

FACTSHEET

OVERVIEW

"The Fed has made all of the wrong moves. A small rate cut is not enough, but we will win anyway!"

Donald J. Trump, President, USA, 29 July 2019.

On 31 July, the Fed and its Chairman, Jay Powell, risked further Presidential opprobrium by electing to cut US interest rates by 25 basis points rather than the 50 called for in some quarters. Equity markets responded negatively, surrendering at least some of the strong gains registered for much of July. Part of the disappointment lay in the expectation that Jay Powell would subsequently set out a clearly defined forward roadmap for interest rates, which was unrealistic. He can't do this as a modern economy is too complex. Whilst he clearly has to anticipate future developments, equally he must retain the flexibility to alter his stance should economic conditions warrant it. Categorically, his mandate does not involve acting as a cheerleader for equity markets.

Jay Powell articulated a pragmatic outlook, shaped by highly contradictory economic data and observed that he did not envisage July's cut as "the beginning of a long series of rate cuts... You would do that if you saw real economic weakness.... That's not what we're seeing." The US labour market rebounded strongly in June, creating many more jobs than expected, according to the latest report from the Bureau of Labor Statistics. This eased concerns the economy was heading for a recession. Yet, US manufacturing activity slowed to its lowest level in over two years in June, in a sign that the US/China trade war was hurting domestic growth.

The UK economy has lost momentum and may even have contracted slightly in the second quarter of 2019, impacted by Brexit uncertainty and the slowdown in the global economy. UK PMI data showed services activity stagnant and manufacturing and construction activity falling in June. Offsetting this, UK wage growth was 3.6% in the year to May 2019, the highest rate since 2008, according to ONS figures. In addition, absolute levels of employment remain very encouraging. Like the US, the UK offers a mixed picture.

There was little activity in the portfolio and month end cash was 4%.

TRAFFIC LIGHTS

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

Like the economic data, the traffic lights are sending us mixed messages. Earnings revisions will be pivotal over the remainder of the year.

KEY FEATURES

Skye Trust is a family office fund, created for a number of investors with the same investment needs. Skye Trust has a bespoke investment remit designed to complement the other investment activities of its investors.

| | |
|----------------|--------------------|
| FUND SIZE | £14m |
| BID PRICE | 224.9p |
| STRUCTURE | Unit Trust |
| DEALING TIME | 12pm, every Friday |
| TELEPHONE | 0141 222 1150 |
| ISIN | GB00B043GD97 |
| MANAGEMENT FEE | Negotiated |

PLEASE NOTE THAT SKYE TRUST HAS A 5% INITIAL CHARGE

PERFORMANCE

| | 1 Month | 3 Month | 1 Year | 3 Years | 5 Years | Since Launch |
|------------------|---------|---------|--------|---------|---------|--------------|
| Bid Price | 2.8% | 1.7% | 2.1% | 18.7% | 14.2% | 126.0% |

COMPANY NEWS

Cobham's interim results were accompanied by the announcement that the Board was recommending a 165p cash offer from private equity firm, Advent International. Currently we intend to take no action, given that Cobham's unique capabilities and dominant market positions may attract a counter offer from an industry player. In addition, we believe the risk of regulatory complications to be low.

Diageo delivered 6.1% of organic net sales growth in the year, with all regions contributing to the broadly based growth. Operating profit grew by 9%, with margin enhancement coming from the dual benefits of price/mix and productivity driven efficiencies. Importantly, marketing and brand investment was also increased. Going into 2020, the outlook for sales growth is to be in the middle of the "mid-single digit" percentage growth range, with a similar margin to that just reported. Whilst not cheaply rated, and there are Brexit or Emerging Market dislocation risks along the way, Diageo still stands out as a business which can deliver sustainable long-term earnings growth.

Sage's third quarter trading update contained mixed news. Its growth in recurring revenues remained strong but was partially assisted by tailwinds from a weaker prior year comparator and particular strength in the UK as new regulations on digital tax submissions persuaded existing customers to upgrade to latest software release. Further, cash flow and cash conversion remain one of Sage's principal strengths. However, these attributes are undermined by management guiding towards an operating margin at the lower end of its target range and our increasing concerns that Sage is struggling to convert new customers.

WHAT DOES THE PORTFOLIO LOOK LIKE?

| TOP 20 HOLDINGS | MARKET SECTOR | % |
|-------------------------|---------------------------|--------------|
| Cobham | Aerospace & Defence | 5.2 |
| Glaxosmithkline | Pharmaceuticals | 4.7 |
| Diageo | Beverages | 4.4 |
| Sage Group | Software & Comp. Serv. | 4.4 |
| Rio Tinto | Mining | 4.3 |
| Royal Dutch Shell B | Oil & Gas | 4.3 |
| Standard Life Aberdeen | Life Assurance | 4.2 |
| Next | General Retailers | 4.2 |
| Marshalls | Construction | 4.1 |
| Hilton Food Group | Food Producers | 4.0 |
| TOTAL FOR TOP 10 | | 43.8 |
| Oxford Instruments | Electronics & Electricals | 4.0 |
| Smiths Group | General Industrials | 3.9 |
| First Group | Transport | 3.9 |
| Bellway | Construction | 3.8 |
| Legal & General | Life Assurance | 3.8 |
| Spirent Communications | Info Hardware | 3.7 |
| Melrose Industrials | Automobiles & Parts | 3.6 |
| Forterra | Construction | 3.6 |
| Morgan Adv. Materials | Electronics & Electricals | 3.4 |
| Keller Group | Construction | 3.3 |
| TOTAL FOR TOP 20 | | 80.8 |
| Other Equity Holdings | | 15.6 |
| Bonds and net Liquidity | | 3.6 |
| TOTAL | | 100.0 |

WHAT SHOULD I BE WORRYING ABOUT?

The UK may have a new Prime Minister, but in most other respects the landscape is familiar. While the new administration has undoubtedly toughened its rhetoric, in other areas it appears as ill-coordinated and gaffe-prone as the one which preceded it. A series of mutually contradictory statements over a no-deal Brexit has put pressure on Sterling against most of the major trading currencies. With the loss of the Brecon by-election the Conservative/DUP majority has been whittled down to one. Crucially, within the Conservative Party there are sufficient numbers who harbour doubts over the approach being pursued.

The uncertainty over Government policy continues to hurt the economy. Business investment appears to be slowing further – Britain's major banks have seen a growing number of customers delay decisions on investment and borrowing in recent weeks, as the probability of a disorderly exit from the European Union ratchets up.

The name on the door may have changed, but the current occupant of No 10 does not appear any closer to a solution for the issues which bedevilled his predecessor, in particular, consensus in Parliament and the Irish backstop.

WHAT ARE THE KEY FEATURES?

SKYE TRUST:

- ▶ 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 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.

Founded in 2003, Revera has focused its business on delivering investment funds backed by extensive due diligence and using independent judgement. Revera invests in businesses where the fund managers think they will make money - not because of benchmarks or because other people think it is a good idea.

Revera's business has also been built on high levels of engagement with investors and transparency over what we invest in, and why we have done it. This fosters trust between Revera and its clients, and has helped Revera grow with a low turnover of clients.

The portfolio is managed by Stephen Grant and Glen Nimmo, who have worked as part of the same team for 23 out of the last 25 years.

Stephen Grant has 35 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 25 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.



STEPHEN GRANT



GLEN NIMMO

STATUTORY PERFORMANCE PRESENTATION

| | 30 Jun 2018 - 30 Jun 2019 | 30 Jun 2017 - 30 Jun 2018 | 30 Jun 2016 - 30 Jun 2017 | 30 Jun 2015 - 30 Jun 2016 | 30 Jun 2014 - 30 Jun 2015 |
|------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| Bid Price | -2.1% | 5.7% | 19.2% | -19.2% | 10.3% |

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

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 can be obtained by contacting Revera or the Authorised Fund Manager.

Revera is authorised and regulated by the Financial Conduct Authority (FCA). Revera's registered office is at 8 Rutland Square, Edinburgh EH1 2AS. Skye Trust is a Unit Trust authorised by the FCA with effect from November 2004. Smith & Williamson Fund Administration Limited is Skye Trust's Authorised Fund Manager (AFM) and its registered address is 206 St Vincent Street, Glasgow, G2 5SG.

The information in this factsheet does not constitute an offer or invitation for the sale or purchase of any units in Skye Trust, in any jurisdiction, is not intended to form the basis of any investment decision and does not constitute or contain any recommendation by Revera, its shareholders, directors, employees, agents or advisers.

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Unless expressly stated otherwise, the source of all factual information is Revera.

Any prospective investor is recommended to seek his/her own independent legal, tax and financial advice. The value of any investment in Skye Trust will not be guaranteed, and an investor may not get back all the money he/she invested.