GRAVIS UK INFRA

BACKGROUND NOTE
29 DECEMBER 2017

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 29th December 2017 there were 26 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 07836 695442
william.macleod@graviscapital.com

Ollie Matthews 07787 415151
ollie.matthews@graviscapital.com

Robin Shepherd 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 Life (Dublin)*
Cofunds	SEI
FNZ	Standard Life
Fidelity FundsNetwork	Stocktrade
Fusion	Transact
James Brearley	True Potential

*Offshore Bond wrappers

Suitable for:

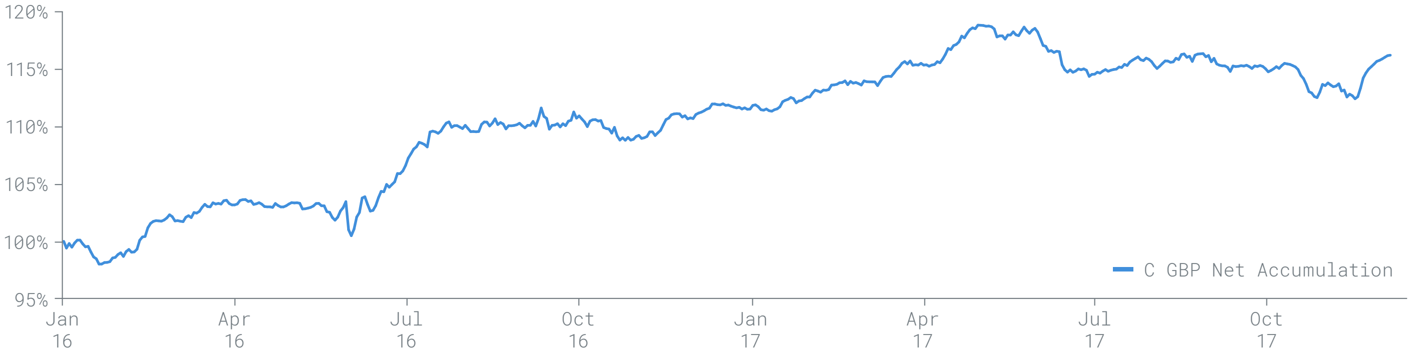
Direct investors	Offshore bonds
SIPPs	Companies
ISAs	QROPS
Charities	

BACKGROUND NOTE 29 DECEMBER 2017

UKIIF FINANCIAL HIGHLIGHTS – 25 JANUARY 2016 TO 29 DECEMBER 2017

– Assets under management of £248.61m as at 29 December 2017

– UKIIF portfolio annual turnover to 29th December 2017 of 12.59%



DIVIDENDS PAID PER £1,000 INVESTED (AFTER CHARGES)

DIVIDENDS	MAY 16	AUG 16	NOV 16	JAN 17	APR 17	JUL 17	OCT 17	JAN 18	TOTAL INCOME	TOTAL RETURN
UKIIF C GBP Income	£6.61	£10.99	£15.49	£12.85	£9.55	£17.35	£14.60	£11.08	£98.52	£1,164.69
UKIIF I GBP Income	£8.03	£11.47	£16.00	£13.33	£10.05	£17.85	£15.10	£11.47	£103.30	£1,166.90

RETURNS INDICES

	DEC 17	3 MONTHS	6 MONTHS	12 MONTHS	SINCE INCEPTION
UKIIF*	2.19	0.76	-0.66	4.22	16.23
MSCI UK	5.03	4.85	6.76	11.71	41.27
MSCI World	1.42	4.64	6.21	11.80	51.63
MSCI Global Infrastructure	-1.19	-0.03	-0.22	0.26	28.88
Gilts	0.99	0.97	-0.44	-0.68	4.53

CORRELATION, PERFORMANCE AND VOLATILITY COMPARISON

	CORRELATION	RETURN	VOLATILITY	YIELD
VT Gravis UK Infrastructure Income Fund (C GBP Acc)	—	16.2%	4.7%	4.8%
MSCI UK	0.38	41.3%	12.9%	3.8%
MSCI World	0.03	51.6%	11.8%	2.3%
MSCI Global Infrastructure	-0.01	28.9%	12.1%	4.0%
UK 10 Yr Gilts	-0.16	4.5%	6.6%	1.2%
MSCI World vs MSCI Global Infrastructure	0.83			

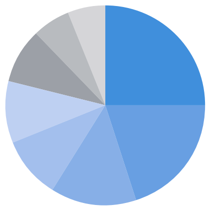
* VT Gravis UK Infrastructure Income Fund GBP C Acc. Past performance is not necessarily a guide to future performance

TOP 10 HOLDINGS

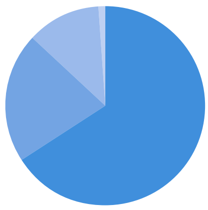
COMPANY	%
GCP Infrastructure Investments Ltd	9.5
Bluefield Solar Income Fund Ltd	9.4
Renewables Infrastructure Group Ltd	9.4
MedicX Fund Ltd	8.9
NextEnergy Solar Fund Ltd	4.9
John Laing Environmental Assets Group Ltd	4.9
Foresight Solar Fund Ltd	4.7
Sequoia Economic Infrastructure Income Fund Ltd	4.5
Greencoat UK Wind PLC	4.5
HICL Infrastructure Company Ltd	4.4

PORTFOLIO

Underlying Project Exposure



Sectors



DRAWDOWNS

	DRAWDOWN	START	END	FUND DURING DRAWDOWN
UKIIF*	-5.40%	25 May 17	08 Dec 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

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 2017 the Fund had 26 holdings; this number ranged between 26 and 29 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.

VT GRAVIS UK INFRASTRUCTURE INCOME FUND – FULL YEAR 2017 REVIEW

This report is a review of the performance of the VT UK Infrastructure Income Fund (the "Fund") during the twelve-month period ending 29th December 2017.

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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 2017, the Fund comprised of 26 holdings and this number ranged between 26 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. Portfolio turnover remained modest during 2017 at an annual rate of 12.59%.

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

The C Accumulation Class shares were priced at 116.23p on 29th December 2017, which represents a positive total return of 4.22% over the period. Dividends, announced in March, June, September and December totalled 5.4474p per share for the Institutional Income class and 5.2578p per share for the Clean Income class. This represents a trailing 12-month yield of 5.14% and 4.95% for the I class and C class, respectively.

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 2018, underpinning our confidence that the Fund will achieve its stated objective of delivering a 5% income yield for unit holders.

The asset values of portfolio companies typically appreciated during the period, assisted in many cases by further reductions in the discount rates 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 should support a continued supply of investment opportunities within social and economic infrastructure. Meanwhile, the returns 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

The annual rate of inflation in the UK, as measured by the Retail Price Index, increased to 4.1% at the end of December 2017. This was the highest annual rate of increase for almost six years and reflects a sharp uplift since the start of 2017 when price inflation was running at just 2.5%. Similarly, the Consumer Price Index, up 3.0% year-on-year, remains elevated in the context of recent history.

Preserving capital and growing income distributions in real terms (i.e. adjusted for inflation) are a key focus for the Fund and this recent acceleration in inflationary trends provides an opportunity to highlight its protective characteristics in this regard.

Revenues from infrastructure assets are typically long-dated and to mitigate the risk of inflationary trends eroding the value of these cash flows over time, they will often benefit from having an element of inflation-linkage either through a regulatory framework or contractual obligations.

This is true of the assets owned by many of the companies held within the Fund; a large proportion of the cash flows they expect to receive will be explicitly linked, or 'indexed', to inflation. The nature of indexation will vary between different types of assets but in all instances, serves to protect value in real terms.

To illustrate, we look at the following examples from different infrastructure sub-sectors:

Renewable energy – Bluefield Solar Income. A large proportion of this solar owner/operators' revenues are derived from regulated subsidies (in the form of Renewable Obligation Certificates and Feed in Tariffs), which are adjusted for RPI in April each year. The company assumes long-term RPI of 2.75% per annum. A +0.25% divergence from this assumed rate adds £11.9m, or 2%, to net asset value.
Source: FY 2017 Report & Accounts.

PFI and regulated infrastructure equity – HICL. This equity investor in essential public infrastructure is highly sensitive to inflationary trends. The company's long-term inflation forecast for the UK is 2.75%. The correlation of portfolio returns with inflation is 0.8. Were inflation to run 1% per annum higher than the valuation assumption in each and every forecast period, the expected return from the portfolio (before Group expenses) would increase by 0.8% from 7.4% to 8.2%. A +0.5% divergence from the assumed inflation rate adds 8.5p, or 5.6%, to net asset value per share.
Source: 2017 Interim Results Presentation.

Healthcare – MedicX. This REIT owns a portfolio of primary healthcare properties (for example, GP's surgeries). Approximately 27% of its portfolio is subject to inflation-linked annual rent reviews (the bulk of which is indexed to UK RPI) while a further 4% of the portfolio is subject to fixed, upward only rent reviews further insulating the rent roll from inflationary pressures.
Source: 2017 Annual Report.

The investment companies owned within the Fund typically model long-term UK inflation at 2.5%-2.75% per annum. Current data shows inflationary pressures are running some way above this range so, in the near-term at least, infrastructure companies are likely to benefit and generate cash flows that are greater than forecast.

When cash flows rise with inflation, investment companies can grow their dividend distributions simultaneously. Expectations of higher future cash flows also drives up the present value of the company (the net asset value) and this helps to preserve investors' capital in real terms. In combination, these dynamics serve to insulate investors over time from the erosive effect of inflation by maintaining the purchasing power of the value of investments and associated income streams.

Infrastructure vehicles are often referred to as 'bond proxies' and it is not difficult to draw such parallels given the long-dated, dependable cash flows that infrastructure assets can offer. However, the inflation linkage inherent within infrastructure contracts immediately differentiates them from conventional government bonds, which pay a fixed nominal return over their lifetime. What is more, the returns available from infrastructure investments remain significantly higher.

POST PERIOD END - CARILLION AND PFI

Listed infrastructure has developed as an asset class in its own right over the last decade and investors have been attracted to its bond-like characteristics during a period of historically low returns on government debt. In recent months, however, the sector has undergone what may be perceived as a perfect storm. Back in September, comments at the Labour Party Conference unleashed the nationalisation debate with Shadow Chancellor John McDonnell calling for privately financed social infrastructure assets (funded through the Private Finance Initiative) to be brought back under governmental control. This was followed in January this year by the collapse of Carillion – a major contractor providing facilities management services for numerous PFI projects – and a National Audit Office (NAO) report into the costs and benefits of the Private Finance Initiative. In addition, interest rates have started to creep higher with the UK 10 year yielding 1.44% versus 1.20% at the turn of the year.

Although the NAO report provided an even-handed review of private involvement in public infrastructure projects and concluded “there is still a lack of data available on the benefits of private finance procurement”, the subject has become politicised and this has cast a shadow over what was once a ‘poster child’ of stable, low risk investment strategies. Many listed infrastructure companies have de-rated as a result and now trade close to their net asset values or even at a discount.

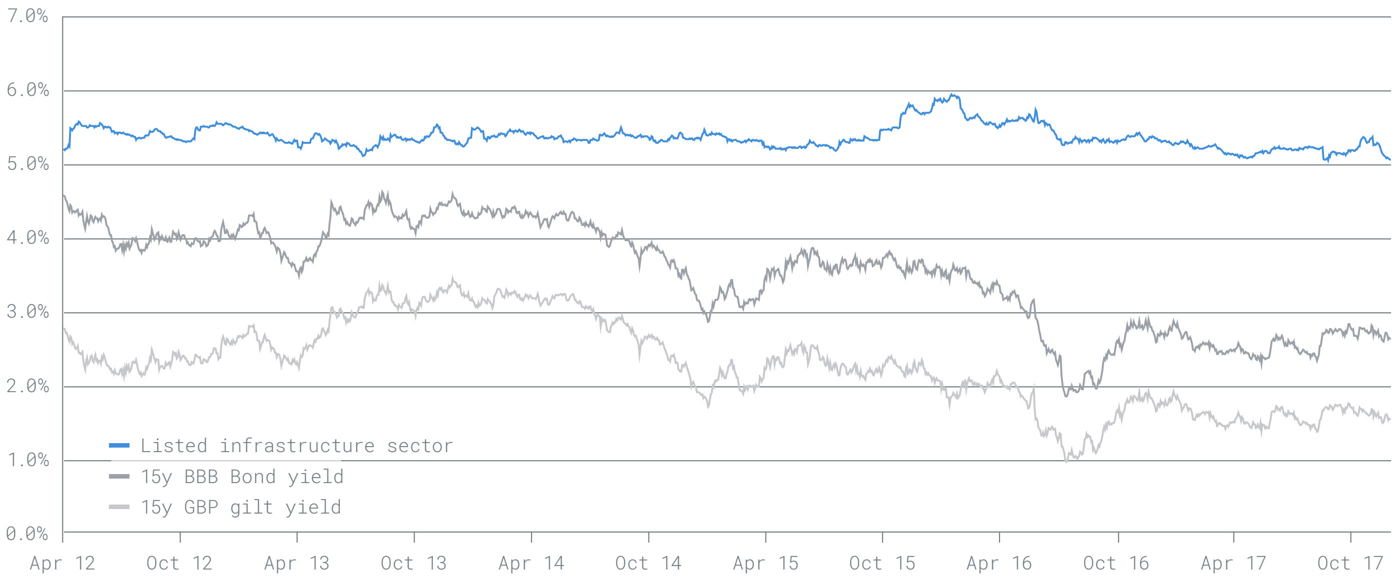
Despite the shift in sentiment, has anything changed from a fundamental perspective? The collapse of Carillion will lead to some impairment of values as infrastructure companies absorb the costs of employing alternative contractors on a number of projects but otherwise it seems not. It is generally accepted that the cost of bringing PFI assets back in house would be too onerous for any Labour government to enact and that in the instance that some projects were terminated, the compensation due would not leave infrastructure companies materially worse off. In addition, the return profile of infrastructure cash flows (typically providing internal rates of return in the high single digits) remains relatively attractive in the context of the alternatives.

The Infrastructure and Projects Authority has identified a need for more than £300bn of investment in social and economic infrastructure in the five years to 2020-21 and it would appear likely that a significant proportion of this will require private funding. This means that structures at least analogous to PFI will need continue and may lead to increased opportunities for private companies to tender for socially critical infrastructure projects.

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

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SECTOR PREMIUMS

COMPANY	PRICE	NAV	PREMIUMS
Bluefield Solar Income Fund Ltd	118	107.85	9.41%
GCP Student Living PLC	144	141.3	1.91%
Foresight Solar Fund Limited	108	104.6	3.25%
GCP Asset Backed Income Fund Limited	103.5	100.66	2.82%
GCP Infrastructure Investments	129	110.57	16.67%
HICL Infrastructure Fund Limited	158.2	151.6	4.35%
John Laing Environmental Assets Group Limited	109.25	99	10.35%
John Laing Infrastructure Fund	123.2	119.6	3.01%
Medicx Fund Ltd	84	76.3	10.09%
NextEnergy Solar Fund Limited	113	105.1	7.52%
Target Healthcare REIT Limited	112.5	103.3	8.91%
Renewables Infrastructure Group Limited	108.6	100.6	7.95%
Sequoia Economic Infrastructure Income Fund Ltd	113	101.36	11.48%
Greencoat UK WIND PLC	122.8	109.3	12.35%
Residential Secure Income PLC	100.75	100	0.75%
Impact Healthcare REIT PLC	102.38	99.85	2.53%
3I Infrastructure PLC	208	177	17.51%
Primary Health Properties PLC	117	96.1	21.75%
		Average	8.48%
		Portfolio Weighted Average	7.49%

CAPITAL RAISES

– Since inception* companies in which the fund invests have raised £2.93bn by way of C share issues and Placing Programmes.

– The fund has made savings of 93.1bps, investing £31.42m in these offers.

TRADE DATE	STOCK	PRICE PRE-ANNOUNCEMENT	PRICE PAID	SAVING (£)	SAVING (%)	SAVINGS: BPS VS CLOSING PRICE PRE ANNOUNCEMENT	TOTAL SHARE ISSUE	PREMIUM
08 Feb 17	JLEN	£1.07	£1.01	£0.06	5.16%	8.7	£55,000,000	2.57%
22 Feb 17	DIGS	£1.43	£1.40	£0.03	2.10%	1.1	£80,600,000	2.38%
17 Mar 17	HICL	£1.66	£1.59	£0.07	4.33%	0.5	£260,000,000	7.87%
27 Mar 17	JLIF	£1.33	£1.33	(£0.00)	-0.06%	0.0	£119,469,773	13.95%
29 Mar 17	FSFL	£1.08	£1.08	£0.01	0.46%	0.7	£78,500,000	2.04%
30 Mar 17	TRIG	£1.07	£1.03	£0.04	3.29%	0.6	£110,000,000	2.90%
26 May 17	SEQI	£1.12	£1.06	£0.06	5.59%	5.1	£160,000,000	4.38%
05 Jun 17	HICL	£1.74	£1.65	£0.09	5.39%	1.3	£267,700,000	10.74%
21 Jun 17	NESF	£1.15	£1.10	£0.05	4.03%	1.4	£126,500,000	5.57%
05 Jul 17	DIGS	£1.49	£1.42	£0.07	4.54%	5.6	£70,000,000	3.65%
07 Jul 17	JLEN	£1.10	£1.03	£0.07	6.58%	7.2	£40,000,000	2.90%
14 Jul 17	GCPI	£1.28	£1.24	£0.04	2.75%	3.0	£70,000,000	12.42%
11 Oct 17	GABIc	£1.00	£1.00	£0.00	0.00%	0.0	£75,000,000	1.95%
08 Nov 17	FSFL	£1.11	£1.08	£0.03	2.92%	0.5	£39,000,000	4.96%
08 Nov 17	IHR	£1.03	£1.02	£0.01	1.09%	0.6	£32,600,000	1.90%
					Total	36.2	£1,584,369,773	

* The fund launched on 25th January 2016.

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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 £2.19bn of assets under management (as at 29/12/2017) and 32 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

	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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