



Wise Investment

# Evenlode Income

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## Interim Short Report

For the six month period ended 31 August 2014

# EVENLODE INCOME

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## INVESTMENT OBJECTIVE & POLICY

The investment objective of Evenlode Income is to produce attractive long-term total returns, with an emphasis on income. The Fund will invest predominately 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 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. The Manager will undertake fundamental analysis to identify shares in companies that offer this combination.

## FUND FACTS

**Launch date:** 19 October 2009

**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 Figure<sup>2</sup>**

B Shares – 0.99% p.a.

A Shares – 1.47% 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 31 August 2014. 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).

## OTHER INFORMATION

On 22 April 2014, the daily pricing point for Evenlode Income 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 31 August 2014 (%)			
	6 months	1 year	3 years	From launch
Evenlode Income Fund - B Shares <sup>1</sup>	3.16	12.56	62.85	90.52
Evenlode Income Fund - A Shares <sup>1</sup>	2.91	12.01	60.41	85.93
IMA UK Equity Income Sector Mean	0.17	10.41	52.09	66.93

<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.

During the six months to the 31st August 2014, Evenlode Income B shares rose +3.2%. This compared to a rise of +0.2% for the IMA UK Equity Income Sector. Since the fund's launch (19th October 2009), Evenlode Income B shares have risen +90.5% compared to a rise of +66.9% for the IMA UK Equity Income Sector.

There's been no shortage of big picture uncertainties (both geopolitical and economic) to worry about over the last six months: a very cold winter in the US; the threat of war in Ukraine and the Middle East; China's dramatic slowdown; a more general slowdown in emerging markets; volatility in currency markets; a European economy flirting with recession and deflation; falling commodity prices; an uncertain monetary policy environment; the Scottish Referendum and its implications on UK politics over coming months and years.

Ben and I do not aim to make big predictions or bets on the macro-economic or geopolitical environment. Instead, we aim to insulate the Evenlode portfolio from these uncertainties by owning a group of resilient, globally diversified stocks that tend to be good at generating high levels of cash and dividends through thick and thin. In this context, it's reassuring that in aggregate Evenlode holdings have continued to make incremental progress despite an environment that hasn't been all plain sailing, and dividend growth has been reassuring. The fund's first and second quarter dividends were increased by +13% year-on-year (B Inc shares). This partly reflects the portfolio's underlying dividend growth, and also a special dividend from Compass Group during the period. The fund's dividend yield was 3.6% at the end of August, and our focus on sustainable real dividend growth remains central to our approach.

While the market rose very slightly, there was some quite significant volatility along the way and divergent trends in individual stock performance. The most positive contributors to Evenlode's

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return were Pearson, Microsoft and Unilever. Pearson and Microsoft are both going through periods of transition. In Pearson's case, it is a transition from physical publishing to digital services. For Microsoft, it is a transition from on premise, PC-based software to cloud computing products on multiple devices. The journey for both these companies is by no means finished, but both released reassuring updates and continue to produce good dividend growth. Pearson's latest dividend increase was +6%, Microsoft's +11%. Unilever shares had a weak start to the year due to worries over the slowdown in emerging markets. The share price recovered over the spring and summer, as first and second quarter trading updates reassured.

The most significant negative contributors to Evenlode's return were GlaxoSmithKline and Sage Group. Already in the doghouse this year, GlaxoSmithKline reported weak second quarter results with sales from two of its older therapies falling more than expected. Although this was a disappointing quarter, we do think GlaxoSmithKline offers interesting value for the long-term investor. In our view the group can ultimately emerge from current difficulties as a stronger, more focused business. Its pipeline of new therapies is healthy and a growing portion of the group's sales (more than 50% once its proposed transaction with Novartis closes) will come from its stable, market leading consumer healthcare and vaccine franchises. These fundamentals should drive improving cash flow over the coming decade. The current dividend yield is more than 5.5%. After a period of very strong performance, Sage shares fell back, partly due to the announcement that current chief executive Guy Bereyer will retire in 2015.

A clear trend over the period was the underperformance of smaller companies versus their larger peers. The fund's current bias towards larger companies was therefore a helpful factor. We believe some interesting opportunities may present themselves to us if sentiment continues to sour toward the smaller companies in our investable universe. We have already, for instance, added a holding in Spectris, and significantly increased our holding in Domino Printing. These are both high quality smaller companies with long records of healthy cash generation and dividend growth. Both fell sharply over the summer after releasing disappointing updates, offering an interesting entry point.

For now, however, Evenlode remains predominately a collection of large, stable franchises in the consumer branded goods, healthcare, media and software sectors. These four sectors currently account for more than three quarters of the overall portfolio. This group of companies have asset-light, cash-generative business models that are backed by steadily growing revenues from products such as toothpaste, ice cream, vaccines, cancer therapies, accountancy software, data analytics, beer, whisky, condoms and painkillers

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As a result the long-term dividend growth prospects for this group of businesses look good and, on our valuation estimates, they should provide attractive total returns if held for a sensible time period. Ben and I continue to work hard on making sure that the Evenlode portfolio retains its strong combination of quality and value, and we look forward to updating you on progress over the months and years to come.



**Hugh Yarrow**  
**Fund Manager**  
**17 October 2014**

## TOP TEN HOLDINGS

Top Ten Holdings as at 31 August 2014 (%)	Top Ten Holdings as at 28 February 2014 (%)		
Unilever	8.4	Unilever	9.1
GlaxoSmithKline	7.4	GlaxoSmithKline	8.6
Diageo	6.1	Reckitt Benckiser	6.5
Sage Group	5.8	Diageo	6.1
Reckitt Benckiser	5.8	Sage Group	6.0
Imperial Tobacco	5.4	Imperial Tobacco	4.8
Reed Elsevier	4.6	Reed Elsevier	4.8
Pearson	4.2	Smith & Nephew	4.6
AstraZeneca	4.2	Jardine Lloyd Thompson	4.2
Procter & Gamble	4.1	Compass Group	3.8

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## PERFORMANCE

<b>B Income Shares</b>	<b>1 Mar 2014 to 31 Aug 2014 (pence per share)</b>	<b>1 Mar 2013 to 28 Feb 2014 (pence per share)</b>	<b>1 Mar 2012 to 28 Feb 2013 (pence per share)</b>	<b>1 Mar 2011 to 29 Feb 2012 (pence per share)</b>
<b>Change in net assets per share</b>				
Opening net asset value per share	155.77	138.18	121.53	115.34
Return before operating charges*	5.92	24.82	23.24	12.34
Operating charges	(0.77)	(1.66)	(1.57)	(1.49)
Return after operating charges*	5.15	23.16	21.67	10.85
Distributions on income shares	(2.65)	(5.57)	(5.02)	(4.66)
Closing net asset value per share	158.27	155.77	138.18	121.53
*after direct transaction costs of:	1.12	0.59	0.68	0.55
<b>Performance</b>				
Return after charges	3.31%	16.76%	17.83%	9.41%
<b>Other Information</b>				
Closing net asset value	£172,448,892	£27,172,843	£12,148,042	£3,607,281
Closing number of shares	108,959,657	17,443,347	8,790,595	2,968,043
Operating charges (p.a.)	0.99%	1.12%	1.25%	1.23%
Direct transaction costs (p.a.)	1.42%	0.39%	0.54%	0.48%
<b>Prices</b>				
Highest published share price	162.57	158.50	141.25	124.67
Lowest published share price	152.32	138.25	115.21	105.15

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<b>B Accumulation Shares</b>	<b>1 Mar 2014 to 31 Aug 2014 (pence per share)</b>	<b>1 Mar 2013 to 28 Feb 2014 (pence per share)</b>	<b>1 Mar 2012 to 28 Feb 2013 (pence per share)</b>	<b>1 Mar 2011 to 29 Feb 2012 (pence per share)</b>
<b>Change in net assets per share</b>				
Opening net asset value per share	184.21	157.54	133.24	121.49
Return before operating charges*	6.99	28.59	26.05	13.34
Operating charges	(0.94)	(1.92)	(1.75)	(1.59)
Return after operating charges*	6.05	26.67	24.30	11.75
Closing net asset value per share	190.26	184.21	157.54	133.24
Retained distributions on accumulation shares	3.14	6.43	5.58	4.97
*after direct transaction costs of:	1.33	0.68	0.76	0.59
<b>Performance</b>				
Return after charges	3.29%	16.93%	18.24%	9.67%
<b>Other Information</b>				
Closing net asset value	£20,555,156	£17,083,663	£9,212,634	£2,007,266
Closing number of shares	10,803,590	9,273,874	5,847,726	1,506,489
Operating charges (p.a.)	0.99%	1.12%	1.25%	1.23%
Direct transaction costs (p.a.)	1.42%	0.39%	0.54%	0.48%
<b>Prices</b>				
Highest published share price	192.23	184.98	158.92	134.86
Lowest published share price	180.15	157.61	127.34	111.70

*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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<b>A Income Shares</b>	<b>1 Mar 2014 to 31 Aug 2014 (pence per share)</b>	<b>1 Mar 2013 to 28 Feb 2014 (pence per share)</b>	<b>1 Mar 2012 to 28 Feb 2013 (pence per share)</b>	<b>1 Mar 2011 to 29 Feb 2012 (pence per share)</b>
<b>Change in net assets per share</b>				
Opening net asset value per share	152.44	135.93	120.16	114.60
Return before operating charges*	5.78	24.34	22.87	12.23
Operating charges	(1.13)	(2.36)	(2.15)	(2.05)
Return after operating charges*	4.65	21.98	20.72	10.18
Distributions on income shares	(2.60)	(5.47)	(4.95)	(4.62)
Closing net asset value per share	154.49	152.44	135.93	120.16
*after direct transaction costs of:	1.09	0.57	0.66	0.55
<b>Performance</b>				
Return after charges	3.05%	16.17%	17.24%	8.88%
<b>Other Information</b>				
Closing net asset value	£396,028	£538,210	£1,351,911	£1,677,490
Closing number of shares	256,352	353,089	994,633	1,396,118
Operating charges (p.a.)	1.47%	1.62%	1.75%	1.73%
Direct transaction costs (p.a.)	1.42%	0.39%	0.54%	0.48%
<b>Prices</b>				
Highest published share price	158.88	155.10	138.94	123.27
Lowest published share price	148.87	135.98	113.75	104.24



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A Accumulation Shares	1 Mar 2014 to 31 Aug 2014 (pence per share)	1 Mar 2013 to 28 Feb 2014 (pence per share)	1 Mar 2012 to 28 Feb 2013 (pence per share)	1 Mar 2011 to 29 Feb 2012 (pence per share)
<b>Change in net assets per share</b>				
Opening net asset value per share	180.30	154.98	131.75	120.74
Return before operating charges*	6.83	28.04	25.62	13.20
Operating charges	(1.34)	(2.72)	(2.39)	(2.19)
Return after operating charges*	5.49	25.32	23.23	11.01
Closing net asset value per share	185.79	180.30	154.98	131.75
Retained distributions on accumulation shares	3.08	6.31	5.50	4.93
*after direct transaction costs of:	1.30	0.66	0.74	0.58
<b>Performance</b>				
Return after charges	3.05%	16.34%	17.63%	9.12%
<b>Other Information</b>				
Closing net asset value	£1,332,108	£1,524,720	£2,480,420	£2,478,494
Closing number of shares	716,991	845,645	1,600,468	1,881,252
Operating charges (p.a.)	1.47%	1.62%	1.75%	1.73%
Direct transaction costs (p.a.)	1.42%	0.39%	0.54%	0.48%
<b>Prices</b>				
Highest published share price	187.93	181.07	156.35	133.36
Lowest published share price	176.30	155.05	125.76	110.75

*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 2014 (pence per share)

Share Class	Quarter Ended	
	31 May 2014 (pence per share)	31 August 2014 (pence per share)
B Income	1.3194	1.3274
A Income	1.3000	1.3000
B Accumulation	1.5660	1.5786
A Accumulation	1.5357	1.5437

*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.

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## OTHER INFORMATION

### The Company

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### ACD

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Authorised and regulated by the Financial Conduct Authority.

### Investment Manager

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Fax: 0845 8035 433  
Website: [www.wiseinvestment.co.uk](http://www.wiseinvestment.co.uk)

Authorised and regulated by the Financial Conduct Authority.

### 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.

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

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