

VT Downing Unique Opportunities Fund



December 2021 Commentary

December is a strange month on which to focus a commentary, with markets fairly dormant, share prices moving on very thin volumes, and company announcements reducing to a trickle. For what it is worth, 24 of our holdings rose in the month, three by double figure percentages (Ergomed, Mortgage Advice Bureau and Impax Asset Management). 9 holdings declined in value, but only one of these by more than 5%. This all came together in an overall rise of 3.0% in the price of the Accumulation units to 180.76p, and the UK stock market rose even more.

At the start of 2022, it seems a good moment to revisit some characteristics of the portfolio as a whole. Based on my analysis of their recent accounts, only 5 out of 33 investments (excluding a nominal stake in Trelus) carried any net debt. This gives optionality to management teams who have the choice of making acquisitions, paying out special dividends, or buying back shares. We expect to see elements of all three. The weighted average Return on Equity was over 30%, which is high considering it is not flattered by debt (indeed it is actually dampened by cash holdings which earn zero return). Of the 25 investments that disclosed a cost of goods number to calculate a gross margin, 14 had a gross margin in excess of 50%. Average operating margins are over 24% which all seems to demonstrate pricing power. Finally, and in my view reassuringly, the average stake held by directors in these portfolio companies was 9.7%. This statistic hides a bit of a barbell, with some big founder stakes, and some negligible stakes, generally where management teams are new or companies are at the larger end of the range. Nevertheless there is skin in the game.

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 25-40 holdings. As fund manager, Rosemary seeks to invest in equities she considers to have a unique outlook and opportunity for growth. These businesses will be identified as having sustainable competitive advantages that are difficult to replicate, which can create high barriers for new entrants and have the potential to generate superior returns over the long term.

Investment Objective

The fund's objective is to achieve capital growth and income over the long term (5+ years). It seeks to invest at least 80% in equities listed on UK markets (including the London Stock Exchange, AIM, and the ICAP Securities and Derivatives Exchange (ISDX)). The remainder will be invested in other equities, fixed income, money market instruments, deposits, warrants, cash and near cash.

The unique characteristics sought include:

- » having intangible assets e.g. brands, patents or regulatory licenses
- » having cost advantages stemming from process, location, scale or access to a unique asset
- » being the leading network in a business segment
- » there being high switching costs, which generate high customer retention rates

	Cumulative performance (%)					
	1m	3m	6m	YTD	1y	Since Launch*
VT DUO A Acc	2.99	0.51	5.94	25.82	25.82	80.76
IA UK All Companies TR Index	4.47	2.13	4.89	17.25	17.25	56.47
Quartile Ranking	4	4	2	1	1	1

*25 March 2020

	Discrete performance (%)	
	31/12/2020 - 31/12/2021	
VT DUO A Acc	25.82	
IA UK All Companies TR Index	17.25	
Quartile Ranking	1	

Please note that past performance is not a reliable indicator of future performance.



Fund Manager
Rosemary Banyard

Rosemary began her career with James Capel & Co where she was a senior investment analyst for 12 years. She rose to prominence and developed a reputation as a leading female fund manager in the UK after joining Schroders in 1997.

Rosemary spent nearly 20 years at Schroders and was for many years lead manager of the award-winning¹ Schroder UK Mid Cap Fund Plc as well as heading up several other UK equity mandates, managing total assets of circa £1 billion.

The Schroder UK Mid Cap Trust returned 17%² p.a. while Rosemary was manager and in her two and a half years (to June 2019) managing money at Sanford DeLand the CFP SDL Free Spirit Fund returned 31%³, placing it in the top decile of the IA UK All Companies sector.

Rosemary joined Downing in March 2020 to launch the **VT Downing Unique Opportunities Fund (DUO)**.

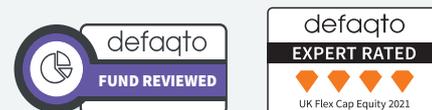
¹ Investment Week - Best UK Growth Trust 2013 & 2014. Outstanding Industry Contribution Award 2015 - 1st May 2003 - 31st March 2016. (Lead manager)

² Schroder UK Mid Cap Fund Plc Annual Reports & Accounts 2015. Rosemary was lead manager of this fund from 01/05/03 to 31/03/16

³ Financial Express 03/01/17 - 28/06/19



Awarded 30 June 2020.



Rosemary's fund is 4 Diamond rated, defaqto 2021.



As at December 2021.



Awarded August 2020.

Portfolio summary

As at 31 December 2021

Top 10 holdings

	% of fund
Impax Asset Management Group plc	3.86
Tatton Asset Management Ltd.	3.63
Rightmove plc	3.51
Auto Trader Group plc	3.42
Chemring Group plc	3.36
Alfa Financial Software Holdings plc	3.32
Dunelm Group plc	3.16
Mortgage Advice Bureau (Holdings) plc	3.16
Diploma plc	3.16
Advanced Medical Solutions Group plc	3.13

Source: Valu-Trac Investment Management Ltd.

Portfolio by sector



9.72%	Cash	16.65%	Healthcare
12.15%	Communications	12.04%	Industrials
8.81%	Consumer discretionary	19.08%	Information technology
3.05%	Consumer staples	5.70%	Materials
12.80%	Financials		

Source: Valu-Trac Investment Management

Portfolio by company size



6.93%	> £5bn
30.22%	£1bn - £5bn
36.39%	£500m - £1bn
16.74%	£200m - £500m
0.00%	< £200m
9.72%	Cash

Source: Factset

Key facts As at 31 December 2021

Structure

London listed Open Ended Investment Company (OEIC), established as a "UCITS scheme".

Launch date

Income: 17 March 2020
Accumulation: 25 March 2020

Fund Size

£59.15m (Accumulation and Income share classes combined)

Share price

Class A: 180.7634p (Acc.)
Class A: 180.6892p (Inc.)

No of holdings

34

Minimum initial investment

Class A Lump sum: £1,000

Dividends

Semi-annual

Liquidity

Daily pricing and daily dealing

ISA Eligible: Yes

www.downingunique.co.uk

* **Please note:** The ongoing charges figure is based on expenses and the net asset value as at 16 April 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.

The Investment Manager of the fund has undertaken to absorb any costs that would otherwise cause the fund to have ongoing charges in excess of 1%.

Sector

IA All Companies Sector

ISIN Codes:

Class A Accumulation: GB00BHNC2614
Class A Income: GB00BHNC2721

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Fund charges

Initial charge: 0%
Annual management charge:
0.75% p.a.
Ongoing charges*
0.93% p.a.

Distributions

Period end	Ex Dividend	Payment Date	A Acc (GBp)	A Inc (GBp)
Dec-20	31/12/2020	26/02/2021	1.2835	1.3126
Jun-21	30/06/2021	31/08/2021	0.8922	0.9041
Dec-21	31/12/2021	28/02/2022	1.5653	1.5782

Distributions are subject to change and should not be utilised as a basis for an investment decision.

How to apply:

Telephone: +44 (0) 1343 880 217 or visit:
<https://www.valu-trac.com/administration-services/clients/downing/unique-opportunities/>
Also on the following platforms:

7IM	Hubwise
Aegon	Interactive Investor
AJ Bell	James Hay
Allfunds	M&G
Aviva	Nucleus
Canada Life	Quilter
International	Raymond James
Elevate	Standard Life Wrap
Embark	Transact
FNZ	Utmost
Hargreaves Lansdown	Zurich

We are currently working with other platforms so please let us know if yours is not listed above.

Risk warning: Your capital is at risk. Investments into this fund should be held for the long term (5+ years). The value of your investment and income derived from it can fall as well as rise and investors may not get back the full amount invested. This fund has a small and mid-cap bias. Investments in smaller companies are generally higher risk compared to investments in blue chip companies. The fund does not have any particular industry or economic sector focus and as such weightings in these may vary as required and investments may be in the same sectors. Past performance is not a guide to future returns. Please refer to the latest full Prospectus and KIID before investing; your attention is drawn to the risk, fees and taxation factors contained therein.

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DUO0045_Jan (Dec 21) 2022