

VT Downing Small & Mid-Cap Income Fund



May 2022 Commentary

In May, the Accumulation share class was down 1.42% while the IA UK Equity Income Total Return Index was up 1.09%. Key contributors were ContourGlobal (up 33.99%) and FRP Advisory (up 25.48%). Key detractors included Drax (down 16.71%) and Supreme (down 21.97%).

ContourGlobal, a growth platform for acquiring and developing wholesale power generation, saw its shares surge as its board backed a £1.75 billion takeover bid by US private equity company KKR. The deal, not yet confirmed, is likely to go ahead with the ContourGlobal board believing the offer provides an opportunity for all shareholders to crystallise their investment in the group at an attractive price.

FRP Advisory, a specialist business advisory firm, announced a trading update and reported another strong performance, delivering growth in revenue and profits. The group expects to report revenues for FY 2022 of £95.2 million, up 21% on the prior year, and adjusted EBITDA* of £25.7 million, up 12% on the prior year, both ahead of current market consensus. FRP benefited from notable contributions that were success fee based, including several sizeable Corporate Finance deals completing and certain contingent fees within the Restructuring division.

Drax, a renewable energy company, saw its shares fall as rumours grew of a windfall tax for UK energy providers. Pressure has been mounting on the UK government to assist households struggling with the rising cost of living. A support package will be partly funded by an energy profits levy on oil and gas companies, and a similar tax could be imposed on electricity firms.

Supreme, a manufacturer, supplier, and brand owner of fast-moving consumer products, has seen performance tempered by commodity price inflation and the increases in the overhead base relating to wage and transport costs. Following the sale of McColl's Retail Group to Morrison's, the group clarified that it had always served the McColl's store estate via a distribution direct with Morrison's.

* Adjusted EBITDA excludes exceptional costs and a share-based payment expense that arises from a) the Employee Incentive Plan (EIP) funded on IPO and b) deemed remuneration amortisation linked to acquisitions.

** Market consensus, at the time of this announcement: revenue of £87.7 million and adjusted EBITDA of £24.3 million, per Factset.

Opinions expressed represent the views of the fund manager at the time of publication, are subject to change, and should not be interpreted as investment advice.

About the fund

The fund aims to have a portfolio of 30-50 holdings, with no exposure to the FTSE 100. Josh seeks to invest in equities with unique assets or a sustainable competitive advantage. These businesses have the potential to generate excess returns on invested capital over the long term which can compound both capital and shareholder distributions.

Investment objective

The investment objective of the Fund is to achieve a quarterly income, together with capital growth over the long term (5 years).

Performance



■ A - IA UK Equity Income TR in GB [22.04%] ■ B - VT Downing Small & Mid-Cap Income Acc in GB [10.65%]*

*VT Downing Small & Mid-Cap Income Fund is formerly known as the VT Downing Monthly Income Fund.

Cumulative performance (%)							
	1m	3m	6m	YTD	1y	3y	5y
VT Downing Small & Mid-Cap Income Fund (Acc)	-1.42	3.18	-2.35	-6.81	2.55	10.25	2.90
IA UK Equity Income TR index	1.09	3.26	5.45	0.65	5.69	18.12	16.33
Quartile ranking	4	3	4	4	3	4	4

Discrete performance (%)					
	31/05/2021-31/05/2022	31/05/2020-31/05/2021	31/05/2019-31/05/2020	31/05/2018-31/05/2019	31/05/2017-31/05/2018
VT Downing Small & Mid-Cap Income Fund (Acc)	2.55	27.47	-15.66	-7.94	1.39
IA UK Equity Income TR index	5.69	27.30	-12.21	-5.11	3.79
Quartile ranking	3	2	3	4	3

Past performance is not a reliable indicator of future results. Performance figures source: FE Analytics.

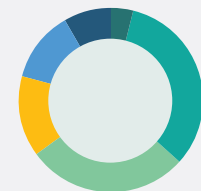


Fund Manager
Josh McCathie

Josh McCathie joined Downing in 2018 as an analyst and co-manager of the VT Downing Small & Mid-Cap Income Fund. He took over as lead manager in April 2021. Josh is also lead manager of the VT Downing Listed Infrastructure Income Fund which launched in March 2022.

Josh has over 8 years' experience in the industry that has been focused on UK equities. Prior to Downing he was at BRI Wealth Management focusing on UK equity research. Josh is a CFA charterholder.

Market Cap Breakdown



4.15%	<£150m
32.74%	£150m - £500m
28.12%	£500m - £1bn
14.23%	£1bn - £2bn
12.43%	£2bn - 4bn
0.00%	£4bn+
8.33%	Cash

Source: Factset

Top 10 Holdings

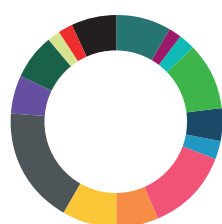
	% of fund
Watkin Jones Plc	4.12
Strix Group Plc	3.48
Smart Metering Systems Plc	3.48
Drax Group Plc	3.48
Caretech Holdings Plc	3.43
ContourGlobal Plc	3.26
Alpha Financial Markets Consulting Plc	3.09
EMIS Group Plc	3.08
Computacenter Plc	3.07
Lokn Store Group Plc	3.06
Total	33.55

Source: Valu-Trac Investment Management Ltd

Portfolio summary

As at 31 May 2022

Sector breakdown



8.33%	Cash	12.77%	Financials	1.78%	UK Corporate Bonds
2.13%	Commodity and energy	6.51%	Healthcare	2.32%	UK Equities
2.47%	Communications	8.37%	Industrials	6.73%	Utilities
10.39%	Consumer discretionary	17.80%	Information technology		
4.83%	Consumer staples	5.64%	Property		
2.75%	Energy	7.18%	Real Estate		

Source: Valu-Trac Investment Management Ltd

Key facts As at 31 May 2022

Fund Objective

To achieve a quarterly income, together with long-term capital growth

Launch date

14 June 2010

Conversion date

1 April 2012**

IMA sector

UK Equity Income

Currency

UK Sterling

Types of shares

Income & Accumulation

Fund size

(Income & Accumulation shares combined)
£42.69m

Yield

3.7%***

Income paid

Quarterly

Number of holdings

44

Prices as at 31 May 2022

Accumulation shares: 210.7666p
Income shares: 120.6727p

Charges

Initial charge: 0%
Annual Mgmt charge: 0.75%
Ongoing charges charged to capital****: 0.87%

Minimum Investment

Lump sum: £1,000
Subsequently: £500
Monthly savings: £100

SEDOL & ISIN numbers

Accumulation shares:

SEDOL B61JRG2
ISIN GB00B61JRG28

Income shares:

SEDOL B625QM8
ISIN GB00B625QM82

Authorised Corporate Director

Valu-Trac act as ACD and manage the administration for the fund.
Valu-Trac Investment Management Ltd
Orton, Moray
IV32 7QE
Tel: +44 (0) 1343 880 217
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Investment Manager

Downing LLP was appointed Investment Manager to the fund on 1 June 2015. Following the change of ACD, the fund name was changed to MI Downing Monthly Income Fund from 31 March 2017. This was changed again from 30 November 2020 and is now VT Downing Monthly Income Fund. As from the 1 November 2021, the fund is now known as the VT Downing Small & Mid-Cap Income Fund.

Investment Committee

Judith MacKenzie: Non-Independent Member
Donald Robertson: Independent Member
Darrell O'Dea: Independent Member

Quarterly distribution

Period to	Income
31/12/2021	1.0500p
31/03/2022 [†]	1.6452p

Source: Valu-Trac Investment Management Ltd and Downing LLP

* The distributions changed from monthly to quarterly from October 2021. The total 2021/2022 year distribution was 5.1451p.

Platforms and wraps

Aegon	Hubwise
AJ Bell	James Brearley
All Funds	James Hay
Aviva	Novia
Canada Life International	Nucleus
Elevate	M&G
Embark	Quilter
Fidelity (Inst)	Standard life
Fidelity (FFN)	Transact
Hargreaves Lansdown	Zurich

** The conversion date refers to the date the investment objective and policy were changed.

*** The historic yield reflects distributions declared over the previous 12 months net of tax as a percentage of the share price, as at the first business day of the current month. The yield will vary and investors may be subject to tax on their distributions. Fund charges and expenses are charged to capital, effectively increasing the distribution(s) for the year by the amount of the charges and constraining capital performance by the same amount.

**** The ongoing charges figure is based on expenses and the net asset value as at 31 December 2021. This figure may vary from year to year. It excludes portfolio transaction costs. The funds annual report for each financial year will include detail on the exact charges made.

www.downingincomefund.co.uk



Source: defaqto, 3 Diamond rated, 2022
As at February 2022

Statistics correct as at 31/05/2022. Performance figures source: FE Analytics. Fund performance is based on accumulation shares, indices include net reinvested income. defaqto, 2021. Performance figures are for the period from when the mandate was updated 31/03/2017 in a similar vein to how the fund is currently run. A focus towards small and mid caps. Past performance is not a guide to future returns. The value of the fund and the income from it may go down as well as up, so you may not get back the amount you invested. The tax treatment of the fund may change and such changes cannot be foreseen. Tax treatment depends on the individual circumstances of each investor.

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