



FUND MANAGERS  
STEPHEN GRANT  
GLEN NIMMO

SKYE TRUST  
AS AT 30 SEPTEMBER 2021

## FACTSHEET

### OVERVIEW

Seasonal factors can explain some of the sideways drift in markets over the summer. A more significant contributory factor is the recognition that there is a ceiling to the expansion of earnings multiples, even against a backdrop of the positive profit momentum which has characterised the first three quarters of 2021. Lately, however, there have been signs of slowing momentum in major economies, as PMI data has either been weak - as in the case of in China and Japan - or suggestive of a slowing, as in the US and Europe. Much of this can be explained by supply chain disruption, either through shortages of essential components or labour, whose availability has been hampered by lower rates of vaccine take up in Asian economies or furlough schemes in the US and Europe. Some slowdown was inevitable and necessary as economies were simply not capable of handling the rebound growth rates seen last autumn or earlier this year.

We are disposed to take a more positive line. Granted, growth is decelerating, but there is still much to like about the global economy. In aggregate, company mindsets are expansionary, with most looking to a combination of hiring and investment to address growth opportunities. Barring a return to full lockdowns, which can't be ruled out, growth rates are likely to remain well above trend in the UK and North America into 2022.

Globally, the most likely outcome is for continued growth. According to the IMF, the global economy is on course to post growth of 6.0% this year and 4.9% in 2022, compared to trend growth of approximately 3.5%. On balance, investors and central banks continue to believe that current inflation spikes are transient, and will unwind as supply shortages and recruitment issues are addressed. Although the jury remains out on how events will unfold, should this prove correct then the process of monetary tightening is likely to be gradual and well flagged.

### TRAFFIC LIGHTS

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

Whilst earnings revisions remain positive, the momentum behind these revisions is definitely slowing. Momentum in 2022 earnings forecasts will be pivotal in generating further progress.

### 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	236.2p
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	-3.0%	2.3%	29.0%	8.3%	19.8%	137.4%

## COMPANY NEWS

**Bodycote**, which provides specialist metal heat treatment services, enjoyed a strong rebound in earnings as the global economy recovered and it benefitted from previously instigated efficiency and restructuring measures. We believe its exposure to growth in electric vehicle production in Europe and the Far East, its general industrial exposure (in particular as more customers look to outsource their heat treatment requirements to reduce emissions), and the likelihood of a recovery in aerospace volumes throughout 2022 will result in strong earnings and margin progression.

**Lloyds Banking Group's (LBG)** interims contained a number of positives. The first was the restoration of the interim dividend. The second was the growth in high-quality lending in the mortgage market. Finally, LBG has an incredibly strong balance sheet – its capital position stands at a level which leaves ample room for shareholder returns, even allowing for regulatory headwinds and a prudent buffer. There is a significant opportunity to improve returns from the recent acquisition of the Embark platform, a direct to consumer and IFA platform which provides a suite of savings wrappers like SIPPs, ISAs and GIAs, and has £35bn of assets under administration. Short-term momentum is positive and there appears to be little valuation risk.

Telecoms test equipment business, **Spirent**, continues to benefit both from increased investment in 5G infrastructure and the need for greater testing rigour, given the step up in network complexity when compared to 4G. Its order intake increased by 14%, with improved visibility as more multi-year contracts have been secured. The outlook for 5G appears robust, with industry forecasts implying healthy growth in subscribers until 2025 and a commensurate increase in infrastructure spending. The 5G technology cycle looks set to run for much longer than originally anticipated, with the key change from previous cycles being that China is now a serious consumer of technology hardware and services.

## WHAT DOES THE PORTFOLIO LOOK LIKE?

TOP 20 HOLDINGS	MARKET SECTOR	%
Crest Nicholson	Construction	4.8
Spirent Communications	Technology	4.8
Hilton Food Group	Food Producers	4.7
Forterra	Construction	4.5
Royal Dutch Shell B	Oil & Gas	4.5
Medica Group	Healthcare	4.4
Legal & General	Life Assurance	4.2
QinetiQ	Aerospace & Defence	4.2
Next	General Retailers	4.1
Hays	Support Services	4.1
<b>TOTAL FOR TOP 10</b>		<b>44.3</b>
Marshalls	Construction	4.1
Diageo	Beverages	4.0
Hargreaves Lansdown	General Financials	4.0
Sage Group	Computer Software & Serv.	3.9
Spectris	Electronics & Electricals	3.9
GlaxoSmithKline	Pharmaceuticals	3.8
Bodycote	Engineering	3.8
Ashmore Group	General Financials	3.8
Lloyds Banking Group	Banks	3.7
Bellway	Construction	3.7
<b>TOTAL FOR TOP 20</b>		<b>83.0</b>
Other Equity Holdings		13.0
Bonds and net Liquidity		4.0
<b>TOTAL</b>		<b>100.0</b>

## WHAT SHOULD I BE WORRYING ABOUT?

There was a time when financial markets were spooked by the prospect of either Ed Miliband or Jeremy Corbyn gaining access to the Bank of England's printing presses. That seems so 2015 or 2019. With the ballooning of the UK government deficit to support the economy during the pandemic, corporate taxes are set to rise, and will be followed next April by higher National Insurance ('NI') contributions from the majority of the working population. Financial markets and most taxpayers knew this was inevitable, hence the resigned acceptance rather than angry reaction. The UK government justified the NI increase on the grounds of funding being required to meet higher social care costs. As there is no social care plan in

place this appears somewhat questionable, and should such a plan emerge it will likely require increased taxpayer funding. Realistically, what we saw was the beginning of a move to higher levels of taxation across the economy. Markets have been remarkably sanguine about higher taxes to be followed by higher taxes. If higher taxes were such a scary prospect when championed by Jeremy Corbyn, is it less so, simply because it's been sanctioned by a Conservative PM?

## 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 25 out of the last 27 years.

Stephen Grant has 37 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 27 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 Sep 2020 - 30 Sep 2021	30 Sep 2019 - 30 Sep 2020	30 Sep 2018 - 30 Sep 2019	30 Sep 2017 - 30 Sep 2018	30 Sep 2016 - 30 Sep 2017
<b>Bid Price</b>	29.0%	-19.0%	3.7%	1.3%	9.2%

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, nor 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.