



VT Thistledown Income Fund

Quarterly Factsheet

31st December 2018

Investment Manager

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Further information is available at
www.thisim.com

Key Fund information

Fund size	£13.8m
Number of investments	31
Price (Z Acc)	124.2288p

Annualised Volatility

Fund (Z Acc)	6.8%
Benchmark	14.4%

Fees & charges

Annual management charge	1.00%
Performance fee	None
Initial charge	None
Ongoing charges (30 Jun 2018)	1.39%

Yield & dividends

Yield	1.86%
Final dividend (ex date 31 Dec 18, paid 14 Jan 19)	0.1722p

Security codes & other Fund Information

SEDOL (Z Acc)	BYYP644
ISIN (Z Acc)	GB00BYYP6442
SEDOL (Z Inc)	BNGXQZ0
ISIN (Z Inc)	GB00BNGXQZ01
Shares in Issue (Z Acc)	4,432,144
Market Value (Z Acc)	£5.5m
Launched	December 2010

Objective

To provide income while investing to provide some capital growth over the medium to long term.

Investment style: Value

Thistledown are value investors who buy shares in companies that they calculate to be selling below their intrinsic value. This is determined through detailed financial and industrial analysis, combined with a valuation approach that focuses on both stockmarket and corporate worth.

Investment performance

Growth (%)	3m	1y	3y	5y	Inception
Fund (Z Acc)	-6.5	-7.9	25.9	37.2	79.2
MSCI UK IMI Net	-10.6	-9.8	19.7	20.3	68.9

Top 10 investments

Asset class	Holding	%
UK Gilts	UK Gilt 22/01/2021	14.8
UK Gilts	iShares III PLC - iShares UK Gilts 0-5yr UCITS ETF	7.4
UK Gilts	SPDR Barclays 1-5 Year Gilt UCITS ETF	6.2
Japan	Morant Wright Fuji Yield GBP Inc Hedged	5.8
Emerging Market Equity	SPDR S&P Emerging Markets Dividend ETF	4.7
US Bonds	iShares \$ Ultrashort Bond UCITS ETF	4.2
Emerging Market Bond	iShares Emerging Markets Local Government Bond UCITS ETF	4.1
UK All Companies	GlaxoSmithKline PLC	2.0
UK All Companies	BP PLC	2.0
US Equity	HP Inc	1.9

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Investment Commentary

INTRODUCTION

The fund has risen 79% since launch while the UK stock market which is the most obvious long term investment for UK investors has risen 69%. The fund return has been much less volatile than the underlying market, which should be a positive, although, with the final results in, it is often ignored. Last quarter the market fell 10.6% and the fund fell 6.5% which is as you would expect given I report that the fund is less volatile than the market, but I had hoped to do better than this.

Why did the fund fall less than the market and why am I disappointed?

The fund fell less than the market because of the cash and bonds held. I have written repeatedly that US equity valuations are too high and that holding cash and bonds should protect the fund which is what happened. The investments in SPDR Emerging markets fund also fared relatively well falling 3%. This investment has appeared cheap for some years and this valuation clearly helped this quarter.

I was disappointed with the performance of other underlying investments because, unlike emerging markets, low valuations did not stop them falling considerably during the quarter. There were common themes; fears of a downturn in the global economy, exposure to the consumer and a reduction in estimates for future profits that effected companies. There is also a common theme that these companies are now valued at levels that are very low by their history. An example of this is the biggest contributor to the fall, the investment in the Morant Wright fund which fell around 18% and now accounts for around 6% of the portfolio. I estimate that this fund is now trading at around three times the underlying profits (technically 3 x's EV to operating profits) This valuation is far cheaper than other developed markets. Investors in the fund are paying between a half and a third of the price for these companies when compared to other markets This is the 'margin of safety' that value investors look for.

TRANSACTIONS

A small holding in a Hong Kong company was sold. The fund holds some small positions in investments that seem interesting with a view to increasing the position as I become more comfortable with the business. This did not happen here as several corporate actions and a visit to the company meant I became less confident and sold at a small overall loss.

There were no additions to the portfolio.

OUTLOOK

The fund continues to hold high levels of bonds and cash. I wrote above that this has prevented the fund falling as much as the market recently. I suspect that these reserves will start to be invested in the next year. The simple reason for this is that valuations in markets, particularly outside the US, are now becoming more attractive. In fact beating the UK market is likely to be more difficult given lower starting valuations.

Investment managers really earn their fees if they are able to take difficult decisions for their clients – investing when 'there is blood in the streets' and selling when everyone knows that markets are going up. The last eight years have been good to investors with steadily rising markets and few upsets. The events of the last quarter suggest that as the tailwind of low interest rates and 'free' money comes to an end things will become more volatile and you will see whether I am worth my fees.

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