VT Thistledown Income Fund

Quarterly Factsheet

31st March 2019

Investment Manager

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Further information is available at
www.thisim.com

Key Fund information

Fund size	£14.4m
Number of investments	31
Price (Z Acc)	129.4246p

Annualised Volatility

Fund (Z Acc)	6.8%
Benchmark	14.3%

Fees & charges

Annual management charge	1.00%
Performance fee	None
Initial charge	None
Ongoing charges (30 Jun 2018)	1.30%

Yield & dividends

Yield	1.50%
Quarterly dividend (ex date 29 Mar 19, paid 12 Apr 19)	0.1725p

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)	4,426,471
Market Value (Z Acc)	£5.7m
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)	4.2	-0.6	29.5	39.9	86.7
MSCI UK IMI Net	9.8	6.5	31.6	33.3	85.5

Past performance is not necessarily a guide to future performance

Top 10 investments as at 29th March 2019

Asset class	Holding	%
UK Gilts	UK Gilt 22/01/2021	14.4
UK Gilts	iShares III PLC - iShares UK Gilts 0-5yr UCITS ETF	7.2
UK Gilts	SPDR Barclays 1-5 Year Gilt UCITS ETF	6.0
Japan	Morant Wright Fuji Yield GBP Inc Hedged	5.9
Emerging Market Equity	SPDR S&P Emerging Markets Dividend ETF	4.7
US Bonds	iShares $ Ultrashort Bond UCITS ETF	4.0
Emerging Market Bond	iShares Emerging Markets Local Government Bond UCITS ETF	3.9
UK All Companies	Rio Tinto PLC	2.2
UK All Companies	BP PLC	2.1
UK All Companies	GlaxoSmithKline PLC	2.1

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Investment Commentary

PERFORMANCE

The fund rose 4% last quarter as the equity market rose 10%. The level of cash and bonds held back returns as most of our equity investments rose last quarter, some dramatically, and few fell. The average equity holding rose over 9%. The other area that set the fund back was holding bonds in foreign currencies as the pound rose against the US dollar, despite the dreadful Brexit mess.

TRANSACTIONS

There were no transactions last quarter.

COMPANY COMMENTARY

The first quarter is busy with company announcements and the general tone was positive. The practice of providing transcripts of company result meetings is spreading which is helpful.

This quarter I will review several holdings that since purchase have done particularly well or badly.

Kulicke and Soffa

The company is the market leader in semiconductor packaging. At the time we invested, the business had the following attributes; steady gross margins, a US listing with HQ and manufacturing based in Singapore, an extremely strong balance sheet and was trading on a very low multiple of its earnings in normal times – it was losing money when we invested. Since then the company has managed to grow its sales, increased its market share and has identified new markets supplying LED manufacturers and the car industry. This combination should see sales increase substantially in the next five years and with that earnings. So, despite having risen over 110%, the company is still lowly rated.

N Brown

The share price has fallen nearly 50% since we first invested. This is the worst percentage return for an investment since the fund started. What has gone wrong? The simple premise for investing in N Brown was it specialised in plus-sized clothing which was less competitive than average retail. Retail companies were suffering because of the troubles on the High Street but N Brown had already built a large online business and had considerable experience of fulfilment given its history as a catalogue retailer. The management team articulated a strategy to concentrate on fewer brands and had had success in growing the sales of the brand online. The company was financially secure with most debt related to a credit business that it had long experience of running. The Alliance family controlled 40% of the company which suggested that the company would be run conservatively and with a longer term focus. Finally its valuation was not demanding and it offered a reasonable dividend.

There have been several problems since we invested. First, while the online brands have continued to grow, sales in their traditional brands have suffered from the change of focus and the management have not been consistent in their approach to this. Second, new developments have not worked: sales in the USA (it seemed like a promising market) have not grown, they have been slow to adopt a new IT platform. Third, the company has had to work hard to comply with new regulations from the Financial Conduct Authority that add cost to their credit offering. The company has also suffered setbacks with higher charges for payment protection insurance and unfavourable rulings from a VAT appeal. Finally, the Chief Executive was replaced. The share price now discounts a very poor outcome for the next few years, which the management announcements say is not going to happen. The next results in May will determine whether to add significantly or sell. The advantage of having a small fund is that we can wait.

Investment Commentary (cont)

OUTLOOK

I have nothing to add to the outlook that has just been released in the annual report.

Writing the outlook for this report reminds me of the film 'Groundhog Day' with Bill Murray. Every year I come to write this and hope to report that things are reverting to normal and every year I am disappointed. This year seemed different when I was planning this review. The Federal Reserve had raised interest rates and a 'real' return (a return that is above inflation) on savings was available, which has been the case rarely since the 2008 financial crisis. Since then an apparent change of heart in the US combined with developments in Europe and Japan mean that once again savers will lock-in a loss if they lend to the German, Japanese or Swiss governments for the next ten years. The policies that saved the financial system in 2008 were not meant to have continued for years after but they have. I realise that worrying about this has not been profitable, but I remain concerned. Understandably the chance to borrow at very low rates has encouraged borrowing, leading to a perverse outcome. Interest rates were suppressed to help over-indebted borrowers survive a crisis, but as rates remain lower for longer corporate and government borrowing has increased to levels well above those of the crisis while economic growth remains puny.

When the fund first started, I wrote that worrying about macroeconomic themes was not something that I thought would benefit the returns. I have changed my mind because the current policies have persisted for so long without the desired effect on economic activity. I am concerned that in the event of a downturn the increased levels of debt and already low-interest rates will lead to even more extreme monetary policies. Andy Haldane commented favourably on such policies in 2015.

'The third and final option ……. would be charging a negative interest rate on currency, most probably through a state-issued digital currency.' [1]

There are few safe investments for traditional investors today. In a crisis, there may be none. For this reason, and despite the devastating critique of investing in gold offered by Warren Buffett in his recent shareholder's letter, I expect to add exposure to gold while taking on more equity risk in the portfolio in the next year. It is more probable that the authorities are correct than not. In which case equities outside the US offer reasonable value. If they are wrong, then the 'safe' assets that have formed a large part of this portfolio will be threatened while genuine alternatives outside the control of the monetary authorities should prosper.

[1] **'How low can you go?' Andy Haldane, Chief Economist of The Bank of England, to Portadown Chamber of Commerce 18th September, 2015**

Dominic Fisher OBE