KID Statement

December 2020

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1. Introduction

We have prepared our Key Information Document ('KID') in accordance with the EU's Packaged Retail and Insurance-based Investment Products ('PRIIPs') regulation, assisted by guidance from the Association of Investment Companies ('AIC') and our advisors as to how to calculate and present various costs and impacts on returns required by the PRIIPs regulation. The manner in which the KID costs and returns are calculated is strictly prescribed and not the same as the information which is presented within our annual audited financial statements.

Our published Net Asset Value ('NAV') per share total return ('NAVTR') is, of course, net of all costs. However, we recognise that costs can form part of decision making. The purpose of this document is to provide appropriate and helpful disclosure to assist shareholders in understanding the cost measures that we prepare. The cost measures are:

a. the Ongoing Charges Ratio ('OCR'); and
b. a cost and charges measure included in our KID.

2. What is the Ongoing Charges Ratio?

The AIC has published guidance to member companies on the disclosure of cost information to shareholders. It recommends that investment trusts publish an OCR, which is a measure of ongoing operational expenses assuming the market remains static and the portfolio is not traded. The OCR reflects one year's estimated ongoing costs and is calculated as a percentage of average monthly net assets.

Our most recent OCR was an estimated 0.85% using the audited financial statements for the year ended 31 March 2020. This OCR was published in our 2020 Annual Report.

3. What are the cost figures shown in Table 2 of the KID?

The costs shown in Table 2 of the KID are based on prescribed rules and are very different to the AIC's OCR. The major difference arises from the inclusion of the following additional elements:

a. annual management fees incurred within third party funds;
b. interest on any borrowings undertaken;
c. transaction costs associated with buying or selling investments; and
d. all performance-related costs (measured over five years).

The last element includes performance-related compensation for our staff and performance fees relating to the underlying funds portfolio. These costs will only be incurred when performance targets are successfully achieved.

The total cost shown in Table 2 of the KID is 2.22%, of which 0.50% arose from performance-related fees. The balance of 1.72% includes the ongoing operational costs of the business (note the OCR of 0.85% referenced in 2 above) and the annual management fees for funds, principally in our Funds pool. The returns of the Funds pool are shown net of management and performance-related fees in the 2020 Annual Report.

While these costs and charges are relevant, it is important to reiterate that the actual costs are deducted prior to calculating Caledonia's performance and the NAV which is published is net of all these costs.

4. Why are the costs in Table 1 higher than Table 2 in the KID?

Table 1 is calculated on a different basis. It shows costs as a percentage reduction in returns to an investor and is based on share price rather than NAV returns. Since our share price reflects a discount to NAV, the costs shown in Table 1 will be higher than those in Table 2. In addition, the percentage shown in Table 1 includes the compounding effect of costs on returns over time, further increasing the difference between the two tables.

5. What is the basis of calculation for the performance scenarios shown in the KID?

In the case of investment trust companies, these performance scenarios are based on metrics from changes in daily share price total returns over the previous five years, applied to various confidence intervals over a range of holding periods. However, equity markets have experienced a period of high returns and low volatility in recent years, which under the KID's prescribed methodology could lead to indicative returns that are potentially over-optimistic compared with actual future returns. Investors are therefore reminded that past performance is not a reliable guide to future returns.

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