VT THISTLEDOWN SMARTFUND ICVC

(Sub-fund VT Thistledown Income Smartfund)

Short Form Interim Report and Financial Statements
(unaudited)
For the six months ended 03 May 2016

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.

The ACD will apply a 'value' based policy when selecting equities for the Fund's portfolio. This means that an asset will be included in the portfolio when the Investment Adviser's analysis and expertise suggests it will provide a total return over the full investment cycle or longer that is higher than the total return that could be expected from UK equity investments over the same period (i.e. between 5 and 10 year horizons). 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.

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 may 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.

Investment Manager's Review

This commentary covers the six months from November 3rd, 2015 to May 3rd, 2016. The fund rose around 2.5% while the UK stock market fell about 3.0%. There were no major transactions.

This gradual increase suggests a quiet period. Not so. Markets fell abruptly in the first six weeks of 2016 with, at the low point, the UK market down over 12% from its level in November. At that point, the fund had fallen around 4%, protected by holding cash and a portfolio that does not shadow the market. This is not the first time that the fund has done well in a falling market, but it is probably the best relative return over such a period. The market then recovered quickly but still ended the six months down 3.0%

I was congratulated for seeing the problems ahead when markets fell. But I hadn't. I don't have any insight into short term market moves. My insight, if it is one, is that valuations matter and buying when things are cheap produces better returns over time than buying when expensive. And, as I have written repeatedly, valuations are expensive, particularly in the US.

There are various explanations for high valuations. I think central banks hold the key. I believe their policies have created the third cycle in markets of the last twenty years driven by monetary policy. If you want evidence of this look at government bond markets where yields are now negative for $10 trillion of government bonds. (Is a negative yield actually a yield? It seems more like paying an insurance premium to me.) A number of commentators describe this as a result of a savings glut. This may be so but I doubt yields would remain negative if central banks were to announce they needed to sell their growing inventories of bonds.

If this is the third such cycle, then I have the following concerns.

First, the last two cycles in 99/2000 and 07/08 did not end well and neither was identified as such by central bankers before the event. They preferred to clean up after the event. I am not sure how they will clean up after this event given the measures taken in the last eight years.

Second, the cycles didn't end to order. Older value investors remember too well the tech bubble. Here is Tony Dye, the head of Philips and Drew Fund Management writing in the Telegraph:

'The only thing one can say with certainty is that, at current prices, equities will give abnormally low real returns over the long term. The probability in the short and medium-term is of something much worse. When markets fall, they will tend towards their average valuations, giving long-term investors the opportunity to buy shares with the prospect of the decent real returns unavailable today."

He was right about the long run but not the short. He wrote this in August 1997. He, along with his clients, had to wait two and a half years before the peak. His career never recovered and he was fired in March 2000 just as the market peaked.

Third, this cycle, there's nowhere easy to hide. In 2000 old economy stocks were cheap. In 2007 government bonds paid interest. Today most assets are distorted by low interest rates.

Fourth, I dread a return to the excesses of the late 90's. But this is how it could happen. Investors with no return on safe assets look at the yields on equities and find them attractive. This momentum becomes self-sustaining with equities bid higher and higher. After all, if you compare positive yields on equities to negative yields on bonds you could can justify much higher prices for equities. The trouble is that this guarantees low returns in the future. Equities are a claim on future cash flows that are surprisingly stable over time. (Shiller: Market Volatility MIT 1989) The more you pay today the less you get in future and vice versa.

My policy is to hold cash and to try and find investments that are not expensive today and so may provide reasonable returns in future. If the valuation of markets increases this will become increasingly difficult.

A number of other things happened in the last six months.

The fund celebrated its 5th birthday in December. When I established Thistledown I knew that good performance would safeguard my money and might lead to a growing business. The performance of the fund has been good. At the end of December Morningstar* ranked the fund in

Investment Manager's Review (continued)

the top decile for return and, even better, it was 5th fund out of 292 in its sector on a risk adjusted basis, ahead of many well-known funds. But the fund remains small.

In March Valu-Trac took over the operation of the fund. This change has led to some developments outside investment management that I hope will encourage new investors and please existing ones. Initially, with the move to Valu-Trac Administration the fund is available on a number of platforms. This should broaden the appeal of the fund.

Conclusion.

I am pleased that the fund has performed well in its first five years and am grateful to all those who have supported it. Now for the next five. I expect the valuation extremes in bond and equity markets will unwind over the next five years. But, honestly, five years ago I'd have forecast an end to the low interest rate policies by now – wrong. This failure has not prevented the fund doing well by focussing on valuation and diversification – that's what I'll continue to do. Thank you for your support.

Thistledown Investment Management Limited
Investment Manager to the Fund

* (Source: Morningstar. 5 years to 31.12.16 Sector: UK Aggressive Allocation. Sector FUM £73bn. Sector Allocation: 25% Barclays UK Bonds TR, 75% FTSE World TR).

Portfolio Statement
as at 03 May 2016

Holding	Security	£	Net Assets %
	Cash Funds 0.00% (03 November 2015 11.22%)		
	Europe excluding UK 6.54% (03 November 2015 4.67%)		
35,893	Svenska Handelsbanken	319,420	3.21%
3,061	Total Gabon S.A.	331,013	3.33%
		650,433	**6.54%**
	Global Emerging Markets 6.97% (03 November 2015 4.85%)		
507,178	Caledonia Mining Corp	370,240	3.72%
17,595	SPDR S&P Emerging Markets Dividends ETF	323,419	3.25%
		693,659	**6.97%**
	Asia ex Japan Equity 3.21% (03 November 2015 3.42%)		
654	Samsung Electronics	**319,104**	**3.21%**
	Japan 7.10% (03 November 2015 9.33%)		
278,641	CF Morant Wright Nippon Yield	**707,219**	**7.10%**
	North America 12.76% (03 November 2015 12.72%)		
12,655	AT&T	337,194	3.39%
38,010	HP Inc	314,105	3.16%
43,550	Kulicke and Soffa Industries	320,411	3.22%
8,616	Microsoft	297,222	2.99%
		1,268,932	**12.76%**
	UK Equity All Companies 26.80% (03 November 2015 27.79%)		
111,726	Ashmore Group Plc	337,468	3.39%
75,434	Aviva	326,101	3.28%
91,787	BP	336,790	3.39%
1,329,583	Phaunos Timber Fund	335,284	3.37%
311,540	Punch Taverns	350,483	3.52%
22,306	Scottish and Southern Energy	333,809	3.36%
177,405	Wireless Group Plc	323,764	3.25%
145,821	Vodafone Group Plc	321,973	3.24%
		2,665,672	**26.80%**
	UK Gilts 28.09% (03 November 2015 19.36%)		
13,566	iShares FTSE UK Gilts 0-5 years	1,806,788	18.16%
19,303	SPDR Barclays 1-5 Year Gilt UCITS ETF	987,041	9.93%
		2,793,829	**28.09%**
	Investment assets 91.47% (03 November 2015 93.36%)	**9,098,848**	**91.47%**
	Net other assets 8.82% (03 November 2015 6.64%)	**877,724**	**8.82%**
	Adjustment to value assets from Mid to Bid prices	**(28,662)**	**(0.29%)**
	Net assets	**9,947,910**	**100.00%**

Comparative Tables

Net Asset Values

Share Class	Net asset value	No. of shares in issue	Net asset value
03 November 2014			
Class AC +	£7,203,086	28	£4,172.17
Class Z Net Income	£203,924	202,105	100.900p
03 November 2015			
Class AC +	£7,139,254	30	£4,192.24
Class Z Net Income	£201,297	202,105	99.600p
03 May 2016			
Class F Net Income	£2,408,961	2,429,660	99.148p
Class Z Net Income	£6,537,078	6,408,658	102.004p
Class Z Net Accumulation	£1,030,006	1,026,497	100.342p

+ The values for the AC shares are based on a representative unit. Unlike other share classes, AC shares in the SA Smartfund Advantage ICVC (of which the Thistledown Fund was a Sub-fund) are created and priced uniquely for each share holder. The AC share used as a representative share is that which arose on the conversion of the representative unit in SA Smartfund Advantage. Further information on how AC shares are calculated was contained in the Prospectus. On transition to VT Thistledown Smartfund ICVC, these AC shares were converted to the Z class net income shares on 18 March 2016 at 1 ‘Z’ share for every £1.005 in value of their AC class shareholding.

Price History

The table below shows the highest buying and lowest selling prices in each accounting period of the fund. Past performance is not necessarily a guide to the future performance.

Share Class	Highest	Lowest
14 July 2014 to 3 November 2014		
Class AC +	£4,235.44	£4,007.40
Class Z Net Income	103.10p	96.80p
4 November 2014 to 3 November 2015		
Class AC	£4,399.41	£4,038.00
Class Z Net Income	106.10p	95.60p
4 November 2015 to 3 May 2016		
Class AC ^^^	£4,261.72	£4,023.76
Class Z Net Income	103.32p	94.70p
Class Z Net Accumulation^	101.66p	99.35p
Class F Net Income^^	100.42p	99.15p

^ Period 04 April 2016 to 03 May 2016
^^ Period 19 April 2016 to 03 May 2016
^^^ Period 04 November 2015 to 18 March 2016
+ See note on the AC class above.

Comparative Tables
continued

Distribution Record

Distributions	Amount
04 November 2014 to 03 November 2015	£106,612
04 November 2015 to 03 May 2016	£20,241

Ongoing Charges ^

Share Class	03 May 2016 %	03 November 2015 %
Class AC	1.38	1.32
Class Z	1.38	1.54
Class F	1.10	-

^ The Ongoing Charges are annualised based on the fees incurred during the accounting period.

Risk Profile
Based on past data, the fund is ranked a ‘4’ (November 2015 ‘4’) on the synthetic risk and reward indicator scale (of 1 to 7) as described fully in the Key Investor Information Document. The Fund is ranked 4 because medium levels of volatility are anticipated over a five year period.

Risk Warning
An investment in an Investment Company with Variable Capital should be regarded as a medium to long term investment. Investors should be aware that the price of shares and the revenue from them can fall as well as rise and investors may not receive back the full amount invested. Past performance is not a guide to future performance. Investments denominated in currencies other than the base currency are subject to fluctuation in exchange rates, which can be favourable or unfavourable.

Directory

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