A Marketing Communication regarding the

WS Raynar UK Smaller Companies Fund

Quarterly Report December 2024

a sub fund of: WS Raynar Portfolio Management Funds
Featured Share Class: F Accumulation

RAYNAR PORTFOLIO MANAGEMENT

Portfolio Manager:

Philip Rodrigs

Founder of Raynar Portfolio Management

18 Years Experience: Managing UK equity funds since 2006, Philip is a multi award winner. Honoured as an all-sector Morningstar 'Outstanding Talent', Philip has been twice named as IW's UK Small Cap Fund Manager of the Year.

Launch Date:	1 July 2024
Fund AUM:	£32.3m
Raynar AUM:	£118.4m
Valuation Point:	12 Noon
ISA Eligible:	Yes
Year End Date:	30 April

Risk & Reward Profile:

Typically lower rewards — Typically higher rewards

Lower risk — Higher risk

1	2	3	4	5	**6**	7

This fund is ranked 6 because its investment universe has experienced relatively high rises and falls over the past five years

Platform Availability:

- Aegon
- AJ Bell
- Allfunds
- Aviva
- Barclays
- Calastone
- EFG Bank
- Fundsettle
- Hargreaves Lansdown
- HSBC
- Interactive Investors
- Quilter
- Platform Securities
- Raymond James
- UBP Bank
- UBS
- Waystone (direct)

Others available – please enquire

Fund Objective

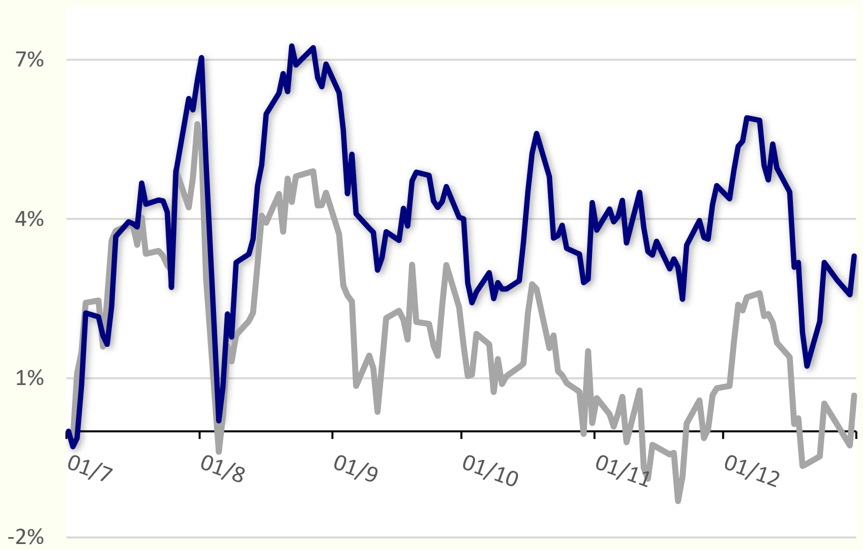
To achieve capital growth, over any five-year period, after all costs and charges incurred. Capital invested is at risk and there is no guarantee the objective will be achieved over the time period.
The fund will invest at least 80% of the value of its assets in a diversified portfolio of smaller companies that are incorporated, domiciled or have a significant part of their business in the UK.

Fund Performance

Fund NAV: Class F – Accumulation shares total return

Benchmark: Deutsche Numis UK Smaller Companies plus AIM ex Investment Companies Total Return index

Performance (%) since Fund Launch:



	1 Mth	3 Mth	1 Yr	3 Yr	5 Yr	Since Launch
Fund	-1.3%	-0.7%				+3.3%
Index	-0.1%	-1.6%				+0.7%

Source: BNY. This performance information relates to the past. **Past performance is not a reliable indicator of future returns.** Investing involves risk. The value of an investment can go down as well as up which means that sale proceeds could be less than you originally invested.

The Authorised Corporate Director of the fund is Waystone Management (UK) Limited (Contact : T : 0345 922 0044).

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Overall Fund Performance:

The Net Asset Value per share of the F Class Accumulation shares net of all costs closed at 103.30 resulting in a very slight negative 0.7% total return inclusive of +0.3% dividend. This was pleasingly ahead of the fund's benchmark for the second successive quarter. The Deutsche Numis UK Smaller Companies + AiM ex Investment Trusts Total Return Index fell by 1.6% this quarter, meaning that the Fund outperformed by a further +0.9% to bring the total outperformance since inauguration on 1st July 2024 to +2.6%. This is all the more pleasing given that the fund started out with 100% cash which requires transaction costs to rapidly build a portfolio of equities in order to minimise the drag effect of holding cash within what was then a rising market. That these new-launch effects were more than surmounted by delivering a highly competitive return is especially pleasing.

The fund outperformed ahead of the Budget despite a moderate overweight to the weakly performing AIM segment as fears built that the 100% relief for Inheritance Tax purposes would be entirely removed. The confirmation that the relief would remain at 50% was greeted with a 4% surge by the segment, which extended the degree of outperformance by the Fund into November. That did close slightly during December due to certain stock specific factors (see below), not all of which we consider warranted.

Market Background:

The key event of course was the UK Budget. There is no doubt that this was a 'tax, borrow and spend' Budget. Some might be disquieted about the 'moving of goalposts' by changing the definition of the fiscal rules that allows extra investment. Overall, the Budget indicated an extra £142bn of borrowing compared to the prior profile (which was arguably unrealistic given the influence of politics) which sounds a lot, but pales in comparison to the US borrowing ratios. Whilst the UK gilts market did adjust, the adjustment was orderly – in stark contrast to the Truss-Kwarteng debacle. Considering the last three months or so, UK bond yields have moved broadly similarly to US yields, suggesting global bond investors are not unduly punishing the UK post Budget. This has given room to emulate what has been a successful playbook by the US.

There is no doubt that the efforts made to smooth the passage of the Budget announcement has caused an overblown doom and gloom news cycle that had built to a genuine fear as to what the Budget might bring. For the consumer, this Budget ought to amount to a positive shock – they really don't have any new direct tax rises and even the anticipated rise in fuel duty did not happen. Strong wage inflation resulting in large increases in discretionary income over the last year or so has largely been saved. Whilst it was hoped that the Budget would act as a catalyst to unleash pent up demand, confidence seems to have continued to be impacted by the incessant negative tone and so Christmas spending can be characterised as solid rather than buoyant and it seems likely that the savings ratio will have remained high.

Turning to inflation, a steady drop resulting in a September print of a below-target 1.7% marked the end of the trend. Energy prices in particular meant the pace was expected to bounce back up, although markets were a bit disappointed with slightly higher than expected prints with concern regarding sticky services and wage inflation. However, the Bank of England did not disappoint – a second base rate cut of the cycle was delivered on 7th November. Importantly, the Bank has kept the door open to further moderate what is still quite a restrictive monetary policy stance. Their assessment of the inflationary impulse from the Budget was encouraging on that score. Borrowing to spend on loosening the vice on public services spending is, naturally, incrementally inflationary. This was partially counterbalanced by not raising fuel duty which had been embedded into expectations. Inflation forecasts were revised upward, but not by much compared to two years ago. Further cuts are therefore not off the agenda, and this was reinforced with a 'dovish hold' pre Christmas where more members than expected voted for a rate cut.

The other main event in the fourth quarter was a decisive US election victory by the Republican party, meaningfully outperforming polls that had the election considered too close to call. Importantly, the result was a clean sweep of Republican control of the White House, Congress and the House – reducing the risk of political gridlock - which was greeted positively by the US market. This was because the party's agenda is one of borrowing heavily to sustain most existing infrastructure spending programmes, fund ongoing tax cuts and to pursue an agenda of de-regulation. Coupled with this is the rhetoric regarding anti-globalisation – raising tariffs to insulate US businesses from global competition to drive re-shoring of manufacturing. At the same time, policies to remove non-legal immigrants would materially reduce the workforce.

Stepping back – all of this together would be *highly* inflationary. Raised tariffs immediately make affected goods more expensive for Americans. The US economy is already running hot – growing strongly with a significant driver being the current enormous volume of borrowing at a scale not usually seen during non-recessionary peace-time. The proposal to borrow further to cut taxes adds fuel to the fire. And then to seek to remove a meaningful proportion of the lower paid work-force would tighten the labour market in a similar manner to that which caused real problems for manufacturers after Covid. There is a real risk of inflation getting out of hand in the US – a risk which may even lead to reversals of rate cuts recently delivered by the US Fed.

The market reaction was three-fold – US bond yields rose on the prospect of more inflation, US equity indices moved to record highs and the US dollar was very strong. Indeed, the US dollar 'steam-rolled' through financial markets, contributing to underperformance by almost all other currencies, commodities and rest-of-world equities. It appears the market is pricing in the need to auto-correct for anticipated tariffs and also fewer US rate cuts. Concerns regarding a 'trade war' were elevated post the Trump victory. 'Deal-maker' Trump and Chief Tweeter Elon Musk added to discordancy with a series of rather outlandish proclamations. However, there are also signs of a more realistic approach behind the headlines. We will soon see what this approach delivers in reality in 2025.

Market Outlook

We at Raynar carry a positive view for the outlook for the UK economy and UK Smaller Companies for 2025. We believe the key elements that support a profile of accelerating economic growth through 2025 are either in place or have the capability to be. This is not to say there won't be things that concern investors along the way. But just like the recovery from the global financial crisis post 2008, we see scope for UK Smaller Companies to 'climb the wall of worry'.

This view is predicated upon our assessment that all three areas of the economy – government, corporate and consumer - are reasonably well placed entering 2025. Firstly, the budget has released the shackles on spending and investment for the government. A planned fiscal stimulus worth just under 1% of additional growth for the UK economy will accumulate progressively through 2025. This spending is likely to have a high multiplier effect – creating further economic activity. This is consistent with Keynesian economic theory and is essentially what has been driving the relatively elevated US economic growth which has been so lauded of late. Importantly, a break in austerity allows budgets for spending on things that can boost productivity. For example, software subscriptions that could materially improve efficiency could be easier to enter into now than before, making it easier to deliver the planned boost to public sector productivity which is a key element of the government's future plans.

With the UK consumer at close to full employment, this most important component of the economy is also in a strong position. Years of above-inflation pay rises have repaired the damage caused by Covid. Sharp minimum wage increases have particularly helped the lowest paid cohorts and boosted the relative incentive to work rather than claim benefits. Non-discretionary elements of spend have been favourable over the last twelve months as energy prices fell and inflation in areas such as food stopped rising sharply. After the big step up in mortgage rates which takes a couple of years to fully feed through, recent rate cuts are helping to bring this negative impulse to a close. Covid also helped to meaningfully accelerate a reduction in indebtedness which leaves the consumer considerably deleveraged.

Turning to corporates, it would be easy to focus on just the national insurance hike and assume, given vocal lobbying, things are tough. However, whilst for most firms a low-single-digit percentage impact from NI is unwelcome, other elements have become progressively easier. Labour availability has been a real problem but this has eased. This offers scope for reduced wage inflation going forwards. The supply chain has also progressively normalised after being stretched to breaking point after Covid. And a growing theme is that there is a real sense that developments in both hardware and software technology at affordable price points are making a real difference. AI-inside software is helping organisations find a new wave of productivity whilst on the physical side, manufacturers are finding that investing into the current generation of robotisation is genuinely high returning. Generous tax incentives encouraging such capex has seen investment increase meaningfully over the past year. A new wave of productivity gains would be very welcome for shareholders and the economy.

There is, however, one key missing ingredient – confidence. Being completely intangible, it is not something measurable or specifically controllable, but it can be influenced. Regrettably, it has become apparent through the second half of 2024 that the new Labour government has completely squandered the confidence that had built up during the first half of the year, and failed to capitalise on what would ordinarily have been a post election honeymoon buoyancy as the country looked forward to positive change. Instead, it has become clear that the one-track PR which has sought to push a message that the country's financial state is parlous has really sunk in, and is proving difficult to shift.

The reasoning for the PR approach made sense – the worst thing that could have happened was a Budget that was poorly received by the financial markets. Most important was to avoid a spiralling rise in bond yields that was the self-destruction of Liz Truss's premiership. It remains the case that we can say the government successfully 'sold' the need to repair public finances, as well as deliver some requisite Labour moves – yields did not blow out despite the large 'ask' in terms of raised borrowing under revised investment criteria. Unfortunately, the PR strongly filtered into the public consciousness and even a 'positive shock' for the consumer in the form of an absence of direct tax rises has not resulted in the lifting of animal spirits. The consumer has aggressively raised their savings ratio through 2024 and there is yet to be a firm sign of that reversing.

Raising confidence to unleash significant pent up demand is thus the main uncertainty regarding 2025. What can drive this? A sharp change in PR would help. It is reasonable to assume that as a party that has stated that they are all about growth, the easiest win would be to take action on their own communication strategy to inject a more upbeat tone. This needs to be coupled with tangible action and there should be plenty of that through 2025. Another gripe with the new government is that they haven't hit the ground running as fast as might be expected for a party that was expected to win for the prior two years. Instead of refining largely established plans, we are instead waiting for a series of root-and-branch reviews that take time to work through, report, and drive positive policy change. This does mean 2025 will be peppered with announcements – each offering the opportunity to articulate growth-accelerating policy. Perception that the new government has taken a grip with proactive action should build confidence into the future from an unfortunately low point as we start 2025. Ultimately, time is always a healer. If nothing terrible happens, the consumer will eventually decide that there is no reason to further delay spending on things they might want, such as home improvements and the like. The unleashing of a growing logjam of pent-up demand is a tantalising prospect.

An accelerant would undoubtedly be a fall in interest rates. Embedded into general expectations is a view that market interest rates are now a major headwind. This has coincided with the ending of the globally synchronised disinflation which has placed doubts on how much further rates can be cut. The UK has had to contend with the warranted expectation that the Budget would add a small bout of extra inflation than there otherwise would have been – although the Bank of England don't think it to be hugely material which means they have given themselves room to continue easing monetary policy restrictiveness. Along the random walk of small margins, late 2024 inflation prints were slightly on the wrong side of the line. Before going to press, January's release surprised positively, sending rates lower again with a strong positive reaction for equities.

This reaction threw into sharp relief just how far the narrative had shifted to one end of the spectrum – that the UK is a special case with an inflation problem, potential stagflation and therefore sky-high interest rates constraining the government's spending plans. Whilst it was the case that UK bond yields started the year by rising above the top of the range they had traded at pre and post Budget, these moves were in no way out of line with western peers. Commentary reached hype levels even though the move up was exactly in line with US yield increases since the end of August and since the Budget. European yields have moved much the same. At the margin, incrementally higher interest costs will mean the government will have to be slightly less profligate with public sector wage increases and keener to drive productivity. In itself this does not cause a crisis in the manner the click-bait news would suggest.

In conclusion, the UK economy needs growth. The government knows this, has repaired its finances, and thus all three components of the UK economy are primed to grow. The key missing ingredient is confidence which, as an intangible human dynamic, tends to swing like a pendulum. We contend that pendulum has swung very significantly from good confidence in the first half of 2024 to near its peak on the other side as we enter 2025. As extremes of negative sentiment are disproven, the swing back during 2025 can gain momentum, and so too can UK Small Caps.

Top Ten Holdings	% of Fund
Just Retirement	2.5%
TP ICAP	2.0%
Currys	1.8%
FRP Advisory	1.8%
Telecom Plus	1.7%
Concurrent Technologies	1.7%
Mitchells & Butlers	1.7%
Bloomsbury	1.7%
Kier	1.6%
Coats Threads	1.6%
Total Number of Holdings	74

Sector Allocation*	% of Fund
Diversified Financial Services	18.0%
Consumer Staples & Utilities	12.2%
Real Estate & Fittings	10.7%
Consumer Discretionary	10.3%
Business Services	10.3%
Technology	9.4%
Manufacturing	8.8%
Construction	8.7%
Basic Materials	6.8%
Healthcare	2.7%
Cash	2.1%

Portfolio Activity:

Activity this quarter was catalysed by some welcome dealmaking as well as company specific news. Using the equity markets to raise growth capital to create value is a core premise of a public listing. A strong case in point was the major fund raising for a compelling strategic acquisition by **MPAC**. Designing, assembling and servicing major packaging automation machines plays into growing appetite for robotisation amidst tightening labour costs. The acquisition compellingly adds an adjacent product line – palletisation – which is what comes after packaging in the factory line. It also adds a material European footprint with low-cost capacity that supports synergistic growth. A 41.3% surge shows how well received this has been so far.

Similar ambition was shown by **Kitwave** with its fund raising to acquire Creed which perfectly fits within a geographic gap. The firm is a wholesale distributor of food and drink to corner shops and food service outlets such as pubs across the country. Its specialism is frozen products which adds complexity and enables the firm to win national clients such as delivering Ben & Jerry's ice cream to Dominoes outlets. Filling a geographic gap allows extra efficiency by reducing journey lengths which adds to the financial attractiveness of the deal of this AIM listed company.

Concerns regarding the AIM market reached a crescendo this quarter until the budget revealed an ongoing inheritance tax relief for AIM listed shares. The ensuing bounce was used to exit launderer **Johnson Service Group** on concerns that further margin progress may be overly reliant on further energy price falls. This gave room to add **Renew**, a nationwide provider of infrastructure maintenance with a strong exposure to rising budgets at water, rail and other infrastructure firms. Reliable delivery has made this a 'core holding' type stock so it has been disappointing that shares have fallen steadily despite strong results post purchase.

The *Technology* sector saw a net increase with the larger additions of **Filtronic** and **DotDigital** and the departure of smaller holdings in **Cerillion** and **Microlise**. **Filtronic** has been thrust onto the world stage as it won SpaceX as a key customer, confirming it has world-leading capability in radio signal tech offering a material improvement to Elon Musk's global satellite web access service. A lull in the shares offered an attractive entry point for a firm repeatedly exceeding expectations.

DotDigital offers a comprehensive suite of customer engagement software that offers efficiency to firms emailing, texting and now WhatsApping customers. Formerly extremely highly rated for its strong compounding growth in recurring income, current levels are much more compelling for a very well managed software firm.

Making way was telecom operational software firm **Cerillion**. The market has strongly rewarded strong growth and very high margins, but, as the clock ticks, the absence of the next large win is starting to present significant risk for delivering on high expectations. Meanwhile a cyber attack at **Microlise** took longer than originally hoped to resolve, impacting logistics customers. This could impact the winning of new customers so a cautious approach was taken to exit in full.

More decisive action was required to address unexpected developments in a diversified portfolio. Construction steel preparer **Severfield** shocked the market with a major profit warning as certain customers delayed but also the firm appears culpable for not welding some bridges sufficiently well. Shares were exited. Also exited was oil and gas precision engineering products firm **Hunting**. Within a generally reviving oil and gas industry the firm has been winning big chunks of new business. Unfortunately one pocket of weakness emerged in the US driven by the inability to export gas profitably which resulted in the undoing of all the good work. Smaller holding **Secure Trust Bank** proved to be an insecure share price due to the adverse judicial rulings in the wider automotive lending sector with an uncertain impact for the firm. Despite a very low valuation the potential weakening to its balance sheet warranted a full exit.

Pre-emptive trimming and a subsequent full exit saw support services firm **Mitie** leave the portfolio. The firm employs tens of thousands of people but has developed a track record of being extremely well managed by its high calibre team. Having actually done well during the period of high inflation, a mismatch between CPI and minimum wage inflation may be harder to accommodate. Scope to do that has been weakened by missteps with contract losses and a blow up in one of their acquisitions.

Compared to negotiating with corporates, **SSP Group** is better able to manage pricing as it caters to captive customers travelling through airports and other transport systems worldwide under a variety of brands. After a long slog normalisation post Covid, new management are moving onto the front foot with decisive action in Europe and the forthcoming IPO of their Indian JV which may showcase a meaningful valuation discrepancy. The position was added just before year end.

Fund Performance Detail:

The top contributor to the portfolio this quarter was **Trainline** – the dominant railway ticket platform in the UK and also growing fast in Europe. A material addition in response to a strong trading statement in late September after which the market under-reacted by lifting the shares considerably less than the resultant profit upgrade proved impactful. Two subsequent strong statements ultimately propelled the shares to an overall quarterly gain of 31.2%. Interim results also contained the news that management would stick to their promise and reduce expenses now that the European platform is well established which further increases profitability.

Close behind was construction and services firm **Galliford Try** with a 26% surge. This well funded and managed firm is in prime position to benefit from the substantial investment increases required in the water sector, as well as many other areas of infrastructure. Clear plans to improve Britain's assets by the new government bodes well for the firm's impressive growth plans.

Growth is also stronger than expected for **Morgan Sindall.** Most of its 26.6% quarterly gain came in one go with a very strong reaction to yet another strong trading update from the company. An enviable track record is earning the firm a deserved re-rating. The profit powerhouse is the office fit-out arm which is benefiting from high demand for change given technological and working practice developments. The demise of competitor ISG is likely also helpful. Furthermore, other divisions are also strongly exposed to the new government's initiatives for infrastructure and home investment.

Not all are benefiting in the construction sector. As described above, insufficient welding by **Severfield** on a number of bridges contributed to a shock profit warning and shares were exited c35% lower than there start-of-quarter level. Low liquidity particularly hurt **Secure Trust Bank** for a c57% loss on exit.

This was offset by another strong quarter from Top holding **Just Retirement** with a further 16.7% gain. The market for bulk pension buyouts continues to boom and the firm is growing share including doing some very large deals. The market also became increasingly comfortable that high gilt yields are supporting strong profitability, although this can be forgotten during sell-offs. Despite the gains, shares still offer 50% upside to reach net asset value, and so high conviction was retained.

High yields are less beneficial for real estate owners. Flexible office owner **Workspace** ended down 24.5% after suffering a quarter during which shares stepped down for every adverse move in interest rate expectations but failed to rebound on the reverse. Shares ended the quarter offering c65% upside to the property net asset value per share with ongoing rental growth.

Leasing of space – this time on telecom towers – offer long term visible growth for **Helios Towers**. Focusing on structurally growing African and Middle Eastern markets, the firm has structures in place to earn hard currency returns despite the vagaries of some emerging market currencies. This quarter the firm raised guidance as it continues to lease up its towers faster than expected. The 20.2% decline seems to have more to do with weakness amongst its shareholders, with the damage done by a low-priced sell-out by one of them. With fundamentals strong shares are retained.

Long term visibility is also a core premise for **Concurrent Technologies**. The push into the Top 10 with a 21.2% quarterly gain was catalysed by an ongoing regular cadence of material contract wins. With its core defence company client base keen to upgrade to the latest technology, long term visibility on production profiles supports the anticipation of long-term earnings growth.

Share Classes	Class A Accumulation	Class A Income	Class F Accumulation	Class F Income
Inception Date	1st July 2024	1st July 2024	1st July 2024	1st July 2024
ISIN	GB00BRBGSY51	GB00BRBGSZ68	GB00BRBGT088	GB00BRBGT195
SEDOL	BRBGSY5	BRBGSZ6	BRBGT08	BRBGT19
Bloomberg Ticker	WSRPMAA LN	WSRPMAI LN	WSRPMFA LN	WSRPMFI LN
Minimum Initial Investment	n/a	n/a	£2m (Enquire)	£2m (Enquire)
Minimum top-up Investment	n/a	n/a	n/a	n/a
Initial Charge	0%	0%	0%	0%
Buying and Selling	Daily, 0%	Daily, 0%	Daily, 0%	Daily, 0%
Capped Max Ongoing Charge	1.20%	1.20%	0.95%	0.95%
of which Investment Management Charge	0.75%	0.75%	0.50%	0.50%

Contact Details www.raynarpm.com
Head of Client Relations: Jon Garland jon@raynarpm.com
T: 0207 1234 606
M: 0745 809 2791

RAYNAR PORTFOLIO MANAGEMENT

Important Information

The contents of this document are intended for Professional Investors and Eligible Counterparties only. We recommend private investors seek the services of a Financial Adviser. The fund is compatible with investor types with a basic level of knowledge and experience and who can set aside the amount invested for at least 5 years – noting that this recommended time horizon is a minimum and not a recommendation to sell at the end of that minimum period. Investors should be comfortable that the value of investments in the Fund can go down as well as up, 100% of their investment may be at risk, performance varies over time and returns are not guaranteed. If you are uncertain about whether this Fund is compatible with your needs, please contact an Independent Financial Adviser.

The Fund is subject to risks which are fully set out in the Fund's Prospectus, which is freely available from the Authorised Corporate Director of the fund - Waystone Management (UK) Limited (Contact : T : 0345 922 0044).

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