



VT Thistledown Income Fund

Quarterly Factsheet

30th September 2019

Investment Manager

Dominic Fisher OBE
Thistledown Investment Management Limited
Further information is available at
www.thisim.com

Key Fund information

| | |
|-----------------------|-----------|
| Fund size | £14.8m |
| Number of investments | 34 |
| Price (Z Acc) | 134.5067p |

Annualised Volatility

| | |
|--------------|-------|
| Fund (Z Acc) | 6.7% |
| Benchmark | 14.1% |

Fees & charges

| | |
|-------------------------------|-------|
| Annual management charge | 1.00% |
| Performance fee | None |
| Initial charge | None |
| Ongoing charges (30 Jun 2019) | 1.31% |

Yield & dividends

| | |
|---|-------|
| Yield | 1.90% |
| Quarterly dividend (ex date 30 sep 19, paid 14 Oct 19) | 0.68p |

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) | 4,466,888 |
| Market Value (Z Acc) | £6.0m |
| 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) | 1.4 | 1.3 | 15.5 | 37.3 | 94.0 |
| MSCI UK IMI Net | 0.9 | 2.2 | 21.0 | 37.2 | 93.1 |

Past performance is not necessarily a guide to future performance

Top 10 investments as at 30th September 2019

| Asset class | Holding | % |
|------------------------|--|------|
| UK Gilts | UK Gilt 22/01/2021 | 14.0 |
| UK Gilts | iShares III PLC - iShares UK Gilts 0-5yr UCITS ETF | 7.0 |
| UK Gilts | SPDR Barclays 1-5 Year Gilt UCITS ETF | 5.8 |
| Japan | Morant Wright Fuji Yield GBP Inc Hedged | 5.5 |
| Emerging Market Equity | SPDR S&P Emerging Markets Dividend ETF | 4.5 |
| US Bonds | iShares \$ Ultrashort Bond UCITS ETF | 4.1 |
| Emerging Market Bond | iShares Emerging Markets Local Government Bond UCITS ETF | 4.1 |
| Commodity ETF | ETFS Physical Gold | 3.2 |
| Romania | OMV Petrom SA | 2.3 |
| UK All Companies | Ashmore Group PLC | 2.3 |

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Telephone +44 (0)1343 880344
Fax +44 (0)1343 880267
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30th September 2019

Investment Commentary

PERFORMANCE

The table on page 1 shows the performance of the fund. Last quarter the fund rose over 1.4% while the UK equity market rose 0.9%.

TRANSACTIONS

The fund invested in ETFs Physical Gold, Dart Group and Bayer AG during the quarter.

The most significant investment was in the ETFs Physical Gold. The name tells you what it does. The fund has had a holding in Sprott Inc, a Canadian investment manager that invests in natural resources with a focus on gold. The company paid a good dividend, had a strong balance sheet and exposure to the gold market when bought. Last quarter, as the price had risen and the valuation and yield were less attractive, the position was reduced. The ETFs was bought to maintain exposure to the gold market. Famous investors scorn investment in gold while others are obsessed with it. I think it provides worthwhile insurance in case of unexpected results from the unconventional policies of the last decade.

Dart Group, led by the 36% shareholder Philip Meeson, has grown from its origins flying flowers from Guernsey to the mainland to become a large budget airline and tour operator under the Jet2 brand. The company has grown at the expense of incumbent tour operators. The management has a reputation for an obsessive focus on customer service and in-depth experience of aviation. The business has grown by around 20% per annum over the last ten years. It has recently expanded its tour operations from bases in the north of England to the south of England increasing its potential scale. I was introduced to the business by a fellow value investor and invested following the demise of Thomas Cook as the company traded at under 10 times earnings. The price has since increased rapidly.

Bayer AG is a formidable German healthcare, nutrition and agricultural business with significant market positions. It recently bought Monsanto in the US. This company is being sued on the basis that its pesticide Roundup is carcinogenic. This threat has seen the share price fall from c. €150 to €65 as I write. The company now trades on nine times prospective earnings. The threat of litigation will hang over the company for some time, but there are reasons to think that the fall is overdone. First, Johnson and Johnson, itself the subject of numerous aggressive lawsuits trades at 15 times earnings. Second, the US EPA on August 8th issued the following statement;

WASHINGTON (Aug. 8, 2019) – *EPA is issuing guidance to registrants of glyphosate to ensure clarity on labeling of the chemical on their products. EPA will no longer approve product labels claiming glyphosate is known to cause cancer – a false claim that does not meet the labeling requirements of the Federal Insecticide, Fungicide, and Rodenticide Act (FIFRA). The State of California’s much criticized Proposition 65 has led to misleading labeling requirements for products, like glyphosate, because it misinforms the public about the risks they are facing. This action will ensure consumers have correct information, and is based on EPA’s comprehensive evaluation of glyphosate.*

“It is irresponsible to require labels on products that are inaccurate when EPA knows the product does not pose a cancer risk. We will not allow California’s flawed program to dictate federal policy,” said EPA Administrator Andrew Wheeler. “It is critical that federal regulatory agencies like EPA relay to consumers accurate, scientific based information about risks that pesticides may pose to them. EPA’s notification to glyphosate registrants is an important step to ensuring the information shared with the public on a federal pesticide label is correct and not misleading.”



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Investment Commentary (cont)

COMPANY COMMENTARY

Vodafone made a startling recovery last quarter. The company had performed very poorly. It announced its intention to create and list a company that will own a network of their mobile phone masts. Tower companies, the technical name for mobile mast companies, are attractive infrastructure assets, and analysts suggested that the Vodafone company might be worth \$20bn. Vodafone was valued at c. \$43bn at the time.

Fondul Proprietatea, the investment trust managed by Franklin Templeton that invests in Romania, held an investor day in Bucharest. The company discussed the strength of its principal investments in Hidroelectrica and OMV Petrom. These investments had recovered significantly since the shock of the tax changes announced with Ordinance 114 in December 2018. They are still lowly priced, considering their economic potential, because of political concerns, but the strength of their cash flow will provide a 7% dividend this year.

OUTLOOK

Value investors have performed poorly since 2008. GMO LLC wrote this quarter about their challenges as value investors comparing them to the Dotcom bubble. They have underperformed to a similar degree, but the poor performance has lasted ten years, not five as in the late 90's. The pressure on investors to sack managers after such a period is intense and, when combined with the persuasive arguments for passive investing, is leading to the demise of many value managers. The money removed from these managers is then invested passively. Verdard, a Boston based investment firm, analysed the portfolios of the largest passive managers in a recent letter. The flow of these funds favours the very largest companies in the US and comes from overseas and smaller companies.

I am encouraged. The passive selection of large capitalisation companies has not been a success over the long-run. The titans of one decade are rarely dominant ten years later, but while they are popular other companies are out of favour. The fund has held high levels of cash for the last few years. There are increasing opportunities to invest this, and since the quarter-end, this has begun.

I am also encouraged by a recent survey of investor relations professionals from Citigate Dewe Rogerson on the impacts of Mifid 2, recent legislation that alters how investment managers pay for investment research. The survey found that 52% of UK companies and 39% of Europe and companies reported less analyst coverage. The quality of analysis also fell according to 38% of UK companies and 20% of European companies. Sandra Novakov, of Citigate, commented: "The more pronounced decline in sell-side research in the UK means that high-quality, medium-sized and smaller companies face a very real risk of dropping off the radar of institutional investors." Interestingly the FCA in research published at the same time reported: 'research coverage of small and medium enterprises (SMEs) listed in the UK has not seen a material reduction to date'. I think the Citigate survey is more plausible and that the changes they mention should provide more opportunities for the fund.

Dominic Fisher

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