FUND MANAGERS
STEPHEN GRANT
GLEN NIMMO

S&W REVERA UK DYNAMIC FUND
AS AT 30 SEPTEMBER 2020

FACTSHEET

OVERVIEW

September saw the US Federal Reserve ('the Fed') provide forward guidance on interest rates which, in essence, can be summarised as, 'likely to remain near to zero until the end of 2023'. The Fed will operate with an objective of average 2% inflation over time. However, its surrounding comments were of the 'we reserve the right to…' variety, allowing it the flexibility to act early if inflation threatens to accelerate or run with inflation modestly above 2% if the outlook is more benign. In addition, the Fed will now tolerate an unemployment rate below its estimate of the NAIRU (non-accelerating inflation rate of unemployment), perhaps an acknowledgement that its outcomes must encompass broader societal considerations. Finally, the Fed emphasised its commitment to continue purchasing $80bn in US Treasuries and $40bn of Mortgage Backed Securities (which helps bolster economic activity via the housing market) per month for the foreseeable future. A muted market reaction suggests much of this was already priced in.

In the UK, with unemployment set to rise, Chancellor Sunak announced measures to support the jobs market post the cessation of the furlough scheme in October. Furlough cushioned the immediate damage to the labour market from lockdown by providing direct financial support to approximately 30% of the UK workforce. A more limited wage subsidy scheme will replace furlough and, given that the new scheme requires a contribution from employers, it is likely to lead to a significant increase in unemployment. Bank of England forecasts suggest that unemployment will reach 7.5% by the end of 2020, before falling to 4.7% in 2022.

We added Wood Group to the portfolio, reducing cash to 11%. It is undergoing a significant change in relation to its end markets. Renewables, refining, chemicals and disciplines such as civil engineering and building technology now account for 65% of revenues and its traditional upstream oil and gas activities are diminishing in importance. It is well placed to grow as markets recover, with differentiated capabilities which should allow it to participate in the transition required to achieve lower carbon energy and more sustainable infrastructure.

TRAFFIC LIGHTS

HISTORIC EARNINGS VALUE	Amber
EQUITY VS BOND VALUE	Green
EARNINGS REVISIONS	Amber
APPETITE FOR NEW EQUITY	Amber
SHARE PRICE MOMENTUM	Red

Earnings revisions have eased back from their worst, driven by a sharper than expected short term recovery. Sustaining that will be crucial to stock market momentum.

KEY FEATURES

FUND SIZE		£104M
SHARE PRICE	Founder Class	176.2p
	Corporate Class	180.6p
ISIN	Founder Class	GB00B3BSKJ23
	Corporate Class	GB00B8350522
ONGOING	Founder Class	1.30% (1.25% AMC)
CHARGES	Corporate Class	0.80% (0.75% AMC)
STRUCTURE		UCITS V ICVC
DEALING TIME		12pm every business day
TELEPHONE		0141 222 1150
PLATFORMS	EMX	Pershing
	Standard Life	AJ Bell
	Transact	Elevate
	Nucleus	CoFunds
	Hargreaves Lansdown	Aviva
	Novia	

PERFORMANCE	1 Month	3 Months	1 Year	3 Years	5 Years	Since Launch	MSCI UK All Cap Since Launch
Founder Class	-2.8%	-3.8%	-15.9%	-8.9%	2.8%	115.5%	90.7%
Corporate Class	-2.7%	-3.7%	-15.5%	-7.5%	5.4%		
MSCI UK All Cap (Gross)	-1.7%	-3.5%	-18.1%	-11.5%	16.2%		

S&W Revera UK Dynamic Fund does not have a formal benchmark. In order to aid understanding of historic performance, the MSCI UK All Cap Index (Gross) is presented as a comparator. It should not be inferred that the S&W Revera UK Dynamic Fund will be managed with any reference to this, or any other, comparator index.

COMPANY NEWS

Recent comment from portfolio companies (admittedly before the latest round of restrictions) suggests better trading outcomes than we feared in May and June.

Brick manufacturer Forterra reported that the trading environment had improved and saw its full year profit forecasts nudged upwards. Builders of new houses have been more inclined than expected to start new units in the face of stronger than anticipated demand from UK buyers. We continue to like the economics of Forterra's industry. It is an oligopolistic producer, with product pricing likely to remain stable as it and its peers look to rebuild their income, whilst also benefitting from a reduced threat of imported products.

Hilton Food Group's interims were slightly ahead of expectations, with its dividend increased by 17%. Volume growth came from the ramp up of overseas capacity expansions and the ongoing shift towards home consumption and away from food service in the UK. Cash generation remains impressive. Although it doesn't operate in growth markets, Hilton is a classic through-the-cycle compounder, as the ongoing shift towards retail packing and food innovation in mainstream grocery retailing - led by customers who value safety and traceability as much as keen pricing - creates secular growth opportunities.

New Standard Life Aberdeen ('SLA') CEO, Stephen Bird, has inherited a business with scope to improve returns. The starting point is the cost:income ratio of 85%, which is some way adrift from a normal 60% to 70% range. The most obvious resolution is cost cutting which is probably easier for an individual with no ties to the previous regime to effect. Further, he has £1.8bn of capital, and another £1.1bn of soon-to-be-realised investments, which if used wisely could provide the firepower for a value accretive acquisition. We believe Stephen Bird's appointment could signal a significant turn in SLA's fortunes.

WHAT DOES THE PORTFOLIO LOOK LIKE?

TOP 20 HOLDINGS	MARKET SECTOR	%
Next	General Retailers	5.1
Hilton Food Group	Food Producers	4.9
Rio Tinto	Mining	4.5
Oxford Instruments	Electronics & Electricals	4.5
Severn Trent	Multiutilities	4.3
Diageo	Beverages	4.2
Smiths Group	General Industries	4.1
Bellway	Construction	4.1
Johnson Matthey	Chemicals	4.1
QinetiQ	Aerospace & Defence	4.0
TOTAL FOR TOP 10		**43.8**
Marshalls	Construction	4.0
Wood Group (John)	Oil & Gas	4.0
Hargreaves Lansdown	General Financials	3.9
Lloyds Banking Group	Banks	3.8
GlaxoSmithKline	Pharmaceuticals	3.8
Legal & General	Life Assurance	3.6
Standard Life Aberdeen	Life Assurance	3.5
Royal Dutch Shell B	Oil & Gas	3.5
Ashmore Group	General Financials	3.4
Medica Group	Healthcare	3.3
TOTAL FOR TOP 20		**80.6**
Other Equity Holdings		8.2
Bonds and net Liquidity		11.2
	TOTAL	**100.0**

WHAT SHOULD I BE WORRYING ABOUT?

The outlook for inflation was a prominent feature of our last Wise Man meeting and one which produced a divergence of opinion. Below, we put the case for those who don't believe inflation will be an issue over the medium term.

There is no dispute over the recent surge in money creation. It has been driven by central bank purchases of financial assets, principally government bonds, sold to finance fiscal stimulus measures introduced to offset the effects of COVID-19. In addition, banks have increased corporate lending, which on this occasion is not a positive indicator, as much of this borrowing is being used to fund working capital, particularly inventories, or manage liabilities.

The transmission mechanism is central to the argument. This round of money creation is about replacing income which would otherwise have been earned if the economy were functioning as normal. Recipients are likely to be cautious in their spending outlook, which is likely to subdue inflationary pressures. Fiscal deficits also directly increase the amount of assets in private hands and may have an impact on inflation. However, it would need fiscal policy to remain expansionary post any COVID -19 recovery for the risk of higher inflation to increase.

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WHAT ARE THE KEY FEATURES?

The S&W Revera UK Dynamic Fund:

- 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 the 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.

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STATUTORY PERFORMANCE PRESENTATION

	30 Sep 2019 - 30 Sep 2020	30 Sep 2018 - 30 Sep 2019	30 Sep 2017 - 30 Sep 2018	30 Sep 2016 - 30 Sep 2017	30 Sep 2015 - 30 Sep 2016
Founder Class	-15.9%	4.9%	3.2%	12.4%	0.4%
Corporate Class	-15.5%	5.5%	3.7%	13.0%	0.9%
MSCI UK All Cap (Gross)	-18.1%	2.1%	6.0%	12.0%	17.2%

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

Shareholders may compare the performance of the fund against the MSCI UK All Cap (Gross) Index. The ACD has selected this comparator benchmark as it believes this benchmark best reflects the fund's asset allocation. The benchmark is not a target for the fund, nor is the fund constrained by the benchmark.

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 is available directly from our website at www.reverafunds.com