Equitile Investments Ltd – Value Assessment

Equitile Investments Ltd – Value Assessment 2023 April

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.

Equitile 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 manages a two investment strategies and three funds, one Long and the other Long Short by nature – the Long Short fund is not covered in the scope o this document as it is not open to retail investors in the UK. The Long only 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 (RESIL) and may also be accessed via our Equitile Resilience feeder fund (the RESIL Feeder Fund) both of which are domiciled in the UK. The strategy is also executed via the Equitile Global Equity Fund (GLOBE) 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.

Despite challenging economic environment for the strategy 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. In absolute terms performance in the last 12 months has dropped below previous years.

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 through the use of delegate or outsourced functions and technology where appropriate.

1. <u>Performance</u>

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 and despite recent market volatility 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 over the longer term (since inception); however, the last year have seen a negative return.

Over a rolling full three-year history, the strategy's returns remain above returns seen by most of the broader indices.

Equitile is no longer a signatory to PRI (principles for Responsible Investing) in 2020 and the ICAV fund became a SFDR (Sustainable Finance Directive) Article 6 fund in 2022.

Net Asset Value Metrics						USD Class								
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Last NAV	YTD
2023	5.00%	-3.73%	2.28%										204.38	3.39%
2022	-14.51%	-2.30%	4.20%	-11.22%	-3.01%	-12.31%	13.53%	-4.65%	-9.49%	4.25%	4.98%	-3.07%	197.68	-31.70%
2021	0.63%	0.71%	1.72%	5.64%	0.69%	3.50%	2.83%	3.14%	-5.57%	6.00%	6.83%	0.74%	289.41	29.68%
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:	-17.33%	3 yr:	30.19%	Total return:		99.83%		Annualised return since inception					10.75%

How can we improve?

During this period Equitile reviewed the broader ESG frameworks and certifications. Following extensive discussion that included a number of investors the Board concluded that these represented potential constraints to the fund.   The investment process had not changed from inception – the firms view being that harmful and damaging firms are not in the long term good investments.

This resulted in the reclassification of the fund from SFDR article 8 to article 6 (as it previously had been. To emphasis, the investment process has not changed during this period.

We will continue to monitor and manage this area as necessary to ensure value to the investors.

2. <u>Quality of Service</u>

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 and where appropriate alternate fee options available to choose from.

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 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 will continue to improve its staff development to ensure appropriate levels of personal development and service quality are maintained.

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. Costs - general

How do we think about value?

As an independent manager Equitile has structured 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 has not historically used 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.

Equitile is currently reviewing the possibility of adding external providers of research – noting that the external market has changed we are exploring the possibility of there being additional value to the investment process.

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

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?

We are currently undertaking a review of the delegated service providers to the RESIL fund – this is part of a periodic review of service regarding value and does not in any way reflect on the current service providers. The quality of service to the fund has and remains of a high standard.

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 100bps for the Feeder Fund GBP-class. While this has increased in the last period due to inflation and reduced AUM 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.

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6. <u>Comparable services</u>

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 Resilience UK UCITs Fund, 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.

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 the Feeder Fund GBP-Class, for example, these costs currently amount to 30bp[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 CCY 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 continue 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 a simple, transparent fund structure to ensure that fees are clearly communicated.

8. Overall conclusion

We believe that we have provided good value to our investors for the year ending 31 December 2022. 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.

April 2023

[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.