VT Thistledown Income Smartfund

Quarterly Factsheet

30 June 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	£10.4m
Number of investments	25
Price (Z Acc)	104.2631p
Annualised Volatility	6.8%

Investment performance

Growth (%)	3m	1y	3y	5y	Inception
Fund (Z Acc)	4.3	6.2	22.1	46.4	50.4
MSCI UK IMI Net	5.3	2.4	17.6	34.5	42.6

Fees & charges

Annual management charge	1.00%
Performance fee	None
Initial charge	None
Ongoing charges	1.59%

Top 10 investments

Asset class	Holding	%
UK Gilts	iShares UK Gilts 0-5yr UCITS ETF	15.7
UK Gilts	SPDR Barclays 1-5 Year Gilt UCITS ETF	9.6
Japan	CF Morant Wright Nippon Yield B Shares	7.1
UK All Companies	Phaunos Timber Fund	3.9
North America	AT & T Inc	3.9
UK All Companies	BP	3.8
UK All Companies	Samsung Electronics Sp. GDR	3.8
North America	Kulicke and Soffa Industries	3.7
UK All Companies	Ashmore Group PLC	3.5
UK All Companies	Punch Taverns PLC	3.5

Yield & dividends

Yield	2.66%
Quarterly dividend (paid 15 July 16)	0.1346p

Security codes & other Fund Information

SEDOL (Z Acc)	BYYP644
ISIN (Z Acc)	GB00BYYP6442
SEDOL (Z Inc)	BNGXQZ0
ISIN (Z Inc)	GB00BNGXQZ01
SEDOL (F Inc)	BD9WWJ0
ISIN (F Inc)	GB00BD9WWJ07
Shares in Issue (Z Acc)	1,026,867
Market Value (Z Acc)	£1.1m
Launched	December 2010

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Investment commentary

INTRODUCTION
Unless you are a keen follower of markets this report might come as a surprise. The U.K. voted to leave the EU, it lost its Prime Minister, the victors of the referendum campaign fell out with each other, yet the fund rose around 4% and the UK stock market was up over 5%.

PERFORMANCE
The positive return is encouraging but behind the market. This is the flip side to what happened on the day of Brexit. On Friday, as the UK market fell around 4% the fund value rose slightly and has risen gradually since. This performance is a result of the diversification strategy and the returns from foreign investments. But the fact that the UK market rose is surprising.

Why did this happen? Because the UK market is dominated by large multinational companies; Shell, BP, Unilever, HSBC, Vodafone. They make their profits abroad and as sterling fell these became more valuable. The areas that suffered were those that make their money in the UK; banks, retailers, house builders. Here the share prices fell and have not really recovered. This little table gives four examples

Company	% change 23.6 to 30.6
Unilever	12%
Shell	9%
Lloyds Bank	-25%
Persimmon (builder)	-31%

The weight of the multinationals accounts for the rise in the UK stock market over the quarter and since the referendum, while the falls in the domestic stocks show the fears that investors have for the UK economy.

The currency markets tell a similar story of concern for the UK economy. Sterling fell heavily on Friday as the referendum result became clear and has continued to weaken against other currencies. This shows no sign of reversing, particularly given recent statements from the Bank of England.

COMPANY COMMENTARY
The best performing investments last quarter had a commodity link; BP,Caledonia Mining and Phaunos Timber. All three benefited from rising commodity prices and the US $ price of their production.
Kulicke and Soffa announced its second quarter figures and forecasts for the third quarter. These figures, particularly the forecast, were much better than anticipated. The price of the shares did not react at all. Perhaps this should not have surprised me. I presented my investment case for this company in early April to a conference of value investors. One attendee told me that I should not have presented the company – a first for me… Either way it is clear that there is little appetite for what appears to me a particularly cheap company.

TRANSACTIONS
This quarter there were more transactions than for some time.

Purchases	Sales
Carillion	Aberforth Smaller Companies
Fondul Proprietatea	Microsoft
Lloyds Banking Group	HP Enterprise
LXB Retail	
Sweett	
Tullet Prebon	

NEW HOLDINGS.

I have followed Carillion for sometime and had the opportunity to meet the management during the quarter. The company is one of the most heavily shorted in the UK market. The last few years have been difficult for contractors, with declining margins, problems with old contracts and recently issues around capacity and labour costs. Carillion appears to have taken action earlier than many to reform the business and appears to me to be lowly valued, with a good dividend and a long order book. The opportunity to buy following the price collapse after the referendum was too attractive.

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Fondul is a Romanian investment company formed as a vehicle to provide reparations to those who suffered economic loss under the communists. It holds stakes in Romanian energy and utility companies and recently listed its shares on the London Stock Exchange. The fund is run by Franklin Templeton and Elliott Advisers, well known activist investors, hold a significant stake. I believe the underlying assets are of good quality and lowly valued. So, with the shares trading at a 30% discount to that value this is a good opportunity.

Lloyds Bank needs no introduction. This was another investment made after the referendum fall. Banks are not like other companies because of the gearing they use. This caused terrible losses for investors in 2008, particularly value investors who believed that prices could go no lower as valuations at the time were historically cheap. They were wrong. I think there is a fundamental difference between now and then – regulation and risk taking. Banks have been forced to become more conservative and to reduce their risk taking. I believe that Lloyds is likely to provide a dividend yield of over 6% and is trading below the value of its assets despite a significant improvement to their business since 2008.

LXB Retail is a fund that is in the process of liquidating property investments in the UK. The Chairman wrote recently that he expected significant value to arise from this process and management have been buying following the referendum problems – as I have.

Sweett is a contractor that was the subject of a bid approach. The bid seemed certain to complete given the acquirer was a large Canadian business while Sweett is a small contractor, but there was a chance of a counter bid. I invested with the expectation of making a few percent; following a counter bid the position has made 22% so far, easily the best return the fund has ever made, albeit a small amount of money.

Tullett Prebon is a broker in the financial markets. It has a variety of specialised businesses and leads in voice broking which is being overtaken by electronic trading. It is in the midst of a takeover of another major voice broking business which will give it a larger share of this global business. The combination of this transaction with concerns about the future for the business meant it was available at a favourable price and with a good dividend.

SALES

I sold the holding in Aberforth Smaller Companies as the yield was low by historic standards while there are opportunities in UK smaller companies to invest for income, and to save on additional fees.

Microsoft had been held since the fund started. The return had been good, but the recent purchase of LinkedIn, while not 'game changing' combined with a much higher valuation encouraged me to look elsewhere.

OUTLOOK

You will receive the short report on the fund at about the same time as this letter. In it I outline my concerns about valuations. I will not repeat them here. But, I am finding more opportunities to invest money in situations that appear to me cheap. It is not easy to invest in cheap companies as there are usually good reasons why they have become cheap – but that is what I do. That this can work became clear about an hour after the quarterly valuation was struck. Wireless Group announced an agreed bid at a 70% premium to the prevailing price. This time last year I wrote about Wireless Group and the problems that had laid its share price low;
'Warren Buffett has observed that in the competition between a good management and a bad company the company rarely loses its reputation. The reverse is also true. I believe the underlying businesses at UTV are of a high quality and valuable.'

This proved the case.

Managers comment is available at www.thisim.com