30 JUNE 2022

MATTIOLI WOODS FUNDS

FP MATTIOLI WOODS PROPERTY SECURITIES FUND

FUND MANAGER COMMENTARY

MARKET REVIEW

After falling significantly through the first half of the month, equity prices did stabilise through the second half – however, this was not sufficient to recover those earlier falls, resulting in a notable drawdown for the month. Much of the sell-off was attributable to continued inflationary concern following an above-forecast US inflation print that led to a 0.75% interest rate rise by the US Federal Reserve – in contrast to the 0.50% financial markets had priced in. With major central banks looking to aggressively raise rates into what is likely to prove a challenging economic environment, particularly for the under-pressure consumer, financial markets are now pricing in an increased possibility of recession. This was visible in commodities markets, a traditionally cyclical indicator of economic conditions, which sold-off this month following outperformance in the sector year-to-date. Copper is often viewed as a leading indicator of economic conditions, due to its use across multiple industries, so a double-digit sell-off in June seemingly reflects a view that global demand is likely to fall notably as conditions worsen. One trend seen persistently this year is a weakening of sterling – not ideal for a country heavily dependent on import activity but beneficial for unhedged sterling investors who have suffered nowhere near the same level of drawdown that a US dollar-based equity investor has experienced. This trend was amplified in June, sterling once again weakening against the greenback due to a poorly received rate rise of only 0.25% from the Bank of England. Though we might not be facing the same level of equity market falls on a currency basis, we are certainly feeling weaker sterling at the fuel pumps.

FUND REVIEW

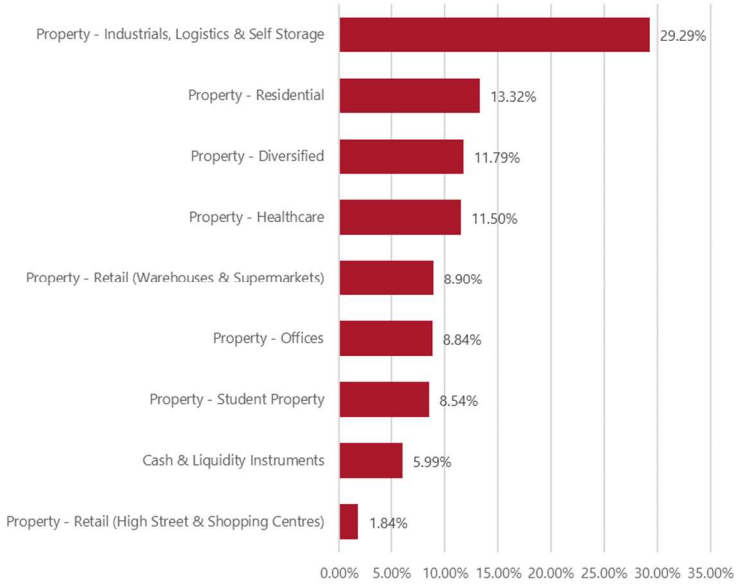
The UK listed property sector suffered a significant drawdown over the month of June, posting a fall of 10.65% against a decline of almost 6% for the UK equity market. Having traded sideways for the first week of the month, we saw the sector decline by nearly 8% during the next week, led by the industrials, logistics and self-storage sector. Following a period of consolidation and slight recovery through the majority of the second half of the month, we saw a sharp decline of just over 6% in the last two trading days of the month. The Property Securities Fund was not immune to the market conditions, but it did pleasingly continue in its more resilient nature and managed to post relative outperformance of the UK listed property sector. However, it did post a significant negative figure in absolute terms. The reassessment of likely central bank policy and action by investors in early June followed an above-average US inflation print that led to a 0.75% interest rate rise by the US Federal Reserve – in contrast to the 0.50% financial markets had previously priced in. With an increasing cost of debt and the pricing-in of a higher probability of recession, we saw significant selling pressure across the listed property sector to maintain the desired yield differential for investors. Having learned the lessons of the past, debt levels as a proportion of LTV (loan to value) are significantly lower than historically and there has been the ability to lock in lower interest costs over the past few years, but investors remain concerned about the impact of higher interest rates for these property companies. Income remains the primary return focus for the strategy (as it should for property investments) and it is pleasing to report that the fund made its third quarterly income payment on 30 June 2022. The income payment of 0.7121 pence per unit was in respect of the three months to 30 April 2022. We acknowledge it was lower than the figure for the second quarter, which was a function of a greater proportion of interim dividends than final dividends into the fund, plus a higher average cash weighting as a result of continual inflows and the considered investment by the fund managers.

Given the above comments about price performance over the past month, it should not be a surprise that there have been no positive contributors in absolute terms either in sector or holdings. Turning to the detractors, it has been the industrials, logistics & self-storage sector that featured as the largest detractor by the month. Its negative contribution was more than two-and-a-half times the second and third ranked detractors of the offices and diversified sectors. Turning to the individual holdings, unsurprisingly Industrials, Tritax Big Box, and Segro REITs feature within the top five detractors for the fund over the past month. Land Securities was the third largest detractor following a decline of just over 11.8% during June. Both of the large, diversified names of British Land and Land Securities fell around 12% during the month of June but the Fund benefited in relative terms from having no exposure to the former and a lower weighting to the latter than its capitalisation weight within the UK listed property sector.

ACTIVITY

We continued with our considered approach to the deployment of the steady inflows over the past month. While we saw healthy inflows during June, the aforementioned market conditions resulted in the Fund size only reaching just above £66m at the end of June. Through the month we have been judiciously adding to existing positions where sentiment has seen its share prices move lower.

FUND COMPOSITION



FUND PERFORMANCE

Past performance data will not be published until the Fund has been running for a full 12-month period.

FUND AIM

The investment objective of the Fund is to provide investors with a growing income (in monetary terms per unit) on an annualised basis and some capital growth over a market cycle (a seven-year rolling period). Growing income will be the primary objective of the Fund and capital growth the secondary objective.

INVESTMENT PHILOSOPHY

The Fund uses listed property investments to provide investors with the long-term return profile of the asset class but without the key challenge of liquidity. It primarily invests in real estate investment trusts (REITs) and real estate operating companies (REOCs). The fund managers benefit from the macro input on the property market from an advisory council including colleagues from Custodian Capital and Maven Capital Partners. The discussions within this group contribute to the formulation of the target sector allocations for the Fund.

CUMULATIVE PERFORMANCE as at 30.06.2022

Past performance data will not be published until the Fund has been running for a full 12-month period.

ANNUAL PERFORMANCE

Past performance data will not be published until the Fund has been running for a full 12-month period.

TOP TEN HOLDINGS as at 30.06.2022

Holding	Percentage
Empiric Student Property	6.30%
Urban Logistics REIT	6.22%
Big Yellow Group plc	5.52%
Residential Secure Income	5.36%
Ediston Property Trust	5.21%
Sirius Real Estate Ltd	5.11%
Home REIT plc	5.04%
Hibernia REIT plc	5.04%
Picton Property Income Ltd	4.99%
Warehouse REIT	4.80%

FUND DETAILS

Fund size:	£64.13 million
No. of holdings:	26
Sector:	IA Property Other
Distribution policy:	Quarterly
Payment dates:	March, June, September and December
XD date:	February, May, August and November
Launch date:	31 August 2021
Legal structure:	Non-UCITS Retail Scheme
Reporting date (annual):	31 July
Reporting date (interim):	31 January
Base currency:	Sterling
Valuation point:	12.00 midday daily
ISA eligible:	Yes
Ongoing charges figure (% p.a.)	
B income	1.56%
Annual management charge (% p.a.)	
B income	0.40%
Initial fee	0.00%
ISIN	
B income	GB00BMCH5V84
SEDOL	
B income	BMCH5V8

RISK WARNINGS

- **Past performance is not a guide to future returns.**
- **The value of investments and the income from them can fall as well as rise, and you may not get back the amount invested.**
- **For funds investing globally, currency exchange rate fluctuations may have a positive or negative impact on the value of your investments.**
- **Changes in interest rates will affect the value of, and the interest earned from, bonds held by the Fund. When interest rates rise, the capital value of the Fund is likely to fall and vice versa.**
- **Investment trusts can borrow money that can then be used to make further investments. In a rising market, this 'gearing' can enhance returns to shareholders. However, if the market falls, losses will be multiplied.**
- **The Fund does not use derivatives extensively, although it may use them in an attempt to reduce risk, reduce costs and to generate additional income. Investing in derivatives carries the risk of reduced liquidity, substantial loss and increased volatility in adverse market conditions. Derivatives may expose the Fund to credit risks of counterparties, who may not meet payment obligations. The use of derivatives may result in the Fund being leveraged (where economic exposure and thus the potential for loss by the Fund exceeds the amount it has invested), and in these market conditions the effect of leverage will magnify losses.**
- **This document is issued by Mattioli Woods plc and should be read in conjunction with the Fund's Simplified Prospectus. A list of risk factors is detailed in the Simplified Prospectus, and an investment should not be contemplated until the risks are considered fully. Current tax levels and relief are liable to change, and their value will depend on individual investors' circumstances. If you are unsure about any information contained within this document, you should take financial advice.**

Sources: FE Fundinfo