VT Thistledown Income Fund

Quarterly Factsheet

31 December 2017

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	£13.4m
Number of investments	32
Price (Z Acc)	134.9492p

Investment performance

Growth (%)	3m	1y	3y	5y	Inception
Fund (Z Acc)	3.1	9.6	38.0	78.7	94.7
MSCI UK IMI Net	5.0	13.0	32.7	60.6	87.2

Annualised Volatility

Fund (Z Acc)	6.8%
Benchmark	14.7%

Top 10 investments

Asset class	Holding	%
Japan	Morant Wright Fuji Yield Fund	9.5
UK Gilts	iShares UK Gilts 0-5yr UCITS ETF	7.7
UK Gilts	SPDR Barclays 1-5 Year Gilt UCITS ETF	6.4
UK Government Bonds	UK Treasury Bill 02/01/2018	5.6
Emerging Market Equity	SPDR S&P Emerging Markets Dividend ETF	5.0
Emerging Market Bonds	iShares Emer Mrkts Local Govt Bd UCITS ETF	4.6
US Bonds	iShares $ Ultrashort Bond UCITS ETF	4.1
UK All Companies	Lloyds Banking Group PLC	3.4
UK All Companies	Ashmore Group PLC	2.8
US All Companies	Kulicke and Soffa Industries	2.7

Fees & charges

Annual management charge	1.00%
Performance fee	None
Initial charge	None
Ongoing charges (30 Jun 2017)	1.40%

Yield & dividends

Yield	2.37%
Final dividend (x date 29 Dec 17, paid 15 Jan 18)	0.2621p

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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)	3,503,958
Market Value (Z Acc)	£4.7m
Launched	December 2010

Available on the following platforms

- Cofunds
- Hargreaves Lansdown
- Transact

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Investment commentary

INTRODUCTION

The fund is now seven years old and has returned 10% per annum since inception, after all expenses. The seven years have been good ones for financial markets and I doubt the next seven will be as kind. The make up of the funds return is not quite what I expected as anyone who has read these notes over recent years will know; the equity return has been ahead of the market, as I would have hoped, but holding cash and fixed interest has held back returns. Philip Tetlock, the author of 'Superforecasting' comments on the inability of forecasters to admit they are wrong. It is clear that the decision to hold back from investing fully has been wrong. The question now is whether it will be wrong for the next seven years. I write further about this later in the note.

ADMINISTRATION

The changes outlined last quarter are underway. You will get a letter shortly proposing some changes to the prospectus. If these are adopted, the fund will be able to invest more broadly. Also, the expenses will fall slightly and fall progressively if the fund grows.

PERFORMANCE

The fund rose 3% this quarter, behind the 5% rise in the UK equity market. The longer returns remain ahead of the market and have been achieved with half the risk of the market as measured by volatility.

TRANSACTIONS

There were no transactions this quarter.

COMMENTARY

I must start this commentary with a hat tip to one of the long-term supporters of the fund who brought Pasona, a Japanese company, to my attention. Last quarter it rose 80% and has over doubled since we invested. And, a bonus, it was part of my presentation to value investors in Omaha in May; perhaps there has been some aggressive buying from Kewitt Plaza. In fact, the company was an anomaly; it owned shares in Benefit One another Japanese quoted company. The value of these shares was higher than the value of Pasona itself. In other words, you paid nothing for Pasona's business and bought Benefit One shares at a substantial discount to the market price. Trading news since has been positive, and recently an activist has bought shares and is agitating for change.

The worst performance came from N Brown. I wrote in June, following a 50% rise in the price that quarter, that investors were perhaps overstating the progress made. The results in the autumn suggested I was right as various areas were not advancing as fast as planned; namely the transition to a new IT system, the performance of some of their older brands and issues around cash generation from the credit business. I believe these are 'work in progress' and am happy to retain the investment.

OUTLOOK

The new year has started with sparkling economic numbers from most economies as for the first time since the global financial crisis all major economies are growing. This synchronised expansion is good news for living standards, and my gloom about the effect of unorthodox policies and their unintended consequences was wrong; it's worked. The problem for investors is to decide how much of this is already 'in the price'. Howard Marks a successful investor in distressed debt produced a checklist in his book 'The most important thing'. (If one of you has borrowed my copy could you return it). I reviewed what I remember of the checklist in preparation for this letter and feature what I could remember in the list below. I suggest you review it yourself. The idea is to assess for each category whether conditions are positive or negative. For example for investors I would suggest the answer is positive as surveys of investor confidence suggest confidence is high.

	POSITIVE	NEGATIVE
Economy		
Outlook		
Lenders		
Capital Markets		
Credit terms Easy/Tight		
Interest Rates Low/High		
Credit spreads Tight/Wide		
Investors		
Market		
Recent Performance		
Consensus on prospective returns		

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OUTLOOK (continued)

My answers were all in the positive column. If he is right, this is the worst time to be taking risk. But then Jeremy Grantham, something of a god to value investors like me, started the year with the suggestion that this could be just the foothills of a booming market that will equal the internet bubble and see the US market rise another 60% or more, before falling 50% or more, all in the next 21 months. Having invested during the internet bubble I can quite believe that he is going to be right. But to repeat what I wrote last quarter;

I would suggest that as markets march upwards, valuations are skewed and taking on higher levels of risk is encouraged, the best strategy is to reduce risk, invest in value if you can and hold plenty of cash in reserve.

In case you think this is too sanguine than perhaps the CAPE ratio (Cyclically Adjusted Price Earnings) will help. CAPE, invented by Shiller and the reason for his Nobel prize award has a reasonable record of predicting future returns by calculating a value based on last 10 years of profits. This figure should be more stable than any one year and so help with forecasting. That it does was the reason for the Nobel prize. But its forecast, as I have explained in previous reports, has a drawback; it can be commercial suicide for an investment manager. Why? It can be wrong for longer than most clients have patience. Taking today's valuations it allows for a wide variety of outcomes in the following 12 months, some wildly positive, others negative, so nothing to contradict Grantham. The measure is more useful when looking at the returns over the next 5 or 10 years. Here, when starting from this level of valuation, the range of outcomes is much narrower and the bulk is negative. I am more interested in the longer term outcomes than trying to correctly time selling.

Thank you as ever for your interest and support.