Smartfund Thistledown Income Fund

April 2014

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 return for last three months was 2.2% while the UK stock market fell slightly. As ever there is a wide variety of return from the underlying investments.

The best return was from AGR Group ASA which rose 30%. This is a Norwegian business specializing in oil well management. I visited AGR on a trip to Oslo last year. For a number of reasons; size, complicated share structure and recent corporate actions the company was not followed by any stockbroker. It appeared very lowly valued, and the underlying business had a long record of reasonable performance masked by expenditure on a technology development programme. Recent corporate action had simplified the structure and in discussion with the FD a number of further positive points emerged. First, the largest shareholder is a private equity firm and the fund they manage is to liquidate in 2015. Second, there is an active market in businesses of this type with recent transactions at values way above the then valuation of AGR. The strong performance this year was prompted by an announcement from the company that they had hired corporate financiers to advise on options for the business as well as various operational successes.

Hewlett Packard rose 14% this quarter. The rehabilitation of this company is fairly remarkable. When the investment was initiated the company was valued at around at around $30bn, as I write it is worth around $60bn. This increase has happened in slightly over a year. There is a saying 'Don't confuse brains with a bull market' and there is no doubt that the environment has helped distressed companies recover. But, as I have written before, this scale of anomaly, in a company that is analysed by numerous analysts, is surprising. Incidentally when the investment was initiated there were no analysts calling for the valuation to double. Even now the valuation is not expensive while recently there have been signs that the business environment is improving. I have not written about pay before, but imagine if the management were incentivized with 15% of the increase in capital value (quite a common payment for private equity or hedge fund managers). Then in a little over 18 months they would have collected $4.5bn, which would cheer up most people. But, it seems clear to me that while they have helped this recovery, they are to a large extent 'standing on the shoulders of giants' to make this return. (Long suffering shareholders of HP might query whether recent management were giants, but the founders clearly were.)

The worst investment was Ashmore Group. I described the business in the October 2013 report. The poor performance resulted from a disappointing statement from the company. They reported that they had seen sales of their funds by investors. The scale of these sales seemed relatively small but, when combined with a gloomy tone towards emerging markets that has been building for the last few quarters, it was sufficient for the price to fall nearly 20% in the quarter. This is clearly disappointing, but it does not undermine the main reasons for investing listed in October.

Another poor performer was Phaunos Timber. This is rather embarrassing as I made a long presentation on the merits of this investment at an institutional conference in Zurich in January. I had not anticipated a 10% fall in the price in the following two months. I don't believe there is a connection, but you never know. Again, at the risk of seeming complacent, the fall has only slightly undermined my confidence in this as an interesting investment idea. The basic premise is that an investor is unlikely to lose money in this company if they are prepared to hold the shares for something like the next four years. This is because there will be a vote on the continuation of this fund in 2016. It is difficult to see the fund continuing if the performance does not improve. If it is liquidated then the difference between its price today, around 44c and it asset value 83c provides a good margin of safety. If it is not liquidated then I would assume that the value of the company has begun to rise in which case the discount seems excessive. I hope that the performance improves, in which case the returns are likely to be better –

plus having spent so much effort on creating this vehicle it seems a pity to waste it.

This is the second quarter during which there have been no additions to the portfolio. I wrote in the annual report about market valuation but in case you missed this I have abbreviated it below.

The fund could profit if I could forecast macroeconomic outcomes, but I have no skill in this area and am sceptical of others ability. Warren Buffett remarked. "Forecasts reveal more about the forecaster than the future" ….. a couple of comments might help you understand my current caution.

First, GMO, the US investment management firm, have for many years published every month estimates of future returns. These are based on an expectation that various parameters used to measure the market revert to the mean over a seven-year period. The record of these estimates is impressive. They are currently forecasting losses over the next 7 years from most equity markets – with the exception of 'quality' companies.

Second, I went recently to the Columbia University Students Investment Management Association annual presentation. The speakers included Joel Greenblatt, a legendary investor. He spoke about the valuation of the market. His firm, the splendidly named Gotham Asset Management, has a proprietary database of the largest 3000 companies in the US. They have recast the reported numbers since the 1990's, a huge task that took a number of years. They show that the top 1000 companies are valued in line with long-term averages; with the following twist, a simple average of the valuations, that is NOT weighted by their market capitalization, suggests companies are in the top 30% of valuation – smaller companies are more highly rated than large companies. Second, the next 1000 companies are valued at the 97th percentile – only 3% of the time in the last 25 years have small companies been more expensive.

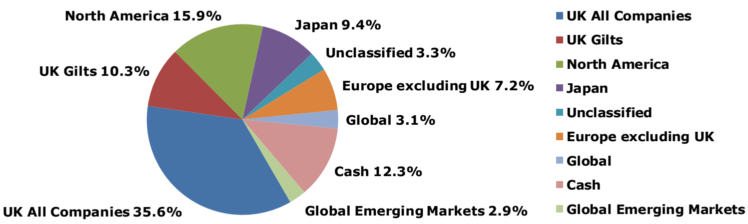
I continue to review new investments for the fund but remain cautious about investing further given the valuation figures referred to above.

Sub-fund Details

Fund Manager	Smartfund Administration Ltd
Investment Adviser	Thistledown Investment Management Ltd
Number of Holdings	22
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.

Asset Allocation *(at 31 March 2014)*

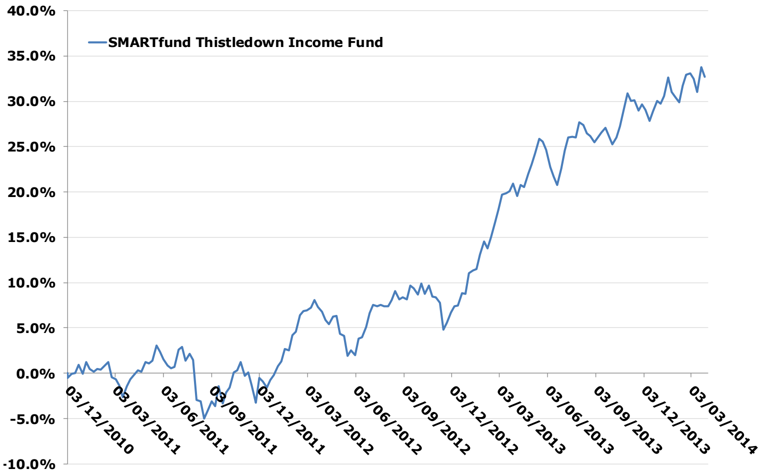


Top Ten Securities

iShares FTSE UK Gilts 0-5	10.28%
CF Morant Wright Nippon Yield	9.43%
UTV Media Plc	5.69%
Hewlett-Packard	5.35%
Aberforth Smaller Companies Trust	4.44%
Svenska Handelsbanken	4.41%
Microsoft	4.09%
BAE Systems	4.03%
City of London Investment Group	3.41%
Scottish and Southern Energy	3.36%

As at 31 March 2014. 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.

Fund Performance *(up to 31 March 2014)*



Performance Growth

	Q1 2013 – Q1 2014*	Q1 2012 – Q1 2013*	Q1 2011 – Q1 2012*	Q1 2010 – Q1 2011*	Q1 2009 – Q1 2010*
Thistledown Income	**9.9%**	**13.2%**	**8.1 %**	**-**	**-**

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

	Smartfund Thistledown Income Fund
Inception to 31.03.2014	**32.8%**

Annualised volatility of investor returns since inception

Inception to 31.03.2014	**7.8%**

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.

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

Smartfund Thistledown Income Fund

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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

or email:

funds@thisim.com

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

Fund Details

Fund Manager	Smartfund Administration Ltd
Manager's Details	6 Broad Street Place London EC2M 7JH
Investment Adviser	Thistledown Investment Management Ltd
Depositary/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

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.

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**
Email: **clientservicesUK@praemium.com**