



## **Evenlode Income**

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### **Annual Short Report**

For the year ended 29 February 2016

# EVENLODE INCOME

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## INVESTMENT OBJECTIVE & POLICY

The investment objective of Evenlope Income is to produce attractive long-term total returns, with an emphasis on income.

The fund will invest predominantly in the equity securities of companies listed in the United Kingdom, with the balance invested in the equity securities of companies listed internationally and cash (or near cash securities). The fund may also invest in fixed income securities, collective investment schemes and derivatives for the purpose of efficient portfolio management from time to time. The fund manager aims to invest in a focused portfolio of shares offering a combination of high and growing cash-flows (to deliver both capital growth and dividend growth for the fund) and low business risk. The manager will undertake fundamental analysis to identify shares in companies that offer this combination.

## FUND FACTS

**Launch date:** 19 October 2009

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

**Distribution 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>:**

C Shares – 0.85% p.a.

B Shares – 0.95% p.a.

A Shares – 1.45% p.a.

<sup>1</sup> As calculated in accordance with ESMA 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 29 February 2016. As calculated in accordance with ESMA guidelines. The Ongoing Charge Figure ("OCF") includes annual management charges ("AMCs") and other operating expenses (Depositary's fee, audit fee etc).

## CHANGES TO THE FUND

On 27 April 2015 the Fund's Investment Policy was amended slightly. On this date the following sentence was removed:

*'The fund manager aims to invest in a focused portfolio of shares in approximately 20-30 companies offering a combination of high and growing cash-flows (to deliver both capital growth and dividend growth for the Fund) and low business risk.'*

This has now been replaced with the following sentence:

*'The fund manager aims to invest in a focused portfolio of shares offering a combination of high and growing cash-flows (to deliver both capital growth and dividend growth for the fund) and low business risk.'*

On 30 April 2015 the Fund launched two new share classes; C Income and C Accumulation.

Also on 27 April 2015 the Fund introduced a periodic charge equivalent to the ongoing charges figure. From this date the Annual Management Charge and Ongoing Charges Figure for each share class will be capped at the following rates; B shares 0.95% p.a. and A shares 1.45% p.a. The C Shares are also capped at 0.85%. These changes were notified to shareholders in advance.

# EVENLODE INCOME

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The Authorised Corporate Director (the 'ACD') of Evenlode Income Fund is T. Bailey Fund Services Limited ('TBFS'). TBFS was previously called T. Bailey Fund Managers Limited and the name was changed on 30 June 2015.

## INVESTMENT REVIEW

Performance	Cumulative returns for the periods ended 29 February 2016 (%)			
	1 year	3 years	5 years	From launch <sup>2</sup>
Evenlode Income Fund - B Shares <sup>1</sup>	1.83	35.44	74.98	113.30
Evenlode Income Fund - A Shares <sup>1</sup>	1.33	33.47	70.69	106.67
IA UK Equity Income Sector	(3.34)	22.70	44.94	71.66

<sup>1</sup> Performance based on income shares. <sup>2</sup> From 19 October 2009.

Source: Financial Express. Total return, bid to bid. Sterling terms.

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.

The twelve month period under review proved to be a volatile one for financial assets. Fears over Greece, a slowdown in emerging markets and plunging oil prices all contributed to an uncertain backdrop. Perhaps the most notable development was the degree to which deflationary worries gripped market participants once again, as the global economy continued to fail in its attempts to achieve an 'escape velocity' from the Global Financial Crisis. In early 2015, investors were worrying about the impact that rising interest rates, particularly in the Anglo-Saxon world, might have on the global economy and financial markets. More recently, eyes have instead turned to negative interest rates, now put in place by central banks overseeing a very significant chunk of the planet's economic activity (Japan, the Eurozone, Switzerland, Sweden etc.)

Evenlode performed relatively well in these quite difficult market conditions. In terms of total return (i.e. the combined return from dividends and capital performance) the fund rose +1.8% compared to a fall of -3.3% for the IA UK Equity Income Sector. Since the fund's launch (19th October 2009) Evenlode B Income shares have risen +113.3%, compared to a rise of +71.7% for the IA UK Equity Income Sector.

In terms of Evenlode holdings, the strongest contributors to return were Imperial Brands, Sage, Microsoft, Unilever and Johnson and Johnson. All these repeat-purchase business models performed well despite a difficult economic backdrop, and their dividends continued to grow steadily.

Unilever serves as a good example of this resilience. The company generates more than 50% of sales from emerging markets and has had to operate with significant volatility in many of its businesses, not least thanks to levels of currency volatility not seen since the Asian crisis of the late 1990s. However, it managed to grow total sales by +4% and earnings by +11% in 2015, while generating strong free cash flow and increasing the dividend by 6%.

# EVENLODE INCOME

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As Unilever's management put it recently, when the situation gets tougher we tend to outperform more. This comment was made in relation to Unilever's Indonesian business but it makes a more general point about competition nicely: in difficult times, the strong tend to grow stronger. A quiet strengthening of market position in tougher times doesn't always show up in short-term numbers, but it's good news for the long-term shareholder.

The main detractors to performance were Pearson and IMI. Pearson is pressing on with considerable internal restructuring and integration efforts in the face of operational headwinds, particularly in the US school and college market. Though Pearson was a disappointing investment in 2015 we have retained a position in the company. Pearson's balance sheet is strong following recent disposals and the business remains an inherently asset light model with a strong market position in Anglo-Saxon education markets. Management are now focusing on getting the most out of Pearson's existing portfolio, and utilising technology platforms and digital analytics to deliver better educational outcomes.

Engineer IMI faced tough industry conditions given its exposure to energy, power and industrial production markets. We have been reassured by the continuing level of healthy cash generation, which support the stock's 4% dividend yield.

## **DIVIDENDS**

The broad UK dividend outlook remains challenged and dividend cuts have continued, particularly in the commodity sector. In this context, Evenlode's focus on steadier businesses with strong finances is reassuring, and the portfolio experienced no dividend reductions during the period.

Evenlode's full year dividend rose by +2.4% (B Income shares) which reflects reasonable dividend growth from underlying holdings offset somewhat by a tough comparator last year (the fund's dividend was up more than +12%, helped by a large special dividend from Compass).

Looking ahead, the provision of real dividend growth remains central to our approach. In my view, however, mid-single-digit dividend growth is probably as much as can be expected in the current environment, even from the cash generative businesses we focus on. A higher growth rate is unlikely unless the global economy were to pick up materially.

## **THE NEED FOR INVESTMENT**

I would also note, in the context of dividend payments, that we much prefer companies that are able to properly invest in their futures as well as paying a healthy dividend. In the current environment growth is hard to find, and management teams feel the pressure of keeping shareholders happy by returning cash. But businesses need to invest in real things - research capabilities, new product development, geographical expansion, good quality people, technology platforms etc. to ensure a healthy long-term future.

## **PORTFOLIO CHANGES**

The fund's 2016 interim report detailed the changes we made during the first half of the twelve months under review. In the second half, nervous markets created some interesting opportunities, and we added Fidessa, DMGT, Victrex, Burberry Euromoney and Aveva to the portfolio. These are all high quality companies with good potential for dividend growth. Their share prices fell due to worries over short-term conditions, giving us the opportunity to add them to the portfolio at attractive dividend yields.

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Fidessa is a good example of this opportunity. The company is a global market leader providing mission-critical software to investment banks, brokers and asset management firms. This software helps customers automate many processes within their businesses. 85% of revenue is recurring and renewal rates are more than 99%. Long-term growth potential is good as customers look to improve efficiency (i.e. automate processes that were previously manual), cope with regulation and compliance, and bring down costs. However, Fidessa's markets have been difficult over the last two years as its customer base has faced headwinds, slowed spending, and in some cases merged with each other. Meanwhile, Fidessa is making a very significant investment in its new derivatives offering - burdening current earnings but providing excellent long-term growth potential. Fidessa deliberately operate a very prudent balance sheet with no borrowings and lots of cash-in-the-bank. Because the company is capital-light, it needs little of its free cash flow each year, so it is regularly returned as ordinary and special dividends. The dividend yield at purchase was 4.5%.

## 2016 OUTLOOK

In terms of the outlook, we have always said that we look to insulate ourselves from the macroeconomic environment, rather than predict it. We think our basic checklist of desirable characteristics is helpful in a world faced by macroeconomic and geopolitical uncertainties:

- An Economic Moat
- Intangible Assets
- Pricing Power
- High Returns on Capital
- Low Capital Intensity
- Low Leverage



Many key Evenlode holdings also benefit from repeat-purchase, low ticket and/or subscription orientated business models. All these factors tend to help produce high and resilient cash generation, and this gives us confidence that the aggregate portfolio can continue to generate robust dividends.

I would like to take this opportunity to thank our co-investors for their support over the last year, and look forward to updating you over coming months on what is likely to be a challenging but interesting year.

**Hugh Yarrow**  
**Fund Manager**  
**Wise Investments Limited**  
**10 June 2016**

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## TOP TEN HOLDINGS

<b>Top Ten Holdings as at 29 February 2016</b>	<b>(%)</b>	<b>Top Ten Holdings as at 28 February 2015</b>	<b>(%)</b>
Unilever	7.2	Unilever	7.1
Diageo	7.0	Diageo	6.1
GlaxoSmithKline	5.1	GlaxoSmithKline	5.9
Sage Group	4.7	AstraZeneca	5.9
Procter & Gamble	4.3	Pearson	5.2
Johnson & Johnson	4.2	Sage Group	5.2
Microsoft	4.2	Imperial Brands	4.6
AstraZeneca	4.1	British American Tobacco	3.9
Compass Group	3.7	Johnson & Johnson	3.3
Imperial Brands	3.6	Procter & Gamble	3.3

# EVENLODE INCOME

## PERFORMANCE

<b>B Income Shares</b>	<b>1 Mar 2015 to 29 Feb 2016 (pence per share)</b>	<b>1 Mar 2014 to 28 Feb 2015 (pence per share)</b>	<b>1 Mar 2013 to 28 Feb 2014 (pence per share)</b>
<b>Change in net assets per share</b>			
Opening net asset value per share	170.42	155.78	138.19
Return before operating charges*	4.19	22.42	24.82
Operating charges	(1.55)	(1.51)	(1.66)
Return after operating charges*	2.64	20.91	23.16
Distributions on income shares	(6.42)	(6.27)	(5.57)
Closing net asset value per share	166.64	170.42	155.78
*after direct transaction costs of:	0.55	1.21	0.57
<b>Performance</b>			
Return after charges	1.55%	13.42%	16.76%
<b>Other Information</b>			
Closing net asset value	£54,921,690	£230,663,365	£27,172,843
Closing number of shares	32,957,388	135,346,122	17,443,347
Operating charges (p.a.)	0.95%	0.95%	1.12%
Direct transaction costs (p.a.)	0.32%	0.76%	0.38%
<b>Prices</b>			
Highest published share price	177.03	172.43	158.50
Lowest published share price	155.72	147.86	138.25

*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.*

# EVENLODE INCOME

<b>B Accumulation Shares</b>	<b>1 Mar 2015 to 29 Feb 2016 (pence per share)</b>	<b>1 Mar 2014 to 28 Feb 2015 (pence per share)</b>	<b>1 Mar 2013 to 28 Feb 2014 (pence per share)</b>
<b>Change in net assets per share</b>			
Opening net asset value per share	209.33	184.21	157.54
Return before operating charges*	5.31	26.96	28.59
Operating charges	(1.95)	(1.84)	(1.92)
Return after operating charges*	3.36	25.12	26.67
Closing net asset value per share	212.69	209.33	184.21
Retained distributions on accumulation shares	7.98	7.50	6.43
*after direct transaction costs of:	0.67	1.46	0.66
<b>Performance</b>			
Return after charges	1.61%	13.64%	16.93%
<b>Other Information</b>			
Closing net asset value	£34,579,061	£46,482,840	£17,083,663
Closing number of shares	16,257,955	22,205,834	9,273,874
Operating charges (p.a.)	0.95%	0.95%	1.12%
Direct transaction costs (p.a.)	0.32%	0.76%	0.38%
<b>Prices</b>			
Highest published share price	217.44	208.98	184.98
Lowest published share price	192.80	177.76	157.61

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# EVENLODE INCOME

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<b>A Income Shares</b>	<b>1 Mar 2015 to 29 Feb 2016 (pence per share)</b>	<b>1 Mar 2014 to 28 Feb 2015 (pence per share)</b>	<b>1 Mar 2013 to 28 Feb 2014 (pence per share)</b>
<b>Change in net assets per share</b>			
Opening net asset value per share	165.98	152.43	135.92
Return before operating charges*	4.08	21.89	24.34
Operating charges	(2.32)	(2.21)	(2.36)
Return after operating charges*	1.76	19.68	21.98
Distributions on income shares	(6.24)	(6.13)	(5.47)
Closing net asset value per share	161.50	165.98	152.43
*after direct transaction costs of:	0.52	1.18	0.56
<b>Performance</b>			
Return after charges	1.06%	12.91%	16.17%
<b>Other Information</b>			
Closing net asset value	£823,584	£570,917	£538,210
Closing number of shares	509,973	343,964	353,089
Operating charges (p.a.)	1.45%	1.45%	1.62%
Direct transaction costs (p.a.)	0.32%	0.76%	0.38%
<b>Prices</b>			
Highest published share price	172.36	167.93	155.10
Lowest published share price	151.30	144.25	135.98

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# EVENLODE INCOME

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<b>A Accumulation Shares</b>	<b>1 Mar 2015 to 29 Feb 2016 (pence per share)</b>	<b>1 Mar 2014 to 28 Feb 2015 (pence per share)</b>	<b>1 Mar 2013 to 28 Feb 2014 (pence per share)</b>
<b>Change in net assets per share</b>			
Opening net asset value per share	203.95	180.30	154.98
Return before operating charges*	5.15	26.28	28.04
Operating charges	(2.89)	(2.63)	(2.72)
Return after operating charges*	2.26	23.65	25.32
Closing net asset value per share	206.21	203.95	180.30
Retained distributions on accumulation shares	7.75	7.33	6.31
*after direct transaction costs of:	0.65	1.41	0.64
<b>Performance</b>			
Return after charges	1.11%	13.12%	16.34%
<b>Other Information</b>			
Closing net asset value	£1,427,750	£1,393,195	£1,524,720
Closing number of shares	692,375	683,100	845,645
Operating charges (p.a.)	1.45%	1.45%	1.62%
Direct transaction costs (p.a.)	0.32%	0.76%	0.38%
<b>Prices</b>			
Highest published share price	211.79	203.61	181.07
Lowest published share price	187.41	173.48	155.05

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# EVENLODE INCOME

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<b>C Income Shares</b>	<b>30 Apr 2015 to* 29 Feb 2016 (pence per share)</b>
<b>Change in net assets per share</b>	
Opening net asset value per share	171.06
Return before operating charges*	3.33
Operating charges	(1.19)
Return after operating charges*	2.14
Distributions on income shares	(6.42)
Closing net asset value per share	166.78
*after direct transaction costs of:	0.45
<b>Performance</b>	
Return after charges	1.25%
<b>Other Information</b>	
Closing net asset value	£248,775,437
Closing number of shares	149,165,443
Operating charges (p.a.)	0.85%
Direct transaction costs (p.a.)	0.32%
<b>Prices</b>	
Highest published share price	176.80
Lowest published share price	155.76

\* The C Income shares were launched on 30 April 2015.

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# EVENLODE INCOME

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<b>C Accumulation Shares</b>	<b>30 Apr 2015 to* 29 Feb 2016 (pence per share)</b>
<b>Change in net assets per share</b>	
Opening net asset value per share	210.10
Return before operating charges*	4.24
Operating charges	(1.48)
Return after operating charges*	2.76
Closing net asset value per share	212.86
Retained distributions on accumulation shares	7.98
*after direct transaction costs of:	0.56
<b>Performance</b>	
Return after charges	1.31%
<b>Other Information</b>	
Closing net asset value	£30,355,022
Closing number of shares	14,260,384
Operating charges (p.a.)	0.85%
Direct transaction costs (p.a.)	0.32%
<b>Prices</b>	
Highest published share price	217.15
Lowest published share price	192.85

\* The C Accumulation shares were launched on 30 April 2015.

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## Dividend distributions/accumulations for the year ended 29 February 2016

Share Class	Quarter Ended			
	31 May 2015 (pence per share)	31 August 2015 (pence per share)	30 November 2015 (pence per share)	29 February 2016 (pence per share)
B Income	1.3970	1.3986	1.4000	2.2232
A Income	1.3600	1.3600	1.3600	2.1558
C Income	1.3970	1.3987	1.4005	2.2247
B Accumulation	1.7159	1.7275	1.7407	2.7951
A Accumulation	1.6711	1.6805	1.6917	2.7115
C Accumulation	1.7159	1.7275	1.7406	2.7970

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# EVENLODE INCOME

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## RISK PROFILE

The value of investments may go down as well as up in response to general market conditions and the performance of the assets held. Investors may not get back the money which they invested.

There is no guarantee that the Fund will meet its stated objectives.

A limited number of investments may be held which has the potential to increase the volatility of performance.

The movements of exchange rates may lead to further changes in the value of investments and the income from them.

There is a risk that any company providing services such as safe keeping of assets or acting as counterparty to derivatives may become insolvent, which may cause losses to the Fund.

# EVENLODE INCOME

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## OTHER INFORMATION

### **The Company**

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

### **Authorised Corporate Director**

T. Bailey Fund Services Limited  
64 St. James's Street  
Nottingham NG1 6FJ

Tel: 0115 9888 200  
Fax: 0115 9888 222  
Website: [www.tbaileyfs.co.uk/funds/tb-wise-investment-funds](http://www.tbaileyfs.co.uk/funds/tb-wise-investment-funds)

Authorised and regulated by the Financial Conduct Authority.

### **Investment Manager**

Wise Investment Limited  
The Long Barn  
Chalford Park Barns  
Oxford Road  
Chipping Norton  
Oxon  
OX7 5QR

Tel: 01608 646 738  
Fax: 01608 641 955  
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 period and previous periods is available on request from the ACD as are copies of the Interim and Annual Report and Financial Statements.

### **Depository**

National Westminster Bank Plc  
135 Bishopsgate  
London EC2M 3UR

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.



TBFS

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