



Wise Investment

**TB Wise Income**

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**INTERIM SHORT REPORT**

**For the six month period ended 31 August 2013**

# TB WISE INCOME

## INVESTMENT OBJECTIVE & POLICY

The investment objective of TB Wise Income is to provide a starting yield roughly equivalent to a good building society account with the potential for income growth and capital growth from a diversified portfolio of collective investment schemes including unit trusts and open-ended investment companies, equities including investment trusts, bonds, government securities, money market instruments and cash. There will be no restriction on allocations between asset classes or geographic regions.

## FUND FACTS

**Launch date:** 3 October 2005

**Ex-dividend dates:** 1 June, 1 September, 1 December, 1 March

**Dividend payment dates:** 31 July, 31 October, 31 January, 30 April

**Synthetic Risk and Reward Indicator Ranking<sup>1</sup>:** 5

**Ongoing Charges Figures<sup>2</sup>**

A Shares – 2.01% p.a.

B Shares – 1.36% p.a.

<sup>1</sup> As calculated in accordance with the 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.

<sup>2</sup> To 31 August 2013. As calculated in accordance with the CESR guidelines. The Ongoing Charge Figure ('OCF') includes annual management charges ('AMCs') and other operating expenses (Depository'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. .

## INVESTMENT REVIEW

Performance	Cumulative returns for the periods ended 31 August 2013 (%)			
	6 months	1 year	3 years	5 years
A Shares <sup>1</sup>	8.89	23.49	44.28	50.71
B Shares <sup>1</sup>	9.24	24.29	47.12	55.70
IMA Flexible Investment Sector Mean	1.55	13.57	27.23	27.30

<sup>1</sup> Performance based on income shares.

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.

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## Introduction & Overview

This report will discuss the fund's performance during the six months ended August 31st, 2013, and give a brief summary of the outlook for the coming months.

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

## Fund size and shape

During the period, TB Wise Income grew in size by 12.6% from £26.40m to £29.72m. The growth came from a combination of rising values in the assets we hold, and a steady stream of new investment.

At its present size, TB Wise Income produces around £1.5m a year in dividend income, and pays out around 70% of that income, or around £1.05m. The other 30% is in accumulation units, where dividends are re-invested.

TB Wise Income has two asset classes: retail, or 'A' shares, with an annual management fee of up to 1.65%, and institutional, or 'B' shares, with an annual management fee of up to 1.0%. Our company policy is to offer all our clients the cheaper 'B' shares. New clients automatically receive 'B' shares, and existing holdings of 'A' shares have been or are being converted. During the period, the proportion of 'B' shares in the fund continued to rise, from 86.2% to 89.6%. As the 'B Income' shares are the majority share class, discussion of performance in this report will refer to 'B Income' shares.

We note a small, steady inflow of money into the funds through external platforms such as Skandia and Hargreaves Lansdown. We welcome these inflows and regret that only the more expensive 'A' shares are available through these channels.

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## Performance

During the review period, TB Wise Income produced an overall return of 9.24%. The total return is capital gain or loss, plus income received, less charges. The average fund in the sector produced a return of 1.55%.

During the half-year, TB Wise Income was the top-performing fund out of the 135 funds in the IMA Flexible sector (source, Financial Express).

Unfashionable assets tend to have low prices and high dividend yields. A fund such as this one, which aspires to pay a relatively high level of dividend income, will therefore tend to invest in unfashionable assets. This was a period during which investor sentiment underwent a significant change, from a view that “we’re mired in an endless recession” to an anticipation of economic recovery which has subsequently been confirmed by numbers recently announced. The effect on Wise Income’s UK smaller companies (7.8% of the fund), construction shares (10.3%) and commercial property (shown as 21.9% in the summary, but actually 24.5% including Londonmetric, a property company) has been surprising. Some of these gains look excessive, and have led to a change in the portfolio emphasis, discussed in more detail below.

## What TB Wise Income does

The fund aims to provide income from a wide variety of sources, which can include fixed-interest securities, shares and commercial property, both in the UK and overseas. Wise Income is listed in the Investment Management Association (IMA)’s Flexible sector, which places no restriction on asset allocation, leaving the fund manager free to invest as much or as little as appropriate in each of the available asset classes and geographies.

TB Wise Income can be seen as a “one-stop-shop” for investors looking for a higher level of income from a diversified portfolio of assets.

## Where does the fund invest, and how has the allocation changed over the year?

The table below is a simplified version of the asset allocation.

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	31/08/13	Total	28/02/13	Total
<b>Shares</b>	(%)			(%)
UK	45.1		46.4	
Overseas	20.5	65.6	19.1	65.5
<b>Property</b>				
UK	21.9		21.2	
Overseas	0.0	21.9	0.0	21.2
<b>Fixed Interest</b>				
<b>UK</b>				
Government Stock	0.0		0.0	
Corporate Bonds	10.3		9.5	
<b>Overseas</b>				
Government Stock	0.0		0.0	
Corporate Bonds	0.0	10.3	1.3	10.8
<b>Cash</b>		2.2		2.5
<b>Total</b>		100.0		100.0

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The allocation split has changed little over the last six months. However, the powerful moves in the market which have given the fund its performance have caused us to take profits and redeploy capital into other areas. The bulk of these changes are taking place after the review period ended. A summary of the different sectors in which we invest follows:

## Shares

The dominant theme in the stock market in 2013 has been a growing sense of economic recovery, and a changing emphasis away from “defensive” companies which don’t depend on the economic cycle for growth, towards companies which could perform strongly in a period of recovery or expansion. In-form sectors have included retail, house-builders, construction and financials.

### The construction sector

In the year-end report I explained the reasoning behind the fund’s large holding in construction shares, which at the time were announcing weak results, and were generally unloved by investors. I felt that if the economy picked up, construction companies would benefit, and that if it didn’t, the government would introduce stimulus measures including infrastructure projects as a way of generating employment and growth. I felt that construction companies’ prospects would improve in either case. However, I could hardly have foretold the dramatic re-rating that has taken place. During the period Wise Income’s construction-related shares performed as follows: (*Source: Financial Express*)

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W.S. Atkins	+38.6%
Balfour Beatty	-10.67%
Henry Boot	+22.4%
Kier	+16.7%
Morgan Sindall	+28.8%

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WS Atkins is a design company, and it is listed under “support services”, but is very closely linked to the construction cycle.

Balfour Beatty’s shares continued falling until May 2nd, but then rose 18.7% by the end of August. All the shares have continued rising strongly in September. In response to these big gains, the fund has sold out of Atkins and Morgan Sindall, and slightly reduced Kier. For us, the question isn’t whether conditions are improving for the construction sector – they clearly are – but how far those improvements have been factored into the higher prices.

However, as one door closes, another often opens. In the search for the shares of companies exposed to the economic recovery, market sentiment has tended to overlook some of the largest companies – those whose balance sheets are strong, with high and growing dividends – ideal holdings for TB Wise Income.

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## Property

The UK commercial property market has undergone a dramatic change in sentiment this year. At the beginning of the year, central London continued to receive large inflows from overseas into the most expensive 'trophy' assets. Outside the M25, rents continued to drift down, with values falling in tandem.

Between May and August, in just a few weeks, investor sentiment turned around. All the property unit trust managers we talk to have reported inflows picking up sharply – one manager told us that their fund had taken £55m of new money in the month of August alone, and as this new cash needs to be invested it is only a matter of time before valuations in the regional markets respond.

The total returns made by the three direct property funds TB Wise Income holds, all investment trusts, were as follows during the review period:

Standard Life Property	+14.4%
Picton Property	+26.3%
F & C U.K. REIT	+23.3%

These returns could hardly have been anticipated as recently as six months ago.

The prices of the trusts have shot ahead, outstripping the values of the properties they hold. As an example, as at 25<sup>th</sup> September 2013 Standard Life Property had, a share price of 69p, a quoted net asset value of 58.3p, and pays a total of 4.532p in dividends each year. At 25<sup>th</sup> September price, the trust is at a premium of 18.3% to its net asset value (property values plus cash less borrowings). Wise Investment, as a value investor, would normally avoid owning trusts which trade at a premium to their net asset value, never mind an 18.3% premium. However, the circumstances are unusual, in my view, making the fund a 'hold' rather than a 'sell'. The net asset value, dated the end of June, doesn't reflect the rapid increase in institutional investment interest in properties in the regions. We are now at the stage in the cycle where gearing (using debt in order to be able to own more properties) is beneficial. The net asset value for the end of September, due to be announced around October 20th, could be substantially higher than June's, and could be the start of a strong upwards trend. In other words, we are at a point where the fund could 'grow into its valuation' quite quickly.

Also, we bought Standard Life Property for income. At the price and yield, as at 25<sup>th</sup> September 2013, the share pays 6.56% p.a., which is still attractive. We know that the dividend will rise, because the company has told us so. At the start of 2014, the cost of the fund's debt will fall from 6.38% to 3.76%, and the resulting savings will be distributed. Assuming (I hope conservatively) a 5% increase in the dividend, Standard Life Property's yield becomes 6.9%. Having held the fund through the grimmest of downturns, it seems premature to sell at the first sign of improvement. We remain comfortable holders of this fund, and of the other property funds in the portfolio.

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## Fixed Interest

The major event during the period was the announcement by Federal Reserve chairman, Ben Bernanke, that the Fed was planning to reduce or ‘taper’ its purchases of mortgage-backed securities and other fixed-interest under the QE3 programme. This statement could have been received by investors as positive evidence that the US economy was growing, and could soon be healthy enough to require a lower level of stimulus. Instead, it was seen as a major threat to the fixed interest markets, and all sectors of the fixed-interest market fell sharply, from government stock, to the high-yielding company bonds that Wise Income holds. The market “correction” took the yields on our holdings back up to attractive levels, and they have been added to.

Following the re-rating of property, fixed interest is the highest-yielding section of Wise Income’s portfolio.

## Dividends and Yield

TB Wise Income declared a dividend of 1.1725p (B Income Shares) on September 1st, which will be paid to investors at the end of October. The last four dividend payments, including this one, come to 5.1126p. Based on the fund’s price on September 2nd, the historic yield was therefore 5.17%.

## Seasonality

TB Wise Income pays four dividends in a year. They are unequal, and the pattern tends to repeat itself from one year to the next. The seasonal pattern is caused by the fact that most companies pay their final dividends in the early summer. Based on the last year’s dividends, the percentage share of the year’s payments per quarter are as follows:

PAY DATE	% OF ANNUAL PAYMENT
31st January	24.8%
30th April	20.0%
31st July	32.2%
31st October	23.0%

The payment dates may vary slightly.



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## **Yield**

When talking about a fund's yield at any given moment, we normally divide the total dividends paid in the last year by today's share price.

However, in practice, different investors experience yield in different ways. For example, investor 'A' might buy an asset which pays 4p a year in dividends, for a price of £1.00. A year later, investor 'B' buys the same asset. During the year, the dividend payment has increased to 5p, and the price has doubled to £2.00. Investor 'A' is happy. He bought the asset on a yield of 4.0% (4p divided by £1.00). Based on his cost price, the yield is now 5.0% (5p divided by £1.00), and he has also made a 100% capital gain. For Investor 'B', the yield is 2.5%, the dividend payment divided by the current price, which is the yield we quote. Despite the income payment going up, the quoted yield has fallen, because the price has gone up at a faster rate than the income payment. For Investor 'A', the yield based on today's price, which he didn't pay, is not a particularly relevant number. The same is true of the fund. For example, had you bought Wise Income's income shares on the first trading day of last year, January 3rd, the income you received in the last year would have been 6.45%, based on your cost price.

## **Dividend Prospects**

Wise Income experienced some income setbacks early this year, with dividend cuts at Aviva, Morgan Sindall, RSA Insurance, and ISIS Property. Today's prospects look better, with only a couple of small holdings where dividend cuts look possible, and several large holdings where dividend rises look a near-certainty.

Changes made to the fund after the period end have been to take profits on lower-yielding holdings and replace them with higher-yielding ones. Based on these changes, we believe that Wise Income's forecast yield, i.e. the yield a new investor can expect, is around 5.25%. In the year ahead, barring unforeseen calamities, I expect dividend increases in the fund to exceed cuts.

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Sector	Asset allocation as at 31 August 2013 (%)	Asset allocation as at 28 February 2013 (%)
Asia	3.7	3.0
Emerging Markets	2.4	2.5
Europe	2.3	4.6
International	4.9	5.6
Overseas Fixed Interest	-	1.3
Private Equity	3.3	2.9
Property	21.9	21.4
Specialist - Resources	1.9	-
Specialist - Utilities	2.0	2.4
UK Corporate Bonds	10.3	9.6
UK Equity Income - Investment Trusts	1.7	4.9
UK Equity Income - Shares	28.3	25.6
UK Equity Income - Unit Trusts	7.3	6.4
UK Smaller Companies	7.8	8.0
Cash and other	2.2	1.8
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

## Summary

The fund has had a strong half-year, as a result of a change in sentiment in the market, as investors anticipate economic recovery.

Changes to the portfolio during the period have been relatively minor, but following the period end we have undertaken a more thorough review, aiming to replace fully valued assets with cheaper, higher-yielding ones.

We are now more cautious on the prospects for markets than for the last couple of years, and the portfolio is being modified to reflect our view.



The fund's forecast dividend yield remains attractive at around 5.25% on our most up-to-date price and income data. We believe that this level of income should be at least maintained in the year ahead.

**Tony Yarrow**  
**Fund Manager**

**18 October 2013**

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## TOP TEN HOLDINGS

Top Ten Holdings as at 31 August 2013 (%)		Top Ten Holdings as at 28 February 2013 (%)	
Standard Life Property	8.9	Standard Life Property	7.3
F&C UK Real Estate	7.5	Isis Property	7.2
Small Companies Dividend Trust	4.8	Small Companies Dividend Trust	4.6
Newton Asian Income	3.7	GlaxoSmithKline	3.5
Princess Private Equity	3.3	Picton Property Income	3.5
Newton Global Higher Income	3.3	Henderson High Income	3.4
JO Hambro UK Equity Income	3.3	JO Hambro UK Equity Income	3.4
Balfour Beatty	3.2	Rights & Issues	3.4
Picton Property Income	3.1	Thames River Property	3.4
Royal London Sterling Extra Yield Bond	3.0	Legal & General	3.3

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## PERFORMANCE

### Share Prices and Revenue

Calendar year	B Income shares			A Income shares		
	Highest price (pence)	Lowest price (pence)	Net revenue distributed per share (pence)	Highest price (pence)	Lowest price (pence)	Net revenue distributed per share (pence)
2008	102.88	63.96	5.5368	101.81	62.96	5.4748
2009	83.21	54.86	4.1093	81.34	53.87	4.0347
2010	89.41	76.93	4.8285	86.76	74.89	4.7192
2011	94.54	77.38	5.2015	91.52	74.60	5.0506
2012	89.09	79.08	4.9926	85.31	76.01	4.8110
2013 <sup>1</sup>	101.96	88.61	5.1126	97.22	84.84	4.8987

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)
2008	111.96	73.24	6.0902	110.34	71.79	5.9909
2009	101.66	63.57	5.7901	98.89	62.17	5.4424
2010	116.50	96.88	5.9946	112.59	94.00	5.8211
2011	124.65	106.50	6.8461	120.13	102.42	6.6194
2012	131.13	109.73	6.9774	125.09	105.36	6.6916
2013 <sup>1</sup>	154.24	130.43	7.5510	146.52	124.41	7.2181

<sup>1</sup> Prices to 31 August and net revenue to 31 October.

*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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## Dividend distributions/accumulations for the six months ended 31 August 2013 (pence per unit)

Share Class	Quarter Ended	
	31 May 2013 (pence per unit)	31 August 2013 (pence per unit)
B Income	1.6477	1.1725
A Income	1.5747	1.1194
B Accumulation	2.4509	1.7740
A Accumulation	2.3334	1.6864

## Net Asset Values

B Income shares				A Income shares		
Date	Total shares in issue	NAV per share (pence)	NAV (£)	Total shares in issue	NAV per share (pence)	NAV (£)
28 Feb 2011	5,725,963	91.01	5,210,961	8,029,214	88.21	7,082,957
29 Feb 2012	12,591,208	85.59	10,776,477	5,474,491	82.40	4,511,171
28 Feb 2013	17,431,161	93.99	16,382,763	2,416,881	89.88	2,172,184
31 Aug 2013	19,713,128	98.83	19,482,455	1,779,443	94.20	1,676,271

B Accumulation shares				A Accumulation shares		
Date	Total shares in issue	NAV per share (pence)	NAV (£)	Total shares in issue	NAV per share (pence)	NAV (£)
28 Feb 2011	1,241,680	119.94	1,489,235	1,897,843	115.79	2,197,524
29 Feb 2012	1,601,164	119.98	1,921,038	1,790,080	115.08	2,059,982
28 Feb 2013	4,562,646	139.80	6,378,668	1,098,139	133.21	1,462,806
31 Aug 2013	4,719,084	151.28	7,139,194	991,299	143.67	1,424,207

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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

TB Wise Investment Funds  
64 St. James's Street  
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### ACD

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Authorised and regulated by the Financial Conduct Authority.

### Investment Manager

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Website: [www.wiseinvestment.co.uk](http://www.wiseinvestment.co.uk)

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

National Westminster Bank Plc  
135 Bishopsgate  
London EC2M 2UR

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

### Auditors

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

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