28 FEBRUARY 2023

MATTIOLI WOODS FUNDS

FP MATTIOLI WOODS PROPERTY SECURITIES FUND

FUND MANAGER COMMENTARY

MARKET REVIEW

Following what had been a bright start to the year, inflationary clouds rolled in once more to dampen spirits. Through January, the prevailing view was central banks had sufficiently tightened monetary policy, via a raising of interest rates, to stem inflation. The hard work was near complete and financial markets expected a couple more well-telegraphed rate rises in the US before peak rates were reached. That view came crashing down in February. Though inflation is indeed slowing (predominantly goods inflation), rising prices in the service sector are proving harder to control. Consequently, the January US consumer price inflation (CPI) reading came in ahead of forecast. When allied to a strong labour market report and solid retail sales data, financial markets swiftly priced in a later peak in US interest rates and a likelihood of rates being held higher for longer. This re-evaluation of future rate expectations triggered a sell-off across most equity regions and resulted in bond yields moving sharply upwards, with bond prices falling in response. The strength of the US economy through this environment of higher rates is proving a puzzling aspect for the country's policymakers. It seems likely that the lagged effect of monetary tightening to date is still to be realised. While it could be argued the Federal Reserve (and several other central banks) were initially slow to respond to surging inflation, rates were subsequently raised swiftly, and being more aggressive now, without sight of the impact, may create deeper problems.

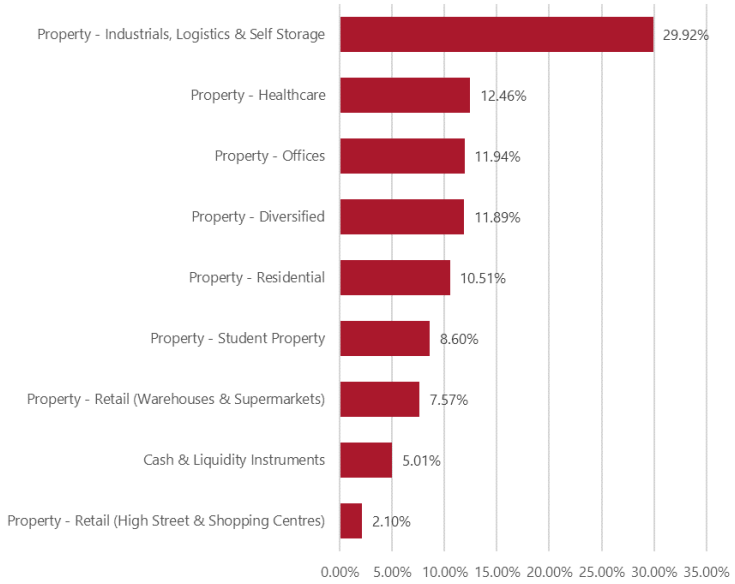
FUND REVIEW

Following the brighter start to the 2023 calendar year, the realisation by investors that rates were likely to peak and remain at a higher level than anticipated dampened the previous month's positivity towards the listed property securities sector. We saw sharp upwards movement in the listed property sector during the first couple of working days of February before the reappraisal on rates saw a change of sentiment towards the sector. As a result, we witnessed a gradual decline in share prices over the remainder of the month resulting in the price performance dipping slightly into negative territory for listed property securities in February. At an aggregate level, the sector posted a price return of -0.22% over the month. Disappointingly, the fund underperformed the sector return by posting a decline of -1.36% for the month. As we've discussed in previous commentaries, the logistics-focused SEGRO Plc represents over 17% of the listed property sector (by market capitalisation) and, as the strongest riser (up over 10% in price terms) in those first couple of working days in February, it understandably had a meaningful impact on the sector's absolute performance and the Fund's relative performance. While our c.5% holding in SEGRO benefited over the month, it was to a lesser extent than the index. Under FCA rules, we aren't able to invest the Fund in more than 10% of any one stock, so (allowing for a margin of safety), our maximum position size (in any stock) could only be 9%. This makes our underweight to Segro structural. However, we have been gradually building in a position in the business over the past year given its poor performance over that period. Looking at the rest of the month, the Fund performed broadly in line with the aggregate return of the listed property sector. Ordinarily, we would expect to see greater resilience from the Fund during negative market movements but retail, social housing, and diversified names, where we have actively decided to hold lower exposure, were most resilient during the month. We've continued to see a steady stream of reporting updates during February, in which the repeating theme has been significant capital valuation declines driven by the requisite yield expansion, coupled with robust occupational dynamics and constructive future expectations. While we do not simply accept these updates on face value, we are encouraged by the published data, forecasts and management expectations. We do recognise that the widely forecasted recession (should it materialise) will apply pressure on the operational dynamics of property but, based on current information and our stock selection, we are comfortable with the expected future direction of the portfolio holdings.

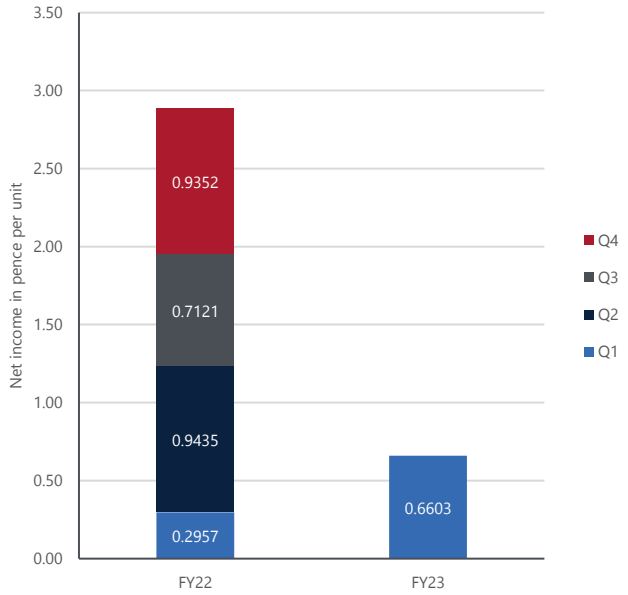
ACTIVITY

We've continued to see a flurry of updates and reports from constituents of the listed property sector over the month of January. We have continued to judiciously invest the retained cash to gradually reduce the size of our allocation. Mentioned on last month's fact sheet, we can now confirm we have repurchased a position in Target Healthcare, which, following the broad share price revaluation of listed property, is now offering a dividend yield in excess of 8%. In addition, we have initiated a position in Workspace, providing us with exposure to the potential increased desire for flexibility in office space and at an attractive pricing level after their acquisition of McKay Securities last year. Finally, we exited our modest position in the low-yielding Life Sciences REIT to enable us to redeploy the capital into higher conviction and yielding opportunities.

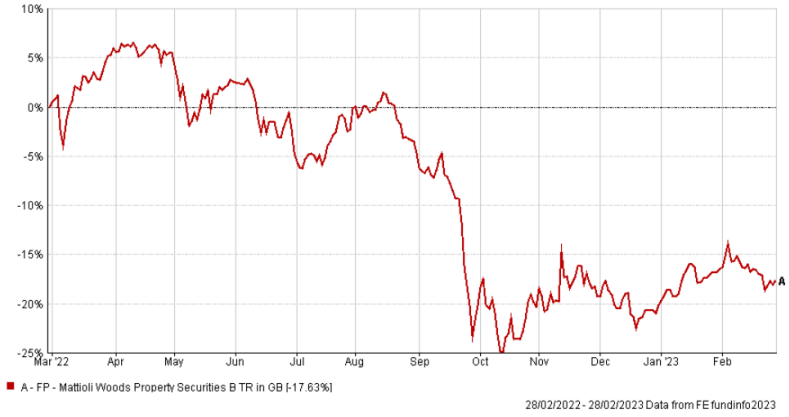
FUND COMPOSITION



DIVIDENDS PAID



FUND PERFORMANCE



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 28.02.2023

	1 month	3 months	6 months	1 year	3 years
Fund	-1.36	2.02	-13.52	-17.63	

ANNUAL PERFORMANCE

	2022	2021	2020	2019	2018
Fund	-24.31				

TOP TEN HOLDINGS as at 28.02.2023

Holding	Percentage
Empiric Student Property	6.47%
Land Securities Group plc	6.14%
Urban Logistics REIT	5.63%
Grainger plc	4.92%
SEGRO plc	4.89%
Ediston Property Trust	4.69%
Tritax Big Box	4.68%
PRS REIT	4.59%
Assura plc	4.36%
Helical plc	4.31%

FUND DETAILS

Fund size:	£73.17 million
No. of holdings:	28
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	1.39%
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