VT UK Infrastructure Income Fund

April 2017 Factsheet

Overview

- Deliver a regular income expected to be 5%[1] per annum
- Preserve investors' capital throughout market cycles with the potential for capital growth and protection from inflation
- Invests in UK Listed Securities including Investment Companies, Equities, Bonds and REITs
- Offers exposure to a vital sector for the UK's economy which is increasingly becoming a key component of any well-balanced investment portfolio

Performance chart

Share Class C GBP Acc [25/1/16 – 28/4/17]

Returns

	Apr 17	3 Months	6 Months	12 Months	Since Inception	Volatility
VT UK Infrastructure Income Fund	1.15%	3.44%	4.22%	11.21%	15.26%	5.05%
MSCI UK	-1.34%	2.94%	5.72%	20.03%	29.50%	14.76%

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

Regulatory Status	FCA Authorised
Sector	IA Specialist
Launch date	25th January 2016
Fund Size	£173.84m
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 Yield[3] based on launch price of £1 from 25/1/16	C: 4.8878% I: 5.0848%
Turnover to 30 Apr 2017	4.11%
Dividend ex dates	end of Dec, Mar, June, Sept
Dividend pay dates	end of Jan, Apr, July, Oct
Currencies	£, $, €
£ ISINs	C Acc: GB00BYVB3M28 C Inc: GB00BYVB3J98 I Acc: GB00BYVB3T96 I Inc: GB00BYVB3Q65

Correlation, Performance and Volatility Comparison

25 January 2016 – 28 April 2017

	Correlation	Return	Volatility	Yield
VT UK Infrastructure Income Fund (C GBP Acc)	—	15.3%	5.1%	4.4%
MSCI UK	0.41	29.5%	14.8%	3.9%
MSCI World	-0.01	39.8%	12.9%	2.4%
MSCI Global Infrastructure	-0.07	27.3%	13.3%	3.9%
UK 10 Yr Gilts	-0.23	7.0%	7.2%	1.1%

1. This is an unofficial target and there is no guarantee it will be achieved. Per annum by reference to launch price of £1.00 per unit, payable quarterly, one month in arrears.
2. The OCF (Ongoing Charges Figure) for all share classes will be capped at the AMC (Annual Management Charge) above until 31/12/18 and any costs in excess of the OCF/AMC will be paid by the Investment Adviser.
3. Published dividends are net of charges which are taken from income.

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Fund Adviser's Report

In April in the infrastructure sector, two events took place, which served to underscore that vigilance as to the unexpected is always required.

"Events, dear boy, events" was the famous response of Prime Minister Harold MacMillan to a journalist who'd asked him what was likely to blow his government off course.

In April in the infrastructure sector two events took place, ultimately rather modest in themselves, which served to underscore that vigilance as to the unexpected (but very possible) is always required in fund management in order to maintain the charted course.

First came the unexpected news that the Conservative party manifesto will contain a policy to implement an energy price cap on Standard Variable Tariffs (as previously proposed by Ed Miliband as Leader of the Opposition in 2015) which caused share price weakness of between 5 and 10% at the major energy suppliers, including SSE and Centrica which the Fund holds. Whilst it is possible that a draconian cap based on competitor average rates will emerge, what appears to be the central case will be a cap at the individual company level on the amount by which the SVT can exceed the lowest tariff, and this for certain customer demographics only. SSE with 91% of customers on SVTs and Centrica with 74%, have SVTs which exceed their cheapest tariff by 9% and 12% respectively. A 6% cap on this relationship – again the central case – would cost SSE c.£131m of revenue and Centrica c.£441m. However, the companies would be expected to mitigate this substantially – at the cost of losing some of those customers who switch regularly (15.9% annual switching rate in 2016) – by raising their cheapest tariff. At a 50% mitigation of the above levels, the figures represent c.3.1% of EBITDA for SSE, and c.8.6% for Centrica, levels which mean their dividends payouts of 6.5% and 6.2% (as at 28/4) are likely to be maintained, which makes it likely in turn (without a more aggressive cap) that share prices at current levels will prove to provide value for investors. The Fund's combined position in SSE and Centrica at month end was 4.18%, meaning the price movements referred to above generated c.0.30% of negative contribution to NAV. Share prices in the sector stabilized during the last trading days of the month.

Secondly, SQN Asset Finance, the diversified equipment leasing fund, announced a significant impairment of one of its larger assets. The loan is of US$29.9 million (£24.1 million) to a US Solar Cell manufacturer (Suniva – not named by SQN in its RNS release), is secured against solar cell manufacturing equipment and was made in August 2015 for a five year term. The loan represents c 7.0% of SQN's NAV and 0.19% of the Fund. The borrower defaulted on its payment due on March 31st, closing its plant and entering Chapter 11 Bankruptcy proceedings in April due to (per SQN RNS) "a rapid decline in the market price for solar cells driven by imports flooding the US markets in contravention of established international trade agreements". There is a $30m guarantee in place from Shunfeng, which controls Suniva with a 63% stake; however it is far from clear that this can be relied upon and, presumably concluding that this route would not be effectual, SQN has instead provided further financing of c.$4 million (amount not revealed in the SQN RNS) under a debtor-in-possession notice and will have oversight of Suniva whilst it pursues a petition under Section 201 of the US Trade Act which seeks specific relief which if granted could mean that SQN would make a full recovery on its loan. We are less optimistic than SQN as to the outcome, noting that Shunfeng has taken a $38m impairment loss on its Suniva equity holding with a further $33m set aside for further potential liabilities (Shunfeng of course will not petition for higher trade tariffs on Chinese imports) and also noting: (i) that even with this trade relief Suniva's balance sheet is extremely weak; and (ii) that the likely value of used solar cell manufacturing equipment (not easily adaptable to other tasks) will be at a depressed level, meaning the security package has not worked as intended, should SQN be able to enforce it at some point.

Furthermore, what is not made clear by SQN is the enormity of the request on which they are wholly relying: If the U.S. International Trade Commission approves the petition, the agency will recommend to President Trump the form of "relief or remedy" to adjust the industry to the import competition, with the President making the final decision as to what action to take. As such it seems clear that granting the petition would effect a major escalation of US Sino trade disputes, with all the political considerations this entails, and would effectively double the price of solar cells in the US, helping US solar cell manufacturers – the positive protectionist effect – but massively increasing the cost of solar installations – a major negative for the much broader US solar generation industry. Relying on this so strongly – with no impairment whatsoever in the asset taken in the NAV announced on 25th April – seems to us a potentially over confident position, in consideration of all the facts. Indeed we believe the NAV should have been adjusted, at the least, by the lost interest flows on the Suniva loan for the period which the petition is estimated to take.

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The Fund has lowered its position in SQN over recent months from a high of 5% to 2.9% in the Ords as at 28th April (the Fund also holds 0.6% in the C shares, which are unaffected by the Suniva loan). SQN Ords fell from c.115p in mid April (a c 16% premium to NAV) to 103.25p on 28/4 (a c.4% premium to NAV – which is unimpaired for Suniva). We remain highly cautious on SQN, which has also had issues with loans to marine vessels and modular accommodation and with medical equipment leases (mainly resolved, but troublesome nonetheless) and will not buy more shares with inflows at least until the Suniva situation is clearer. In April the price fall in the SQN Ords generated c.0.35% of negative contribution to NAV for the Fund.

Notwithstanding the above events with their combined negative contribution of 0.65%, with many of our other assets performing very satisfactorily, the Fund ended the month of April up 1.15%. This deeply underscores the benefits of portfolio diversification and appropriate allocations, which at the aggregate level enables the Fund to absorb the effect of negative events at the individual security level. It also deeply underlines the need for us as Advisers to: (i) remain highly vigilant; and (ii) to size allocations with extreme care to ensure continued satisfactory performance for our investors.

Stephen West,
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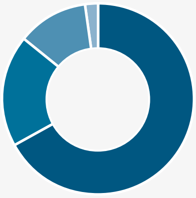
Portfolio

Sectors



Underlying Project Exposure

Top 10 holdings on 28 April 2017

Company	%
Bluefield Solar Income Fund Ltd	8.2
GCP Infrastructure Investments Ltd	7.7
Renewables Infrastructure Group Ltd	7.6
MedicX Fund Ltd	7.3
Foresight Solar Fund Ltd	5.2
John Laing Environmental Assets Group Ltd	4.7
NextEnergy Solar Fund Ltd	4.6
Greencoat UK Wind PLC	4.5
National Grid PLC	4.3
Target Healthcare REIT Ltd	4.2

Drawdowns

	Drawdown	Start	End	New High	Fund during Drawdown
Fund	-3.04%	29 Apr 16	27 Jun 16	04 Jul 16	—
MSCI UK	-8.81%	29 Jan 16	11 Feb 16	29 Feb 16	-1.84%
MSCI World	-7.54%	29 Jan 16	11 Feb 16	23 Feb 16	-1.84%
MSCI Global Infrastructure	-8.66%	17 Oct 16	14 Nov 16	30 Dec 16	-1.14%

Dividends

Dividends paid net of charges. Based on £1,000 invested since inception to 28 April 2017.

Dividends	May 16	Aug 16	Nov 16	Jan 17	Apr 17	Total Income	Total Return
UKIIF C GBP Income	£6.61	£10.99	£15.49	£12.85	£9.55	£55.49	£1,154.88
UKIIF I GBP Income	£8.03	£11.47	£16.00	£13.33	£10.05	£58.88	£1,155.61

Available on the following platforms

7IM	James Hay
Aegon	Novia
AJ Bell	Nucleus
Alex	Old Mutual (Skandia)
Allfunds	OM Wealth
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
James Brearley	True Potential

*Offshore Bond wrappers

Suitable for:

Direct investors	Offshore bonds
SIPPs	Companies
ISAs	QROPS
Charities	

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