

## 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.

## RISK PROFILE

The fund should be considered high risk.

## FUND COMMENTARY (PROVIDED BY THISTLEDOWN)

The last quarter of 2013 ended with renewed enthusiasm for financial markets. Your fund rose around 3.7%, about 1% behind the stock market. The shortfall is largely the result of selling equities in the last six months so that at the year-end the fund held over 20% in cash and fixed interest. The return for the year of 21% was in line with the market.

There was the usual spread of returns from the underlying investments with Hewlett Packard the best investment and City of London Investment Group the worst. Hewlett Packard remains one of the cheapest companies in the portfolio, despite a considerable rise, and I remain happy to follow the efforts of the 'newish' management team to revive this once iconic company.

City of London Group is a small fund management business specializing in emerging markets investment. The business has been struggling to grow given the flat returns from emerging markets and there have been a number of significant changes to management. The results announced by the company in the last 12 months have been below my original expectations, but, as with most fund management businesses, the economics of the business are strong, and the company holds cash in excess of its requirements. These points combined with a low valuation even after a fall in estimates and a strong commitment to paying a dividend of nearly 9% are reason enough to continue with this holding.

There were no new investments during the quarter although I sold two holdings at a profit, the iShares UK Dividend Fund and Space and People Plc. The iShares fund was sold to reduce equities. iShares are a good way to 'buy the market' when markets are cheap and there are no suitable individual investments, and vice versa. Space and People was bought earlier in the year. I would not normally sell something this quickly but recent figures showed a significant shift in the sources of profit for the company; the change was both large and rapid, which made me doubt the ability of the management to forecast the business. This level of uncertainty was enough for me to take a profit.

I would like to turn to how new ideas are found for the fund. One basic investment premise of the fund is that cheap stocks and stock markets are likely to provide better returns than expensive companies or stock markets. There are competing views as to why this happens but most evidence suggests that this effect is enduring and pervasive. I favour a view that investors are subject to intense pressure to perform over short periods of time and overreact to new information - their incentives are wrong. I recently had a conversation with a manager working for a large pension fund that supported my view. The fund has liabilities stretching for many decades yet his bonus is determined by the one-year relative investment performance of his portfolio - an incentive to focus short term I'd suggest.

Finally I was introduced recently to reputedly the oldest book written about financial markets, 'Confusion of Confusions' (1688) by Joeseph (sic) Penso de la Vega. It takes the form of a dialogue between a philosopher, a merchant and a shareholder. He lists four principles that seem as true today as when they were published, and, of these, it is the fourth that I think most important.

*The fourth principle: Whoever wishes to win this game must have patience and money, since values are so little constant and the rumours so little founded on the truth. He who knows how to endure the blows without being terrified by the misfortune resembles the lion that answers the thunder with a roar and is unlike the hind that, stunned by the thunder, tries to flee.*

**Welcome to the pride...**

THE VALUE OF INVESTMENTS CAN FALL AS WELL AS RISE – YOU MAY GET BACK LESS THAN YOU PAY IN

### SUB-FUND DETAILS

Fund Manager	Smartfund Administration Ltd
Investment Adviser	Thistledown Investment Management Ltd
Number of Holdings	21
Fund Type	Authorised Unit Trust
Initial Charge	0.0% + Adviser Charging*
Switching Charge	0%
Exit Charge	0%
Annual Management Charge	1% + Adviser Charging*%

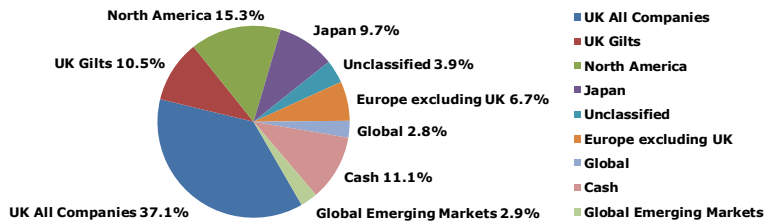
\*Adviser Charging: the amount of remuneration that the Investor agrees with their Adviser that the Manager will pay the Adviser for advice provided.

### TOP TEN SECURITIES

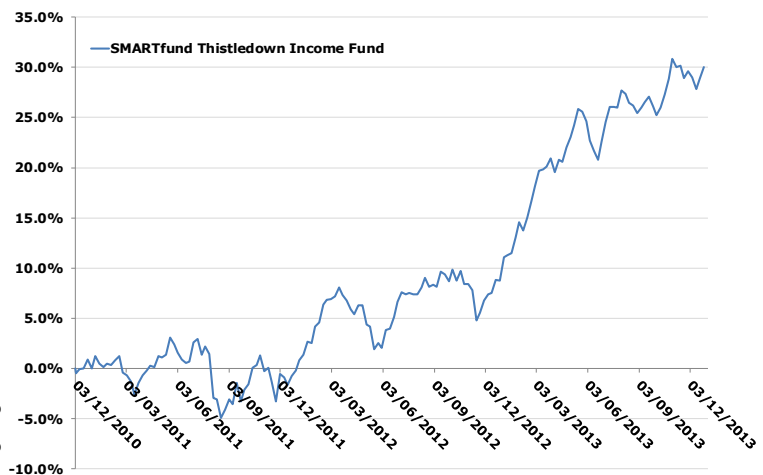
<b>iShares FTSE UK Gilts 0-5</b>	10.49%
<b>CF Morant Wright Nippon Yield</b>	9.71%
<b>UTV Media Plc</b>	5.75%
<b>Hewlett-Packard</b>	4.78%
<b>Svenska Handelsbanken</b>	4.46%
<b>BAE Systems</b>	4.32%
<b>Aberforth Smaller Companies Trust</b>	4.28%
<b>Phaunos Timber Fund</b>	3.90%
<b>Microsoft</b>	3.79%
<b>Vodafone</b>	3.75%

As at 31 December 2013. The actual investment held by the fund at any other date may differ. Once invested, both Adviser and Investor can logon to the Smartfund Platform to view an up-to-date list of notionally allocated holdings.

### ASSET ALLOCATION (AT 31 DECEMBER 2013)



### FUND PERFORMANCE (UP TO 31 DECEMBER 2013)



#### Performance Growth

	Q4 2012 – Q4 2013*	Q4 2011 – Q4 2012*	Q4 2010 – Q4 2011*	Q4 2009 – Q4 2010*	Q4 2008 – Q4 2009*
<b>Thistledown Income</b>	<b>19.9%</b>	<b>8.6%</b>	<b>-0.2%</b>	<b>-</b>	<b>-</b>

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

	Smartfund Thistledown Income Fund
<b>Inception to 31.12.2013</b>	<b>30.0%</b>

#### Annualised volatility of investor returns since inception

<b>Inception to 31.12.2013</b>	<b>7.8%</b>
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### PAST PERFORMANCE SHOULD NOT BE SEEN AS A GUIDE TO FUTURE PERFORMANCE

The performance figures above are based on the total investor returns from a notional unit issued on the date of inception of the sub-fund, with an initial capital value the same as the minimum investment amount for that fund. The notional unit is based on the AMC including zero (0%) Adviser Charging and therefore reflects performance after all other expenses that would be included in the TER.

\*Performance data does not exist before the fund launched on 03 Dec 2010.

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## 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](http://www.thisim.com)

**or email:**

[funds@thisim.com](mailto:funds@thisim.com)

## FUND DETAILS

Fund Manager	Smartfund Administration Ltd
Manager's Details	6 Broad Street Place London EC2M 7JH
Investment Adviser	Thistledown Investment Management Ltd
Depository/Trustee	HSBC Holdings Plc
Investment Adviser Start Date	December 2010
Fund Launch Date	December 2010
Fund Currency	GBP
Fund Sector	Unclassified
Fund Type	Authorised Unit Trust
Minimum Initial	£3,000
Minimum Additional	£500 (£250 for regular payments)
Minimum Withdrawal	£1,000 (£40 for regular withdrawals)
Pricing Method	Forward
Pricing Times	17.00
Dealing Frequency	Daily
Distribution Policy	Monthly

## 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](http://www.thisim.com)

**or email:**

[funds@thisim.com](mailto:funds@thisim.com)

## INVESTMENT OPPORTUNITIES

- Unit Trust
- ISA
- ISA Transfer
- SIPP (via 3<sup>rd</sup> party links)
- Offshore Bonds (via 3<sup>rd</sup> 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](http://www.smartfund.co.uk).

## CONTACT US

If you would like to find out about how to invest into these funds please contact us at:

**Telephone:** 0844 801 0700

**Website:** [www.smartfund.co.uk](http://www.smartfund.co.uk)

**Email:** [clientservicesUK@praemium.com](mailto:clientservicesUK@praemium.com)