Wise Investment

# TB Wise Strategic

## Interim Short Report

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

# TB WISE STRATEGIC

## INVESTMENT OBJECTIVE & POLICY

The investment objective of TB Wise Strategic is to provide capital growth over the medium-to-long term in excess of deposit account returns and inflation by investing in collective investment schemes although other investments may also be held including money market instruments and deposits. These will include funds investing in 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 Ranking[1]:** 5
**Ongoing Charges Figures[2]**

A Shares – 2.82% p.a.

B Shares – 2.17% p.a.

[1] *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.*

[2] *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 (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.*

## INVESTMENT REVIEW

| Performance | Cumulative returns for the periods ended 31 August 2013 (%) | | | |
|---|---|---|---|---|
| | 6 months | 1 year | 3 years | 5 years |
| A Shares | 4.27 | 17.66 | 32.07 | 38.04 |
| B Shares | 4.62 | 18.43 | 34.70 | 42.64 |
| IMA Flexible Investment Sector Mean | 1.55 | 13.57 | 27.23 | 27.30 |

*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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The fund has produced a respectable return over the period. It has been a period of uncertainty with every piece of economic data being scrutinised for an indication of when the US Federal Reserve will start to reduce its very easy monetary policy. As a result every time that official data such as unemployment, payroll, economic growth or manufacturing is released the markets take a view beforehand and position themselves accordingly. They listen to every word that central bankers utter, trying to get a feeling for how they are likely to proceed with policy. The data itself when released is initially only an estimate and is usually later revised up or down, sometimes by a significant margin. The result of this is greater market volatility, not just for equities but also for interest rates and currencies.

In running the fund I have taken a longer term view and have tried to avoid the short term market 'noise'. Having looked back at history and in particularly previous banking crisis, it is obvious to me that these take much longer than normal recessions to return to some sort of normality. It seems certain that central bankers, particularly in the US, are not going to risk returning the economy back into a recession through any mistake as a result of their actions. As a result I am much more relaxed about the level of interest rates which I do not expect to rise for a significant time. After the 1929 Financial Crisis the Bank of England left rates at 2% for more than 19 years, apart from 2 months when they raised rates and then had to put them back down again immediately. We are only about 4 years into a similar period of financial recovery but at least this time it looks like lessons have been learnt from the past so it may not take quite as long.

The fund is therefore positioned to benefit from a very slow recovery where interest rates remain lower for longer. In this scenario, equities, particularly those paying dividends, look most attractive.  Whilst they will not admit it, the current situation where the interest rates on Government Debt are lower than inflation is helpful to the long term solution of how to reduce the Debt burden. Twenty years of 3% inflation will reduce the real value of the debt by a half.

As a result of the above thinking the fund has been invested mainly in equities with very little exposure to Fixed Interest funds. What exposure there has been to Fixed Interest funds has generally been to higher yielding, non-government debt. This has been the right strategy to follow. Within the different asset classes it has been important to allocate to the right sectors and there have been some significant differences in returns from regions and sectors. Overall though, the fund has been well positioned so that it has achieved a top quartile return over the period.

When sector performance is compared, the best returns were achieved from investing in Developed Market Equities. Poor returns were achieved from Asian and Emerging Market equities as well as Global Bonds, Gilts and Index linked funds.

Of the fund's major holdings Cazenove UK Opportunities continues to be its largest holding. This is an actively managed fund that tries to follow the business cycle. Over the period it rose 14.04% compared to 7.34% for the average UK Equity fund. Overall approximately a quarter of the fund was invested in UK Equity funds at the end of the period (Source: Financial Express).

The fund's second largest holding was M&G Global Dividend. This fund had a slightly disappointing performance but still has achieved excellent longer term returns. Over the period it rose 2.55% compared to the average Global Equity fund return of 3.16% (Source: Financial Express). Approximately 10% of the fund was invested in Global Growth funds at the end of the period.

Standard Life Global Absolute Return Strategies has become the fund's third largest holding as profits were taken from some equity holdings and reinvested in this lower risk strategy. The fund aims to achieve a return of 5% pa above LIBOR over a 3-year period and has done so to date. Over the period covered the performance was a little disappointing but it is being held primarily as a safer alternative to equities and when compared to other perceived safe havens did not lose any large amounts which cannot be said for some Fixed Interest funds.

Jupiter International Financials produced a return of 3.51% compared to a loss of 5.89% for the IMA Specialist sector (Source: Financial Express). Financials is a strong theme in the fund with 8.4% of the fund in this sector. As the Financial crisis gradually unwinds there is potential for a large recovery in this sector which is why the fund is overweight Financials. Equally the fund is underweight Basic Materials, especially miners who are struggling as commodity prices have fallen whilst costs continue to rise.

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The fund's exposure to Emerging markets is now almost exclusively though First State Emerging Market Leaders which is a high quality fund. Despite this it still fell 6.88% during the period but this must be taken in the context that the average Emerging Markets fund lost 12.55% (Source: Financial Express). Whilst I think the days of stratospheric returns from Emerging Markets may be over, they will still lead the worlds' growth and this gives a stock picking fund like this great opportunity.

Japan is one of the biggest overweight positions. Holdings in both Polar Capital Japan and Martin Currie Japan Alpha are hedged as the gains in the Japanese market are partly as a result of the currency weakening which makes exports more competitive. Not wanting to lose all the stock market profit on falling currency, hedging is an important strategy. The Polar Capital fund returned 14.89% over the period compared to the sector average of 6.25% (Source: Financial Express) illustrating the benefit of this strategy. In total 11.5% of the fund was invested in Japan at the end of the period.

The fund's other major equity exposure was to North America. 11.8% of the fund was invested in this sector at the end of the period. This sector is performing strongly as the US economy recovers and also because the US is home to a lot of the worlds' biggest international companies. During the period I increased exposure with the purchase of the Schroder GAIA Sirios fund which as part of its objective tries to limit drawdowns and volatility.

Other smaller holdings that performed well include the Axa Framlington Health fund, up 9.8% and GLG Technology 5.62% (Source: Financial Express).

The fund's lack of exposure to Global Bonds (down 5.42%), Index Linked (down 2.6%) and Gilts (down 2.7%) helped the fund outperform its benchmark. Minimal exposure to miners, especially Gold miners, also helped.  The price of Gold fell from $1,588 to $1,394 over the six months.

# TB WISE STRATEGIC

| Sector | Asset allocation as at 31 August 2013 (%) | Asset allocation as at 28 February 2013 (%) |
|---|---|---|
| Absolute Return | 5.4 | 3.1 |
| Emerging Markets | 4.8 | 6.6 |
| Europe | 3.7 | 3.6 |
| Far East (ex. Japan) | 4.2 | 6.0 |
| Global Bond | 7.0 | 3.3 |
| Global Growth | 9.9 | 12.8 |
| Healthcare | 1.6 | 1.5 |
| Japan | 11.5 | 8.6 |
| North America | 11.8 | 12.6 |
| Specialist - Financial | 5.7 | 5.7 |
| Specialist - Mining | 2.0 | 2.2 |
| Specialist – Technology | 3.2 | 3.1 |
| UK Bonds | 3.3 | 3.3 |
| UK Equity Income | 2.0 | 1.8 |
| UK Growth | 17.1 | 18.8 |
| UK Smaller Companies | 5.8 | 5.3 |
| Cash and Other | 1.0 | 1.7 |
| **Total** | **100.0** | **100.0** |

### Outlook

At the time of writing I have made no changes to the strategy and the fund continues to outperform its benchmark. I will of course continue to monitor the situation closely and will not become complacent. Whilst I expect further gains from equities I will take profits on any significant rises looking to reinvest on any corrections that will inevitably occur from time to time. Overall though I continue to expect the fund to remain heavily invested in equities with other assets used in general to reduce risk in times when values look temporarily stretched.

**David Stephenson**
**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 (%) | |
|---|---|---|---|
| Cazenove UK Opportunities | 8.5 | Cazenove UK Opportunities | 7.5 |
| M&G Global Dividend | 6.4 | M&G Global Dividend | 6.3 |
| Standard Life Global Absolute Return | 5.4 | Jupiter International Financials | 4.9 |
| Jupiter International Financials | 4.9 | Polar Capital Japan Hedged | 4.3 |
| First State Global Emerging Market Leaders | 4.8 | JPM US Equity Income | 4.1 |
| Polar Capital Japan Hedged | 4.8 | Standard Life UK Smaller Companies | 4.0 |
| Standard Life UK Smaller Companies | 4.4 | JPM Global Consumer Trends | 4.0 |
| JPM US Equity Income | 4.3 | AXA Framlington American Growth | 3.6 |
| Schroder US Mid Cap | 3.8 | Blackrock European Dynamic | 3.6 |
| Martin Currie Japan Alpha | 3.8 | Liontrust Special Situations | 3.6 |

## PERFORMANCE

### Share Prices and Revenue

| | B Accumulation shares | | | A Accumulation shares | | |
|---|---|---|---|---|---|---|
| Calendar year | 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 | 150.64 | 99.42 | - | 146.98 | 96.45 | - |
| 2009 | 142.18 | 98.86 | 1.0823 | 136.95 | 95.72 | 0.0661 |
| 2010 | 166.65 | 137.34 | 0.9788 | 159.47 | 132.19 | 0.1059 |
| 2011 | 172.00 | 144.89 | 0.9637 | 164.03 | 137.95 | - |
| 2012 | 171.00 | 153.63 | 0.6941 | 162.35 | 145.68 | - |
| 2013[1] | 202.74 | 168.93 | 0.3444 | 190.97 | 159.54 | - |

[1] *Prices to 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.*

# TB WISE STRATEGIC

## Net Asset Values

| | 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 | 2,654,263 | 166.03 | 4,406,881 | 8,894,628 | 158.71 | 14,116,709 |
| 29 Feb 2012 | 2,965,571 | 167.65 | 4,971,752 | 8,198,768 | 159.21 | 13,053,048 |
| 28 Feb 2013 | 4,440,524 | 185.61 | 8,242,111 | 4,731,406 | 175.11 | 8,285,165 |
| 31 Aug 2013 | 4,911,520 | 192.85 | 9,471,733 | 4,101,640 | 181.32 | 7,437,234 |

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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.

## OTHER INFORMATION

### The Company

TB Wise Investment Funds
64 St. James's Street
Nottingham NG1 6FJ

### ACD

T. Bailey Fund Managers Limited
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|---|---|
| Tel: | 0115 9888 200 |
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| Website: | www.tbailey.co.uk/Wise |

Authorised and regulated by the Financial Conduct Authority.

### Investment Manager

Wise Investments Limited
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| Tel: | 0845 8033 433 |
| Fax: | 0845 8035 433 |
| Website: | www.wiseinvestment.co.uk |

Authorised and regulated by the Financial Conduct Authority.

### Depositary

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
4 Brindleyplace
Birmingham B1 2HZ

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

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.