



Wise Investment

TB Wise Investment

Annual Short Report
For the year ended 28 February 2014

TB WISE INVESTMENT

INVESTMENT OBJECTIVE & POLICY

The investment objective of TB Wise Investment is to provide capital growth over the medium-to-long term in excess of deposit account returns and inflation. The Fund will invest in collective investment schemes, including unit trusts and open-ended investment companies, although other investments may also be held including investment trusts, money market instruments and deposits. The Fund will, from time to time, invest directly in UK listed shares if the investment manager feels that value can be added by doing so. The Fund will invest in the following assets: UK and overseas equities, fixed interest securities and cash.

FUND FACTS

Launch date: 1 April 2004

Ex-dividend dates: 1 September, 1 March

Dividend payment dates: 31 October, 30 April

Synthetic Risk and Reward Indicator Ranking¹: 5

Ongoing Charges Figures²

B Shares – 1.42% p.a.

A Shares – 2.07% p.a.

¹ As calculated in accordance with CESR guidelines. It is based on historical data and uses a scale of 1 to 7. The higher the rank the greater the potential reward but the greater the risk of losing money.

² To 28 February 2014. As calculated in accordance with CESR guidelines. The Ongoing Charge Figure ('OCF') includes annual management charges ('AMCs') and other operating expenses (Depositary's fee, audit fee etc). As the Fund invests in other funds, the weighted average costs of the underlying funds have also been taken into account.

OTHER INFORMATION

Following the end of the period, on April 22nd 2014, the daily pricing point for Wise Investment was changed to noon from 8am. The new time brings the fund into line with many other firms in the fund management industry.

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INVESTMENT REVIEW

Performance	Cumulative returns for the periods ended 28 February 2014 (%)		
	1 year	3 years	5 years
B Acc Shares	11.94	28.86	128.16
A Acc Shares	11.21	26.34	120.80
IMA Flexible Investment Sector Mean	6.75	16.70	79.82

Source: *Financial Express*. Total return, bid to bid.

Note: Past performance is not a reliable indicator of future results. Investors are reminded that the price of shares and the revenue derived from them is not guaranteed and may go down as well as up.

Overview

This report will discuss the fund's performance during the year ended 28 February 2014, and give a brief summary of the outlook for the coming year.

Owing to the time it takes to audit the data, you won't receive this report until almost four months after the period has ended. However, I hope you will find it both relevant and interesting.

Share classes

TB Wise Investment has two share classes, 'A' and 'B'. The shares are identical apart from the annual management charge. 'B' shares have a lower (1.0%) annual charge while 'A' shares, the former retail share class, charge 1.65%.

Wise Investment decided in 2011 to offer only the cheaper 'B' shares to our clients, and wherever possible, to convert existing 'A' shares to 'B' shares. We have moved a long way in this direction. At the end of the review period, 91% of the fund was in the lower-charging 'B' shares, compared to 74% a year ago, and 54% two years ago. Gradually, platforms are changing to offering 'clean' shares, and it is pleasing to note that our 'B' shares are now available on the Hargreaves Lansdown 'Vantage' platform. We hope that other platforms will follow suit, as the FCA is encouraging them to do. We would encourage holders of 'A' shares to switch to 'B' shares wherever possible, in order to reduce costs and boost your returns.

As the vast majority of our investors hold them, the fund performance quoted in this review will be that of TB Wise Investment's 'B' shares.

Performance

During the year, TB Wise Investment's quoted share price rose by 11.94%, comfortably beating the UK stock market, the IMA Flexible sector average, and cash deposits. The fund price rose from £1.9689 to £2.2040 during the year.

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The fund was 31st over the year, out of 131 funds in the IMA Flexible sector (source, Financial Express). Wise Investment has had three good years in the last four, and it is pleasing to note that performance compares well with the average fund in the sector over three and five years, as well as in the year under review.

During the year, the fund grew in size by almost 25% to £37.0m.

TB Wise Investment's portfolio today has a different flavour from a year ago. Shares have risen a long way since the summer of 2012, when ECB President, Mario Draghi, announced that the authorities would do "all that it takes" to save the Euro. Interest rates have remained at ultra-low levels, and there have been no significant new banking problems. Asset classes such as cash and fixed interest continue to look unattractive. Also, there is growing evidence of economic recovery, particularly in the UK. The result of all this better news has been an astonishing rise in asset prices, particularly in the Eurozone, and in smaller companies everywhere. Investment trusts have returned to fashion, and many which were languishing on double-digit discounts a year ago, are now trading at premiums.

I believe that there is still value to be had in shares, but there are less opportunities now and they are in different areas than a year ago. The changes we have made will become clearer in the analysis that follows, but the main difference is that today's TB Wise Investment is significantly more 'defensive' than it was a year ago, more concerned with preserving your capital, and for the time being, less concerned with increasing it.

Simplified portfolio analysis

The table on the following page gives an overview of TB Wise Investment's asset allocation as at 28 February 2014, compared to a year earlier.

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Shares

	TOTALS			
	28 Feb 2014	28 Feb 2013	28 Feb 2014	28 Feb 2013
<u>Shares</u>	%	%	%	%
<u>UK</u>				
Large	15.3	(12.2)		
Mid-cap	-	(1.9)		
Small	4.8	(10.6)	20.1	(24.7)
<u>International</u>				
General	19.0	(16.5)		
Far East & Emerging Markets	5.5	(0.0)		
Europe	0.9	(4.2)		
Japan	5.6	(5.8)		
US	2.9	(0.5)		
Specialist*	16.5	(18.4)	50.4	(45.8)
<u>Private Equity</u>			24.1	(20.2)
<u>Total Shares</u>			94.6	(90.7)
<u>Property</u>			2.0	(6.9)
<u>Cash</u>			3.4	(2.4)
			100.0%	100.0%

*Mining and resources, energy, alternative energy/energy conservation, insurance, technology, utilities.

The main reductions have been in areas that now look expensive – in particular Europe, and UK small and mid-cap shares. However, as smaller companies have become ever more fashionable, the shares of the largest companies look ever cheaper, and we have added to large-cap holdings in the UK and the US.

The recent sell-off in Asia, caused by concerns about the slowing economy in China and its overstretched banking system allowed us to return to the region in a modest way, through funds run by managers we respect.

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‘Open-ended’ and ‘closed-ended’ funds

TB Wise Investment owns both ‘open-ended’ and ‘closed-ended’ funds. Open-ended funds, generally known as ‘unit trusts’ or OEIC’s (Open-Ended Investment Companies) are so called because when you want to invest, you buy units from the fund administrator, who creates new ones to sell to you, and so the fund gets bigger.

Closed-ended funds, often known as ‘investment trusts’, work in a different way. There are only a certain limited number of shares in existence, and when you want to buy them, you must find an investor who is willing to sell to you, which can sometimes be difficult, and sometimes impossible.

In an open-ended fund, the price of each unit always reflects the value of the assets. Each day the fund administrator values the assets in the fund, and makes the unit price by dividing the fund’s total asset value by the number of units in the fund. With closed-end funds, the price is made by investors in the market, and the fund’s price can be above (at a premium to) or below (at a discount to) the asset value per share.

In some circumstances we prefer to buy unit trusts (open-ended), and in others we prefer investment trusts (closed-ended). The main factors are:

- Investment trust charges tend to be lower;
- We like buying investment trusts at discounts;
- There are certain sectors, such as private equity, which are only accessible through investment trusts;
- But many of the best fund managers only manage unit trusts;
- And unit trusts tend to be easier to buy and sell.

Ongoing Charges Figure (OCF)

The Ongoing Charges Figure (formerly known as the Total Expense Ratio or TER) is an accurate indication of the annual cost of running the fund. It includes the Annual Management Charge quoted above, plus incidentals such as audit fees, printing costs etc. The incidental charges are mostly fixed, so the OCF figure will tend to fall as a fund grows in size. The charges for the last four years are as shown below:

	28.02.14	28.02.13	29.02.12	28.02.11
‘B’ shares % p.a.	1.42	1.39	1.49	1.48

The slightly increased OCF this year reflects the higher proportion of the fund held in unit trusts, which tend to have higher annual charges.

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What TB Wise Investment holds

The number of individual funds held within TB Wise Investment has increased during the year from 35 to 41.

The table below shows the number of investment trusts and unit trusts held, and the proportion of the fund held in these two different forms. Last year's total is included for comparison.

The main change since last year is that a significantly higher proportion of the fund is held in the easier-to-sell unit trusts, reflecting our more cautious attitude to markets and the reduced value available across the investment trust sector.

This year, the fund has one direct shareholding, HSBC, compared to none a year ago. HSBC is safe, cheap, has a credible long-term strategy...and is very easy to sell.

As at 28/02/2014 (28/02/2013)

	Number of Funds held	% of TB Wise Investment
Unit trusts	18 (11)	33.3% (22.5%)
Investment trusts	22 (24)	62.2% (75.1%)
Direct shares	1 (-)	1.1% (-)
Cash		3.4% (2.4%)
	41 (35)	100.0% (100.0%)

Wise Investment's top ten holdings are shown in the table below, compared with the top ten from a year ago. The top ten is now less concentrated than it was, a reflection of the fund's more cautious stance.

Top Ten Holdings as at 28 February 2014 (%)	Top Ten Holdings as at 28 February 2013 (%)		
Caledonia	8.4	HG Capital	9.9
Graphite Enterprise	5.9	Thames River Property	6.9
HG Capital	4.8	Graphite Enterprise	5.3
British Empire Securities & General	4.3	Caledonia	5.0
Better Capital (2012)	4.1	British Empire Securities & General	4.9
Ecofin Water & Power Opportunities	3.9	RIT Capital	4.7
Investec UK Special Situations	3.9	Herald Technology	4.3
Herald Technology	3.8	Impax Environmental Markets	4.0
JO Hambro UK Opportunities	3.8	Marlborough Special Situations	4.0
Electra Private Equity	3.5	Ecofin Water & Power Opportunities	3.9
	46.4		52.9

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Top ten holdings - Performance

The top ten holdings together comprise almost half of Wise Investment's fund value. The funds' performance has shown a marked divergence over the year, as shown in the table below. Short explanatory notes follow:

Top Ten Holdings as at 28 February 2014 (%)	Performance % 01/03/14 to 28/02/14
Herald Technology	+26.9%
Graphite Enterprise	+26.1%
Electra Private Equity	+21.0%
Investec UK Special Situations	+15.8%
JO Hambro UK Opportunities	+15.3%
Caledonia	+10.1%
Ecofin Water & Power Opportunities	+8.8%
Better Capital (2012)	+0.1%
British Empire Securities and General	-5.0%
HG Capital	-6.7%

Our worst performer, **HG Capital**, is in the same sector, private equity, as two of the best-performing funds, **Graphite** and **Electra**. Valuations for the funds in the private equity sector have continued to recover from their very bombed-out levels of five years ago.

Private equity funds invest in companies which they believe are capable of rapid growth. Private equity investors provide their investee companies with cash and various forms of expertise, including sometimes a change of management. When the expected growth has been attained, private equity funds sell the companies on, or 'realise their value', usually by selling them to another company in the same sector, for example, selling a care home operator to another care home operator (a trade sale), listing them on the stock market, (an Initial Public Offering, or IPO) or selling to another private equity company with experience of investing in larger companies.

Recently, the managers of our private equity funds have been telling us that the selling prices for companies are on the high side. It is easier to sell well than buy well, but Graphite in particular tell us that it is still possible to buy well if you are patient and know where to look.

HG Capital has had a bad year, for several reasons. One is that many of their holdings are in continental Europe, and the strengthening of the pound against the Euro has held back valuations. Weaker government spending has affected their holdings in the healthcare sector. There have been a few trading issues in specific companies. There is also an accounting issue. In the early stages of an investment, money is spent on developing a business – new software, a stronger salesforce, or laying the groundwork for international expansion. These costs lower profits in the short term, and

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the companies are valued on a multiple of profits. So, investing in companies for growth tends to lower their valuations in the early stages. This has been an issue for HG, who have a relatively 'immature' portfolio.

Finally, HG Capital, for many years acknowledged to be the best trust in the private equity sector, and priced as such, has fallen over the last year to a less demanding rating, as a result of the issues mentioned above.

Wise Investment reduced its holding in HG substantially over the summer, and managed to avoid the worst of the share price falls, rebuilding the holding more recently. The company is working hard to rebuild its reputation.

We have noticed over the last couple of years a tendency for the market to punish severely any share in which high hopes have been disappointed, and we believe that HG Capital is to some extent a victim of this tendency.

Herald Trust invests in small companies, mainly in the UK, with a bias towards technology. Its fund manager, Katie Potts, has undoubted flair and long experience. The area is one which we have become a little wary of, but our knowledge of the manager, together with the trust's discount, still a healthy 16%, give us confidence that there are more gains ahead.

The holding of **Investec UK Special Situations**, together with **JOHCM UK Opportunities**, and another fund, **Jupiter UK Special Situations**, reflect our view that the best value in the UK stock market is in the largest companies. The managers share a cautious approach to valuations, and hold significant levels of cash. These are funds which look capable of outperforming a falling market, but pleasingly, they have also managed to beat a rising market in the year just ended.

Caledonia Trust was formerly the private office of a wealthy ship-owning family called the Cayzers. It became an investment trust in 2005, but the Cayzer family retains a 47% holding in the fund, which has a total value of a little over £1 billion. Caledonia has a long-established reputation for being a long-term and supportive investor, and sits on the board of most of its investee companies, some of which have been held in the trust for decades. We are wholly in favour of this patient, supportive approach. Analysts continue to dislike Caledonia, partly because of the family holding, and partly because of the somewhat eclectic nature of the investments, which doesn't trouble us, as they are for the most part excellent. Caledonia continues to trade on a lowly 20% discount, and appears to us to stand out for its combination of quality and value. Caledonia Trust recently sold a privately-owned insurance broking company (Oval) for a profit of £23m.

Ecofin Water and Power Opportunities Trust

Ecofin is another trust which is disliked by investors, and offers conspicuous value, in our view. The fund invests in the utility sector, where it prefers unregulated to regulated companies, and in energy, both conventional and alternative.

The City dislikes the utilities sector, Ecofin's capital structure, which is due to be simplified in 2016, and its holding in a company called Lonestar. Lonestar, which is 15% of Ecofin's portfolio, owns gas and oil deposits in the Eagle Ford field, Texas, and is a company that Ecofin built up from scratch.

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Lonestar has a very able Chief Executive, has bought its assets shrewdly, and is in the process of going into full production. Lonestar's share price has been rising rapidly over the last few weeks, and Ecofin's share price has risen by around 20% since the middle of February. But the discount is still over 20%, and the fund is still very cheap. We have been patient with this fund over a long period. Our patience is finally being rewarded.

Better Capital 2012 is a private equity trust headed by the well-known venture capitalist Jon Moulton. It owns three companies – Jaeger, City Link and Everest (double-glazing). All three companies had got into financial and operational difficulties, have been rescued and turned around, and all are now performing well. However, the company raised new funds last summer, and has as yet been unable to find suitable companies to invest in at sensible prices – a fact which it attributes to the banks' tendency to keep failing (or as it likes to call them, 'zombie') companies on life-support, so as not to have to take the losses into their accounts. Better Capital's valuation will no doubt recover when the improvements to its existing holdings are fully priced in, and when the fund puts some of its newer cash to work. We expect both of these things to happen during the course of this year.

British Empire Securities is another long-term holding for Wise Investment. It aims to invest in companies whose prices are lower than the sum total of their assets – in other words, ones which would be worth more if they were broken up. This style of investing has not been rewarded in recent years, and the managers made things worse by investing a small part of their portfolio in gold shares, at a time when the price of gold was just about to start falling. As a result, the trust's discount has widened to 14% - meaning that investors buying the fund today pay a 14% discount for assets which are already on average 25% below their break-up value. There are early signs that things are beginning to improve, and although there may be no obvious catalyst, I expect the year ahead to be a good one for British Empire.

Overall, I believe that there is enough value in TB Wise Investment's portfolio to give a worthwhile return over the year ahead.

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Sector Review

Sector	Asset allocation as at 28 February 2014 (%)	Asset allocation as at 28 February 2013 (%)
Private Equity	24.0	20.2
International	19.0	16.5
UK Growth	14.3	12.2
Japan	5.6	5.8
UK Smaller Companies	4.8	10.6
Specialist - Technology	4.5	6.8
Specialist - Utilities	3.9	3.9
Asia	3.5	-
Cash and other	3.4	2.4
Specialist – Energy	3.2	-
Specialist – Alternative Energy	2.9	4.5
USA	2.9	0.5
Property	2.0	6.9
Emerging Markets	2.0	0.4
Mining and Resources	1.3	1.2
UK Mega-Caps	1.1	-
Europe	0.9	4.2
Specialist - Financial	0.7	2.0
UK Mid Cap	-	1.9
Total	100.0	100.0

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Summary

This year's performance has been acceptable, but a little patchy. Investors seem prepared to pay any price for fashionable assets, and to avoid unfashionable ones irrespective of price. This tendency offers us an opportunity to acquire the unfashionable assets at very undemanding prices, which has allowed us to maintain a portfolio of high-quality assets which continue to offer attractive value.

Our aim is to grow your wealth over the longer term, by investing in high quality, durable assets. We believe that we think most clearly when we are thinking over the longer term, and tend to see the shorter-term market moves in terms of the opportunities they present.

I continue to hold a substantial portion of my personal wealth, including my whole pension fund, in TB Wise Investment. I make the same returns, and pay the same charges, as you do. I continue to believe that the most rewarding investments are the ones we make in enterprises managed by talented and dedicated people, who we come to know and admire, but the gains we make aren't linear. Good people produce good numbers, rather than the other way around. I take comfort from reflecting on the many excellent people, fund managers and company managers, which TB Wise Investment employs. These people are working for you and me.

Change in Valuation Point

Following the end of the period, on April 22nd, the daily pricing point for all four funds in the OEIC was changed to noon from 8am. The new time brings the funds into line with many other firms in the fund management industry.



Tony Yarrow
Fund Manager

12 June 2014

Awards

TB Wise Investment was nominated in February for Fund of the Year in the IMA Flexible sector at the Professional Adviser awards – an award which was won by TB Wise Income.

At the year-end, TB Wise Investment had a five-star rating from Financial Express (out of a possible five).

I would like to thank you for your continued support of the fund, which is much appreciated, and for reading this report.

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PERFORMANCE

Share Prices and Revenue

Calendar year	B Accumulation shares			A Accumulation shares		
	Highest price (pence)	Lowest price (pence)	Net revenue accumulated per share (pence)	Highest price (pence)	Lowest price (pence)	Net revenue accumulated per share (pence)
2009	141.21	90.53	1.4297	136.11	87.59	0.7163
2010	169.72	134.59	0.3752	162.30	129.46	-
2011	180.51	148.64	0.7787	172.04	141.24	-
2012	178.76	151.59	1.2287	168.71	144.01	0.0608
2013	219.84	178.70	1.3845	206.13	168.65	0.0154
2014 ¹	224.21	214.58	0.1601	210.14	201.07	-

¹ Prices to 28 February and net revenue to 30 April.

Dividend accumulations for the year ended 28 February 2014 (pence per share)

Share Class	Period Ended	
	31 August 2013 (pence per share)	28 February 2014 (pence per share)
B Accumulation	0.7875	0.1601
A Accumulation	0.0799	-

Net Asset Values

Date	B Accumulation shares			A Accumulation shares		
	Total shares in issue	NAV per share (pence)	NAV (£)	Total shares in issue	NAV per share (pence)	NAV (£)
29 Feb 2012	8,493,353	166.49	14,140,747	7,201,993	158.00	11,378,816
28 Feb 2013	11,366,834	197.45	22,443,947	3,893,304	186.15	7,247,338
28 Feb 2014	15,263,231	221.10	33,747,756	1,573,576	207.08	3,258,596

Note: Past performance is not a reliable indicator of future results. Investors are reminded that the price of shares and the revenue derived from them is not guaranteed and may go down as well as up.

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RISK PROFILE

Please remember that both the price of shares and the revenue derived from them may go down as well as up and that you may not get back the amount originally invested. Furthermore, changes in foreign currency exchange rates may cause the value of your investment to increase or diminish. Capital appreciation in the early years will be adversely affected by the impact of initial charges (A class shares only), which by their nature are not levied uniformly throughout the life of the investment. You should, therefore, regard your investment as medium to long term. Past performance is not a reliable indicator of future results.

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OTHER INFORMATION

The Company

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Authorised and regulated by the Financial Conduct Authority.

Further information regarding the activities and performance of the Fund for this and previous periods is available on request from the ACD as are copies of the Annual and Interim Report and Financial Statements.

Depository

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Authorised and regulated by the Financial Conduct Authority and by the Prudential Regulation Authority.

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Registered to carry out audit work by the Institute of Chartered Accountants in England and Wales.

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