FUND MANAGERS
STEPHEN GRANT
GLEN NIMMO

SKYE TRUST
AS AT 31 OCTOBER 2020

FACTSHEET

OVERVIEW

In October, stock markets faced the reality of navigating the COVID-19 pandemic. Expectations of further US stimulus measures were dashed in the short term following the reluctance of US senate Republicans to approve either President Trump's $1.8trn stimulus package or the Democrats loftier version which exceeded $2trn. The delivered package of $500bn is clearly of the 'holding pattern' variety. Adding to the somewhat lukewarm economic news, progress on combatting COVID-19 encountered some reversals across most of Western Europe, with a growing number of governments - including the UK - resorting to further restrictions in an attempt to curb the transmission of the COVID-19 virus.

Perhaps not altogether surprisingly momentum in the UK's economic recovery slowed in August, with growth of 2.1%. To paraphrase Monetary Policy Committee member Michael Saunders, the initial phase of recovery benefitted from a number of favourable factors working in a synchronised way – lower infection rates following lockdown, the release of pent-up demand and a plethora of government fiscal initiatives designed to cushion the economic impact of the virus. We recognise from experience that recoveries are rarely linear and there will be noise around any single month's figures. It is likely that there could be weaker months to come as government support reduces and tighter restrictions are imposed in regions where the number of infections is rising sharply. Bond markets were unmoved as Moody's downgraded the UK's credit rating, noting concerns about long-term damage to the economy and a 'weakening in the UK's institutions and governance'.

The initial sharp rebound in activity post lockdown is over and the likely recovery profile is taking shape. Businesses are braced for more challenging times and many have pushed back the timing for a full recovery until the second half of 2021 or beyond. That said, most corporates have adjusted their budgets and cost bases to reflect current realities. We believe there will be more targeted stimulus measures in the UK, Europe should benefit as the EU recovery fund disburses funds during 2021, and there is likely to be progress on unlocking further US stimulus spending after the Presidential Election, irrespective of the outcome. An occasional weak month notwithstanding, a continuation of the cyclical recovery over the next couple of years represents our central case scenario.

TRAFFIC LIGHTS

- HISTORIC EARNINGS VALUE (red)
- EQUITY VS BOND VALUE (green)
- EARNINGS REVISIONS (amber)
- APPETITE FOR NEW EQUITY (amber)
- SHARE PRICE MOMENTUM (red)

Whilst earnings revisions have stabilised, the damage to first half profits is weighing on valuation support. Further recovery in earnings needs to be delivered.

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	£10m
BID PRICE	176.7p
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	-3.5%	-5.0%	-20.6%	-18.8%	-14.1%	77.6%

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COMPANY NEWS

Its Q3 trading statement showed that Next is managing the crisis better than most of its peers. It emerged from the UK's lockdown period with its business model largely intact and is likely to resume dividend payments in its current financial year. An acceleration in the move to online shopping should play to Next's strengths. It has a large and profitable online business and is increasingly acting as a fulfilment partner for smaller brands that lack the resources to manage online distribution successfully. It offers both short-term cyclical recovery and medium-term secular growth as buying habits evolve.

Smiths Group's finals bore some scarring from COVID-19, but importantly we view the reinstatement of its dividend as a positive signal. Where necessary it has cut its cost base to reflect any changes in its end markets, the most significant of which is the weaker outlook for civil aerospace within its Flextek business. Overall, for the majority of its portfolio, we do not believe any of its medium-term opportunities have been compromised, and arguably some have been enhanced.

Asset manager, Ashmore, has a significant exposure to Far Eastern debt markets, which were first into the downturn and were amongst the first ones out. Ashmore is fee based and has experienced flat aggregate fund flows so should be able to weather the current crisis. Its balance sheet is also highly liquid, with £417m in cash and cash equivalents. We continue to highlight the challenges of ultra-low rates in developed markets. In an environment where Central Bankers are driving rates ever lower (and possibly negative), investors are likely to seek out higher yielding asset classes which should prove beneficial for Ashmore.

WHAT DOES THE PORTFOLIO LOOK LIKE?

TOP 20 HOLDINGS	MARKET SECTOR	%
Next	General Retailers	4.9
Marshalls	Construction	4.7
Hilton Food Group	Food Producers	4.5
Diageo	Beverages	4.4
Lloyds Banking Group	Banks	4.4
Smiths Group	General Industries	4.3
Standard Life Aberdeen	Life Assurance	4.2
Rio Tinto	Mining	4.2
Oxford Instruments	Electronics & Electricals	4.2
Legal & General	Life Assurance	4.1
TOTAL FOR TOP 10		**43.9**
Wood Group (John)	Oil & Gas	4.1
Bellway	Construction	4.1
Severn Trent	Multiutilities	4.0
QinetiQ	Aerospace & Defence	3.9
Ashmore Group	General Financials	3.8
Medica Group	Healthcare	3.8
GlaxoSmithKline	Pharmaceuticals	3.8
Crest Nicholson Holdings	Construction	3.5
Hargreaves Lansdown	General Financials	3.5
Royal Dutch Shell B	Oil & Gas	3.3
TOTAL FOR TOP 20		**81.7**
Other Equity Holdings		9.2
Bonds and net Liquidity		9.1
	TOTAL	**100.0**

WHAT SHOULD I BE WORRYING ABOUT?

The portfolio is constructed to reflect our central case that, in the coming months, there will be an accommodation reached between society, governments and the virus. Lockdowns are clearly not a solution and compliance is likely to become progressively harder to enforce. Although we consider it likely a vaccine will be developed, we are cautious over adoption rates for the following reasons. Firstly, younger people may be wary of using a vaccine which has been fast tracked and may be prepared to run the risk of contracting and resisting COVID-19. Secondly, vaccines tend to have less efficacy in an older (and by implication the most vulnerable) demographic. Finally, in our view, a simple, reliable and quick mass testing solution remains some way off. Therefore, we are not assuming the virus is somehow eradicated during the course of 2021, instead we believe the world will learn to live with it. Our belief that there will be a recovery, albeit one which is characterised by periodic setbacks, means we have positioned the portfolio with a bias to cyclical businesses, but ones that are financially robust and therefore can ride out these setbacks. Although featuring on our reserve list, to date we are steering clear of companies which offer binary outcomes depending on the timing of any recovery. Our reticence stems from the rate of cash burn, and by extension, the likelihood of further dilutive fundraisings.

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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.

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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
Bid Price	-19.0%	3.7%	1.3%	9.2%	-3.3%

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.