Equitile Investments

Equitile Funds - Assessment of Value

For the year ended 2020

Background

The FCA rules require 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 a single investment strategy across two fund structures. The strategy 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 (the Fund) and may also be accessed via our Equitile Resilience feeder fund (the Feeder Fund) both of which are domiciled in the UK. The strategy is also executed via the Equitile Global Equity Fund and Irish Management Company structure under Prescient Financial Services (PFSI) umbrella ICAV UCITs fund.

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 investment strategy is continuing to function as we had hoped in helping us construct a portfolio of investments delivering strong positive returns for clients.

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 investors is maintained at all AUM levels.
- The Equitile operating model is designed to ensure that operational costs are kept to an efficient minimum using delegates or outsourced functions and technology where appropriate.

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. Subject to market risks, we anticipate the Fund will continue to 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 or higher positive annualised returns. Against this backdrop we are pleased to be able to report the Fund delivered positive returns during 2020. This was a year of extreme turbulence due to worldwide economic shutdowns and despite of this, the Fund delivered positive returns across all share classes. The share price of the OEIC GBP share class increased by approximately 15% during the year while the US dollar class increased in value by approximately 30% over the year. The difference between the two being driven by intra-year foreign exchange volatility in response to the COVID lockdown.

Over a rolling three-year history, the strategy's returns remain comfortably above returns seen by most of the broader indices. While return on investment remains of prime importance to us, we have long understood that conscientious regard for environmental, social and governance (ESG) considerations can reduce the risks of financial loss in Funds we run. Unethical or neglectful behaviour by a company in one of these areas can harm those who invest in a company's shares as well the environment or society in which a company is located.

Equitile became a signatory to PRI (Principles for Responsible Investing) in 2020. PRI plays a fundamental role in improving investment decisions for the ultimate beneficiaries when principles are put into practice by Fund Managers – For example, it heightens Fund companies' attention to material ESG issues (*which they are asked to disclose under Principle 3*), thereby improves their performance with a knock-on benefit to financial performance.

Net Asset Value Metrics					USD Class									
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Last NAV	YTD
2021	0.63%	0.71%	1.72%										230.08	3.10%
2020	1.70%	-10.12%	-4.78%	11.21%	4.61%	4.62%	7.81%	7.06%	-3.18%	-3.65%	10.99%	4.96%	223.17	32.90%
2019	6.78%	6.24%	3.66%	4.23%	-6.96%	7.19%	4.42%	-2.05%	-0.61%	1.60%	4.87%	2.83%	167.92	36.16%
2018	6.90%	0.32%	-4.73%	2.33%	6.94%	-2.40%	-0.66%	6.44%	-0.34%	-11.54%	-1.22%	-6.91%	123.33	-6.45%
2017	2.20%	3.14%	1.46%	2.37%	2.92%	-0.28%	2.79%	-0.55%	3.02%	6.44%	3.22%	-2.16%	131.84	27.20%
2016			0.61%	-0.04%	-0.37%	1.01%	5.05%	-0.23%	-0.24%	-4.03%	0.88%	1.16%	103.65	3.65%
	1 yr:	57.43%	3 yr:	70.81%	Total return:		130.08%		Annualized return since inception					17.80%

How can we improve?

We are improving the rigour and depth of our ESG analysis to mitigate investment risk, to ensure we capture the benefit of economic change and to ensure the companies we invest in take their environmental, social and governance responsibilities seriously.

A strong ESG proposition links to value creation in several essential ways. Whilst governance factors have always featured robustly in our risk assessments, we seek to place further emphasis on environmental and social criteria that will facilitate top-line growth, reduce costs, minimise regulatory and legal interventions, increase employee productivity and optimise investment and capital expenditures in our Funds companies.

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 can 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 providers, offers the highest standards when dealing with existing and potential investors. We ensure that service levels during the client onboarding process, for example, are 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?

As part of our ongoing development Equitile has recently reviewed and further improved its staff training to ensure appropriate levels of personal development and service quality are maintained.

Moreover, our ESG guidelines have been reviewed in accordance with our overarching aim to ensure we fulfil our fiduciary duties and meet the evolving needs of our clients. As a firm, we continually seek to focus on building a sustainable business that is aligned with our main stakeholders – clients, employees and shareholders.

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.

With the end of the UK transition period with the EU Equitile has launched the Equitile Global Equity Fund (An Irish ICAV under PFSI) to offer an alternate UCITs structure under the same investment strategy. Depending on investors' circumstances they can choose to invest in an EU or UK domiciled structure.

3. AFM costs - general

How do we think about value?

Having only launched a few years ago 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?

As outlined in the 2020 Value Assessment Equitile suspended its currency overlay service after a review of the program's cost against performance. This function remains suspended for at least the medium to long term. The resulting reduced cost has been passed in full onto the investors.

With the addition of the second fund structure under the same investment's strategy Equitile will continue to review operation costs.

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, Delegated Fund Manager all 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.

A significant portion of the fees charged to the Funds is the manager's 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, and no charges associated with minimum investment periods.

For the Fund 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.

At this time, the OCF as reported is 99bp for the Feeder Fund GBP-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 Fund Manager (AFM) 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

[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.

services is competitive given the relative size of the Funds' assets under management. For the Feeder Fund GBP-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 has no preferential share class. There is only one share class per currency and all have the same fee model.

Equitile has a relatively small number of share classes and all of them have the same fee structure.

How can we improve?

We will look to review options to potentially offer different and more competitive fee structures such that investors have greater flexibility to select a structure more suited to their personal needs. Equitile will continue to maintain simple and transparent fund structure to ensure that fees are clearly communicated.

Overall conclusion

We believe that we have provided good value to our investors for the year ending 31 December 2020. We will continue monitoring our performance and processes regularly, while recognising that there is always room for improvement as we continue on in our efforts to deliver investment success to our investors.

[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.