

# Smartfund Thistledown Income (GBP)

Quarterly Review & Factsheet as at 30 September 2015

## Investment Objective

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

## Investment Policy

The Fund will seek to achieve its investment objective by investing principally in equities. The Fund may also invest in exchange traded funds ("ETFs"), fixed income securities and other collective investment schemes.

When selecting equities for the Fund's portfolio the ACD will apply a 'value' based policy, meaning that an asset will be included in the portfolio when the Investment Adviser'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 Fund's portfolio as a whole is highly uncertain as equities are volatile assets and are expected to be the principal portfolio investment. There is no guarantee that the target returns will be achieved.

The ACD will hold ETFs, fixed income securities, collective investment schemes and cash and near cash when it cannot identify enough opportunities to achieve a suitable spread of equity investments with the appropriate 'value' characteristics. The ACD will also seek to reduce investment risk by diversifying the Fund's investments across industries and countries. It will not consider the size of company or market important to its investment decision provided the ACD and the Investment Adviser believe the relevant investment will diversify risk in the portfolio. Investments in assets denominated in foreign currencies will not be hedged into sterling.

The ACD must ensure that the 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 Fund's portfolio and mix of asset classes will be Rebalanced from time to time at the absolute discretion of the ACD.

## Commentary by Investment Adviser: Thistledown Investment Management

### INTRODUCTION

I have written before that I don't think economic forecasts are helpful to investors. Two recent articles in the Financial Times highlighted to me why. On October 7 Lawrence Summers wrote an article under the heading '*Policymakers must abandon structural reform rhetoric and embrace fiscal stimulus*'. On October 9th Kenneth Rogoff replied: '*What if the diagnosis of secular stagnation is wrong? Then an ill-designed permanent rise in government spending might create the very disease it was intended to cure.*' These are both famous economists with tremendous followings, yet on something as central as the policy options available to governments they hold completely opposing views. I'm certainly not clever enough to know who is right. So instead I will continue to emphasise valuation as the most important determinant of future returns – and valuations remain high.

Funds	3M	6M	1YR	3YR	Since Launch
Smartfund Thistledown Income (GBP)	-3.4%	-4.4%	-3.1%	25.3%	36.9%
MSCI United Kingdom TR	-6.6%	-9.2%	-5.9%	16.5%	25.1%
Barclays Global Aggregate TR GBP Hedged	1.4%	-0.7%	3.6%	10.4%	22.5%
LIBOR GBP 3 Month	0.1%	0.3%	0.6%	1.6%	3.3%

### FUND RETURN

The fund fell over 3% last quarter. The holdings of bonds and cash helped to avoid the worst of the falls, but, as I have written before, with large investments in equities the fund will fall when stock markets fall – just not as much.

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## COMPANY COMMENTARY

UTV has been the best performing investment. I wrote last quarter:

*'This value is currently concealed by the significant losses in the new venture and is why, despite great disappointment with the current events, the shares are a good investment.'*

UTV has been the best investment this quarter because of this announcement on August 24th. *'The Board of UTV Media plc ("UTV") notes the recent media speculation and confirms that it is in discussions regarding a potential sale of its television assets'*.

There is no certainty that a transaction will take place. But, the company is clearly vulnerable following the problems with expanding in Eire. Ironically, one of the reasons for investing in the first place, that the market for advertising in Eire would improve at sometime, appears to be happening with the Irish economy begin to hum. *(Postscript: UTV have now announced the sale of their TV business)*

The weakest performance came from investments with emerging market exposure. I wrote earlier this year that valuations were becoming attractive in these markets and that the currencies had already fallen a lot. I was too early. Markets have continued to fall along with currencies. It is amazing how often as economies or companies begin to deteriorate, the news adds insult to injury. Brazil is a case in point. The economy would have struggled anyway with declining competitiveness and falling commodity prices. The implications of what appears to be a nationwide corruption scandal just add to the problems. The question for an investor is what is discounted in the price.

The worst performing single investment was Caledonia Mining. The gold price fell during the quarter and as a junior miner the price fell. The company is in the early stages of developing further resources. This is a three-year project. It has started well and will increase the value of the business considerably. Management added to their stake this quarter, the first time for some years. I am happy with the prospects for this company.

## TRANSACTIONS

There were no new investments this quarter and one holding was sold.

## OUTLOOK

I ended the introduction to this report – 'valuations remain high'. I think this is the case but many commentators don't. The disagreement is about what valuation measure you should use. I am not going to be drawn far into this debate – again looking at the academic status of those involved in the argument is frightening. I hope to use those measures that appear to have had the best record in the past of helping investors make money. Implicit in this statement is that I think the past is a good guide to the future or, to put it another way, that this time is not different.

Staying on the subject of valuation. One of the pleasures of my job is meeting value investors from around the world. In conversations and when reading their investment letters it is clear most model themselves on Warren Buffett, particularly with their search for high return businesses that can deploy more capital at high rates of return. The compounding effect of this capital deployment guarantees a high return to investors who stay the course, almost regardless of the initial valuation. This is true, but, but, but... investing this way is likely to involve investing in companies that have higher valuations than the average. And, investing in companies with above average valuations produces below average returns to investors, almost regardless of which market you examine. The Brandes Institute, a US investment manager publishes reports on this and I reproduce part of the conclusion from their November 12 report: 'Value vs. Glamour: A Global Phenomenon' below.

*'While the degree of outperformance of value stocks versus glamour stocks varied across the data sets, what strike us as most significant was the consistency the value premium exhibited:*

- Across valuation metrics....
- Across time....
- Across regions...
- Across market capitalizations...

*Source: Brandes Institute: Value vs. Glamour: A Global Phenomenon. November 2012*

I believe in the value premium and that it will remain a useful tool for finding good places to invest. Thank you as always for your support.

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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.

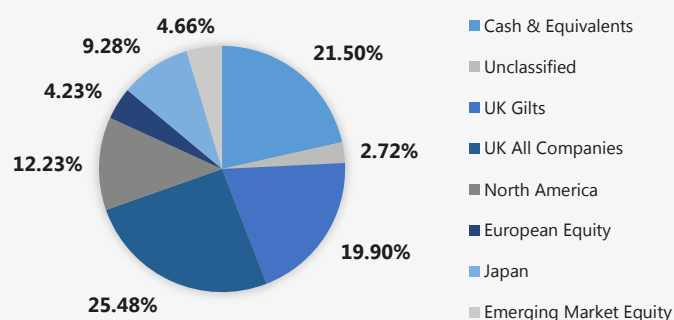
Despite the large percentage invested in equity, the process includes a 'margin of safety' to avoid a permanent loss of capital. This is provided by holdings with low valuations and a robust financial position. The Manager believes the investments held will be re-valued by the market and in the meantime 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, visit: [www.thisim.com](http://www.thisim.com) or email: [funds@thisim.com](mailto:funds@thisim.com)

Asset Class	Top 10 Holdings	Weights (%)
UK Gilts	iShares FTSE UK Gilts 0-5	19.90
Cash & Equivalents	Legal & General Unit Trust Manager	11.52
Cash & Equivalents	Cash	9.98
Japan	CF Morant Wright Nippon Yield	9.28
Europe excluding UK	Svenska Handelsbanken	3.65
UK All Companies	Vodafone	3.52
North America	Hewlett-Packard	3.51
UK All Companies	Scottish and Southern Energy	3.40
UK All Companies	UTV Media Plc	3.37
North America	AT&T	3.25

## Asset Allocation



## Annualised Volatility

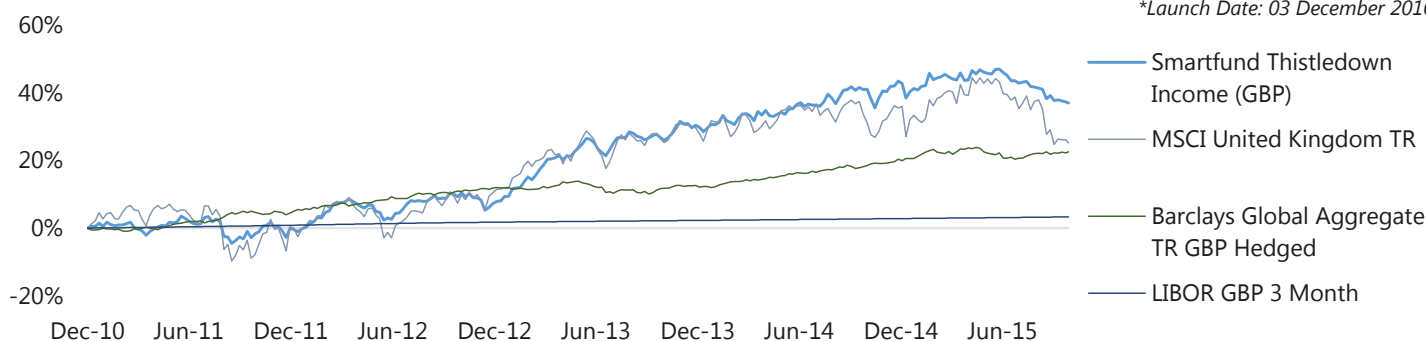
Smartfund Thistledown Income (GBP)	7.03%
MSCI United Kingdom TR	11.48%
Barclays Global Aggregate TR GBP Hedged	2.52%
LIBOR GBP 3 Month	0.06%

Discrete Performance *	Q3 2014 - 15	Q3 2013 - 14	Q3 2012 - 13	Q3 2011 - 12	Q3 2010 - 11
Smartfund Thistledown Income (GBP)	-3.1%	12.2%	15.3%	11.1%	-

\*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)	-3.4%	-4.4%	-3.1%	25.3%	36.9%
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\*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](http://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](http://www.thisim.com)

**or email:**

[funds@thisim.com](mailto: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

Please note that past performances are not a guide for any future returns. Clients should be aware of the value of investments and that the income may fall as well as rise and that they may not receive the same amount as they have originally invested. Investors should further note that the views expressed and the information provided were current at the time of publication but may not longer be so and/or may have been acted upon by the investment manager already. We therefore recommend that before you make any financial decisions you seek independent financial advice.

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.

## 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.