REVERA
ASSET MANAGEMENT

FUND MANAGERS
STEPHEN GRANT
GLEN NIMMO

SVS REVERA UK DYNAMIC FUND
AS AT 30 SEPTEMBER 2022

FACTSHEET

OVERVIEW

In the fullness of time, the world will discover how close the UK came to a Lehman Brothers-like financial collapse in late September 2022. Market turmoil, perhaps too conveniently attributed to the publishing of the UK's mini budget on 23 September, sufficiently unnerved the Bank of England (BoE) which undertook its largest intervention in financial markets since the pandemic. The budget was arguably the biggest easing of fiscal policy since the early 1970s (itself a less than vintage period for Conservative economic policy) and promised £45bn of cuts in personal taxation, funded by increased borrowing. In addition, the planned rise in corporation tax for 2023 has been scrapped. The Government argues these measures will provide a platform to double the UK's trend rate of growth.

Easier fiscal policy should bolster near term growth but higher than anticipated levels of government debt will almost certainly result in higher interest rates over the medium term. Precise numbers are hard to come by as the OBR has not yet released its projections, but most commentators suggest the level of debt to GDP will be at its highest level since the 1950s and north of 100%.

Financial markets did not respond well to the tax cuts and somewhat cavalier attitude to debt. Bond investors are now suggesting a peak in UK interest rates of more than 5.0% in 2023. This drove yields in UK government bonds much higher, with the sell off in 30-year UK gilts forcing pension funds to liquidate some of their investments in gilts to cover costs associated with Liability Driven Investment (LDI) strategies. LDI margin calls exacerbated the selling pressure in the gilt market and creating the spectre of a downward spiral in gilt prices. The BoE acted as a circuit breaker, and committed to buy gilts on "whatever scale is necessary" and thus averted a full-blown financial crisis.

Most commentators regard the mini budget as a gamble, with any boost to growth far from guaranteed and the resulting higher debt levels leading to even higher interest rates.

TRAFFIC LIGHTS

- HISTORIC EARNINGS VALUE
- EQUITY VS BOND VALUE
- EARNINGS REVISIONS
- APPETITE FOR NEW EQUITY
- SHARE PRICE MOMENTUM

The last two months have driven deep value in many parts of the UK market. However, until investors can see a peak in interest rates markets will remain volatile.

KEY FEATURES

FUND SIZE		£19M
SHARE PRICE	Corporate Class	182.6p
ISIN	Corporate Class	GB00B8350522
ONGOING CHARGES	Corporate Class	0.80% (0.75% AMC)
STRUCTURE		UCITS V ICVC
DEALING TIME		12pm every business day
TELEPHONE		0141 222 1150
PLATFORMS	EMX	Pershing
	Standard Life	AJ Bell
	Transact	Elevate
	Nucleus	CoFunds
	Hargreaves Lansdown	Aviva
	Novia	Old Mutual

PERFORMANCE	1 Month	3 Months	1 Year	3 Years	5 Years	Since Launch	MSCI UK All Cap Since Launch
Corporate Class	-8.0%	-9.8%	-21.8%	-14.6%	-6.5%	125.8%	137.0%
MSCI UK All Cap (Gross)	-5.9%	-3.9%	-3.1%	1.7%	10.0%		

SVS Revera UK Dynamic Fund does not have a formal benchmark. In order to aid understanding of historic performance, the MSCI UK All Cap Index (Gross) is presented as a comparator. It should not be inferred that the SVS Revera UK Dynamic Fund will be managed with any reference to this, or any other, comparator index. Performance data since launch is calculated using Founder Class share performance until 31/10/13, and Corporate Class share performance thereafter.

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COMPANY NEWS

Melrose was hit especially hard in the wake of the financial market turmoil during the month. Its interim results were at the higher end of expectations and underpin management's confidence in meeting its full year expectations. Its two main operating divisions comprise the former GKN Automotive and Aerospace businesses, both of which command world leading positions in their respective markets. Despite well publicised supply chain challenges, Automotive should benefit from a cyclical recovery and there are structural changes in both electric vehicles and, further out, hydrogen that it can exploit. The Aerospace recovery in narrowbody aircraft looks well set, given the under build in the pandemic years. While some investors were disappointed by management's decision to separately list the two operating businesses, the fall in the share prices appears to us to be a massive overreaction.

Legal & General (L&G) released an unscheduled trading update in response to investor concerns over its LDI exposure. Whilst it noted a significant increase in market volatility, L&G emphasised that this had a limited economic impact on its business. L&G's asset management division, LGIM, is one of the UK's largest providers of LDI products but it reminded investors that it had no balance sheet exposure to LGIM's LDI business. Despite the market volatility, L&G's annuity portfolio had not experienced any difficulty in meeting collateral calls, and it had not been a forced seller of gilts or bonds. Further, it commented that demand for Pension Risk Transfer continues to increase (as it should given the direction of bond yields).

L&G 's balance sheet remains healthy, with approximately £2.3bn of cash and a Solvency II ratio of between 235% and 240%, the latter helped by higher interest rates and strong ongoing operational surplus generation. It also confirmed that it was on track to deliver earnings in line with its August guidance.

WHAT DOES THE PORTFOLIO LOOK LIKE?

TOP 20 HOLDINGS	MARKET SECTOR	%
GlaxoSmithKline	Pharmaceuticals	7.0
Spectris	Electronics & Electricals	5.4
Shell	Oil & Gas	5.3
Gooch & Housego	Electronics & Electricals	5.2
Marshalls	Construction	5.0
Diageo	Beverages	5.0
Spirent Communications	Technology	4.9
Spirax-Sarco	Engineering	4.8
QinetiQ	Aerospace & Defence	4.7
Crest Nicholson	Construction	4.7
TOTAL FOR TOP 10		**52.0**
Hargreaves Lansdown	General Financials	4.4
Smith & Nephew	Healthcare	4.4
Sage Group	Computer Software & Serv.	4.4
Anglo American	Mining	4.2
Whitbread	Travel & Leisure	4.1
Hays	Support Services	4.1
Next	General Retailers	4.0
Legal & General	Life Assurance	4.0
Lloyds Banking Group	Banks	3.9
Bellway	Construction	3.9
TOTAL FOR TOP 20		**93.4**
Other Equity Holdings		3.2
Bonds and net Liquidity		3.4
	TOTAL	**100.0**

WHAT SHOULD I BE WORRYING ABOUT?

At a recent social event, a conversation with a long-time friend went along the lines of, 'so when will we next see you in New York?'. The reply of 'with Sterling heading for parity with the Dollar it could be some time' evoked a response of, 'Yes, at this rate we'll be selling up and moving back to London.' Whilst markets were spooked by Sterling's precipitous decline against the Dollar and the implications for inflation, the currency weakness is likely to make UK assets more attractive to overseas buyers. There are numerous examples of excellent businesses that are listed in London, but whose prospects depend very little on the fortunes of the UK economy. These are for all practical purposes Dollar earners, pay Dollar based dividends and whose declining valuations are making them increasingly attractive to corporate buyers, particularly US based corporates.

There is a danger that the less than rosy immediate prospects for the UK economy leads to investors overlooking the virtues of a significant range of quoted equities simply because they happen to be London listed.

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WHAT ARE THE KEY FEATURES?

The SVS Revera UK Dynamic Fund:

- Is designed as a UK Special Situations Fund, that has the capacity to invest in the UK equity market wherever the fund managers believe the best return can be made.
- Is a focused fund, with a target of 25 holdings. The fund managers believe that holding a smaller number of investments increases the time they can devote to monitoring each of them.
- Has a roughly even exposure to all of its investments, as the fund managers believe that this is more likely to achieve a better balance of risk and performance contribution.
- May at times have a higher than average exposure to small and medium sized companies, to utilise the fund managers' experience in this area.

HOW DO WE SELECT INVESTMENTS?

Revera is a fundamental investor. We typically invest in businesses where:

- We are confident in the business's ability to generate attractive and increasing levels of cash.
- Where we are confident that the business model is sustainable.
- Where we see scope for cash generation to drive dividend payments or other returns to shareholders.
- Where we expect the compounding up of earnings to drive the increases in value.

Revera is also aware of the prevailing market environment, and uses its own "traffic light" framework to assess the overall risk to investing in the UK equity market at any point in time. This framework assesses valuation and momentum within their historic ranges, and the emergence of "red lights" suggests a heightened risk to capital by investing in the UK equity market at the point in time.

WHAT IS REVERA?

Revera Asset Management Ltd is a UK equity boutique, based in Edinburgh.
Revera is a wholly-owned subsidiary of Assetco plc, the agile asset and wealth management company which is quoted on London's AIM market.
Revera forms part of Assetco's active equities platform, which also includes River & Mercantile and Saracen Fund Managers.
The portfolio is managed by Stephen Grant and Glen Nimmo, who have worked as part of the same team for 26 out of the last 28 years.
Stephen Grant has 38 years' experience in the UK equity market, with Scottish Mutual, Scottish Amicable and Ivory & Sime plc, where he picked up industry awards for performance in 2005 and 2006. Stephen has been with Revera since 2006, and joined its Board in 2007. He adds long experience in the capital goods sectors to the research expertise in Revera.
Glen Nimmo has over 28 years' experience investing in UK equities, and was a founder of Revera in 2003. He is also the company's Chief Executive. He has a background in food manufacturing, and brings that perspective to many of Revera's investment discussions. He is a long time analyst of the housebuilding and healthcare sectors.

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STATUTORY PERFORMANCE PRESENTATION

	30 Sep 2021- 30 Sep 2022	30 Sep 2020 - 30 Sep 2021	30 Sep 2019 - 30 Sep 2020	30 Sep 2018 - 30 Sep 2019	30 Sep 2017 - 30 Sep 2018
Corporate Class	**-21.8%**	**29.3%**	**-15.5%**	**5.5%**	**3.7%**
MSCI UK All Cap (Gross)	**-3.1%**	**28.2%**	**-18.1%**	**2.1%**	**6.0%**

Please remember that past performance is not a guide to future returns.

Shareholders may compare the performance of the fund against the MSCI UK All Cap (Gross) Index. The ACD has selected this comparator benchmark as it believes this benchmark best reflects the fund's asset allocation. The benchmark is not a target for the fund, nor is the fund constrained by the benchmark.

RISK FACTORS

This fund is designed as a medium to long-term investment, for example, at least five years.

The value of this investment is not guaranteed and can go down as well as up. Investors may not get back capital originally invested.

There is no guarantee the investment objective of this fund will be met.

This fund is likely to be more concentrated than other funds and may be more volatile than other funds.

There will be times when this fund's performance will be unlike that of any stock market index. This may, or may not, be advantageous to investors.

Before making an investment you should ensure that you have read and understood the Key Investor Information Document and the Prospectus. A copy of the Prospectus and Key Investor Information Document for the fund is available directly from our website at www.reverafunds.com