Wise Investment

TB Wise Investment

Interim Short Report

For the six month period ended 31 August 2013

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 Ranking[1]: 5
Ongoing Charges Figures[2]

A Shares – 1.99% p.a.

B Shares – 1.34% 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	4.58	23.51	43.72	40.74
B Shares	4.94	24.34	46.58	45.43
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.

TB WISE INVESTMENT

Introduction & Overview

This report will discuss the fund's performance over a period of six months, from March to August inclusive, and will discuss the investment outlook as I see it.

You will receive the fund report around two months after the period has ended, which gives this letter all the freshness of a bowl of last Thursday's porridge. Not being able to serve it warm, with plenty of thick cream and honey, I will attempt to do the next best thing and keep things as short and as relevant as possible.

Your attention over the next few minutes is greatly appreciated.

History, size and shape

TB Wise Investment was launched at the beginning of April 2004. I have been fund manager continuously since launch, a period of almost ten years.

The fund began the period at a size of £29.69m, and ended at £32.97m, a gain of just over 11%. The fund's price rose by a little under 5% during the six months. The rest of the growth came from new investment. During the previous year, March 2012 to February 2013 inclusive, there was a small net withdrawal from the fund. The recent more positive trend is encouraging.

TB Wise Investment offers 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%. Apart from the charges, 'A' and 'B' shares are identical. 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 76.1% to 85.6%. As the 'B' shares are the majority share class, discussion of performance in this report will refer to 'B' shares.

We note a small steady inflow of money into our 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

This has been a strong half-year for the fund, during which it has made a return of 4.94%, beating the IMA Flexible sector average (+1.55%) and cash.

TB Wise Investment was 17th out of 135 funds in the IMA flexible sector over this period (source, Financial Express).

Performance has come from a continuation of the themes that have proved helpful since the beginning of 2012. The stock market often anticipates moves in the economy and company profits, and recently investors have anticipated an economic recovery which has now begun. Shares in medium and smaller companies, and in property shares, all areas in which TB Wise Investment is fully represented, have moved strongly up. The point has been reached where we have begun to feel that the improving prospects are fully reflected in share prices, so we have been steadily taking profits, which explains the relatively high cash balance in the fund at the end of the period.

TB Wise Investment was launched at a price of £1.00 per share on 1st April 2004. The price on September 2nd 2013 was £2.0648, and subsequently reached an all-time high of £2.1414 on September 23rd 2013. Over the period since launch, the fund has made a gain of a little over 8.0% compound per annum.

Since the beginning of 2012 performance has been particularly strong, with a gain of almost 37% by the end of the review period.

Investment Themes & Opportunities

As at end of September, the UK stock market has traded sideways for a period of a little over six months, and yet it has a distinctly expensive feel.

This may be subjective. While the FTSE-100 has moved sideways, the FTSE small-cap index has risen 20%. Valuations in this area of the market are beginning to feel distinctly uncomfortable, and we have begun to reduce holdings in smaller companies.

Looking at the period from the beginning of 2012 as a whole, we have seen a transformation in sentiment, and hence in opportunity. At the beginning of the period, there was universal despondency about the recession, the Euro, the US debt crisis, and much else, combined with attractive valuations in many market segments. Today, economic recovery is seen as a given, and markets have moved up to reflect the more optimistic outlook. In the process your fund has had to say 'goodbye', at least temporarily, to a number of funds which had become old friends, including Throgmorton Trust (UK small companies) and Baillie Gifford Japan, and has reduced many other positions to a token size.

So, where do the opportunities exist now? The next few paragraphs describe some of the areas in which I can see good value.

TB WISE INVESTMENT

Diverse Funds

This year, we have seen a general tightening of investment trust discounts (a helpful trend for the fund), which reflects more investor interest in the asset class, possibly as a result of the Retail Distribution Review (RDR) which came into effect at the beginning of 2013. Previously, unit trusts and OEICs paid commission to advisers, while investment trusts didn't, creating a natural product bias. The abolition of commission may explain the new interest in investment trusts this year.

Price trends in the investment trust sector suggest that investors strongly prefer funds that do just one thing – infrastructure, US technology, Japanese smaller companies, or whatever it might be.

One class of trusts has been left behind in the general re-rating, trusts that cover a number of different sectors. Why should this be? Perhaps because the new investment trust buyers are asset allocators, who like to create the blend themselves, rather than having it done for them by fund managers. Whatever the reason may be, we can still find a number of excellent trusts at substantial discounts, and with no good investment reason for them being so cheap. The common factor is that they operate in more than one market segment. A few examples follow:

Caledonia Trust

Well-managed international growth trust, also does private equity. Discount 21.0%, as at 25th September 2013

British Empire Securities

International growth trust, investing in companies and funds which are valued by the market at less than the sum of their parts. Underlying discount to sum-of-the-parts valuation across the investment portfolio 27.0%. Trust discount 13.0%, as at 25th September 2013

Graphite Enterprise

Private equity. Investors prefer "single-strategy" funds that either own companies directly, or own funds. Fund buyers can either be primary buyers, who go in at launch, or secondary buyers, who come in later by buying from an existing holder. Investors prefer funds which take one or other of these approaches. Graphite does both, and owns companies directly as well. In our view, it does all three things well, so we don't mind the mixture of styles. Discount 22.5%, as at 25th September 2013

The very largest companies

In the rush to find the next small company beneficiary of the coming recovery, investors have abandoned the 'boring' large companies, which now look much better value than they were. This trend can be seen in most major markets, and represents a big and still growing opportunity.

Japan

New Prime Minister Abe has introduced a package of measures designed to stimulate and reform the Japanese economy, which has suffered two decades of deflationary malaise. The proposals, which have become known as 'Abenomics' were initially met with a surge of enthusiasm – the stock market rose by 70% in a six-month period ending in May. A period of profit-taking set in, together with doubts as to whether Mr Abe's government can really deliver the promised reforms. However, the stimulus has already been reflected in much higher company profits. It's worth remembering that Japan's Nikkei 225 index, 14,600 as at 25th September 2013, was at 38,200 at the end of 1989. There is scope for significant further gains.

Emerging Markets

The transformation in investors' attitudes to emerging markets must be nearly complete. As recently as three years ago, no one doubted the logic of investing in the world's fastest-growing economies in Asia, Africa, Latin America, Eastern Europe and the Middle-East, while avoiding the recession-hit, over-indebted markets of the 'developed' world. It was seen as inevitable that the currencies of emerging markets would strengthen against the US dollar and sterling, due to demand for their exports and financial assets.

This year, all the world's worst-performing markets have been 'emerging' ones. Prices have recovered slightly in September, but an article in September 24th's Financial Times ('Relief will prove temporary for emerging markets investors', by Henny Sender) points out that the weakening trend can only continue. And recently 'The Economist' devoted a whole section to the economic and political problems of Brazil.

Value has emerged in this sector for the first time in a decade, and TB Wise Investment aims to increase its exposure as opportunities arise.

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Sector	Asset allocation as at 31 August 2013 (%)	Asset allocation as at 28 February 2013 (%)
Asia	2.2	-
Emerging Markets	1.6	0.4
Europe	2.3	4.2
International	17.0	16.5
Japan	2.7	5.8
Mining and Resources	1.3	1.2
Private Equity	23.9	20.2
Property	6.3	6.9
Specialist – Alternative Energy	2.5	4.5
Specialist – Financial	1.2	2.0
Specialist – Technology	7.7	6.8
Specialist – Utilities	3.2	3.9
UK Growth	10.3	12.2
UK Mid Cap	0.6	1.9
UK Smaller Companies	10.0	10.6
USA	-	0.5
Cash and other	7.2	2.4
Total	**100.0**	**100.0**

Outlook

The markets in which we invest have been strong for a period of almost two years. The current environment requires us to be more cautious than before, and we don't expect returns over the next year to be anywhere near as strong as recently. However, the opportunities that exist should allow us to continue producing better returns than cash, and we expect new ones to appear in due course.

As always, we are grateful to our investors for your continued support and patience.

Tony Yarrow
Fund Manager

18 October 2013

TOP TEN HOLDINGS

Top Ten Holdings as at 31 August 2013 (%)		Top Ten Holdings as at 28 February 2013 (%)	
HG Capital	8.4	HG Capital	9.9
Graphite Enterprise	8.1	Thames River Property	6.9
Caledonia	6.6	Graphite Enterprise	5.3
Thames River Property	6.3	Caledonia	5.0
Herald	4.8	British Empire Securities & General	4.9
British Empire Securities & General	4.6	RIT Capital	4.7
JO Hambro UK Opportunities	3.9	Herald	4.3
Better Capital 2009	3.5	Impax Environmental Markets	4.0
Investec UK Special Situations	3.3	Marlborough Special Situations	4.0
Ecofin Water & Power Opportunities	3.2	Ecofin Water & Power Opportunities	3.9

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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	157.43	97.20	1.0006	153.75	94.20	0.0721
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[1]	211.36	178.70	1.3845	198.66	168.65	0.0953

[1] *Prices to 31 August and net revenue to 31 October.*

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	6,833,467	170.33	11,639,133	8,180,180	162.70	13,309,352
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
31 Aug 2013	13,610,359	205.97	28,033,142	2,553,886	193.53	4,942,536

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.

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

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ACD

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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.

Depositary

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

Auditors

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