Smartfund Thistledown Income (GBP)

Quarterly Factsheet as at 31 December 2014

Investment Process

The Smartfund Thistledown Income Fund aims to provide a reasonable income while preserving the real value of the capital over the long term. The Manager believes this objective is most likely to be met by following a 'value style', and being sensibly contrarian. This means that the fund will try to invest in areas that are demonstrably cheaper than average and where the majority of other investors are not interested. However, the Manager believes it is essential that the investments have strong fundamentals and particularly that companies do not have large debts.

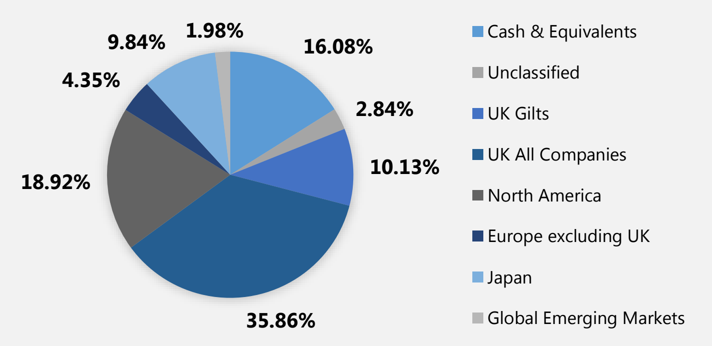
The fund has a bias to UK equities. It will not invest more than 4% in the equity of a single company, with the exception of collective funds. The Manager will hold cash or fixed interest when there are no suitable investments identified. The fund will also hold overseas equities that meet the 'value style' criteria as well as collective or exchange traded funds where the underlying markets meet the same criteria.
Despite the large percentage invested in equity, the process includes a 'margin of safety' to avoid a permanent loss of capital. This is provided by holdings with low valuations and a robust financial position. The Manager believes the investments held will be re-valued by the market and in the meantime provide a reasonable income. The Manager will not chase 'flavour of the month' sectors or companies and as a result is less concerned with stock market fluctuations than fundamental changes in the position of the businesses they have invested in.

Given this investment process the Manager considers their objective will be achieved if the income of the fund grows in-line with or ahead of inflation over time. This means that the fund, particularly if it holds cash in a rising market, is likely to produce returns that are significantly different to the UK equity indices.

For more information about the investment process, please visit:
www.thisim.com
or email:
funds@thisim.com

Asset Class	Top 10 Holdings	Weights (%)
Cash & Equivalents	Cash	16.08
UK Gilts	iShares FTSE UK Gilts 0-5	10.13
Japan	CF Morant Wright Nippon Yield	9.84
North America	Hewlett-Packard	6.98
North America	Microsoft	4.87
UK All Companies	BAE Systems	4.46
UK All Companies	City of London Investment Group	4.37
Europe excluding UK	Svenska Handelsbanken	4.35
North America	Wal-mart Stores	3.83
UK All Companies	Vodafone	3.64

Asset Allocation



Annualised Volatility

Smartfund Thistledown Income (GBP)	7.12%
MSCI World TR GBP	9.95%
MSCI United Kingdom TR	11.09%
Barclays Sterling Gilt TR	5.66%
LIBOR GBP 3 Months	0.06%

Discrete Performance *

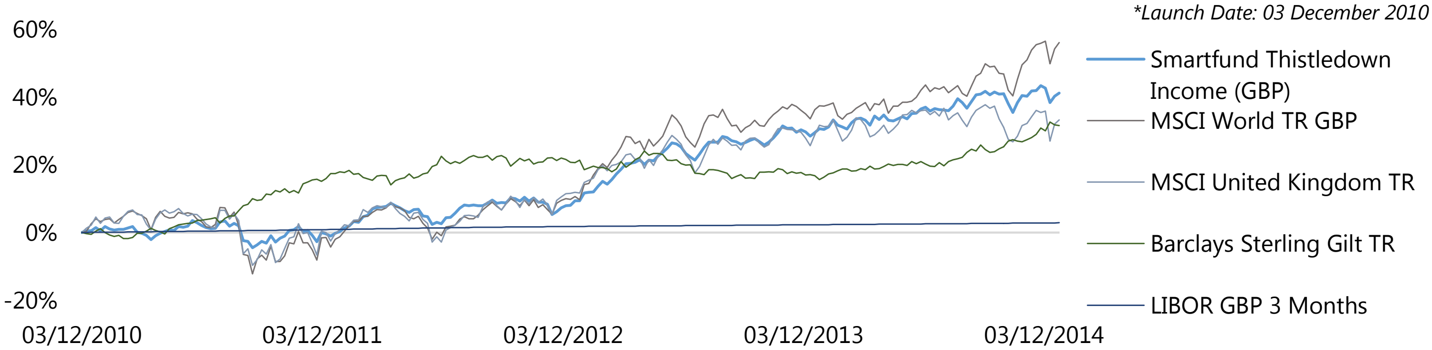
	Q4 2013 - 14	Q4 2012 - 13	Q4 2011 - 12	Q4 2010 - 11	Q4 2009 - 10
Smartfund Thistledown Income (GBP)	8.0%	19.9%	8.6%	-0.2%	-

**percentage growth for the 12 month period up to the end of the full quarter.*

Cumulative Performance

	3M	6M	1YR	3YR	Since Launch*
Smartfund Thistledown Income (GBP)	-0.1%	3.4%	8.0%	40.7%	41.1%
MSCI World TR GBP	5.1%	8.6%	12.1%	56.1%	54.1%
MSCI United Kingdom TR	-0.4%	-1.3%	0.5%	31.3%	32.4%
Barclays Sterling Gilt TR	6.6%	10.8%	14.6%	13.0%	33.3%
LIBOR GBP 3 Months	0.1%	0.3%	0.5%	1.9%	2.9%

**Launch Date: 03 December 2010*



Past Performance is not a guide to future returns.

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Fund Information

Fund Manager	Smartfund Administration Ltd
Investment Adviser	Thistledown Investment Management Ltd
Depositary/Trustee	HSBC Bank plc
Fund Launch Date	July 2014
Fund Currency	GBP
IMA Sector	Unclassified
Fund Type	OEIC UCITS
Shares	Income
Minimum Initial	£3,000
Minimum Additional	£500 (£250 for regular payments)
Minimum Withdrawal	£1,000 (£40 for regular withdrawals)
Income payment	Monthly

Fees	AC Class	Z Class
Maximum Initial Charge	3.00%	0.00%
Annual Management Charge	1.00%*	1.00%

** This represents the typical AMC a new investor would pay. This will vary depending on the adviser charging agreed between the adviser and investor.*

ISIN	AC Class	Z Class
Smartfund Thistledown Income (GBP)	GB00BNGXQY93	GB00BNGXQZ01

Investment Opportunities

- Unit Trust
- ISA
- ISA Transfer
- SIPP (via 3rd party links)
- Offshore Bonds (via 3rd party links)

The Smartfund Thistledown Income Fund is available within a wide range of life and pension products, both onshore and offshore. For full details of where our range of Smartfunds is available please visit www.smartfund.co.uk.

Thistledown

Thistledown Investment Management Ltd was founded by Dominic Fisher to provide an investment management service that he would want for himself. The firm is an independently owned investment management firm that uses a 'value style' investment approach that it believes has the best chance of producing above market returns over time. The firm's principals, who have worked in financial markets for over 20 years, have a substantial personal investment in the funds managed by Thistledown, including the Smartfund Thistledown Income Fund. As such they have a strong interest in common with investors in the Smartfund Thistledown Income Fund.

Prior to Thistledown, Dominic was a Director and portfolio manager at OLIM Ltd for UK charities, individuals and investment trusts with an income bias. The bulk of his career was spent with Mercury Asset Management managing charity portfolios. Dominic is Chairman of the investment sub-committee of Armed Forces Common Investment Fund and a Director of Aberforth Geared Income Trust plc.

For more information about the investment adviser please visit:
www.thisim.com
or email:
funds@thisim.com

Performance Data

On the 14 July 2014 Smartfund Thistledown Income AUT was converted into Smartfund Thistledown Income ICVC. The fund continues to be managed to the same investment objective and policy. The performance contained in this factsheet is the historic performance of a representative unit in Smartfund Thistledown Income which was launched on 3 December 2010. This representative unit carried an ongoing Annual Management Charge of 1.00%.

Important Information

Past Performance is not a guide to future returns. The value of an investment and the income from it may fall as well as rise so you may not get back the amount invested. Potential investors in the fund should speak with their financial adviser before making any decisions.

This document relates to one share class available for a sub fund of the Smartfund Thistledown Smartfund. A free English language copy of the ICVC prospectus, the key investor and Supplementary Information documents relating to this share class are available on the website or copies can be requested from Smartfund Administration Limited at 6 Broad Street Place, London EC2M 7JH.

Smartfund Administration Limited is authorised and regulated by the Financial Conduct Authority. Smartfund Administration is a Praemium company.

Contact details

Smartfund Administration have a dedicated Client Services Team (0844 801 0700) who are available to answer any questions you may have on a day to day basis. Calls may be monitored and recorded for training purposes.

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Investment Objective

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

Investment Policy

To achieve the investment objective, the sub-fund will seek to invest principally in equities. The Fund may also invest in exchange traded funds (ETFs), fixed income securities (bonds) and collective investment schemes (CISs). When selecting equities for the sub-fund's portfolio the Manager will apply a 'value' based policy - including an asset in the portfolio when Thistledown's analysis and expertise suggests that a total return over the full investment cycle or longer of at least 2% over the total return that could be expected from UK equity investments over the same period (i.e. between 5 and 10 year horizons) is achievable from that asset. Achieving these target returns for each equity investment or for the sub-fund's portfolio as a whole is highly uncertain as equities are volatile assets and are expected to be the principal portfolio investment. The Manager will hold ETFs, bonds, CISs and cash when it cannot identify enough opportunities to achieve a suitable spread of equity investments with the appropriate 'value' characteristics.

The Manager will also seek to reduce investment risk by diversifying the Sub-Fund's investments across industries and countries. It will not consider the size of company or market important to its investment decision provided Thistledown and it believe the investment helps to diversify risk. Investments in assets denominated in foreign currencies will not be hedged into sterling. The Manager must ensure that the Sub-Fund maintains sufficient cash for the purposes of maintaining liquidity. This portion of the sub-fund's assets must be represented by cash or similarly liquid assets (which may include money market instruments, deposits or units in collective investment schemes) at all times.

The Sub-Fund's portfolio and mix of asset classes will be rebalanced from time to time at the absolute discretion of the Manager.

Fund Commentary

Fund Return
The fund return last quarter was flat with a return of around 8% for the last year.

Company commentary
The best performance came from Hewlett Packard and Walmart.

HP announced that it would split into two separate businesses during 2015. We have written before that HP, which was outstandingly cheap when we invested, still seemed reasonably priced. This remains the case, notwithstanding the over 100% rise in the companies shares.

We first invested in Walmart four years ago with the expectation that it would grow steadily. The business has been under considerable pressure recently with sales in individual stores all but flat since 2010. The company has increased store numbers and bought shares back. The result has been reasonable, while not spectacular, but then with $480bn of sales fireworks were unlikely. Investors have now pushed the valuation to a higher level than the recent past, probably in anticipation of increasing sales. The typical Walmart customer has not seen their income grow in recent years. These customers should benefit from the large fall in the price of petrol. We will be guided by valuation not sentiment when assessing whether to remain shareholders.

The worst performance came from Caledonia Mining and UTV.

The original investment case for Caledonia was that with cash balances nearly equal to the market capitalization of the business the gold mine was 'free', yet it was growing production steadily and had opportunities for expansion. The fall last quarter came when the company announced that it expected lower output this year and revised its mine development plan, delaying for three years the anticipated higher levels of production. The Chief Executive then resigned to be replaced by the current Finance Director. Later in the quarter the company released a detailed appraisal of the new development that promises much. Since these events we have spoken a number of times to the management. The financial position is much as it was when we first invested. We believe that the new plan is both sensible and that the current management can execute it. If we are correct then the current share price greatly undervalues the business.

The fall in the value of UTV does not appear to have any immediate causes. The company is investing heavily in the opening of a television station in Eire, with a cost to earnings, but this has been known for sometime. In the UK and in Northern Ireland the business is trading reasonably, although there has not been the gearing to recovery that might have been expected. We did start selling our holding earlier this year at prices significantly above today's value. We believe the strength of its brands in both the UK and Ireland is not reflected in the current valuation. The company has recently announced that it may sell its UK local radio brands that are the weakest part of its portfolio.

Transactions
We sold two holdings; AGR as it was to de-list following the takeover offer and Ecofin to avoid its exposure to shale oil and gas.

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Outlook

John Templeton is credited with saying that 'This time is different are the four most expensive words in investing'. Why are they so expensive? It's simple. Investors use these words to justify abandoning valuation conventions; for example during the internet bubble 'eyeballs' became a valuation 'metric' – the more eyeballs the better in case you were wondering. Ignoring the old conventions investors pay up, later the old conventions are found to be correct and new investments to be expensive mistakes. Then the reverse happens. The same four words prevent investors taking advantage of falls; the current decline represents a fundamental change in business fortunes, a new depression, and investors shun assets and hold cash. Why am I introducing this topic now? Because 'this time is different'. Investors in government bonds in Japan and Europe are prepared to accept negative yields on over 40% of the $12 trillion they are lending. This is without parallel and challenges any policy based on conventional methods. Hence those four words. Should investors accept that it is different and adjust to this, or should they stick to old conventions?

We will stick to old conventions and sell investments that we judge expensive, even when holding cash is so poorly rewarded. We know it's painful to see purchasing power gradually eroded. We understand the urge to do something to counter this. We know there is a risk that markets boom with low interest rates used to justify much higher valuations. But we would rather sit this out in the belief that what goes around comes around and that in due course we will have the chance to buy equities at very attractive prices. If you decide to take advantage of what you believe are investments underwritten by central bank policies, think hard about what a return to normality might do to your investments. Finally, please do not think that our pessimism tells you anything about the progress of the market in the next year or so. We felt similarly out of step with markets in the late 90's and spent a miserable 2 years waiting to be vindicated. Meanwhile we will continue to look for mispriced companies and here the last few months have seen two helpful developments; collapsing commodity prices and political risk. We are spending our time picking over the companies most affected by these changes.

Thank you as ever for your interest and support.