



# VT Thistledown Income Fund

## Quarterly Factsheet

31 March 2018

### Investment Manager

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Further information is available at  
[www.thisim.com](http://www.thisim.com)

### Key Fund information

Fund size	£13.0m
Number of investments	31
Price (Z Acc)	130.1572p

### Annualised Volatility

Fund (Z Acc)	6.8%
Benchmark	14.6%

### Fees & charges

Annual management charge	1.00%
Performance fee	None
Initial charge	None
Ongoing charges (31 Dec 2017)	1.40%

### Yield & dividends

Yield	1.60%
Quarterly dividend (x date 29 Mar 18, paid 12 Apr 18)	0.5358p

### 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)	3,539,093
Market Value (Z Acc)	£4.6m
Launched	December 2010

### Objective

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

### 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.

### Investment performance

Growth (%)	3m	1y	3y	5y	Inception
Fund (Z Acc)	-3.6	2.1	31.2	54.5	87.8
MSCI UK IMI Net	-6.9	1.1	18.2	35.7	74.2

### Top 10 investments

Asset class	Holding	%
UK Gilts	UK Gilt 22/07/2018	15.3
UK Gilts	iShares UK Gilts 0-5yr UCITS ETF	7.9
Japan	Morant Wright Fuji Yield Fund	7.2
UK Gilts	SPDR Barclays 1-5 Year Gilt UCITS ETF	6.5
Emerging Market Equity	SPDR S&P Emerging Markets Dividend ETF	5.3
Emerging Market Bond	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	2.4
UK All Companies	SSE PLC	2.1
UK All Companies	Samsung Electronics Sp. GDR	2.1

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### Investment commentary

#### INTRODUCTION

2018 has not begun well for investors. The UK market is off nearly 7%. The fund has fallen too, but the policy of holding cash and bonds has reduced the loss to around 4%. I have been congratulated on being right which is pleasant but also worrying. The current setback is very run of the mill, and it will take far more than this to vindicate my caution. It also suggests that the recent years of steady rises have made investors overly sensitive to modest declines.

#### TRANSACTIONS

There are two new investments; Glaxo SmithKline and OMV Petrom.

The holdings in SSE and Svenska Handelsbanken were increased. These investments were funded by reducing the successful technology holdings and the Japanese investments.

#### Glaxo SmithKline

*'She had no idea that he might die. When it became apparent that he would, she slept in a chair at his bedside. One night she was alerted by the noise of his breathing. 'Father,' she said, leaning forward in a thrill of dedication. 'Father. Tell me what to do.' There was an interval of noise and silence, alternately mingled. 'Father,' she said. 'Tell me.' After an immense effort, Mr Hardy turned his head in her direction. 'Don't sell Glaxo,' he said, and fell back, dead.'*

Anita Brookner *"The Latecomers"*

The Latecomers was published thirty years ago in 1988, just before I started investing. Following Father's advice would have made you 10% per annum since then, about 1% per annum ahead of the UK equity market. Had he whispered those words 10 years later the outcome would have been very different. Since 1998 Glaxo's price has fallen on average 1% a year, trailing the UK market by around 2% per annum. I bring up this history for a reason. There is much made today of indefatigable companies that have raised dividends for years and which can be relied on to do the same for the foreseeable future. I think it is difficult to be sure of this and so am reluctant to pay up for future profits. Twenty years ago, investors were prepared to value Glaxo at nine times its annual sales; today they are only prepared to pay twice sales. Investors failed to see that the industry would become more competitive or that existing products would not be replaced and have paid the price. I don't expect the company to return to its previous valuation, but think there is a chance that new drugs and a focus on consumer healthcare will provide good returns.

#### OMV Petrom

OMV Petrom is a Romanian oil company majority owned by OMV of Austria. It has been transformed in efficiency over the last 12 years by a management team headed by Mariana Gheorghe. While it has struggled to replace reserves, its Neptun Black Sea joint venture with Exxon should transform its prospects. I discovered the company via the fund's holding in Fondul Proprietatea, and over the last two years have met the management in the UK and Bucharest. With a dividend yield of nearly 7% which the board have committed to increasing it seems attractively priced.

#### COMMENTARY

The best performance last quarter came from the holding in Sprott, the Canadian investment manager that specialises in precious metal investment. I met the company last year in Toronto and felt that following a variety of corporate mishaps the business was focussing on its core strengths and had a balance sheet to exploit these. Recent transactions have added to the core precious metals investment business. It may be that investors are now a little ahead of themselves but Sprott remains a unique company given its specialisation, and I am happy to see how this develops.

The Emerging Markets fund rose during the quarter. The fund has held a position in this fund for some years, and it has not been a success. I thought that the combination of low valuations and a reasonable income yield were attractive, but it is only recently that this appears to have attracted investors attention.

The largest contributor to the decline in the value of the fund was the holding in Morant Wright investing in Japan. I do not think that there has been a change in the fundamentals that support investment in this fund.

The worst individual companies were N Brown and Alumasc. N Brown has marched to the top of the hill and all the way back down again. I wrote last summer that investors were a little carried away, and in fact sold a part of the holding in the autumn. Since then the shares have fallen the best part of 50% and now trade below the initial purchase price. The consumer environment is difficult and N Brown is changing almost every aspect of its business but the fall seems overdone.



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### COMMENTARY (continued)

Alumasc is a small company with niches in building products in the UK and the US. The current management has concentrated on these areas and sold peripheral businesses over recent years. The company announced that it was unlikely to meet expectations in the current year as there had been a slowdown in its markets. The company's shares fell on this news, but I believe the price more than reflects the current slowdown and ignores the quality and hence sustainability of the underlying business.

### OUTLOOK

In early January, the economic news was good almost everywhere, but I cautioned that this was not necessarily good for markets. Those comments look well timed. There was and still is one market where the economic news has not been improving, and which was recently voted the most hated market by institutional investors. The UK. This consensus was expressed in a survey carried out by Bank of America. This survey has been conducted monthly for twenty years, and the UK has never been this loathed. It is easy to understand why, but how much of this is already discounted? I think a great deal. And, as evidence, I would point to the long run valuations that I discussed last quarter as being useful guides to returns. These are typically applied to markets, but markets are only aggregations of individual companies. Disaggregating the UK market shows many companies are very lowly rated relative to their average earnings. Expect to see more in the portfolio.

But, while the fund is likely to have increased UK holdings, the broad allocation will not change. I continue to believe that the US market is highly priced and that if it falls other markets will fall with it.

Thank you as ever for your interest and support.

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