VT UK Infrastructure Income Fund

Monthly factsheet

September 2016

Overview

To deliver a regular income expected to be 5% per annum[1]

To preserve investors' capital throughout market cycles with the potential for capital growth and protection from inflation

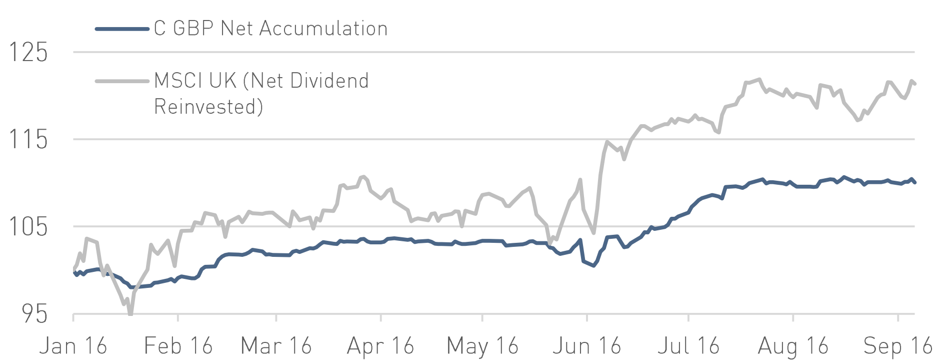
To provide investors with exposure to the UK listed infrastructure sector

To offer investors exposure to a sector that is a vital part of the UK economy and is increasingly becoming a key component in any well-balanced investment portfolio

The VT UK Infrastructure Income Fund (the "Fund"), the first UK focused open ended infrastructure fund, launched in January 2016. It invests in UK listed Investment Companies, Equities and Bonds and is advised by GCP Advisory Limited.

Regulatory Status	FCA Authorised
Sector	IA Specialist
Fund Size	£54.73m
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
Dividends Paid	May 16: C – 0.6611p I – 0.8026p Aug 16: C – 1.0992p I – 1.1469p **Total: C – 1.7603p** **I – 1.9495p**
Dividends announced	Sept 16: C – 1.5485p I – 1.6002p
Currencies	£, $, €
£ ISINs	C Acc: GB00BYVB3M28 C Inc: GB00BYVB3J98 I Acc: GB00BYVB3T96 I Inc: GB00BYVB3Q65

Performance chart Share class: C GBP Acc [25/1/16 – 30/9/16]



Returns

	Sept 16	3 Months	Since Inception	Volatility
VT UK Infrastructure Income Fund	0.46%	7.35%	10.06%	5.85%
MSCI UK	1.85%	7.00%	21.38%	17.78%

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

Top 10 holdings on 30th September 2016

GCP Infrastructure Investments Ltd	8.9%
Bluefield Solar Income Fund Ltd	7.8%
Renewables Infrastructure Group Ltd	7.6%
Greencoat UK Wind PLC	6.9%
John Laing Infrastructure Fund Ltd	5.5%
Foresight Solar Fund Ltd	4.7%
MedicX Fund Ltd	4.7%
John Laing Environmental Assets Group Ltd	4.4%
SQN Asset Finance Income Fund Ltd	4.4%
NextEnergy Solar Fund Ltd	4.4%

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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, two months 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.

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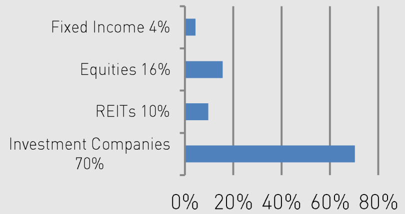
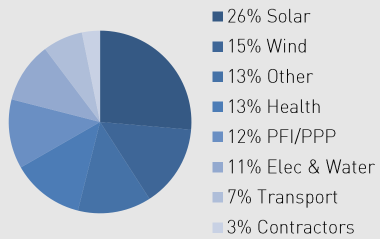
Sectors



Sources of Income



Available on the following platforms

AJ Bell
Allfunds
Alliance Trust
Ascentric
Aviva
Axa Elevate
Cofunds
FNZ
Hargreaves Lansdown
James Hay
Novia
Nucleus
Old Mutual (Skandia)
Pershing
Raymond James
SEI
Standard Life
Transact
True Potential

Fund Adviser's Report

We have communicated in previous updates that at each Quarter-end we shall take a step back and look at broader trends. This Quarter we shall focus on two highly relevant issues, namely Premiums in the Listed Closed Ended Infrastructure Companies and the outlook for long term interest rates. We shall also muse briefly on "the most expensive object ever built on the planet".

The Fund is invested in four different types of securities, with the first (Listed Closed Ended Companies) subdividing into two. These categories are: Listed Closed Ended Infrastructure Companies; Listed Closed Ended Renewable Energy Companies; REITs; Bonds; and Shares (mainly large capitalization Utility Companies).

It is in the first category above-mentioned that there are meaningful Premiums to NAV. The most important fact to note is that the Fund's aggregate allocation to this sector during the Quarter was c.20% and now stands slightly below that level - as such any exposure that the Fund has to high Premiums is not large. The Fund has three significant holdings: GCP Infrastructure Investments Ltd which has remained steady since July 1st at c.9%, HICL which has also remained at c.4.5% and John Laing Infrastructure Fund Limited which was reduced during the period from c.7.0% to c.5.5%. The Fund holds a small position in INPP (c.0.5%) and does not hold 3i or BBGI.

In the case of the three main holdings noted, Premiums recently have been in the 20% to 25% range. It is our belief that a significant part of the Premium that the market is placing on the long term inflation-linked cash flows that these companies own and pay out as dividends comes simply from the shift in long term rates during 2016. It is worth noting that from 1st January to 30th September the Long Gilt (UKT 3.5% 2045) rose in price by 28.57%, as the yield fell from 2.665% to 1.483%. During this same period the Boards and External Valuers of the Companies (both Infrastructure and Renewables) on whose decisions the NAVs are based, moved their Discount Rates - by which they turn the cash flows of the companies' assets into a present value, or NAV, by zero to 0.125%. Indeed across the Infrastructure and Renewables Companies the discount rates used are almost all in the 7.5% to 9.0% range, all of which leads us to conclude that the NAVs are conservative by meaningful amounts. Furthermore the Fund continues to use placements to buy at the lowest available Premium; HICL was trading at 185p in August – a Premium of 30.1% to stated NAV – and as such the Fund waited to buy its required allocation in the September placement. The price stood at 178p on the eve of the placement announcement and the Fund bought its full allocation at the 170p Issue price – a Premium of 19.5%. Similarly, the Fund Bought GCP Infrastructure in its July Placement at 116.5p (price on 30/9 131.6p).

In the case of the Listed Closed Ended Renewable Energy Companies, the Premiums have been in the 0% to 6% range during the period, capped by uncertainty over Power Prices (for the portion they generate not sold via Government Subsidies) and by their continuing issuance as the Sector consolidates with small operational assets being accumulated by the larger Listed entities. In the Quarter the Fund participated in four placements from these Companies and taken together with the Infrastructure Placements saved a total of 12.8 bps in Q3 vs market prices immediately before the placements were announced. In valuation terms, as noted above, long dated inflation linked cash flows are being valued in the 8% range. Renewables in 2015 made up 25% of the UK supply, with coal – due to be phased out by 2025 still at 20%. Hinckley C will generate 7% of UK needs "from 2025". Hinckley C is, by a margin, the most expensive item ever built – in current money values. Will it be on time (or on budget)? Experience suggests a strong potential for over runs in both cases; as such we definitely do like owning Renewables cash flows at current prices, contributing to the 5% net yield the Fund targets to pay to investors. Indeed at current prices for the Listed Closed Ended

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Renewable Energy Companies we remain positive; if we have learnt anything in the “QE era” it is that almost all of us are prone to calling the top too early – general wisdom was that Long Gilts at 2.67% weren’t a strong buy – yet if we’d bought on January 1st we’d have a 28.57% profit. We can see the cash flows that the Fund holds remaining well bid some distance into the future as we see few signs that the Global growth required to reverse Monetary policy meaningfully is on the horizon (and this notwithstanding the likelihood that the Fed will implement three 0.25% Fed Funds increases by year end 2017 with a move to us probable in December this year – the health of the US economy is an outlier).

Performance for the Quarter, and the Month for the C Accumulation Share class were both satisfactory at 7.35% and 0.46% respectively.
In Income terms, on 30th September it was announced that Holders of the I Income and C Income shares respectively will receive Quarterly payments of 1.6002p and 1.5485p.

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