VT Thistledown Income Fund

Quarterly Factsheet

30th June 2019

Objective

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

Investment Manager

Dominic Fisher OBE
Thistledown Investment Management Limited
Further information is available at
www.thisim.com

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.

Key Fund information

Fund size	£14.5m
Number of investments	31
Price (Z Acc)	132.5992p

Investment performance

Growth (%)	3m	1y	3y	5y	Inception
Fund (Z Acc)	2.5	0.3	27.2	40.2	91.3
MSCI UK IMI Net	3.1	0.5	28.9	34.4	91.3

Past performance is not necessarily a guide to future performance

Annualised Volatility

Fund (Z Acc)	6.7%
Benchmark	14.2%

Top 10 investments as at 28th June 2019

Asset class	Holding	%
UK Gilts	UK Gilt 22/01/2021	14.2
UK Gilts	iShares III PLC - iShares UK Gilts 0-5yr UCITS ETF	7.1
UK Gilts	SPDR Barclays 1-5 Year Gilt UCITS ETF	5.9
Japan	Morant Wright Fuji Yield GBP Inc Hedged	5.5
Emerging Market Equity	SPDR S&P Emerging Markets Dividend ETF	4.9
Emerging Market Bond	iShares Emerging Markets Local Government Bond UCITS ETF	4.2
US Bonds	iShares $ Ultrashort Bond UCITS ETF	4.0
UK All Companies	Rio Tinto PLC	2.3
UK All Companies	Ashmore Group PLC	2.3
Romania	OMV Petrom SA	2.2

Fees & charges

Annual management charge	1.00%
Performance fee	None
Initial charge	None
Ongoing charges (31 Dec 2018)	1.30%

Yield & dividends

Yield	1.97%
Quarterly dividend (ex date 28 Jun 19, paid 12 Jul 19)	1.1032p

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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)	4,428,255
Market Value (Z Acc)	£5.9m
Launched	December 2010

Available on the following platforms

- Alliance Trust Savings
- Cofunds
- Hargreaves Lansdown
- Transact

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Investment Commentary

PERFORMANCE

The table on page 1 shows the performance of the fund. Last quarter the fund rose over 2% while the UK equity market rose over 3%. Over the last year, the fund and the market have barely moved, despite the falls in the autumn and the strong returns this year.

The more striking statistic is the return since inception of 91.3% for both the market and the fund. This return poses an existential question. What's the point of holding the fund if it merely matches the market? Index funds are a cheaper way of investing in the UK stock market than this fund with its ongoing charge (OCF) of 1.3% per annum.

I'd answer this question by asking another question 'Do you worry if it wobbles?' If you do, then you should consider another number on page 1; annualised volatility. The fund volatility is 6.7% against 14.2% for the market. My thinking on volatility was outlined in the 2016 Annual Report:

Many value investors scorn volatility as a measure of risk with phrases like 'Risk is permanent loss of capital'. I take a different view because I think the journey matters. Imagine two funds that return 10% per annum. In just over seven years they will both have doubled. Yet one was twice as volatile as the other; simplistically its fluctuations were twice as large as the other. Which fund would have provided the most comfortable journey? And, to stretch this a little further, might the ride be so bumpy that you ask to get off half way through? This illustration is not meant to suggest that volatility is perfect, but I think the purists ignore the emotional impact of volatility and the threat that the investor gives up half way through. And, if history is a guide, the point when most investors will give up will be just before a rebound with dramatic results for their wealth.

My family are the largest investors in the fund, and a strategy that provides a smooth journey suits us. I hope it suits you.

TRANSACTIONS

There were no transactions this quarter.

COMPANY COMMENTARY

The most significant moves were in retail companies in the UK. N Brown rose dramatically following its results while Dixons Carphone fell markedly. They have both been poor investments since purchase. N Brown recovered some ground following reassurance on the new management plans for the business. Dixons fell as new management outlined plans to deal with mobile phone contracts that have onerous volume targets. Neither company will produce good financial results in the current year, but if management actions are successful, the current valuation is too low.

Fondul Proprietatea is a Romanian closed-end fund managed by Templeton with a listing on the London exchange. The last quarter it paid a large dividend and rose 17% as it announced another share repurchase plan. It owns significant stakes in utilities in Romania, some quoted, others unquoted. The largest of the unquoted stakes is in the hydroelectric capacity of Romania. The company pays a high dividend and has regularly distributed extra money to investors by buying in shares as the shares trade at over 30% discount to the asset value. I meet the company twice a year once in London and once in Bucharest and remain impressed by the efforts made to reduce the discount and manage their underlying investments.

COMMENTARY

Woodford Investment Management have been in the financial news for problems with investments that led to one of its funds closing for redemption and another one falling sharply in price. These problems raise a couple of questions that might help you in considering this fund and others.

The first issue is liquidity. Woodford have stopped redemptions, which has upset investors. This reaction is understandable but uninformed; most funds can delay redemptions above a certain amount. This fund can; see Paragraph 3.3.4 of the prospectus for details of when. Essentially if there is a significant redemption. A temporary delay to redemptions avoids dramatic write-downs that would result from forced sales. It also addresses the fact that the concept of liquidity is a difficult one. In buoyant markets, it is easy to buy and sell investments. They are liquid. However, when markets are stressed, even large companies become illiquid. In the 2008 financial crisis, even government bonds became illiquid. The fact that liquidity is not a constant is one of the risks that attach to investing and why a fund such as this needs to be held for long periods.

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Investment Commentary (cont)

The concept of liquidity is complex. Another area that may surprise investors is the reaction of exchange traded funds in a crisis. The theory is that these can be redeemed for close to asset value at any time markets are open as the investments are liquid. Whether this is really the case when markets are troubled is uncertain. I suspect that there will be instances where the underlying investments are not sufficiently liquid to redeem at NAV.

The second issue that Woodford highlighted was the problems of investing in early-stage businesses. Woodford had an excellent record of investing for his clients before he started his own business. The problems began as he invested in areas that had not been core to his success. Backing new companies may be laudable. But it seems this was not an area where he had expertise – the market term would be style drift. He should have stuck to his knitting. (As an aside Warren Buffett a hero to so many investors and a great supporter of the US entrepreneurial spirit does not back start-ups).

OUTLOOK

This year has seen all financial assets rise, both bonds and equities. This rise is unusual; usually, what is good for bonds is bad for equities and vice versa. The immediate reasons for this strength are the statements and actions of central banks, particularly the US Federal Reserve. I sympathise with any of you who have become tired of my ‘macro’ views, I am tired of them myself, but that doesn’t make them wrong.

‘The Good Judgement Project’ is a group that takes its lead from the work of Philip Tetlock, a US academic interested in forecasting and the author of ‘Superforecasting’. The group and the book provide lessons to those who would like to forecast. The first thing is to establish, where possible, a base rate from the study of comparable events. This base rate is the best guide to forecasting.
The base rate for financial markets is valuation, particularly average valuations.

Robert Shiller, a US academic and Nobel prize winner, examined returns in the US stock market. This work allowed him to show what return investors made over thirty-year spans and what they might have expected to make given the growth in profits. He explained that over these long periods, investors received similar levels of earnings from the underlying companies because the effects of good and bad times averaged out; what varied enormously was the price investors paid to own these future profits. The price they were prepared to pay he related to the average earnings for the previous ten years. This average, known as the cyclically adjusted price-earnings or CAPE, was a good predictor of future returns. A high number led to low returns and vice versa. Incidentally, the price paid fluctuated around twelve times more than the actual earnings that companies deliver averaged over long periods. Research Affiliates helpfully provide tools to assess this ratio. In the US, it has only been higher 5% of the time, which implies poor returns over the next ten to twelve years. As we have time on our side and no need to chase returns, it makes sense to hold back when the base rate suggests such a weak outlook.

Dominic Fisher