

VT Downing Small & Mid-Cap Income Fund



December 2023 Commentary

In December, the Accumulation share class was up 5.29% while the IA UK Equity Income Total Return Index was up 4.86%. Key contributors were Smart Metering Systems (up 45.51%) and Fonix Mobile (up 27.88%). Key detractors included Supreme (down 12.57%) and H&T Group (down 7.69%).

Smart Metering Systems, an energy infrastructure company, announced that it was being taken private by US fund KKR in a £1.3bn deal. The 955p per-share all-cash offer represents a 40.4% premium to the closing price prior to the announcement. KKR believes under private ownership, SMS will be able to accelerate its growth and continued transition from a metering provider and grid-scale battery storage operator to a fully integrated, end-to-end energy infrastructure company.

Fonix Mobile, a mobile payments and messaging service provider issued no news in the month. We believe that this is a quality company with a strong balance sheet, very low capex requirements, and pays a high percentage of its cash flow out in dividends.

Supreme, a manufacturer, distributor, and brand owner of fast-moving consumer products, issued a strong set of interim results at the end of November. The group reported record levels of revenue, adjusted EBITDA¹, and pre-tax profits. We believe the share price was affected in December by press reports that a Labour government may make vapes prescription only, impacting that division within the group.

H&T Group, a pawnbroker and retailer of pre-owned and new jewellery, made no news announcements in December. The house broker published a note surmising that the group will face upward pressure on its operating costs when the National Living Wage increases in April. However, H&T's additional £10m funding facility suggests that management is confident in the outlook for pledge book growth over the medium term.

Opinions expressed represent the views of the fund manager at the time of publication, are subject to change, and should not be interpreted as investment advice.

¹ Adjusted EBITDA means operating profit before depreciation, amortisation and Adjusted items (as defined in the financial statements).

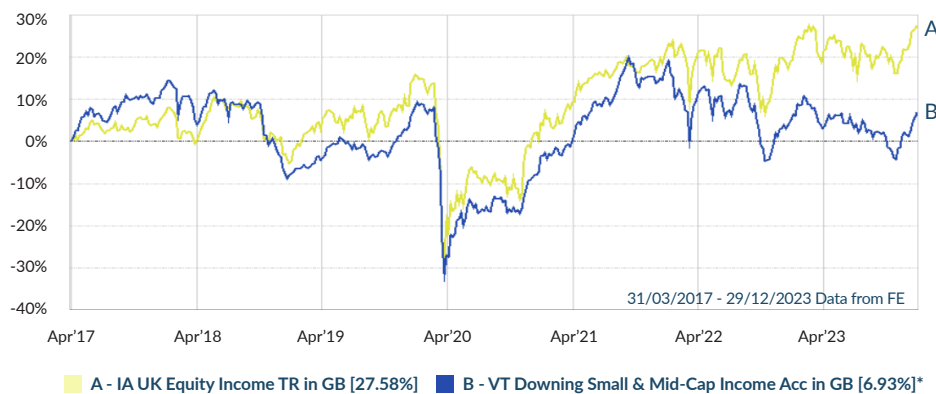
About the fund

The fund aims to have a portfolio of 30-50 holdings, with no exposure to the FTSE 100. Josh seeks to invest in equities with unique assets or a sustainable competitive advantage. These businesses have the potential to generate excess returns on invested capital over the long term which can compound both capital and shareholder distributions.

Investment objective

The investment objective of the fund is to achieve a quarterly income, together with capital growth over the long term (five years).

Performance



*VT Downing Small & Mid-Cap Income Fund is formerly known as the VT Downing Monthly Income Fund.

Cumulative performance (%)							
	1m	3m	6m	YTD	1y	3y	5y
VT Downing Small & Mid-Cap Income Fund (Acc)	5.29	4.69	3.23	1.32	1.32	11.16	15.81
IA UK Equity Income TR index	4.86	4.38	6.83	7.02	7.02	24.56	33.51
Quartile ranking	2	2	4	4	4	4	4

Discrete performance (%)					
	31/12/2022 - 31/12/2023	31/12/2021 - 31/12/2022	31/12/2020 - 31/12/2021	31/12/2019 - 31/12/2020	31/12/2018 - 31/12/2019
VT Downing Small & Mid-Cap Income Fund (Acc)	1.32	-11.12	23.43	-11.93	18.30
IA UK Equity Income TR index	7.02	-1.69	18.39	-10.73	20.07
Quartile ranking	4	4	1	3	3

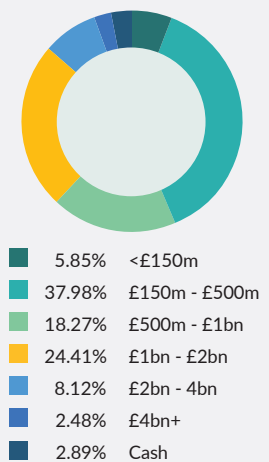
Past performance is not a reliable indicator of future results. Performance figures source: FE Analytics.



Josh McCathie joined Downing in 2018 as an analyst and co-manager of the VT Downing Small & Mid-Cap Income Fund. He took over as lead manager in April 2021.

Josh has over nine years' experience in the industry that has been focused on UK equities. Prior to Downing he was at BRI Wealth Management focusing on UK equity research. Josh is a CFA charterholder.

Market cap breakdown



Source: Factset

Top 10 holdings

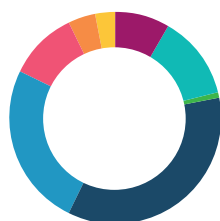
	% of fund
Conduit Holdings Ltd	4.80
XPS Pensions Group Plc	4.54
Telecom Plus Plc	4.18
Frp Advisory Group Plc	3.80
Hollywood Bowl Group Plc	3.24
Fonix Mobile Plc	3.16
Britvic Plc	3.13
Smart Metering Systems Plc	3.08
Lokn Store Group Plc	3.05
Bloomsbury Publishing Plc	2.90
Total	35.88

Source: Valu-Trac Investment Management Ltd

Portfolio summary

As at 31 December 2023

Sector breakdown



8.57% Consumer Non-Durables
12.58% Consumer Services
0.83% Energy

35.30% Finance
24.99% Industrials
10.67% Technology

4.17% Utilities
2.89% Cash

Source: Factset

Key facts As at 31 December 2023

Fund Objective

To achieve a quarterly income, together with long-term capital growth

Launch date

14 June 2010

Conversion date

1 April 2012**

IMA sector

UK Equity Income

Currency

UK Sterling

Types of shares

Income & Accumulation

Fund size

(Income & Accumulation shares combined)
£38.70m

Yield

4.8%***

Income paid

Quarterly

Number of holdings

40

Prices as at 31 December 2023

Accumulation shares: 203.6803p
Income shares: 107.5446p

Charges

Initial charge: 0%
Annual Mgmt charge: 0.75%
Ongoing charges[^]
charged to capital****: 0.93%

[^] The methodology for calculation of synthetic expense ratio has changed. Following guidance issued by the Investment Association on 2 July 2020, the synthetic OCF calculation has been expanded to include closed ended vehicles such as investment trusts.

Minimum Investment

Lump sum: £1,000
Subsequently: £500
Monthly savings: £100

SEDOL & ISIN numbers

Accumulation shares:

SEDOL B61JRG2
ISIN GB00B61JRG28

Income shares:

SEDOL B625QM8
ISIN GB00B625QM82

Authorised Corporate Director

Valu-Trac act as ACD and manage the administration for the fund.

Valu-Trac Investment Management Ltd

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Investment Manager

Downing LLP was appointed Investment Manager to the fund on 1 June 2015.

Following the change of ACD, the fund name was changed to MI Downing Monthly Income Fund from 31 March 2017. This was changed again from 30 November 2020 and is now VT Downing Monthly Income Fund. As from the 1 November 2021, the fund is now known as the VT Downing Small & Mid-Cap Income Fund.

Investment Committee

Judith MacKenzie: Non-Independent Member

Donald Robertson: Independent Member

Darrell O'Dea: Independent Member



Awarded date 1 February 2023

As at 30 June 2023

Quarterly distribution

Period to	Income
31/12/2021	1.0500p
31/03/2022 [*]	1.6452p
30/06/2022	1.1928p
30/09/2022	1.3105p
31/12/2022	1.1963p
31/03/2023	1.0496p
30/06/2023	1.1652p
30/09/2023	1.5106p
31/12/2023	1.3821p

Source: Valu-Trac Investment Management Ltd and Downing LLP

^{*} The distributions changed from monthly to quarterly from October 2021. The total 2021/2022 year distribution was 5.1451p.

Platforms and wraps

7IM	Hubwise
Aegon	Interactive Investor
AJ Bell	iWeb
All Funds	James Brearley
Aviva	James Hay
Barclays	Novia
Canada Life International	Nucleus
Elevate	M&G
Embark	Praemium
Embark Advance	Quilter
Fidelity (Inst)	Raymond James
Fidelity (FFN)	Standard life
Hargreaves Lansdown	Transact

^{**} The conversion date refers to the date the investment objective and policy were changed.

^{***} The historic yield reflects distributions declared over the past twelve months as a percentage of the fund price as at the date shown. It does not include any preliminary charge and investors may be subject to tax on their distributions

^{****} The ongoing charges figure is based on expenses and the net asset value as at 31 July 2023. This figure may vary from year to year. It excludes portfolio transaction costs.

www.downingincomefund.co.uk

Risk warning: Your capital is at risk. The value of your investment is not guaranteed and may go down as well as up and you may not get back the amount invested. Any subscription to the fund should be made on the basis of the relevant product literature available from Downing LLP, or from the ACD, Valu-Trac Investment Management Limited and your attention is drawn to the charges and risk factors contained therein.

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