KID statement

1. Introduction

We have prepared our KID in accordance with the PRIIPs regulation, assisted by guidance from the AIC and our advisors as to how to calculate and present various costs and impacts on returns required by the regulation. The manner in which the KID costs and returns are calculated is strictly prescribed and not the same as presented within our annual audited financial statements.

Caledonia Investments published 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 with Caledonia Investments Key Information Document (KID).

2. What is the Ongoing Charges ratio?

The Association of Investment Companies ('AIC') has published guidance to member companies on the disclosure of cost information to shareholders: the recommendation is the 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.

The most recent OCR for Caledonia Investments was estimated at 0.98% using the financial results for the year ended 31 March 2021. This was published in Caledonia's Annual Report and Accounts.

3. What are the cost figures shown in Table 2 of the Key Investor Document?

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;
d. all performance-related amounts (measured over five years).

The last element includes performance-related compensation for the company's staff and performance fees relating to the underlying funds portfolio. These costs are only incurred when performance targets are achieved: therefore, in a situation where performance-related costs are paid, Caledonia's performance will have benefited.

The total cost shown in Table 2 of the KID is 2.28%, with 0.54% arising from performance fees. The balance of 1.74% is in line with the ongoing operational costs of the business (note: OCR figure of 0.98% noted above) plus the annual management fees for funds Caledonia invest in, principally in the Funds pool. Funds pool returns are shown net of management and performance fees in our annual report.

While these costs and charges are relevant, it is important to reiterate that the actual costs will all have been deducted before Caledonia's performance is published; i.e. the NAV 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 showing costs as a percentage reduction in returns to the investor; this is based on share price rather than NAV returns. Since the Caledonia share price reflects a discount to NAV, the costs shown in table 1 will be higher than those in table 2. In addition, the table 1 percentage 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. We would therefore remind investors that past performance is not a reliable guide to future returns.

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