



FUND MANAGERS
STEPHEN GRANT
GLEN NIMMO

SKYE TRUST
AS AT 31 AUGUST 2020

FACTSHEET

OVERVIEW

After recovering from March lows, markets now appear to be trading in a very narrow range. The logic behind this is sound. Throughout the developed world, monetary and fiscal policy will remain supportive until the economic damage wrought by the pandemic is behind us or policy makers are forced to deal with an acceleration in inflation. However, there is little compelling evidence to class this as an immediate threat. The great imponderable remains the timescale over which economic activity normalises and the extent to which it then allows a stockmarket recovery to extend to a broader basket of equities.

The US Federal Reserve (the Fed) gave markets an insight on its strategy for monetary policy over the next two to three years. There was a subtle shift in its approach to inflation with a willingness to tolerate inflation in excess of its 2% target for an unspecified period, and steering investors to an average rather than absolute level of 2%. There was little change to the bond market consensus which has priced in low interest rates and inflation until at least 2023. It remains committed to asset purchases for the remainder of this year and into 2021.

The interim results period has begun to illuminate the impact of COVID-19 on business performance. Pleasingly, the quoted sector has been more innovative and resilient than we might have feared when the pandemic hit and companies have responded by preserving cash and selective cost cutting. Generally, forward-looking statements indicate that economies are recovering but all participants, be they investors or central banks, are anxiously waiting to see if the short-term pick-up in economic activity translates into a more sustainable momentum in the fourth quarter and into 2021. The outlook is still sufficiently opaque that few companies are yet in a position to reinstate full year guidance and the range of outcomes is wide. Dividend restoration remains some way off.

Cash levels in the fund increased slightly in the month, resulting from a general portfolio rebalancing, rather than a deliberate portfolio objective. We have new ideas ready to enter the portfolio, but we see little to be gained by chasing prices in a market where thin volumes are amplifying price moves. There is no compelling reason to pay up given the immediate economic outlook.

TRAFFIC LIGHTS

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

Challenging first half trading is making itself felt in valuation metrics. However, it is worth remembering that these are likely to be trough earnings.

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	£11m
BID PRICE	188.4p
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	1.3%	-2.3%	-15.0%	-12.4%	-11.3%	89.3%

COMPANY NEWS

Hargreaves Lansdown (HL) results were ahead of expectations, driven by a sharp increase in equity trading activity over the period of market turbulence from March to May. Underlying performance was also strong, evidenced by record numbers of new clients in the second half of the financial year. Its dividend and capital position also surprised on the upside. Its end market is becoming increasingly driven by technology and we believe this will enhance HL's competitive position in what remains an attractive growth market.

Although Diageo's management had withdrawn financial guidance earlier in the year its finals were slightly behind the consensus 'guesstimate'. The performance of Africa (which is dominated by the on-trade) and Asia Pacific (which contains the Global Travel business) were particularly badly hit by the coronavirus crisis. However, management confirmed that it expected Q2 2020 to be the nadir for both sales and margins. We would ascribe any disappointments to the impact of lockdowns rather than any fundamental changes in consumer behaviour and continue to believe that Diageo has the brand equity to ride out a slower global economy.

GSK's results were slightly behind most expectations, with essentially two areas of perceived disappointment. The first was the surprisingly pronounced impact that the COVID-19 crisis had on vaccine programmes around the globe, leading to a significant shortfall in sales of vaccines relative to last year. The second is that, in comparison to many of its global healthcare rivals, the GSK Consumer Healthcare division did not appear to benefit from the surge in "wellness" products seen elsewhere. Crucially, COVID-19 has thrown weaknesses in global healthcare systems into sharp relief and we believe this will result in more healthcare spending, with an increased emphasis on preventative strategies like vaccinations.

WHAT SHOULD I BE WORRYING ABOUT?

For very understandable reasons, corporate activity has been off the agenda. However, under a base case of gradually improving economies and no widespread resurgence in COVID-19, the environment is ripe for an upturn in corporate activity. With economic activity unlikely to match 2019 levels for possibly two to three years, certain sectors – retail, travel, hospitality spring to mind – are candidates for consolidation, either to reduce duplicated costs or as stronger players take advantage of financially distressed competitors. Equally, we believe that the scramble for growth almost irrespective of price has left the valuations of a raft of businesses looking attractive and these may appeal to private equity interest, a sector

WHAT DOES THE PORTFOLIO LOOK LIKE?

TOP 20 HOLDINGS	MARKET SECTOR	%
Next	General Retailers	4.7
Legal & General	Life Assurance	4.5
QinetiQ	Aersospace & Defence	4.5
Hilton Food Group	Food Producers	4.3
Smiths Group	General Industries	4.2
Marshalls	Construction	4.2
Rio Tinto	Mining	4.2
Standard Life Aberdeen	Life Assurance	4.1
Ashmore Group	General Financials	4.1
Diageo	Beverages	4.1
TOTAL FOR TOP 10		42.9
Lloyds Banking Group	Banks	4.1
Oxford Instruments	Electronics & Electricals	4.1
Glaxosmithkline	Pharmaceuticals	4.0
Medica Group	Healthcare	3.9
Bellway	Construction	3.8
Hargreaves Lansdown	General Financials	3.8
Royal Dutch Shell B	Oil & Gas	3.6
Severn Trent	Multiutilities	3.5
Johnson Matthey	Chemicals	3.1
Crest Nicholson Holdings	Construction	2.9
TOTAL FOR TOP 20		79.7
Other Equity Holdings		4.9
Bonds and net Liquidity		15.4
TOTAL		100.0

that still has cash looking for a home.

Investing on the basis of a business being a 'bid target' is a recipe for disaster but importantly a resurgence in corporate activity may result in a narrowing of the valuation gap between perceived growth sectors and less patronised areas of the stock market. History shows that the corporate buyer rarely features at the bottom of a cycle but as business confidence increases and animal spirits revive it is likely that those who have emerged from the crisis with strong balance sheets will begin to put them to work.

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 24 out of the last 26 years.

Stephen Grant has 36 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 26 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 2019 - 30 Jun 2020	30 Jun 2018 - 30 Jun 2019	30 Jun 2017 - 30 Jun 2018	30 Jun 2016 - 30 Jun 2017	30 Jun 2015 - 30 Jun 2016
Bid Price	-12.6%	-2.1%	5.7%	19.2%	-19.2%

Unitholders may compare the performance of the fund against the IA UK Equity Income sector.

Comparison of the Trust's performance against this benchmark will give Unitholders an indication of how the Trust is performing against other similar funds in this peer group sector. The Manager has selected a comparator benchmark as the Manager believes it best reflects the asset allocation of the Trust.

The benchmark is not a target for the Trust, not is the Trust constrained by the benchmark.

► 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.