



Wise Investment

Evenlode Income

Annual Short Report For the year ended 28 February 2014

EVENLODE INCOME

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 Ranking¹ : 5

Ongoing Charges Figure²

B Shares – 1.12% p.a.

A Shares – 1.62% p.a.

¹ As calculated in accordance with 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 28 February 2014. As calculated in accordance with CESR guidelines. The Ongoing Charge Figure ('OCF') includes annual management charges ('AMCs') and other operating expenses (Depositary's fee, audit fee etc).

OTHER INFORMATION

Following the end of the period, on April 22nd 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 28 February 2014 (%)		
	1 year	3 years	From launch
B Shares ¹	17.28	51.50	84.68
A Shares ¹	16.68	49.22	80.67
IMA UK Equity Income Sector Mean	19.12	40.70	66.65

¹ 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 twelve months to the 28th February 2014, Evenlode Income B shares rose +17.3%. This compares to a rise of +19.1% for the IMA UK Equity Income Sector over the same period and +13.3% for the UK Market. Since the fund's launch (19th October 2009), Evenlode Income B shares have risen +84.7%, compared to a rise of +66.7% for the IMA UK Equity Income Sector and +56.5% for the UK Market. The fund's full year dividend was increased by +10.9% (B Inc shares), and our ambition to provide shareholders with sustainable real dividend growth remains central to our approach.

The strongest performing stocks in the portfolio over the year included WS Atkins (+75%), Britvic (+67%), Halfords (+50%) and Hays (+49%). These stocks benefited from a continuing preference amongst investors for small and medium sized companies. They also benefited from the very significant swing in sentiment that occurred during the year toward companies with exposure to the recovering UK economy. However, their strong performance has led us to exit (or in Hays' case reduce) our positions on valuation grounds. Other strong performers in the portfolio during the year included Astrazeneca (+43%), Smith & Nephew (+37%) and Jardine Lloyd Thomson (+37%).

The main drag on performance came from our consumer branded goods exposure, with stocks such as Diageo (-3%), Unilever (-4%), Procter & Gamble (-4%) and SABMiller (-9%) posting lacklustre returns in a rising market. Sentiment towards these stocks has been affected by the slowdown in economic growth in emerging markets, and the translation impact of a strong pound on their global earnings. Our view on the long-term opportunities in emerging markets for these companies remains unchanged. Business cycles are inevitable and the current slowdown is a reminder of this. However, spend-per-capita on consumer goods in these nations remains at between a tenth and a twentieth of the levels seen in the developed world. The potential for value creation and growth therefore remains very sizeable. We also remain positively disposed to the long-term micro-economics of these companies. In the current world of rapid technological development and creative destruction (Google began life in 1998 but is now the third largest company in the world, which gives a sense of the speed

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of these changes) the business of selling low ticket, fast-moving consumer goods retains several key qualities that we find reassuring, namely:

- A low likelihood of obsolescence
- A mature, rational, slow-changing competitive environment
- Customer loyalty
- Repeat-purchase revenues
- Steady volume growth
- Pricing power

and as a result of the above factors...

- An ongoing ability to generate consistently high, compounding returns on invested capital
- A history of coping well in both deflationary and inflationary environments

Our top two holdings in this sector, Unilever and Reckitt Benckiser, currently trade on 3.6% and 2.9% dividend yields, and have grown their dividends on average by +9% and +17% over the last ten years. There will be set-backs along the way of course, but we think the long-term wealth-building credentials for these business models remain very compelling, as do the prospects for future dividend growth.

We added to our positions in this sector during the second half of the year, which continues to make up more than a third of the overall fund.

Outlook

"It's tough to make predictions, especially about the future"

Yogi Berra

On 9th March 2014, the fifth anniversary of the bull market that began in 2009 was passed, with the UK market having risen more than +140% over this period. Thanks to these rather compelling five-year returns, investors are feeling more relaxed about the world. Investor sentiment towards equity markets is reaching levels that were last seen before the 2008/9 crisis, while signs of reviving animal spirits are starting to reappear. This is underlined by several recent stock market trends:

- A flood of IPOs to the market at, in some cases, eye-watering valuations.
 - Extremely high valuations for the hot-stocks of the day (particularly in new sectors such as Web 2.0 and biotechnology).
 - Small and mid-sized companies very much in fashion.
 - Companies with high levels of debt outperforming.
 - Economically sensitive companies outperforming.
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Sentiment among business leaders is also picking up, with indicators of corporate confidence reaching highs not seen since the crisis. Recruitment companies are reporting an upturn in trading, and there are early signs that global corporations are beginning to take a more relaxed attitude to capital spending. Another sign of this more expansionary mind-set is the recent resurgence in merger and acquisition activity.

Ben and I like to view investing as a marathon not a sprint, and risk management is central to our process. Our approach is based on the fundamental idea that if you look to avoid bad losses, the returns tend to look after themselves over the long-run. As the current bull market has matured valuations have risen and dividend yields have fallen, particularly for many of the small and medium sized companies we follow. Over the year we have therefore continued to gravitate towards the larger, more stable companies in our investable universe. Large companies now make up more than 80% of the portfolio, compared to less than 50% when we launched the fund in 2009. These large, stable companies that form the bulk of the current portfolio are asset-light businesses that are backed by steadily growing revenues from products such as toothpaste, ice cream, vaccines, cancer therapies, artificial hips, accountancy software, data analytics, IT and engineering consultancy, beer, whisky, condoms and painkillers.

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 years to come.



Hugh Yarrow
Fund Manager
12 June 2014

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TOP TEN HOLDINGS

Top Ten Holdings as at 28 February 2014 (%)	Top Ten Holdings as at 28 February 2013 (%)		
Unilever	9.1	Unilever	8.9
GlaxoSmithKline	8.6	GlaxoSmithKline	8.5
Reckitt Benckiser	6.5	Proctor & Gamble	6.3
Diageo	6.1	Reckitt Benckiser	6.0
Sage Group	6.0	Sage Group	5.6
Imperial Tobacco	4.8	Smith & Nephew	4.9
Reed Elsevier	4.8	Pearson	4.8
Smith & Nephew	4.6	Johnson & Johnson	4.7
Jardine Lloyd Thompson	4.2	Reed Elsevier	4.6
Compass Group	3.8	Diageo	4.5

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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)
2009 ¹	103.09	97.78	-	103.05	97.77	-
2010	119.28	99.00	3.2294	118.62	98.91	3.2084
2011	121.79	105.15	4.3441	120.80	104.24	4.3183
2012	128.37	115.21	4.7765	126.40	113.75	4.7235
2013	155.40	126.85	5.2355	152.19	124.87	5.1505
2014 ²	158.50	150.16	3.2336	155.10	146.98	3.1679

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)
2009 ¹	103.36	98.04	-	103.31	98.02	-
2010	124.21	99.26	3.2481	123.54	99.16	3.2436
2011	129.37	111.70	4.5353	128.34	110.75	4.5090
2012	144.44	126.48	5.1878	142.24	125.16	5.1312
2013	181.36	142.72	5.9185	177.66	140.51	5.8237
2014 ²	184.98	175.25	3.7548	181.07	171.59	3.6794

¹ From 19 October.

² Prices to 28 February and net revenue to 30 April.

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 year ended 28 February 2014 (pence per share)

Share Class	Quarter Ended			
	31 May 2013 (pence per share)	31 August 2013 (pence per share)	30 November 2013 (pence per share)	28 February 2014 (pence per share)
B Income	1.1700	1.1710	1.1724	2.0612
A Income	1.1500	1.1500	1.1500	2.0179
B Accumulation	1.3338	1.3443	1.3516	2.4032
A Accumulation	1.3113	1.3205	1.3261	2.3533

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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Net Asset Values

Date	B Income shares			A Income shares		
	Total shares in issue	NAV per share (pence)	NAV (£)	Total shares in issue	NAV per share (pence)	NAV (£)
29 Feb 2012	2,968,043	121.54	3,607,281	1,396,118	120.15	1,677,490
28 Feb 2013	8,790,595	138.19	12,148,042	994,633	135.92	1,351,911
28 Feb 2014	17,443,347	155.78	27,172,843	353,089	152.43	538,210

Date	B Accumulation shares			A Accumulation shares		
	Total shares in issue	NAV per share (pence)	NAV (£)	Total shares in issue	NAV per share (pence)	NAV (£)
29 Feb 2012	1,506,489	133.24	2,007,266	1,881,252	131.75	2,478,494
28 Feb 2013	5,847,726	157.54	9,212,634	1,600,468	154.98	2,480,420
28 Feb 2014	9,273,874	184.21	17,083,663	845,645	180.30	1,524,720

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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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

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Auditors

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Registered to carry out audit
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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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