Smartfund Thistledown Income Fund

October 2013

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 fund returned 2.2% against 4.7% from the UK stock market with markets recovering quickly from the gloom of May and June. The pattern of good relative returns in weak markets, and weaker relative returns in good markets was repeated, which is a bit disappointing. So far in 2013 the fund has returned 15.6% against 14.5% from the stock market.

As usual the single return number conceals a wide disparity of returns. UTV was the best performing company rising over 30%. (The impact of my presentation of the company at the European Income summit, aired in early August? Ask if you'd like a copy). Next was Vodafone. It announced a deal to sell its stake in Verizon Wireless – displaying finally the value that I noted in my April report. The worst performance came from Hewlett Packard following a downbeat assessment of its turnaround plan. Since the end of the quarter it has changed to an upbeat assessment of this plan and the price has recovered. In fact all of the US holdings fell and this was amplified by a fall of nearly 6% in the value of the US $ against sterling.

You'll know by now that I don't pay much attention to quarterly changes – what matters are the longer term and any changes to the portfolio. I was quite busy. Charles Stanley and Value and Income Trust were sold during the quarter with full positions added in Ashmore and Caledonia Mining.

Charles Stanley, a holding since the inception of the fund, had performed well and was valued fairly by the middle of the quarter. This was the trigger to sell. To be clear, Charles Stanley is a well-run business, with good prospects for improving returns, but investors had recognised this. Value and Income Trust Plc, an investment trust, had also been held since the inception of the fund as it offered a good income and a large discount to asset value. I sold when a sharp rise in the price closed the discount. This form of investing is not clever, but it is a reliable way to add extra return provided the trust is well managed.

Ashmore Plc has built a strong business investing in emerging market debt, largely for institutions. Investment management firms are businesses I know well and the rating for the company, particularly after accounting for the very liquid balance sheet, fell to an attractive level. This investment is not based on a strong view on the future for emerging markets. It is based on the business strategy, the attractive economics of the business and its low stock market valuation.

Caledonia Mining is a gold mining company. It reported in July holding $22m in cash, with market forecasts for profits of $16m in the year to December 2013. The stock market valued the company at a little over $44m. So, taking the cash from the market value, $44m - $22m indicates that the mine is valued at $22m or under two years of profits. This valuation, for a gold mine that has steadily increased production and has plans to grow further, is too cheap. Things are rarely too cheap, so, what's the catch? One word, Zimbabwe. The Blanket Mine, Caledonia's main asset, is in Zimbabwe and 51% owned by indigenous investors. I don't know how to quantify the political risks but I think it is possible to quantify the financial risk. The cash, held in Canadian and UK banks, is 50% of the market value. Caledonia is projected to pay a 10% dividend early next year. So, within 9 months around 60% of the purchase price will be cash, with 40% of the investment subject to political risk. The potential for this company is very significant. First, the mine should expand production by 70% in the next three years. Management has rehabilitated the mine from nothing to its current profitability in 4 years, a good track record. Then there are a number of adjacent properties to explore. Finally, following the indigenisation process the company is owed $30m between now and 2020. I do not expect all of these opportunities will be realised but they are 'in for free'. Finally there is the chance that the valuation rises as dividends continue to be paid. Mines in other tricky political jurisdictions, for example Egypt, are valued on 5 to 7 times earnings. The lower number would imply a doubling of the current price before any increase in profits.

I would like to end with an observation about markets. Clearly, despite all the gloom that has been present since the Lehman crisis, investors have done handsomely over the last five years. The policies used to avoid disaster have made owners of financial assets much richer. Financial markets are now valued in line or ahead of their long run averages in most countries, while in certain places things are bubbling – a 10% rise in Kensington house prices in September is an example of this. I don't sense euphoria in the UK stock markets, although the enthusiasm for the Post Office sell-off made me wonder. History suggests that this enthusiasm will build to unsustainable levels, particularly if cash rates remain low. Many of the holdings in the fund are close to valuations at which I will sell them. If this happens I may not find enough replacements to avoid holding higher levels of cash. This will seem foolish if markets continue to party. It's a common view that 'timing is everything'; I don't agree. For me valuation is everything. If the valuations are attractive I will invest on your behalf, if they are not I won't, no matter how painful that may be if and when real euphoria kicks in. Thank you as ever for your support.

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

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Sub-fund Details

Fund Manager	Smartfund Administration Ltd
Investment Adviser	Thistledown Investment Management Ltd
Number of Holdings	23
Fund Type	Authorised Unit Trust
Initial Charge	0.0% + Adviser Charging*
Switching Charge	0%
Exit Charge	0%
Annual Management Charge	1% + Adviser Charging*%

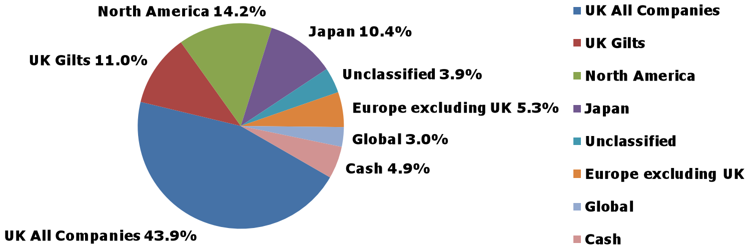
*Adviser Charging: the amount of remuneration that the Investor agrees with their Adviser that the Manager will pay the Adviser for advice provided.

Top Ten Securities

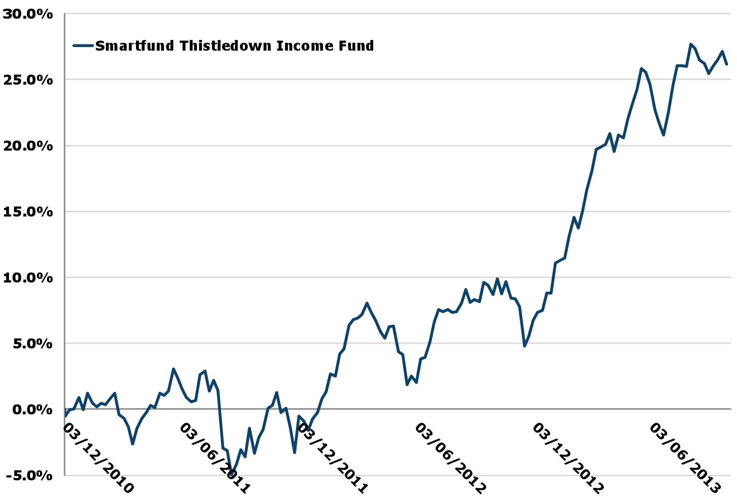
iShares FTSE UK Gilts 0-5	11.00%
CF Morant Wright Nippon Yield	10.45%
UTV Media	5.27%
BAE Systems	4.72%
Svenska Handelsbanken	4.14%
Aberforth Smaller Companies Trust	4.12%
Phaunos Timber Fund	3.87%
iShares FTSE UK Dividend Plus	3.83%
City of London Investment Group	3.81%
Hewlett-Packard	3.80%

As at 30 September 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 30 September 2013)*



Fund Performance *(up to 30 September 2013)*



Performance Growth

	Q3 2012 – Q3 2013*	Q3 2011 – Q3 2012*	Q3 2010 – Q3 2011*	Q3 2009 – Q3 2010*	Q3 2008 – Q3 2009*
Thistledown Income	**15.3%**	**11.1%**	-	-	-

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

	Smartfund Thistledown Income Fund
Inception to 30.09.2013	**25.3%**

Annualised volatility of investor returns since inception

Inception to 30.09.2013	**7.9%**

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 03 Dec 2010 as the fund had not launched

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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**