VT Thistledown Income Fund

Quarterly Factsheet

31st March 2020

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	£11.9m
Number of investments	33
Price (Z Acc)	116.7839p

Investment performance

Growth (%)	3m	1y	3y	5y	Inception
Fund (Z Acc)	-16.1	-9.8	-8.4	17.7	68.5
MSCI UK IMI Net	-25.2	-19.4	-13.2	1.5	49.5

Past performance is not necessarily a guide to future performance

Annualised Volatility

Fund (Z Acc)	7.3%
Benchmark	15.5%

Top 10 investments as at 31st March 2020

Asset class	Holding	%
UK Gilts	UK Gilt 22/01/2021	17.3
UK Gilts	SPDR Barclays 1-5 Year Gilt UCITS ETF	7.3
Japan	Morant Wright Fuji Yield GBP Inc Hedged	5.9
Commodity ETF	ETFS Physical Gold	5.3
UK All Companies	Aberforth Smaller Companies Trust PLC	4.3
Emerging Market Bond	iShares Emerging Markets Local Government Bond UCITS ETF	4.3
UK Gilts	iShares III PLC - iShares UK Gilts 0-5yr UCITS ETF	4.2
European Equity	OMV Petrom SA	3.7
UK All Companies	BlackRock Frontiers Investment Trust PLC	3.1
European Equity	Equinor ASA	2.7

Fees & charges

Annual management charge	0.60%
Performance fee	None
Initial charge	None
Ongoing charges (31 Dec 2019)	0.90%

Yield & dividends

Yield	2.00%
Quarterly dividend (ex date 31 Mar 20, paid 14 Apr 20)	0.51p

Subscribe & contact
If you wish to subscribe to this Factsheet, or have any queries regarding its content, please contact Valu-Trac Administration Services:

Telephone +44 (0)1343 880344
Fax +44 (0)1343 880267
Email thistledown@valu-trac.com

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)	4,163,906
Market Value (Z Acc)	£4.9m
Launched	December 2010

Available on the following platforms

- Alliance Trust Savings
- Cofunds
- Hargreaves Lansdown
- Transact

VT Thistledown Income Fund

Quarterly Factsheet

31st March 2020

Investment Commentary

INTRODUCTION

The fund fell 16%, but at one stage had dropped over 20% since December 31st. The UK market fell 25%, having fallen well over 30% by mid-March.

You all know the reasons. The slump was caused by COVID 19 followed by a collapse in the oil price. The scale and speed of the responses from governments were unprecedented; Germany underwrote all SME debts accrued because of the measures to combat the virus; the United Kingdom pledged around 15% of GDP to help businesses while the US routinely added trillion-dollar packages to its response.

These events, likened by a friend to 'two black swans mating' provoked some of the most extreme daily movements in financial markets ever; using market convention the US stock market had both a bear market and bull market last quarter.

COMMENTARY

This commentary was written on March 12th for the annual report. My views have not changed, although both the market and the fund have risen.

I planned this report in January. I expected to write of another 'Groundhog Day' with high valuations in the US and low-interest rates pushing investors to add risk to achieve returns. Although the coronavirus had appeared in China, I thought that like many similar scares during my investing career; Y2K, SARS, it would fizzle out.

Wrong.

The virus has spread, and Saudi Arabia has flooded the oil market.

The stock market is down 29% and the fund down around 17% since the beginning of the year. This smaller loss than the market (professionals call this performance, but the word seems entirely inappropriate) is a partial vindication of a strategy to hold cash as 'insurance'. I wrote last year that the markets occasionally have truly dreadful periods; in financial jargon, there are 'fat tails'. These periods, though rare, are so unsettling that it is sensible to hold reserves. These reserves prevent forced selling and allow a manager to benefit from fear; 'buying from the manic-depressive Mr. Market'. The fund has not been a forced seller, and it has the means to take advantage of lower prices.

This is not to say that I had any insight other than valuations were high, which made markets vulnerable.

The smaller loss than the market would have been even smaller had value shares done better. They have not, they have performed worse. In the United States, the Russell index of value shares has fallen 29%, while the growth index has fallen 19%, other markets are similar. Cheaper valuations and reasonable dividend streams should protect capital. That has not happened. But I think that the strategy remains sound. Here are a couple of examples from the portfolio to illustrate why.

I described the reasons for investing in the BlackRock Frontiers Investment Trust last quarter (altered from original). The share price has fallen 35% this year. I monitor the largest holdings in the trust as reported on September 30th. As I write, the underlying portfolio is trading at eight times historical earnings and has grown its equity at around 9% per annum for the last five years. If the trust pays the same dividend as last year, it yields just under 7%. I do not think that the prospects for frontier markets have changed enough to justify this move. Frontier markets benefit considerably from lower oil prices, their stock markets were cheap and are now much cheaper, and they have young populations. You could argue that recent developments have increased their attractiveness. The market disagrees clearly.

Krka is a company based in Slovenia with a long history as a generic pharmaceutical manufacturer. The share price has fallen 25% this year. The pharmaceutical business is not cyclical, and the company makes a 15% return on equity, has substantial cash reserves and now trades at eight times earnings, a significant discount to the broad market. A business with these high-quality characteristics should trade at a premium to the stock market. That it is not shows again that the market disagrees.

TRANSACTIONS

Purchases

The fund made three new investments.

Equinor, formerly Statoil, is an integrated oil company with a AA credit rating. The first purchase was in early January, a dreadful time to invest as the price fell nearly 50% after the oil price collapsed. The thesis had changed given the collapse of the oil price, but this seemed more than discounted by mid-March, and the position was doubled.

31st March 2020

Investment Commentary (continued)

Knott Offshore Partners is a business than owns tankers used in servicing offshore oil fields. The shares collapsed in March along with the rest of the oil sector. I assess that this service is much less exposed to the oil price than the market appears to discount. The risk to the company is that a major oil company closes in a substantial offshore field. Closing an oil field in when it has cost a few billion dollars to develop is most unusual, but this is the risk. Knott has a strong position to keep earning reasonable returns and paying a dividend of approximately 20%.

The final new investment was in Cameco, which I have followed for three years. This loss-making company is the largest miner of uranium outside government-controlled entities and traded at a discount to book value. There is no incentive to produce uranium at the current price, and significant assets are now in care and maintenance. Global demand is steadily growing eroding any spare capacity in the market. Utilities have run down their contractual commitments; given the lag between purchase and use long term contracts are the norm in the industry.

I added substantially to the positions in gold, Sprott the precious metal manager, Fondul Proprietatea, the Romanian closed-end fund and Blackrock Frontiers during March.

Sales

There were several sales.

The largest was the sale of all the US bonds in mid-March when their price and the exchange rate of $1.15 to £ seemed wrong.

Dart Group was sold in March at a price around twice its current level, and Dixons at a price below its level today. The risk of consumer facing businesses in the UK are difficult to assess given the lockdown. The money raised funded the addition to the holding of Aberforth Smaller Companies to spread the risks yet maintains exposure to cheap UK companies.

OUTLOOK

Have I already missed the bottom?

Should the fund be fully invested?

I ask myself these questions every day. I cannot answer the first; time will tell. My answer to the second question is no.

Mr. Market was clearly in a manic-depressive phase in March; a classic signal to a proper value investor to buy, buy, buy. I invested some of the money at the time, but by no means all. The reason is summed up by a quote attributed to Seth Klarman “Ultimately, nothing should be more important to investors than the ability to sleep soundly at night”.

I am keener to invest more now than in recent years because markets are cheaper, but with so many ‘unprecedented’ events it seems foolish to commit all the funds capital, or to back one area or economy. Instead I will steadily invest more money across the broad range of opportunities available. I write broad range because there are now opportunities to invest in the UK, Asia, small capitalization stocks, Frontier markets and the oil sector with a real possibility of making double digit returns.

Finally, I am afraid that this year is likely to see a significant drop in the income you receive from the fund. I estimate that overall there will be a 30% fall in income.

STOP PRESS. Krka announced a 35% increase in its dividend, but sadly that will not make up for the carnage elsewhere.

Dominic Fisher