Fund factsheet USD A Class 30 September 2015

VERITAS ASSET MANAGEMENT
REAL RETURN INVESTING

Veritas Global Real Return Fund

The Fund's objective is to deliver real returns over the medium and longer term. More specifically, the target is to achieve a return on a compound annualised basis exceeding the OECD G7 CPI plus 4% per annum over a 5 year time period. The Fund aims to achieve its investment objectives by investing in global equities, bonds, cash and derivatives.

Fund and share class information

Fund managers	Andrew Headley Charles Richardson
Fund inception	08 January 2010
Share class inception	08 January 2010
Share class management fee	1.00%

Performance fee

Up until 30 June 2013, a performance fee was charged on this Fund. The performance fee, which accrued daily, was equal to 20% of the amount, where the Net Asset Value per share of that class (before the deduction of any performance fee) exceeded the High Water Mark and the Hurdle Rate. As of 1 July 2013, no performance fee will be charged.

Dividend payment (Pay date)	Once a year (October)
SEDOL	B5SVK76
ISIN	IE00B5SVK764
Bloomberg	VERRRUA
IMA sector	Global
Dealing	Daily by 11.00 am (Irish Time)
Tax status	UK Reporting Fund
Domicile	Ireland
Structure	ICVC
Fund type	UCITS
Fund base currency	GBP
Manager	Veritas Asset Management LLP
Administrator	HSBC Securities Services (Ireland)
Custodian	HSBC Institutional Trust Services (Ireland) Ltd

Fund and share class update

Fund size	USD 142.7 million
NAV per share	USD 19.67
NAV at launch	USD 15.55
Last dividend paid	No dividend paid

Number of holdings	
Long holdings	37
Short holdings	2

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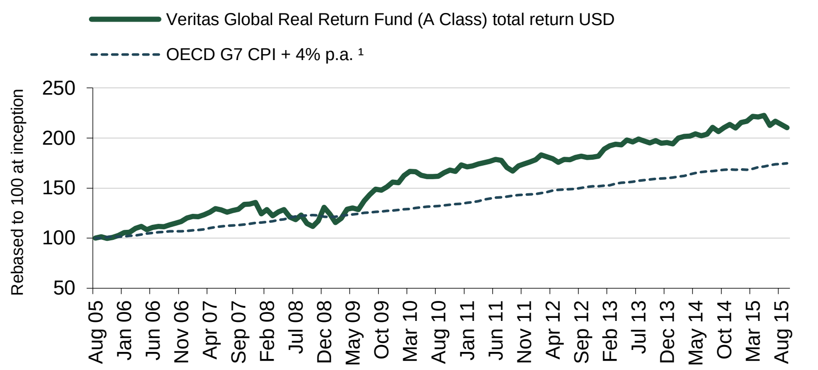
Returns in USD to 30 September 2015

	Fund (USD A)	CPI + 4% p.a. [1]
1 month	-1.57	0.33
3 months	-1.01	1.13
Year to date	0.20	3.80
1 year	1.96	4.24
3 years annualised	4.94	5.16
5 years annualised	4.93	5.66
10 years annualised	7.57	5.75
Inception annualised	7.67	5.79

Since inception returns in USD to 30 September 2015



Source: HSBC/Veritas Asset Management LLP/Bloomberg/OECD

Rolling 12 month returns in USD

	Fund	CPI + 4% p.a. [1]
1 year to September 2015	1.96	4.24
1 year to September 2014	5.68	5.56
1 year to September 2013	7.27	5.38
1 year to September 2012	9.05	5.82
1 year to September 2011	0.93	7.21

Risk profile since inception to 30 September 2015

	Fund		Fund
Annualised standard deviation	9.4	Maximum drawdown	-17.6
Annualised Sharpe	0.6	Longest losing streak	3 months
Annualised Sortino	0.8		

Between 07.09.2005 and 8.1.2010 the performance figures are based on the actual performance of the Real Return Global Fund, an unregulated collective investment scheme.

After 8.1.2010 the figures are based on the actual performance of the Veritas Global Real Return Fund, a UCITS scheme. The investment objectives, investment strategy and weightings of these two funds are the same.

Fund returns are hedged into GBP

Fund returns are for Veritas Global Real Return Fund USD A share class

Fund returns are total returns including dividends, net of fees and expenses in USD

Fund returns are based on NAVs priced at close of business

Source: HSBC/Veritas Asset Management LLP/Bloomberg/OECD

[1] OECD G7 CPI data to latest month shown to 31 August 2015

Veritas Global Real Return Fund

Top 10 holdings

Holding	Sector	% Fund
Capita	Industrials	5.3
Comcast	Consumer Discretionary	5.2
Microsoft	Information Technology	5.2
Safran	Industrials	4.5
UnitedHealth	Health Care	4.4
Oracle Corporation	Information Technology	4.1
Time Warner Cable	Consumer Discretionary	4.1
Roche	Health Care	4.0
Franco-Nevada Corporation	Materials	3.8
London Stock Exchange	Financials	3.6

Portfolio breakdown

Sector	% Long	% Short	% Gross	% Net
Energy	2.4	–	2.4	2.4
Materials	3.8	–	3.8	3.8
Industrials	19.9	–	19.9	19.9
Consumer Discretionary	13.7	–	13.7	13.7
Consumer Staples	2.9	–	2.9	2.9
Health Care	25.6	–	25.6	25.6
Financials	7.9	–	7.9	7.9
Information Technology	18.7	–	18.7	18.7
Telecommunication Services	3.3	–	3.3	3.3
Utilities	0.5	–	0.5	0.5
Index futures and options	–	39.2	39.2	-39.2
Total	**98.7**	**39.2**	**137.8**	**59.5**

Region (by listed exposure)	% Long	% Short	% Gross	% Net
North America	57.2	33.5	90.6	23.7
Europe ex UK	22.0	5.7	27.6	16.3
United Kingdom	9.4	–	9.4	9.4
Asia Pacific ex Japan	8.8	–	8.8	8.8
Africa and Middle East	0.9	–	0.9	0.9
Latin America	0.5	–	0.5	0.5
Total	**98.7**	**39.2**	**137.8**	**59.5**

Veritas Global Real Return Fund USD A share class information

Share class	Annual management fee	Minimum initial investment	Minimum subsequent investment
A	1.00%	$50,000	$25,000

There is no entry or exit charge

Important information

Past performance is no guarantee of future returns. Returns may increase or decrease as a result of currency fluctuations.

If you are in doubt about the suitability of this fund you should seek advice from your Investment Advisor. This document constitutes neither an offer to sell nor solicitation to purchase securities in Veritas Global Real Return Fund (a sub-fund of Veritas Funds plc). Such an offer may only be made via an official application form which should be read in conjunction with the prospectus and the Key Investor Information Document. These documents are available in English at www.veritas-asset.com and can also be obtained from the offices of the Administrator HSBC, Tel: 00 353 (1) 635 6799.

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Veritas Global Real Return Fund

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Convenience as a Competitive Advantage

Recent market volatility has prompted a lot of commentary regarding interest rates, quantitative easing, debt levels, emerging market growth and other ex post rationalisations for the moves in markets. There are always risks facing the global economy and now is certainly no exception. Some of these risks such as high debt levels in some major emerging markets are particularly worrisome due to the potential consequence for the global economy should they come to a stress point. However, while it is likely that some of these negatives crystallise it is impossible to know which ones and when. It is also impossible to judge the policy response and its interaction with equity markets ("bad news is good news"). We believe the current extraordinary economic and capital market context is notably unpredictable and subject to sudden unforeseen changes. Consequently, at Veritas we believe that rather than spend time trying to forecast the impossible, time is better spent identifying and analysing high quality companies with sustainable competitive advantages for long term investment.

We employ a number of methods to identify such companies, one of which is the use of themes. One of the themes we have been employing recently to narrow down the universe of companies for further analysis has been a business model theme. This theme has sought to identify superb business models (often at companies we know well) and then look for the same or a very similar model in other companies but where it is not being fully recognised. It has proven a rich seam for both ideas and investments with our holdings in American Express, LSE and Express Scripts arising from this theme.

One interesting aspect of the work we have done has looked at business model destruction and then sought companies that are insulated from such destruction or can benefit from it (and conversely avoid companies that are at risk of business model destruction). One factor that appears to be increasingly responsible for destroying business models is a shift in convenience. A product or service can differentiate itself in the mind of the consumer or user through cost, capability or convenience. Historically cost and capability have been the focus of new entrants into a market – delivering a better product/service or a cheaper product/service. With better technology and connectivity however, convenience is becoming a focal point for new entrants. Uber is a prime example: it was developed partly as a consequence of its founders not being able to find a taxi on a snowy night in Paris. The premise was simple: push a button and get a car. Compared to the traditional taxi model the Uber model represents a huge improvement in time utility (make the service available when the customer wants). In this sense Uber has "democratised" convenience.

In addition to "time utility" companies can also look at "form utility" (make the product available in a format that better suits the customer), "place utility" (make the product available where the customer wants) and "possession utility" (allow the customer to do what they want with the product post purchase). Our analysis indicates that improvements in one or more of these factors can lead to rapid shifts in market shares and the possibility of established companies being rapidly disrupted or wholly undermined. Management who do not appreciate that convenience is an increasingly important factor for customers and that the internet can create opportunities for a paradigm shift in convenience are exposing their company to the risk of being marginalised. Equally companies who understand the threat from convenience and pursue the opportunity of offering more convenience for their customers (even where this undermines part of their current business model) will build stronger and more enduring competitive advantages. Express Scripts which we have recently invested in, is a company that we believe understands the threat and is working hard to both mitigate the threat and exploit the opportunity created by offering heightened convenience.

Opportunities for the Fund

Express Scripts is a US pharmacy benefit manager (PBM) and in this role it sits between the payer (a health insurance plan) and the pharmaceutical manufacturers. With a market leading 30% share of US prescriptions passing through Express Scripts, the company uses its scale to negotiate with the pharmaceutical companies to drive lower drug prices.

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Living in the US you would be aware of Express Scripts and their outspoken Chief Medical Officer forecasting the impending steep rise in drug costs, driven by demography and innovation, and which drug classes most pressure the system. However, this rhetoric is met with action, forcing clinically ‘equivalent’ medicines to compete on price for formulary positioning or access. Formularies are a list of medicines permissible for a given health plan and drugs are listed in three tiers. The placing of a given drug on Tier 1 engenders the lowest co-payment from the patient and drives utilisation and adherence. In this way PBMs influence market share. In recent years, Express Scripts have taken this to a new level, forming their National exclusionary formulary. Excluded medicines in high volume diabetes and asthma markets were the first to experience the share loss from not competing strongly enough on price in 2014.

Now a consolidated oligopoly, the PBM market is dominated by ESRX, CVS Caremark and Optum (within UnitedHealth Group). That they have the power to counteract inflation in pharmaceutical spend for health plans is not in question. However, the customer must be happy with the service and provision. From a corporate health plan perspective, employee satisfaction is one of the leading HR issues. For any health plan, corporate or Government, compliance with prescribed pharmaceuticals is the goal, with the aim of keeping people out of hospital and lowering overall medical costs to the system.

As increasing cost falls to the consumer (most directly in co-payments for pharmaceuticals), so the consumer becomes accustomed to making choices. Having a role in which medicine is most cost effective for them but also how it is delivered. Does the patient get greater value from a conversation on dosing with the pharmacist, or from avoiding a busy drug store, ordering online with next day delivery? In this aspect, Express Scripts differs from the other two major PBMs by having a historic strength in the mail order channel of pharmaceutical delivery. Mail order has clear convenience benefits to the patient and to the health plan offers lower cost and, Express Scripts data repository would argue, superior compliance. Express Scripts benefit too as the cost of running specialist doctor hotlines for patient interaction is much more economic than supporting a retail pharmacy network relationship.

Though currently plateaued at around 30%, ‘mail order’ or home delivery utilization could rise as the growing numbers of retirees, who usually take a larger number of maintenance medicines, are increasingly comfortable with technology. Express Scripts aims to increase the proportion of prescriptions filled by mail order by improving the experience and attaining the same levels of convenience and service achieved by Amazon. President and incoming CEO, Tim Wentworth, joined when Express Scripts acquired Medco in 2012. Medco was stronger in home delivery at the time and Wentworth has a clear vision to improve the service delivery. Don Fotsch was appointed in January 2015 to head Express Scripts home delivery and member experience. He has clear expertise in digital commerce, product development and user experience after 10 years with PayPal, followed by Apple and Sears in a similar role.

Should Express Scripts replicate the ‘Amazon experience’ in mail order pharmacy, increased utilisation of this channel will likely follow because, from the payer perspective, the lower cost argument is gaining strength. Earlier this year, the Department of Defence TRICARE plan, whose pharmacy benefit plan is administered by Express Scripts, very publicly announced it would move to mail order only (except military facilities) for repeat prescriptions to reduce costs. This change is part of the FY15 Defence Bill and “is designed to save the military and TRICARE beneficiaries millions of dollars in the coming years”.

Your Home Delivery Copayments

Save with a 90-day supply of your medication from TRICARE Pharmacy Home Delivery.

Type of Drug	Retail Network Copayment†	Home Delivery Copayment	Your Savings
Formulary Generic	$24	$0	$24
Formulary Brand	$60	$16	$44
Nonformulary	$141	$46	$95

Active Duty is $0 copayment. Chart does not include non-network retail pharmacies.
†Retail Network Copayment is for three months of medication.

Source: Express Scripts

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Longer term perspective

The last 5 years have seen equity markets enjoy a post financial crisis recovery aided and abetted by policy makers with 6 years plus of almost zero interest rates. With such strongly rising markets, marked outperformance has proven elusive. The Veritas Global Real Return Fund delivered a total return of 27.8% (USD A Class) and the OECD G7 CPI + 4% p.a. has delivered 31.7% over the past 5 years. Over our history at Veritas, the bulk of our outperformance has been delivered in more modestly rising markets or declining markets.

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