



# Assessment of Value Report 2021

Waystone Management (UK) Limited  
**WS SEQUEL INVESTMENT FUNDS ICVC II**



## The Assessment of Value Report

As part of a move to strengthen fund governance, the regulator, the Financial Conduct Authority (“FCA”), requires asset managers to conduct an annual review of UK-domiciled funds to assess whether they provide good value to their underlying investors.

This Assessment of Value report is aimed at individuals who invest within the funds, or their financial advisers. It outlines each fund’s assessment and concludes on whether the Board believe that the fund has demonstrated good value. Where relevant, we also outline what measures we, as the Authorised Corporate Director (“ACD”), are putting in place where the ACD Board believe the value provided does not meet our own high standards.

Waystone believe strongly that the Assessment of Value exercise should make it easier for investors to evaluate whether their investment fund is providing them with value, so they can make more informed decisions when choosing investment providers.

## What is the Assessment of value?

This report is a transparent and accessible view of the assessment of performance, cost and service for the period ended 31st December 2021. The ACD, through its Board of Directors, has a responsibility to ensure that your Funds are managed appropriately and that these deliver value to you as a fund investor.

The assessment of whether each of our Funds (and underlying share classes) is providing value to investors has been evaluated using the seven criteria introduced by the FCA. The way in which the Board has assessed these criteria is explained below.

## The 7 criteria and how we have assessed them

We have chosen to group the criteria into three categories: Performance, Quality of Service and Costs (and charges).

### 1. Performance

We have assessed the investment performance of the Fund (and different share classes) against both their stated investment objectives, as well as against any target or appropriate comparator benchmarks that are set out in its prospectus or available in the market.

We considered whether the Fund has performed as expected, given the market conditions and its investment philosophy, strategy, and implementation thereof. We have deemed it most appropriate to use a full five-year period for the assessment as we feel this is representative of a typical investment cycle and aligned to the time period employed by the Key Investor Information Document (KIID).

Any fund launched more recently without a five-year track record, will be assessed on a “from inception” to 31st December 2021 basis.

Where Funds have an income element as part of their Investment Objective, we have assessed the Fund’s performance not just in terms of net Total Return but also taken into consideration the income generated by comparing the yield of the Fund against an appropriate peer group.

## 2. Quality of service

We have taken a holistic view when approaching this category by assessing the following:

- **Fund services:** These are operational activities that are core to the smooth running of our funds and include, for example, determining the daily price of the share classes of a fund and ensuring that investors receive their interest and dividend payments in a timely manner.
- **Engagement and Communications:** Here we have considered the quality of our investor servicing including, for example, how we address investor queries and resolve complaints, as well as the quality, breadth, and accuracy of the information we provide.
- **Governance:** It is important to ensure that funds are managed and operated in the best interests of investors. We have therefore considered whether an appropriate and effective control environment and robust risk framework are in place.

## 3. Costs (and charges)

The remaining criteria can be considered under the cost (and charges) umbrella and split out as follows:

- **AFM (Authorised Fund Manager) cost:** We have assessed the costs incurred by us, as ACD, for providing the services to the funds, relative to the fees charged to you for those services. To perform this exercise each fund's OCF (Ongoing Charges Figure – the total cost associated with running a fund) has been broken down into the Annual Management Charge (AMC), audit and tax fees, service fees (depository, custody, and other administration fees) and any underlying fund costs. This breakdown of these costs has been analysed. Where the Board felt any of the figures look disproportionate, there was further validation internally or by reviewing with the Sponsor (Owner).
- **Classes of shares:** The UK investment industry had a legacy of share classes with higher fees, largely relating to share classes that existed before the changes instigated by the Retail Distribution Review. Where a range of different share classes may be offered to investors, our assessment of this criteria has considered whether share classes within each fund are properly priced and whether investors are invested in the most appropriate share class that is available to them. We have also considered how we ensure ongoing suitability of pricing and will continue to monitor whether investors remain in the most appropriate share class. Finally, a review and discussion were held on the merits of continuing to offer each share class.
- **Comparable market rates:** This relates to the charges in relation to funds managed by other ACDs. We assessed whether the charges investors pay are in line or favourable when compared to similar funds available in the market. In all instances, we measured our costs against costs charged by the fund's Investment Association sector peer group median. These categories are independently classified based on fund strategies and objectives.
- **Economies of scale:** We have considered two aspects when looking at this criterion: Firstly, as a fund grows, are we able to pass on economies of scale to our investors? We should be able to do this as fixed costs will fall in relative terms as the overall fund size increases. Secondly, we can leverage better relationships and processes to bring efficiency and lower charges to the funds.
- **Comparable services:** This criterion looks internally, where we consider charges for each fund against comparable services provided elsewhere across the range of products that we offer and how reasonable these are where offered to different client types, e.g., institutional mandates. These should be comparable in terms of strategy, investment remit and investor outcome.

## Summary Results

Fund	Performance	Quality of service	Costs	Overall Assessment of Value
WS Sequel Cautious Target Return Strategy Institutional Class	Green	Green	Green	Green
WS Sequel Cautious Target Return Strategy Retail Class	Green	Green	Amber	Green
WS Sequel Cautious Target Return Strategy C Class	Green	Green	Green	Green
WS Sequel Balanced Target Return Strategy Institutional Class	Green	Green	Green	Green
WS Sequel Balanced Target Return Strategy Retail Class	Green	Green	Amber	Green
WS Sequel Balanced Target Return Strategy C Class	Green	Green	Green	Green
WS Sequel Growth Target Return Strategy Institutional Class	Green	Green	Green	Green
WS Sequel Growth Target Return Strategy Retail Class	Amber	Green	Amber	Amber
WS Sequel Growth Target Return Strategy C Class	Amber	Green	Green	Green
WS Sequel Cautious Income Strategy A Acc/Inc	Green	Green	Red	Green
WS Sequel Cautious Income Strategy Inst Inc	Green	Green	Amber	Green
WS Sequel Cautious Income Strategy Ret Inc	Green	Green	Amber	Green
WS Sequel Global Target Income Strategy A Acc	Red	Green	Red	Red
WS Sequel Global Target Income Strategy Inst Inc	Red	Green	Amber	Red
WS Sequel Global Target Income Strategy Ret Inc	Red	Green	Amber	Red

### Key

Green = delivering consistent overall value

Amber = while a fund is delivering satisfactory value, improvements/enhancements are under way or have been recently implemented

Red = not delivering consistent value

The above and throughout the report, we have not included any information with respect to the following share classes as these are legacy classes which have inbuilt adviser fees within them.

- Target Return Funds – share classes D, E, F, G, H and I
- Income Strategy Funds – share class B

## Identified Actions

Having reviewed the options with the Sponsor, last year we felt the best course of action was to explore closing the two Income funds (WS Sequel Cautious Income and WS Sequel Global Target Income) during 2021. However, after further work, it was determined that this course of action may not have been in the interests of all investors due to investors holding ISA Tax Wrapper investments within the Funds.

The ACD and the Sponsor have identified that some investors within the A and B share classes of the Income Strategy Funds may benefit from an alignment of the fees in line with the Retail classes. The ACD is undertaking actions to deliver this.

Where the Target Return Strategy Funds offer more than one share class with different charges, we will continue to monitor and review these to ensure investors are converted to lower-cost share classes where we identify this to be in the investors' best interests.

The ACD and the Sponsor are undertaking a review of both Income Funds' objectives and strategies with the aim to grow AUM via its internal model portfolio service as part of a strategy to repurpose these funds. If this has not been achieved by end Q4 2022, the Funds will be closed.

## Conclusion

The Board has taken into consideration all the criteria and considers that all Funds except the WS Sequel Global Target Income Fund offer overall value to its investors.

The WS Sequel Global Target Income Fund has been assessed as not delivering overall value to investors. While a yield is being achieved for investors, it is below the target objective, the costs associated with a continued lower AUM are having a negative impact on this overall performance. If the proposed repurposing of this fund has not been successfully completed by end Q4 2022, the Board expects both Income Strategy funds will be closed.

## Detailed Results

### 1. Performance

All funds have achieved their performance targets in terms of providing both capital and income (where stated) along with beating target benchmarks, with the following comments and exceptions:

- C Share Classes: these have current performance history for less than 1 year. An assessment has been made on the available performance data, with only the Growth Target Return delivering slightly under its target benchmark. Given the full 5-year cycle has not yet been completed, we are satisfied with the performance over this period.
- Growth Target Return Retail Share Class: this has underperformed its target benchmark
- Global Target Income: All Share Classes have underperformed

Where income is key part of the Fund objective, we have also assessed whether the funds have met this objective:

- The Cautious Income Strategy Fund has delivered a yield of circa 4.10% and when compared to its peer group, this is top quartile.
- The Global Target Income Fund has delivered a yield of circa 3.20% and when compared to its peer group, this is top quartile. It is noted though that this is behind its stated objective target.

Fund	5yr Fund annualized returns(net)	5yr Benchmark annualized returns	Target benchmark	Fund objective
WS Sequel Cautious Target Return Strategy Inst Class	4.16%	2.70%	Bank of England 1 Year Fixed Rate Bond IUMWTFA + 2%	To achieve relatively stable returns over the medium term, with the potential for some long-term capital growth over the full investment cycle (not being less than 5 years) of 2% in excess of the return that could be expected from long term cash deposits.
WS Sequel Cautious Target Return Strategy Ret Class	3.91%	2.70%		
WS Sequel Cautious Target Return Strategy C Class	2.81%*	2.28%*		
WS Sequel Balanced Target Return Strategy Inst Class	5.13%	4.21%	Bank of England 1 Year Fixed Rate Bond IUMWTFA + 3.5%	To provide a balance of income and capital growth over the medium to long term and aims to achieve a return over the full investment cycle (not being less than 5 years) of 3.5% in excess of the return that could be expected from long term cash deposits.
WS Sequel Balanced Target Return Strategy Ret Class	4.87%	4.21%		
WS Sequel Balanced Target Return Strategy C Class	4.91%*	3.78%*		
WS Sequel Growth Target Return Strategy Inst Class	5.74%	5.72%	Bank of England 1 Year Fixed Rate Bond	The investment objective of the Fund is to provide long term capital growth and aims to achieve a return over the full investment cycle (not being less than 5 years) of 5%
WS Sequel Growth Target Return Strategy Ret Class	5.48%	5.72%		

WS Sequel Growth Target Return Strategy C Class	5.10%*	5.29%*	IUMWTFA + 5%	over the return that could be expected from long term cash deposits.
WS Sequel Cautious Income Strategy A Acc/Inc	2.97%	2.70%		To provide income and the potential for some capital growth over any 5-year rolling cycle of 2% per annum total return (a combination of income and capital growth, net of charges), in excess of the return that could be expected from long term cash deposits, represented by the Bank of England 1 Year Fixed Rate Bond IUMWTFA
WS Sequel Cautious Income Strategy Inst Inc	3.47%	2.70%	Bank of England 1 Year Fixed Rate Bond IUMWTFA + 2%	
WS Sequel Cautious Income Strategy Ret Inc	3.29%	2.70%		
WS Sequel Global Target Income Strategy A Acc	4.43%	5.72%		To provide a stable income (of 4% per annum) and capital growth over the medium term, and it aims to achieve a return over the full investment cycle (not being less than 5 years) of 5% over the return that could be expected from long term cash deposits. Capital in the Fund is at risk and there is no guarantee that the investment objective will be achieved over this or any other time period.
WS Sequel Global Target Income Strategy Inst Inc	0.67%**	5.71%**	Bank of England 1 Year Fixed Rate Bond IUMWTFA + 5%	
WS Sequel Global Target Income Strategy Ret Inc	3.91%	5.72%		

Source: Morningstar as at end of December 2021

\*Less than 1yr performance

\*\*4 yr annualized performance due to later launch date

## 2. Quality of Service

The Board have concluded that, taking all criteria into account, the level of service achieved meets investors' expectations based on the criteria set out above.

## 4. Costs (and charges)

- **AFM cost:** Having split out the costs of running the fund as described in section 3 above, the Board has reviewed all costs and recognises that as can be seen in the summary table below, all classes are demonstrating a higher than sector median on total costs, while some share classes are favourably positioned with respect to their AMC when compared to the peer group.
- **Classes of Shares:** As can be seen within the table below, some of the Funds do offer different classes with different AMC charging structures.

### Target Return Funds

- Retail Share Classes: available for direct investors via their financial adviser.
- Institutional Share Classes: available for direct investors via their financial adviser, however there is a greater investment minimum amount of £500,000 to gain access to this class and lower management fees

- C Share Classes: only available for internal monies via Sequel Investments via their model portfolio service
- As noted above in the report, share classes D, E, F, G, H and I are legacy classes which their AMC structure has defined intermediary fees within. When this fee is removed, these are equivalent to the Retail Class. We encourage all clients who still invest in these classes to contact their financial adviser, intermediary or provider to ensure this remains the most appropriate share class to be invested in, or whether a switch to another share class would be appropriate for their circumstances.

#### Income Strategy Funds

- A Class: a legacy clean class which includes investors outside of services provided by Sequel Investments with no inbuilt adviser fees.
- B Class: a legacy clean class which includes investors outside of services provided by Sequel Investments with an inbuilt adviser fee of 0.50%.
- Retail Share Classes: available for direct investors via their financial adviser.
- Institutional Share Classes: available for direct investors via their financial adviser, however there is a greater investment minimum amount of £500,000 to gain access to this class and lower management fees.
- While the differences in charges between the share classes is reasonable based on factors as described above, we have identified that investors within the A and B share classes of the Income Strategy Funds are experiencing higher overall charges and we are undertaking a review to homogenise these in line with the Retail classes.
- **Comparable Market Rates:** All the Fund's OCFs are above their respective peer group medians. As an outcome the AFM cost analysis, the Board recognised the main reason the funds are above the peer group median is the fact that they are unfettered multi manager funds which impact the underlying fund costs compared to the majority of the peer group who invest directly or via Exchange Traded Funds.

Share class	Share class OCF	IA sector median	Share Class AMC	AMC Peer Group Quartile
WS Sequel Cautious Target Return Strategy Inst Class	1.48%	1.13%	0.35%	4
WS Sequel Cautious Target Return Strategy Ret Class	1.73%	1.13%	0.50%	4
WS Sequel Cautious Target Return Strategy C Class	1.17%	1.13%	0.24%	3
WS Sequel Balanced Target Return Strategy Inst Class	1.53%	1.14%	0.35%	4
WS Sequel Balanced Target Return Strategy Ret Class	1.79%	1.14%	0.50%	3

WS Sequel Balanced Target Return Strategy C Class	1.25%	1.14%	0.24%	N/A
WS Sequel Growth Target Return Strategy Inst Class	1.55%	1.10%	0.35%	4
WS Sequel Growth Target Return Strategy Ret Class	1.81%	1.10%	0.50%	4
WS Sequel Growth Target Return Strategy C Class	1.25%	1.10%	0.24%	3
WS Sequel Cautious Income Strategy A Acc/Inc	2.29%	1.13%	1.00%	2
WS Sequel Cautious Income Strategy Inst Inc	1.66%	1.13%	0.35%	4
WS Sequel Cautious Income Strategy Ret Inc	1.81%	1.13%	0.50%	4
WS Sequel Global Target Income Strategy A Acc	2.42%	1.14%	1.00%	1
WS Sequel Global Target Income Strategy Inst Inc	1.76%	1.14%	0.35%	N/A
WS Sequel Global Target Income Strategy Ret Inc	1.91%	1.14%	0.50%	N/A

Note: The fund OCF is the latest published OCF available as at end December 2021.

AMC Peer Group Quartile = 1 higher AMC, 4 lower AMC.

- **Economies of Scale:** The Board have concluded that any cost savings which can and will be obtained from economies of scale have been passed on to investors. One example of this is through the production of KIIDs documentation internally which has reduced costs in this area and these cost savings have been passed on to the Funds.
- **Comparable Services:** As we do not offer any similar investment products or services within the ACD, the Board is not able to assess this criterion.

#### Disclaimer

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Source for charges data: Waystone Management (UK) Limited. All data is correct as at 31 December 2021 unless otherwise stated.