Equitile Investments Ltd
22 Tudor Street
London

Equitile Investments Ltd – Value Assessment

Background

The FCA has introduced new rules requiring asset managers to carry out an annual assessment of whether we provide value – this is known as the Value Assessment. This not only looks at costs but also investment performance and quality of service.

We welcome this development and see the annual Value Assessment as a useful mechanism to prompt the periodic review of the value Equitile Investments and our investment funds are delivering to our clients.

Summary and highlights

Equitile currently manages just one investment strategy (the Strategy) which invests in the equity of large high-quality, high-growth companies listed on developed markets around the world. This strategy is executed in the Equitile Resilience Fund (an Authorised Contractual Scheme, ACS) and may also be accessed via our Equitile Resilience feeder fund (OEIC). Both of which are UCITS compliant and domiciled in the UK.

In accordance with the requirements of this value assessment, we have reviewed the effectiveness of the investment strategy, the costs incurred by the Funds and the service level provided to clients.

We are pleased to report we have concluded the Strategy is continuing to function as we had hoped in helping us construct a portfolio of investments delivering strong positive returns for clients.

In reviewing the Strategy, however, we have identified our management of foreign exchange risk as one area where we can make a material improvement to the outcome for clients. From launch, we have applied a foreign exchange hedging strategy to largely eliminate the effect on investment returns from foreign exchange movements. When we originally launched the Strategy, we anticipated the portfolio would be geographically diversified and that exposure to regions and individual markets would vary considerably over time. However, over recent years, we have consistently found the bulk of our most attractive investment opportunities in U.S. listed companies. As a result, most of the underlying currency exposure of the Funds has tended to be U.S. dollars and we expect this situation to remain for the foreseeable future. As the world's reserve currency and principle funding currency there is a tendency for the U.S. dollar to appreciate in times of financial market stress. From a European perspective this effect can help reduce overall return volatility. As a result, since we now anticipate the Strategy remaining heavily invested in U.S. companies, we have concluded, on balance, it would be in investors best interest to discontinue the FX overlay program until the underlying configuration of the portfolio changes materially.

The principle change proposed in this year's Value Assessment, therefore, is to discontinue the FX overlay program during the next year. The removal of the FX overlay program will have the effect of materially reducing the ongoing fees charged to the Funds. The fee saving will differ somewhat between the Funds' different share classes but the typical saving will be in the range of 5% to 10% of the overall ongoing charges.

We will of course continue monitoring the investment climate and may consider resuming a foreign exchange management program if we feel investment conditions warrant it.

As part of the assessment we confirm the following:

- Where economies of scale exist and have been identified they are passed on to the investors.
- The fee model is designed to ensure that alignment of interests between the manager and the investor is maintained at all AUM levels.
- The Equitile operating model is designed to ensure that operational costs are kept to an efficient minimum through the use of delegate or outsourced functions and technology where appropriate.
- With currently only one,Master-Feeder stucture Equitile does not have many of the conflicts that exist in larger managers.

1. Performance

How do we think about value?

Our aim is to provide an investment strategy which delivers an attractive pattern of positive returns, after all fees, to our investors. We strive to do so in the simplest possible manner with a minimum of extraneous risks. We anticipate the Fund will deliver high single-digit returns over the long-term.

How do we measure up?

Since launch, our strategy has delivered, for all share classes, high single digit positive annualised returns. At time of writing, those returns have been somewhat depressed by the market turbulence associated by the COVID19 economic shutdown. Nevertheless, over a rolling three-year history, the strategy's returns remain comfortably above returns seen by most of the broader indices.

The below table shows GBP share class performance

Net Asset Value Metrics					GBP Class									
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Last NAV	YTD
2020	1.62%	-10.19%	-9.48%	10.33%									145.65	-8.85%
2019	6.61%	6.12%	3.48%	4.06%	-7.11%	7.04%	4.26%	-2.13%	-0.84%	1.41%	4.81%	2.65%	159.79	33.74%
2018	6.77%	0.07%	-4.88%	2.27%	6.80%	-2.58%	-0.75%	6.30%	-0.43%	-11.64%	-1.36%	-7.12%	119.48	-8.03%
2017	2.10%	3.10%	1.36%	2.30%	2.84%	-0.40%	2.69%	-0.65%	2.84%	6.38%	3.20%	-2.36%	129.91	25.76%
2016			0.59%	-0.01%	-0.36%	0.98%	5.13%	-0.23%	-0.36%	-4.19%	0.85%	1.08%	103.30	3.30%
	1 yr:	0.05%	3 yr:	29.17%	Total return:		45.65%		Annualized return since inception					9.44%

How can we improve?

As discussed above. The two (master and feeder) Equitile funds currently utilise a currency overlay service to hedge away the effect of movements in foreign exchange rates. This is achieved by trading in the currency forward markets and is a service purchased by the Fund's from a third party. The operation of this program has been efficient and effective at eliminating foreign exchange risk. However, we have concluded, that because of the typical composition of the underlying investments, the hedging of foreign exchange risk is of less value to our investors than previously anticipated.

By eliminating the FX overlay program the Funds will enjoy a reduction in its ongoing management charges and a simplification of its operations.

It is our intention to effect this change during the forthcoming year and to have it completed prior to the next value assessment.

2. Quality of Service

How do we think about value?

At Equitile, we constantly seek to provide a better service to our investors.

Investors should have a clear understanding of the product or service they are purchasing and their experience when dealing with Equitile personnel and its service providers should be as straightforward as possible while meeting the highest regulatory standards.

Fund documentation and marketing material is a key element to this understanding. Regular account reporting and clear ad hoc reporting are important to ensure that investors are and feel well informed.

In particular, fees should be clear and transparent.

How do we measure up?

As a relatively small firm, Equitile has short and clear lines of communication and accountability which means we are able to quickly connect with investors to understand any changes to their views, needs and requirements.

As well as delivering investment performance, Equitile Investments, along with its key service provider, HSBC, offers the highest standards when dealing with existing and potential investors. We ensure that service levels during the client onboarding process, for example, is professional and efficient while meeting all regulatory requirements.

For investors, we communicate in a timely and appropriate manner - monthly updates, for example, are published online and delivered to investors within two days of the month end. Additionally, we offer thought leadership for clients on economics and markets through our regular Insights publications.

How can we improve?

Equitile will continue work with various third parties to ensure that our documentation is up to date regarding regulations. Additionally, Equitile will continue to work to improve the way in which we communicate with investors with a special focus on clarity.

3. AFM costs - general

How do we think about value?

As a relatively young company, Equitile was able to structure its own cost base in an extremely efficient way, deploying the latest technology without the encumbrance of legacy cost-structures. Culturally, it is our nature to maintain that advantage relative to larger managers, in the long-term interests of our investing clients, while maintain a good degree of operational resilience.

How do we measure up?

Our investment methodology is structured in a way that minimised the need to pay for external providers. Equitile does not use external research providers, for example, and resists the use of information providers, such as index providers, who do not directly enhance the outcome for investors.

Moreover, with respect to the operational aspects of managing the Funds we have been careful to outsource those functions where an external provider can offer value and reduce operational risk, such as middle office functions, but to retain control when we feel that we can reduce risk and costs by performing those functions ourselves e.g. collateral management.

How can we improve?

Equitile will continually review operation costs although we feel that we now have an appropriate cost structure which offers efficiency for clients while providing a good degree of operational resilience.

4. Economies of Scale

How do we think about value?

Equitile constantly strives to ensure that all costs and fees charged to the Funds are fair and proportionate.

How do we measure up?

Equitile has constantly sought to align the costs borne by clients, with performance and the costs of managing the Funds and maintaining a high level of client service. Our fair fee model plays an important role in this respect.

The Funds are relatively small in terms of assets under management; however, Equitile in partnership with its delegate suppliers is constantly seeking to ensure costs are fair and proportionate. The contracts and Service Level Agreements (SLA) with the Fund's administrator and custodian, HSBC, for example include economy of scale criteria – allowing benefits, where derived, to be passed on to investors.

During the year Equitile has been able to negotiate further reductions in some execution costs to the Funds.

Some of the costs reported in our OCF are fixed or fall in percentage terms as the Funds grow. These benefits are retained by investors who see an uplift in performance which is reported after these costs.

During the year AUM of the Funds has varied significantly – in the first instance this was due to significant positive performance and more recently due to market volatility from the COVID19 crisis. Net, however, this has resulted in many of the Funds' costs remaining relatively unchanged.

A significant portion of the fees charged to the Funds is the manager fee. Equitile feels strongly that these fees should be fair and proportionate which is why we deploy our unique fee model.

How can we improve?

Equitile will monitor opportunities to exploit economies of scale internally and externally. Where they are generated these will be passed onto the investor wherever possible.

5. Comparable market rates

What do we mean by Value?

Lower costs on their own do not represent value in our opinion – we believe the Funds performance is also a critical element.

Investors should also be aware of indirect costs they may be paying to a platform provider or advisor – especially if there is an opportunity to invest directly in the Funds without the use of an investment platform. Care should therefore be taken to understand all the elements of the costs to the investor as they may not all be 'fund costs' but advisor or other professional costs.

How do we measure up?

In contrast to many competing providers, Equitile does not make additional charges at the time of subscription or redemption.

Equitile have developed a fair fee model that is market leading. There are no other funds with this specific model. Our manager fee of 0.7% fixed for the first £350m of AUM is one of the lowest for an active manager. The performance fee element which is only charged on AUM above £350m is 10% of performance above High Water Mark (HWM) which does not reset – for an active manager we believe this is a competitive fee model in the market place.

At this time the OCF as reported is 93bp for our Feeder Fund £-class. This compares favourably with the other actively managed funds sold to retail investors[1].

How can we improve?

Equitile will continually monitor the market rates for fees and performance. Should there be opportunities for new or innovative management fee structures which can be used to align investor and manager objectives then Equitile will consider these in future value assessments.

6. Comparable services

What do we mean by Value?

A fundamental part of Equitile philosophy is to ensure the highest standards of service and operational resilience. Cost is one of but not of itself the only measure of value.

When purchasing services from external providers on behalf of investors, Equitile is careful to ensure that these services come at a competitive price but also enhance operational resilience on behalf of investors. Naturally, how these costs compare to those of similar funds of similar size is a key element in our understanding of value.

How do we measure up?

Equitile acts as the Authorised Corporate Director (ACD) for the Funds, a function which in many other firms is often outsourced to external service providers. For investors in Equitile Funds, therefore, this comes as part of the Annual Management Charge mentioned above. Similarly, collateral management as a function is undertaken by Equitile, not as a separate function by a third party and then charged to the Funds.

Equitile does not use external third parties to undertake Equity research – this function is conducted in-house by Equitile staff and is part of the management fee.

For those services that are bought from external providers (custody, administration, depository, transfer agency, trade execution, audit etc) we are confident that the aggregate cost of these services is competitive

[1] The latest Asset Management Market study from the FCA suggests that the average active fund available to retail investors had an OCF of 138bp. Financial Conduct Authority, Asset Management Market Study. Interim Report: Annex 7 – Fund Charges Analysis, Figure 8, page 12, November 2016.

given the relative size of the Funds' assets under management. For our Feeder Fund £-Class, for example, these costs currently amount to 23bp[2]

How can we improve?

Equitile will continue to monitor any addition of fees that are charged to the Funds and ensure that external services are competitively priced given the size of the Funds.

7. Classes of Units

What do we mean by Value?

The asset management industry has a history and legacy of different share classes and fee structures which are offered to different investors. While there may be some good logic to some of this mechanism, it is overly complicated in our view and is not often transparent. As such we avoid the issuance of share-classes with materially different fee structures.

How do we measure up?

Equitile Founders and Senior management are all materially invested in the Fund on the same terms as all other investors – there is no preferential "Founder" share class.

Equitile has a relatively small number of share classes and all of them have the same fee structure. There are minor differences in the OCF for the Feeder Fund share classes (£-Class 93bp, EUR-Class 104bp, USD-Class 104bp, NOK-Class 103bp) which are primarily down to the FX Hedging program. We are proposing to remove this program in the coming months.

How can we improve?

Equitile will continue to maintain a simple, transparent fund structure to ensure that fees are clearly communicated.

[2] The latest Asset Management Market Study from the FCA suggests these service costs for the industry on average amount to 28bp. Financial Conduct Authority, Asset Management Market Study. Interim Report: Annex 7 – Fund Charges Analysis, Figure 5, page 10, November 2016.