VT Thistledown Income Fund

Quarterly Factsheet

30 December 2016

Objective

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

Investment Manager

Dominic Fisher OBE
Thistledown Investment Management Limited
Further information is available at
www.thisim.com

Investment style: Value

Thistledown are value investors who buy shares in companies that they calculate to be selling below their intrinsic value. This is determined through detailed financial and industrial analysis, combined with a valuation approach that focuses on both stockmarket and corporate worth.

Key Fund information

Fund size	£12.2m
Number of investments	30
Price (Z Acc)	123.0958p

Investment performance

Growth (%)	3m	1y	3y	5y	Inception
Fund (Z Acc)	5.7	24.7	35.9	77.1	77.6
MSCI UK IMI Net	3.8	17.4	18.0	59.5	65.7

Annualised Volatility

Fund (Z Acc)	7.0%
Benchmark	15.5%

Top 10 investments

Asset class	Holding	%
UK Gilts	iShares UK Gilts 0-5yr UCITS ETF	8.5
Japan	Morant Wright Fuji Yield Fund	8.3
UK Gilts	SPDR Barclays 1-5 Year Gilt UCITS ETF	7.1
US Bonds	iShares $ Ultrashort Bond UCITS ETF	4.9
UK All Companies	Lloyds Banking Group PLC	3.4
UK All Companies	Punch Taverns PLC	3.3
Emerging Market Equity	SPDR S&P Emerging Markets Dividend ETF	3.1
Emerging Market Bonds	iShares Emer Mrkts Local Govt Bd UCITS ETF	3.1
UK All Companies	Brown (N) Group	2.3
US All Companies	AT & T Inc	2.3

Fees & charges

Annual management charge	1.00%
Performance fee	None
Initial charge	None
Ongoing charges (1 Aug 2016)	1.44%

Yield & dividends

Yield	2.68%
Final dividend (x date 30 Dec 16, paid 13 Jan 17)	0.2947p

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Security codes & other Fund Information

SEDOL (Z Acc)	BYYP644
ISIN (Z Acc)	GB00BYYP6442
SEDOL (Z Inc)	BNGXQZ0
ISIN (Z Inc)	GB00BNGXQZ01
Shares in Issue (Z Acc)	3,265,523
Market Value (Z Acc)	£4.0m
Launched	December 2010

Available on the following platforms

- Alliance Trust
- Cofunds
- Nucleus
- Transact

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Investment commentary

INTRODUCTION

"Another year over and a new one just begun".

I was not as surprised as some by the recent political changes, but I am surprised at the reaction of stock markets and doubt that the new year will be as kind to the fund as the old. There is a saying that stock markets climb a wall of worry, which is apt. And, it is this worry or lack of enthusiasm amongst investors that may mean it has further to rise. However, I will stick to investing in situations that seem to me to be lowly valued and to hold cash or bonds when these are not available.

PERFORMANCE

The fund rose 5.7% last quarter, with the UK market up 3.8% and the annual return was 25%, against 17% for the market. This annual return is the best since the fund started. But as I have written in the past, one year is too short a time to judge a fund; for all the warm glow that it gives your manager. Perhaps a better period is the six years since the fund started. The return since then is 10% a year after fees. A return above the UK stock market and achieved despite holding high levels of liquidity, which has protected the fund in downturns. (For the technical the annualised volatility of the fund has been 7% which is under half that of the market at 15.5%).

COMPANY COMMENTARY

Company takeovers have boosted returns this year. This quarter witnessed the second; Punch Taverns Plc which rose over 80%.

Last quarter's note described some lessons from the bid for Wireless Group. One was to use stop losses sparingly, if at all. The history of the investment in Punch Taverns supports this lesson. I had been following the company for over a year before investing, interested by the significant discount to asset value. If the accounts were correct, the company owned pubs worth around £2.80 per share. The stock market priced the shares at around £1.24 when the first investment was made. This gap could have remained, but there were signs that the management plans would close it.

The first investment was made at £1.24 a share but the average price paid for the Punch shares was £1.04. No marks for working out that to average £1.04, with the first investment at £1.24, meant buying a good number of shares below £1.04. If I had adopted a stop loss, I suspect I'd have missed this opportunity.

The investment worked out, but there were plenty of reasons to be wary of Punch. The company had high levels of debt, the pub industry was under pressure from increases in the minimum wage, there was significant uncertainty about the impact of new legislation, and finally investors had lost 98% in Punch shares since the peak at £54 in May 2007. This left a nasty taste in many unlucky investors mouths (Not least one of the investors in this fund who asked me some quite pointed questions) But, the investment case rested on the gap between stock market value and business value. I think that the bid substantially undervalues the company, as presumably do the bidders.

The other large contributor to the fund was an investment in Japan. Earlier this year I switched funds to hedge against a weakening Japanese Yen. This switch boosted the return of the Japanese fund significantly. The timing was probably lucky, but it does seem to me that the Japanese are determined to weaken their currency – even against the pound.

The largest detractor from the fund was Ashmore, a fund management company specialising in emerging markets debt. There is a general view that emerging countries will suffer disproportionately from the trade policies that Donald Trump supports. I am not sure how this will develop but am sure that Ashmore has committed leadership, a leading market position and the ability to sustain a high dividend.

TRANSACTIONS

I added one significant position last quarter, DIA, a Spanish supermarket and convenience store operator. The company's shares have suffered from a series of setbacks; falling sales in Spain, vicious competition in Portugal, concern about their franchise model, exposure to Argentina and Brazil and worries about the actions of the largest competitor in Spain, Mercadona. I don't expect any of these issues will be resolved quickly but believe that in time the strengths of the business will become more apparent. These are an extensive loyalty program, the ability to grow in Brazil and Argentina with profits generated in the country, consolidation of the Iberian market and an established management team of long-standing that has weathered storms in the past and come through successfully.

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OUTLOOK

Over the holidays I listened to a recording of ‘Black Box Thinking’ by Matthew Syed. He describes how difficult it is for ‘experts’ to acknowledge failure. I have repeatedly written that the US stock market and fixed interest investments are overvalued. That is why the level of liquidity in the fund has been high, which has been a mistake. And this is where Syed’s observations on experts become painful – experts are extremely unlikely to admit they are wrong. In fact, they are far more likely to convince themselves that they are right.

I believe that valuation is everything in investment. I think that the high value of bonds reflects a false markets created by a vicious combination of central bank intervention and regulatory pressure on investors. There are signs that this market may have stalled. I have a similar view on the valuation of the US equity market, although the level of valuation is not at the extremes seen lately in the bond markets. Again, this has been wrong, and particularly so recently. Perhaps I am like an explorer nearing the North Pole who finds his compass is useless. But, to stretch this a little, I now acknowledge that in this financial equivalent of the North Pole, my compass is useless but all my ‘expertise’ tells me that one day we will move to balmier climes. The valuation compass will work again; meantime I’m keeping reserves to survive the cold.

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