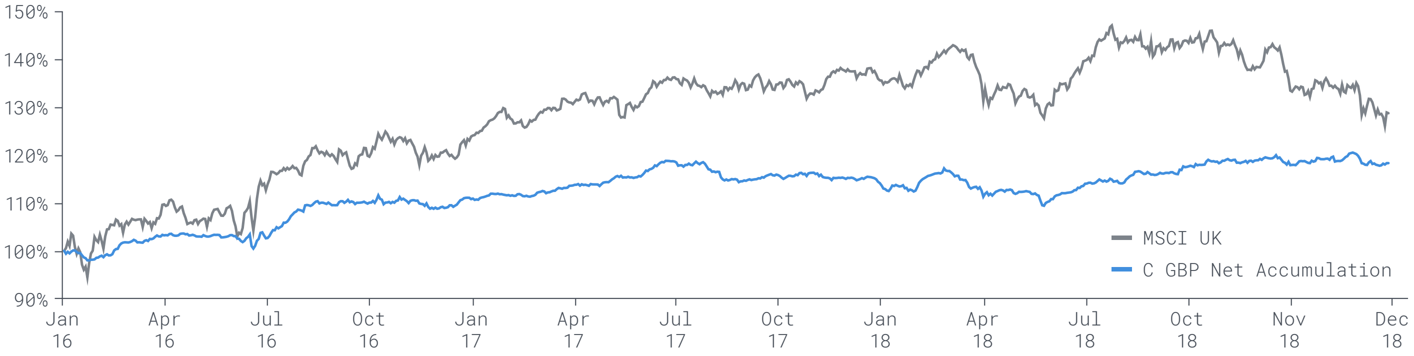
- Capital preservation
- Yield sustainability
- Size/liquidity
- Inflation hedging characteristics
- Valuation
- Low relative volatility

Company overview	
Regulatory status	FCA Authorised
Sector	IA Specialist
Launch date	25th January 2016
Fund size	£288.15m
Share classes	Income & Accumulation Clean & Institutional
Charges[2]	C: 0.75% pa I: 0.65% pa
Min. investment	C: £1,000 I: £5,000,000
Net Asset Value per share as at 31 December 2018	C Acc (£): 118.37p C Inc (£): 102.24p I Acc (£): 118.94p I Inc (£): 102.12p
Net yield[3] **as at 31 December 2018**	C: 5.69% I: 5.70%
Annual turnover to 31 December 2018	9.39%
Dividend ex dates	end of Dec, Mar, June, Sept
Dividend pay dates	end of Jan, Apr, July, Oct
Currencies	£, $, €
Classification	Non-complex
£ ISINs	C Acc: GB00BYVB3M28 C Inc: GB00BYVB3J98 I Acc: GB00BYVB3T96 I Inc: GB00BYVB3Q65

1. The OCF (Ongoing Charges Figure) for all share classes is capped at the AMC (Annual Management Charge) and any costs in excess of the OCF/AMC will be paid by the Investment Adviser.

UKIIF FINANCIAL HIGHLIGHTS – 25 JANUARY 2016 TO 31 DECEMBER 2018

- Assets under management of £288.15m as at 31 December 2018
- UKIIF portfolio annual turnover to 31 December 2018 of 9.39%

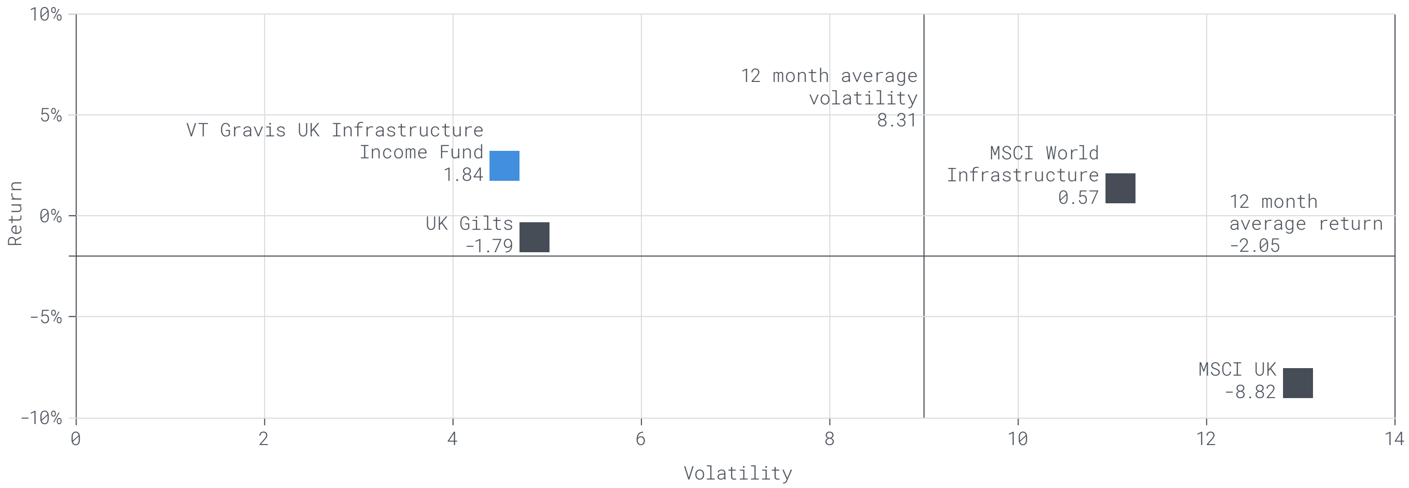


DIVIDENDS PAID PER UNIT (AFTER CHARGES)

	2016	2017	2018	TOTAL SINCE INCEPTION
UKIIF C GBP Income	4.5940p	5.2578p	5.8153p	15.6671p
UKIIF I GBP Income	4.8822p	5.4474p	5.8232p	16.1527p

12 MONTH RISK RETURN CHART

31/12/2017 to 31/12/2018



1. Past performance is not necessarily a guide to future performance.

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BACKGROUND NOTE
31 DECEMBER 2018

CORRELATION, PERFORMANCE AND VOLATILITY COMPARISON

	CORRELATION	RETURN	VOLATILITY	YIELD
UKIIF[(1)]	–	18.4%	4.7%	5.4%
MSCI UK	0.39	28.8%	12.9%	5.0%
MSCI World	0.07	47.0%	12.7%	2.8%
MSCI World Infrastructure	0.04	29.6%	12.0%	4.3%
UK 10 Yr Gilts	-0.17	2.7%	6.0%	1.6%
MSCI World vs MSCI World Infrastructure	0.78			

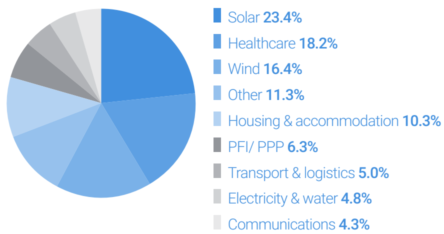
1. VT Gravis UK Infrastructure Income Fund GBP C Acc. Past performance is not necessarily a guide to future performance.

TOP 10 HOLDINGS

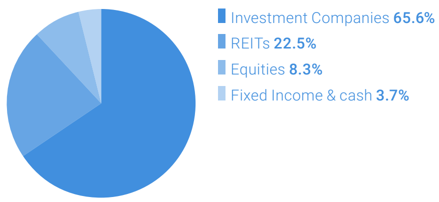
COMPANY	%
GCP Infrastructure Investments Ltd	9.9
Renewables Infrastructure Group Ltd	9.7
Bluefield Solar Income Fund Ltd	7.7
MedicX Fund Ltd	6.8
NextEnergy Solar Fund Ltd	5.2
GCP Asset Backed Income Fund Ltd	5.0
Sequoia Economic Infrastructure Income Fund Ltd	5.0
HICL Infrastructure Company Ltd	4.9
John Laing Environmental Assets Group Ltd	4.9
Target Healthcare REIT Ltd	4.7

PORTFOLIO

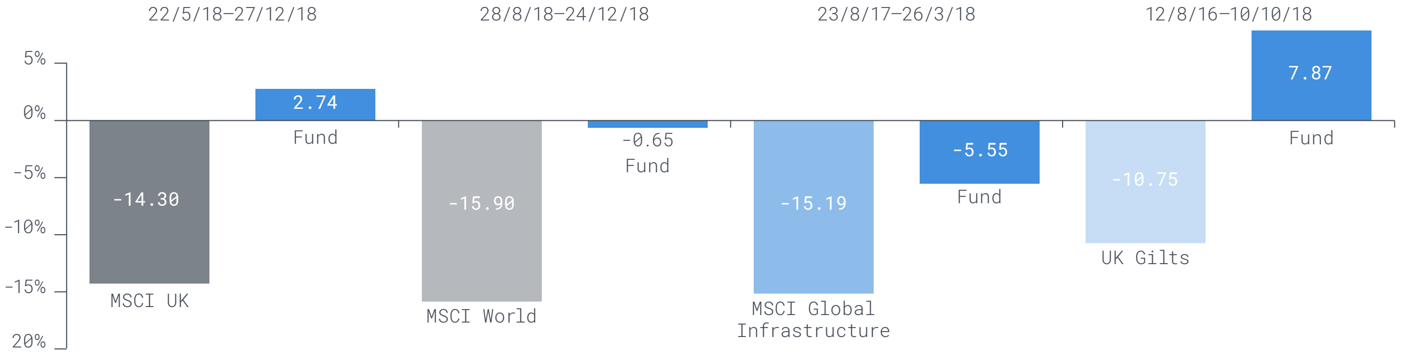
Underlying Project Exposure



Sectors



DRAWDOWNS



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

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 December 2018 the Fund had 24 holdings; this number ranged between 24 and 26 during the review period. Many of these holdings represent companies, which in turn are exposed to a diverse spread of infrastructure assets providing significant 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.

SECTOR PREMIUMS

COMPANY	PRICE	NAV	PREMIUM/DISCOUNT
Bluefield Solar Income Fund Ltd	123.5	114.1	8.24%
GCP Student Living PLC	148.4	151.49	-2.04%
Foresight Solar Fund Limited	108	107.6	0.37%
GCP Asset Backed Income Fund Limited	104.5	101.47	2.99%
GCP Infrastructure Investments	127.2	112.37	13.20%
HICL Infrastructure Fund Limited	157.7	156.4	0.83%
John Laing Environmental Assets Group Limited	105	100.4	4.58%
Medicx Fund Ltd	74.6	81.8	-8.80%
NextEnergy Solar Fund Limited	115	105.1	9.42%
Target Healthcare REIT Limited	108	106.1	1.79%
Renewables Infrastructure Group Limited	113.2	107.8	5.01%
Sequoia Economic Infrastructure Income Fund Ltd	113.5	101.86	11.43%
Greencoat UK WIND PLC	126	115	9.57%
Residential Secure Income PLC	88.6	105.1	-15.70%
Impact Healthcare REIT PLC	103.5	102.3	1.17%
3I Infrastructure PLC	258.5	226.4	14.18%
Primary Health Properties PLC	111	104.2	6.53%
		Average	3.69%
		Portfolio weighted average	3.96%

INVESTMENT ADVISER'S REVIEW

This report is a review of the performance of the VT Gravis UK Infrastructure Income Fund (the "Fund") during the twelve-month period ending 31st December 2018.

The performance objectives of the Fund are:

- deliver a regular income expected to be 5% per annum 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, 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 December 2018, the Fund was comprised of 24 holdings and this number ranged between 24 and 26 during the review period. Many of these holdings represent companies, which in turn are exposed to a diverse spread of infrastructure assets. At the time of review, the portfolio is exposed to over 1,200 individual 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. During the period under review portfolio turnover remained low at 9.39% and on an annualised basis is consistent with the Adviser's expectation that turnover should not exceed 20% per annum typically.

The Fund's performance during the period was consistent with the Fund's objective to preserve capital and generate a 5% net income yield. The C Accumulation Class shares were priced at 118.3698p on 31st December 2018, which represents a positive total return of 1.84% over the period.

Dividends, announced in March, June, September and December totalled 5.8232p per share for the I Income Class (2017 = 5.4474p) and 5.8153p per share for the C Income Class (2017 = 5.2578p). This represents a trailing 12-month net yield of 5.70% and 5.69% for the I Income Class and C Income Class, respectively.

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 year. Although we anticipate higher total dividend and coupon receipts during 2019 overall, which underpins our confidence the Fund will achieve its objective of delivering a 5% net income yield, investors should not anticipate a similar level of dividend growth in 2019. This reflects non-recurring special cash dividends received during 2018.

The ratings ascribed by investors to companies operating in the broader infrastructure sector are reasonable, having moderated over the course of the year. On 31st December 2018 the weighted average premium at which portfolio companies were trading relative to their net asset values was a modest 3.96%.

The portfolio is constructed with a view to maintaining high levels of exposure towards operational infrastructure assets which attract availability-based payments backed by either government cash flows or a regulatory framework. The Adviser believes this disciplined and risk-averse approach underpins the Fund's ability to generate steady returns that are often disconnected with trends in broader risk assets. The critical social and economic importance of many of the assets owned by the companies held within the Fund should ensure that cash flows maintain continuity regardless of the economic outlook and this is a characteristic that is likely to prove attractive for investors as the UK approaches the final stages of Brexit negotiations.

GCP Advisory Limited
Investment Adviser to the Fund

GOVERNMENT BONDS AND THE 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. Infrastructure yields have remained comparatively stable in a range of 5%-6% while corporate bond yields and gilt yields have oscillated to a greater extent and have tracked materially lower. The chart illustrates the relative attractiveness of infrastructure yields compared to those of bonds and gilts. The differential, or 'spread', remains considerable – particularly when compared to gilts – and this would suggest that infrastructure companies offer compelling value.

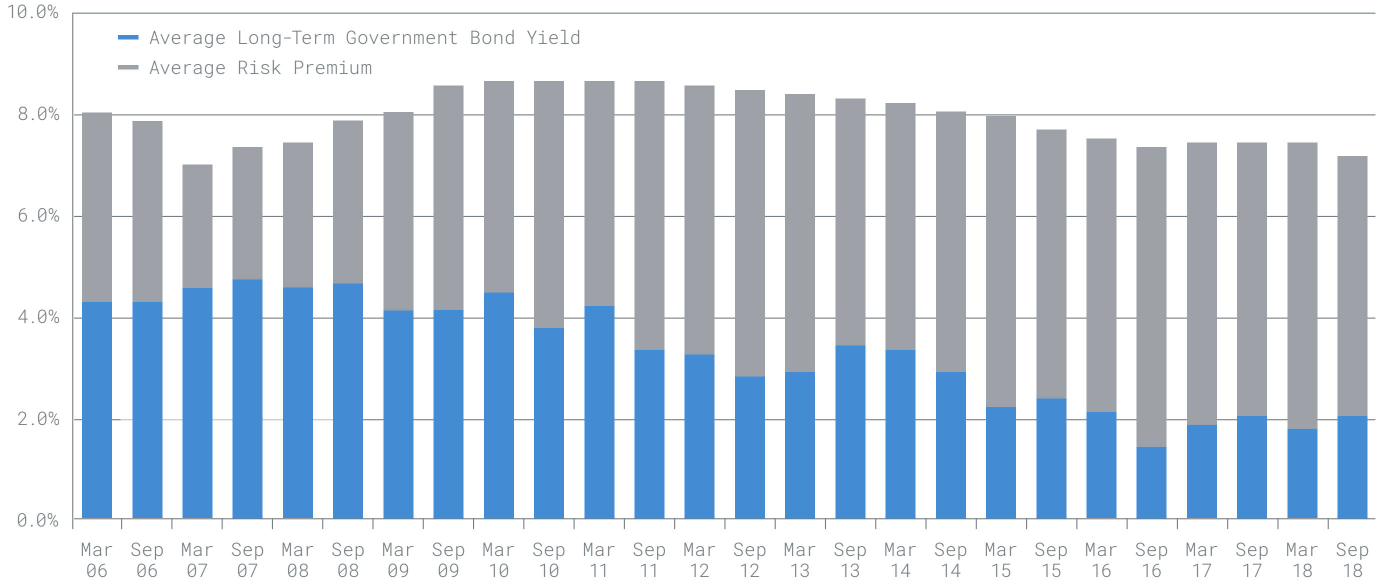
Source: Bloomberg L.P. *Comprises of a portfolio of large UK-listed infrastructure and renewable energy CEICs

We have been proponents of the idea that UK interest rates will remain 'lower for longer' and indeed investors' expectations have proved to be overly hawkish, with timings of interest rate hikes being pushed further and further back. Although, on balance, we maintain our view towards the evolution of UK interest rates i.e. that the rate cycle will prove very protracted and shallow, we are cognisant of the perception among some investors that higher interest rates would pose a material threat to the valuations of infrastructure assets. It is our view, however, that the potential threat – certainly resulting from modest rate increases – is overstated.

GOVERNMENT BONDS AND THE INFRASTRUCTURE SECTOR CONTINUED

The chart below illustrates the trend in the average discount rate used by HICL to discount its future cash flow projections and arrive at a net asset value for its portfolio of infrastructure projects. The overall discount rate for an asset comprises of an appropriate risk-free rate (typically a suitable duration government bond yield) plus a risk premium for the particular project (this will vary depending on a range of factors, not least the maturity of the asset i.e. whether it is at planning, construction or operational stage).

Although the chart shows that the average discount rate (across the entire portfolio of assets) is towards the lower end of the long-term historical range (at 7.2%), the risk premium accounts for the majority of the discount rate. What is more, the risk premium is considerably wider than it was between 2006 and 2010 when interest rates and government bond yields were far higher compared with today. This points to a certain amount of cushioning being evident within the overall discount rate i.e. government bond yields could rise without the necessity for overall discount rates to increase.



Source: HICL company data

While HICL has been used as a reference, we believe this dynamic is generally true of the broader UK infrastructure and renewable energy closed-end company sector. There is a 'buffer' within the risk premia that may absorb future increases in government bond yields such that overall discount rates require no upwards adjustment and net asset valuations remain unaffected. Considering historic trends, illustrated by the chart above, it appears reasonable to suggest that discount rates and resulting asset valuations could withstand a fairly sizeable increase in long-term government bond yields from the prevailing rates of c.1.3% and c.1.8% available on the benchmark UK 10-year issue and UK 30-year issue, respectively.

CAPITAL RAISES

Since inception on 25 January 2016, the fund has invested £45.42m making savings of 110.9bps by regularly participating in Placing Programs and C Shares.

2016

- The fund invested £12.25m in 20 Placing Programs during 2016 saving investors 56.9bps.
- Companies in which the fund invests raised a total of £1.35bn during the year.

2017

- The fund invested £19.17m in 15 Placing Programs during 2017 saving investors 36.2bps.
- Companies in which the fund invests raised a total of £1.58bn during the year.

2018

- The fund invested £13.99m in 14 Placing Programs during 2018 saving investors 17.8bps.
- Companies in which the fund invests raised a total of £1.15bn during the year.

The fund launched 25 January 2016. Past performance is not necessarily a guide to future performance. UKIIF performance is illustrated by the C GBP Net Accumulation share class

BACKGROUND INFORMATION TO INVESTMENT ADVISER GRAVIS CAPITAL PARTNERS (GCP)

Gravis 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 c.£2.5bn 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 c.£4.7bn of assets under management (as at 31/12/2018) and 46 staff in offices in the North of Scotland and London.

INVESTING IN UKIIF

	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

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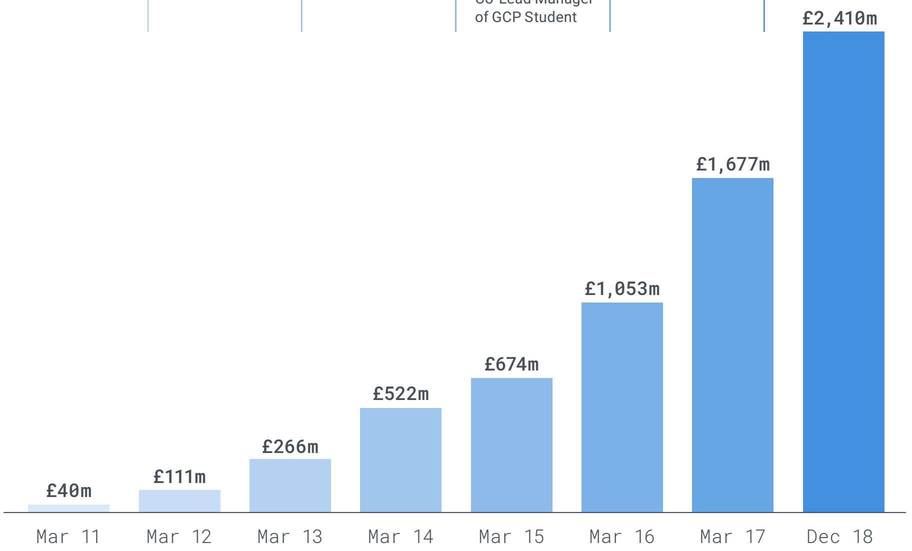
GRAVIS TIMELINE

2008-10	2013	2015	2016	2017	2018
– Gravis was founded in 2008 by seven founding partners, including Chairman, Stephen Ellis, and CEO, Rollo Wright – In 2010, Gravis launched its first product and the first UK listed fund focused on investing in debt for UK infrastructure projects, GCP Infra	– Gravis launched the first REIT focused on student accommodation, GCP Student – David Conlon joined Gravis as a director	– Gravis launched GCP Asset Backed	– Gravis launched its first OEIC focused on investing in listed infrastructure, Gravis UK Infra – Phil Kent joined Gravis as a Director, leading the team's origination and execution of project finance and asset backed investments – Nick Barker joined as a Director and Co-Lead Manager of GCP Student	– Gravis launched its second OEIC at the end of 2017, the Gravis Clean Energy fund – William Argent joined Gravis as a fund manager for Gravis UK Infra and Gravis Clean Energy – Saira Johnston joined as CFO	– Gravis's total AUM reached £2.41bn in Dec 2018 – Phil Kent became lead manager of GCP Infra



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Aegon	Nucleus
AJ Bell	Old Mutual (Skandia)
Alex	OM Wealth
Allfunds	Parmenion
Alliance Trust	Pershing
Ascentric	Prudential*
Aviva	Raymond James
Axa Elevate	SEB International Life (Dublin)*
Canada Life (Dublin)*	SEI
Cofunds	Standard Life
FNZ	Stocktrade
Fidelity FundsNetwork	Transact
Fusion	True Potential
Hargreaves Lansdown	Zurich
James Brearley	
James Hay	1. *Offshore Bond wrappers

Suitable for:

Direct investors	Offshore bonds
SIPPs	Companies
ISAs	QROPS
Charities	

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